

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:) Chapter 11
)
HOMELIFE CORPORATION, et al., ¹) Case No. 2412 (JWV)
)
Debtors.) (Jointly Administered)

**THIRD AMENDED DISCLOSURE STATEMENT FOR DEBTORS' JOINT
LIQUIDATING PLAN UNDER CHAPTER 11 OF THE UNITED STATES
BANKRUPTCY CODE DATED JANUARY 16, 2003**

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¹ The Debtors consist of the following entities: Homelife Corporation, HL Holding Corporation, Homelife de Puerto Rico, Inc., Furniture Holding LLC and HLC 1 LLC. The Liquidating Debtors are Homelife Corporation, Furniture Holding LLC and HLC 1 LLC. HL Holding Corporation and Homelife de Puerto Rico, Inc. are not involved with the Liquidating Debtors' Plan.

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**DISCLOSURE
STATEMENT**

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PLAN UNDER CHAPTER 11 OF THE UNITED STATES
BANKRUPTCY CODE DATED JANUARY 16, 2003²

11 U.S.C. § 1125(b) PROHIBITS SOLICITATION OF AN ACCEPTANCE OR REJECTION OF A PLAN OF REORGANIZATION UNLESS A COPY OF THE PLAN OF REORGANIZATION OR A SUMMARY THEREOF IS ACCOMPANIED OR PRECEDED BY A COPY OF A DISCLOSURE STATEMENT APPROVED BY THE BANKRUPTCY COURT. THIS PROPOSED DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT, AND, THEREFORE, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED AS, AN AUTHORIZED SOLICITATION PURSUANT TO 11 U.S.C. § 1125 AND RULE 3017 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE. NO SUCH SOLICITATION WILL BE MADE EXCEPT AS AUTHORIZED PURSUANT TO SUCH LAW AND RULES.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER AT THE TIME OF SUCH REVIEW THAT THERE HAVE BEEN NO CHANGES IN THE FACTS SET FORTH HEREIN UNLESS SO SPECIFIED. IN DECIDING WHETHER TO VOTE TO ACCEPT THE PLAN, HOLDERS OF CLAIMS ENTITLED TO VOTE THEREON MUST RELY ON THEIR OWN EVALUATION OF THE DEBTORS AND THEIR OWN ANALYSIS OF THE TERMS OF THE PLAN, INCLUDING, BUT NOT LIMITED TO, ANY RISK FACTORS CITED HEREIN. THE CONTENTS OF THE DISCLOSURE STATEMENT MAY NOT BE DEEMED AS PROVIDING ANY LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE. INTEREST HOLDERS ARE URGED TO CONSULT WITH THEIR OWN ADVISORS WITH RESPECT TO THE DISCLOSURE STATEMENT, THE PLAN AND EACH OF THE PROPOSED TRANSACTIONS CONTEMPLATED THEREBY.

¹ The Debtors consist of the following entities: HomeLife Corporation, HL Holding Corporation, HomeLife de Puerto Rico, Inc., Furniture Holding, LLC and HLC 1 LLC. Neither this Disclosure Statement nor the Debtors' Joint Liquidating Plan of Reorganization applies to or effects HomeLife de Puerto Rico, Inc. or HL Holding Corporation.

² Any capitalized term not defined herein shall have the meaning ascribed to it in the Plan.

CERTAIN STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, INCLUDING PROJECTED FINANCIAL INFORMATION AND OTHER FORWARD-LOOKING STATEMENTS, ARE BASED ON ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. FORWARD-LOOKING STATEMENTS ARE PROVIDED IN THIS DISCLOSURE STATEMENT PURSUANT TO THE SAFE HARBOR ESTABLISHED UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 AND SHOULD BE EVALUATED IN THE CONTEXT OF THE ESTIMATES, ASSUMPTIONS, UNCERTAINTIES AND RISKS DESCRIBED HEREIN.

THIS DISCLOSURE STATEMENT AND THE PLAN ARE THE ONLY DOCUMENTS AUTHORIZED BY THE COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES ACCEPTING THE DEBTORS' JOINT LIQUIDATING PLAN OF REORGANIZATION DATED JUNE 10, 2002 (AS MAY BE AMENDED, THE "PLAN"). NO REPRESENTATIONS HAVE BEEN AUTHORIZED BY THE COURT CONCERNING THE DEBTORS OR THE PLAN, EXCEPT AS EXPLICITLY SET FORTH IN THIS DISCLOSURE STATEMENT.

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

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN.

EXCEPT WHERE SPECIFICALLY NOTED, THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED BY A CERTIFIED PUBLIC ACCOUNTANT AND MAY NOT HAVE BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.

THE INFORMATION IN THIS DISCLOSURE STATEMENT IS BEING PROVIDED SOLELY FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN OR OBJECTING TO CONFIRMATION. NOTHING IN THIS DISCLOSURE STATEMENT MAY BE USED BY ANY PERSON FOR ANY OTHER PURPOSE.

ALL EXHIBITS TO THIS DISCLOSURE STATEMENT ARE INCORPORATED INTO AND MADE A PART OF THIS DISCLOSURE STATEMENT AS IF SET FORTH IN FULL HEREIN.

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Dated: December ___, 2002

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I. INTRODUCTION

There are five debtors in these cases: HL Holding Corporation ("HLC"), HomeLife Corporation ("HomeLife Corp."), HomeLife de Puerto Rico, S.A. ("HL Puerto Rico"), Furniture Holding, LLC, and HLC 1 LLC (collectively, "HomeLife" or the "Debtors"). HLHC is the parent corporation of HomeLife Corp. and HL Puerto Rico. Furniture Holding, LLC is the wholly-owned subsidiary of HomeLife Corp., and HLC 1 LLC is the wholly-owned subsidiary of Furniture Holding, LLC. HLC 1 LLC owned parcels of real property which it leases to HomeLife Corp. As of the Petition Date, HomeLife Corp. owned substantially all of the operating assets of the HomeLife entities.

HomeLife Corp., Furniture Holding, LLC, and HLC 1 LLC hereby transmit this Disclosure Statement pursuant to section 1126(b) of the Bankruptcy Code for use in the solicitation of acceptances of a joint liquidation plan of reorganization (the "Plan"), a copy of which is attached hereto as **Exhibit A**. Capitalized terms used and not defined herein have the meaning ascribed to them in the Plan, unless the context requires otherwise. HLC and HL Puerto Rico are not Liquidating Debtors under the Plan. These Debtors have no assets.

HomeLife's business was the sale of traditional style furniture, as well as rugs, lamps, accessories, mattresses, and home office furniture. With approximately \$680 million in sales in the year prior to the Petition Date, nearly 3000 employees as of June 1, 2001, and approximately 130 retail furniture stores (including nine outlet stores), HomeLife was one of the ten largest furniture retailers in the nation.

Sears, Roebuck and Co. founded HomeLife as a division of Sears in the late 1980s; Sears typically located HomeLife stores in or near existing Sears' locations. On January 30, 1999, Sears sold the HomeLife division to a consortium of investors for approximately \$100 million in cash and \$10 million in debt, while retaining approximately 19% of HomeLife's equity interests.

From the time of its separation from Sears, HomeLife continued to open new locations in its major markets while closing locations in other markets, and, at one time, operated stores in 28 states. HomeLife's core markets included Chicago, Philadelphia, Boston, San Francisco, Los Angeles, Florida and Seattle.

All existing Interests in the Liquidating Debtors will be extinguished on the Effective Date.

Under the Plan, Claims against and Interests in the Liquidating Debtors are divided into Classes. Certain unclassified Claims, including Administrative Claims and Unclassified Priority Claims, will receive payment in Cash either on the Distribution Date, as such Claims are liquidated, or in installments over time as permitted by the Bankruptcy Code or as agreed with the Holders of such Claims.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to Creditors, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) potential increases in claims which would be satisfied

on a priority basis, and (iii) the detrimental effect that chapter 7 liquidation would have on the collection of preference payments owed to the Liquidating Debtors, THE LIQUIDATING DEBTORS HAVE DETERMINED, AS SUMMARIZED ON THE FOLLOWING CHART, THAT CONFIRMATION OF THE PLAN WILL PROVIDE EACH CREDITOR AND INTEREST HOLDER WITH A RECOVERY THAT IS NOT LESS THAN IT WOULD RECEIVE PURSUANT TO A LIQUIDATION OF THE DEBTORS UNDER CHAPTER 7 OF THE BANKRUPTCY CODE.

<u>Description</u>	<u>Class No.</u>	<u>Summary of Recoveries</u> (Dollars in Millions)	
		<u>Under the Plan</u>	<u>Chapter 7</u>
Priority and Administrative Expense Claims	N/A	100% (approx. \$8.27 - 8.28)	89% - 100% (approx. \$8.05 - 9.06)
Secured Claims of the Bank Group against HomeLife Corp.	1	N/A	N/A
Other Secured Claims against HomeLife Corp.	2	100% (approx. \$0.83)	100% (approx. \$0.83)
Unsecured Claims against HomeLife Corp.	3	<2.5% (approx. \$1.89 - 8.00))	<1.0% (approx \$0 - \$3.71)
Interests in HomeLife Corp.	4	0% (approx. \$0.00)	0% (approx. \$0.00)

Moreover, the Liquidating Debtors believe that the value of any Distributions from the liquidation proceeds to each Class of Allowed Claims in a chapter 7 case would be the same or less than the value of Distributions under the Plan because such Distributions in a chapter 7 case may not occur for a substantial period of time. In this regard, it is possible that Distribution of the proceeds of the liquidation could be delayed for a year or more after the completion of such liquidation in order to resolve the Claims and prepare for Distributions. In the event litigation were necessary to resolve Claims asserted in a chapter 7 case, the delay could be further prolonged and administrative expenses further increased. The effects of this delay on the value of Distributions under the hypothetical liquidation has not been included in the above calculations.

The Liquidating Debtors will have insufficient funds to completely fund the specified distributions to the Allowed Administrative, Priority, Secured and Other Secured Claim holders called for by the Plan on the Confirmation Date. However, if the Liquidating Debtors continue the Chapter 11 Cases, the Liquidating Debtors will incur additional, unnecessary administrative costs. Therefore, the Liquidating Debtors have proposed in their Plan to delay the Effective Date, that is, to delay the date on which the Liquidating Debtors will actually begin making distributions under the Plan, six months after the Confirmation Date, or earlier if sufficient funds become available to make the distributions called for in the Plan at an earlier time. The Liquidating Debtors believe this represents the best and most cost-effective way to proceed.

APPROVAL OF THIS DISCLOSURE STATEMENT WILL NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

A. Holders of Claims Entitled to Vote

Pursuant to the provisions of the Bankruptcy Code, only Holders of Allowed Claims or Allowed Interests in Classes of Claims or Interests that are Impaired are entitled to vote to accept or reject a proposed plan. Classes of Claims or Interests that are Unimpaired are conclusively presumed to have accepted the Plan and are not entitled to vote to accept or reject the Plan. 11 U.S.C. § 1126(f). Classes of Claims or Interests that will receive no recovery under a chapter 11 plan are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan. 11 U.S.C. § 1126(g).

For a detailed description of the treatment of Claims and Interests under the Plan, see Section V.C below, entitled “THE JOINT PLAN OF REORGANIZATION—Classification and Treatment of Claims and Interests Under the Plan.”

The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance by Creditors in that Class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast Ballots for acceptance or rejection of the plan in such class. For a more detailed description of the requirements for confirmation of the Plan, see Article XII below, entitled “CONFIRMATION OF THE PLAN.”

B. Overview of the Plan

The categories of Claims and Interests listed below classify Claims and Interests for all purposes, including voting, Confirmation and Distributions pursuant to the Plan and pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim or Interest shall be deemed classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class, and shall be deemed classified in a different Class to the extent that any remainder of such Claim or Interest qualifies within the description of such different Class. A Claim or Interest is in a particular Class only to the extent that such Claim or Interest is Allowed in that Class and has not been paid or otherwise settled prior to the Effective Date.

II. GENERAL INFORMATION

A. Purpose and Effect of the Plan

The primary purpose of the Liquidating Plan is to finalize a wind-down of the Liquidating Debtors' operations and allow for distributions to the Liquidating Debtors' Creditors. The Liquidating Debtors have essentially completed the liquidation of their inventory and non-real assets and have liquidated substantially all of their real estate and real estate interests. The Liquidating Debtors have not completed the realization of proceeds from potential avoidance and other causes of action.

B. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself, its Creditors, and Interest Holders. In addition to permitting rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated Creditors and similarly situated Interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the filing date. 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."

The consummation of a chapter 11 plan of reorganization is the principal objective of a chapter 11 case. A plan of reorganization, may, as in this case, contemplate a liquidation of debtor's assets. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding on a debtor, any issuer of securities under the Plan, any person acquiring property under the Plan and any Creditor or Interest holder of a debtor. Subject to certain limited exceptions, the confirmation order discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefore the obligations specified in the confirmed plan.

In order to solicit acceptances of a proposed plan, however, section 1126 of the Bankruptcy Code requires a debtor and any other plan proponents to conduct such solicitation pursuant to a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the Plan. The Debtors are submitting this Disclosure Statement to holders of claims against and Interests in the Debtors to satisfy the requirements of section 1126 of the Bankruptcy Code.

III. KEY EVENTS LEADING TO THE DECISION TO COMMENCE THE CHAPTER 11 CASES

HomeLife was unable to achieve profitability prior to the Petition Date, and in the year prior to the Petition Date experienced operational difficulties related to the implementation

of new computer and logistics systems as it attempted to separate itself from the Sears infrastructure.

HomeLife's operational difficulties caused delays in deliveries to customers, which in turn led to cancellation of orders. Customer cancellations in turn led to HomeLife's falling behind on its payments to vendors, which resulted in the reduction of credit terms and eventually the refusal of vendors to continue shipments to HomeLife. Delivery delays and cancellations increased.

On February 1, 1999, HLC borrowed an aggregate of \$50 million and in connection therewith issued promissory notes for such amount, as follows: HLC issued a 10% senior subordinated note to Sears in the principal amount of \$10 million, HLC issued an 11% subordinated note to CVC in the principal amount of \$5 million, and HLC issued an 11% subordinated note to LifeStyle, in the principal amount of \$35 million.

In addition to the above, under the Credit Agreement, HomeLife Corp. and HL Puerto Rico, Inc. as of the Petition Date maintained a senior secured loan facility with the Bank Group. The facility consisted of a \$55 million revolver (of which \$6 million remained available as of June 28, 2001, subject to restrictions contained in the Credit Agreement) and a \$30 million term loan facility. This facility was secured by a first priority lien on all of the Debtors' inventory and a first priority lien on certain parcels of their real estate.

To address liquidity issues, the Debtors entered into various financing transactions in the three months prior to the Petition Date. In April 2001, Fremont loaned \$25 million to HLC 1, LLC, and Furnishings loaned HomeLife \$20 million. Fremont was granted a lien on 12 parcels of HLC 1, LLC's real property and Furnishings was granted a second priority lien on 11 parcels of HomeLife Corp's real property and ground leases. In April and June 2001, the Sears Entities provided various financial accommodations to and for the benefit of the Debtors, including without limitation, a guarantee of up to \$11.5 million to the Debtors' Visa and MasterCard payment processor and \$10 million of standby letters of credit. In consideration therefore, the Debtors granted the Sears Entities a second lien on their inventory, a first lien on one parcel of real estate, and second liens on five other parcels of real estate. The financial accommodations provided by the Sears Entities and the collateral granted by the Debtors in exchange therefore are described more fully in the Final Cash Collateral Order.

HomeLife used the proceeds of the April 2001 borrowings to pay its vendors past due amounts pursuant to agreements it entered into with such vendors. Under these agreements, such vendors agreed to accept payments of their respective debts over time and to continue to supply new goods to the Debtors on extended credit terms. Unfortunately, many of these vendors accepted scheduled payments but failed to continue to supply new goods on such extended credit terms.

HomeLife entered into negotiations with many of its key creditors in these weeks before the Petition Date and had hoped to restructure its debts out of court or to utilize chapter 11 to do so. Unfortunately, an out of court restructuring was not feasible. Finally, in the days leading up to the filing, Sears and Chase purported to suspend HomeLife's use of the Sears and Chase credit card services, respectively, and the Debtors' logistics service provider purported to

terminate its logistics service agreement with the Debtors and ceased deliveries to HomeLife stores and customers. As a result, on July 10, 2001, the Debtors temporarily shut down their store operations and terminated their store employees.

On the Petition Date each of the Debtors filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (as amended, the "Bankruptcy Code"). Contemporaneously with these filings, the Debtors filed a motion seeking to procedurally consolidate their respective chapter 11 cases (the "Chapter 11 Cases") for administrative purposes only. Thereafter, the Debtors continued to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

IV. KEY EVENTS DURING THE CHAPTER 11 CASES

A. Schedules and Statement of Financial Affairs

Pursuant to Section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, on October 24, 2001, the Debtors filed their schedules of claims, assets, liabilities, executory contracts and other information (the "Schedules") and a Statement of Financial Affairs (the "SOFA") to provide creditors and other interested parties with material information to enable each Creditor to evaluate its proposed treatment under the Plan. The Debtors filed amended Schedules and SOFAs on December 19, 2001.

B. Debtor Financing

Prior to the Petition Date, the Debtors entered into certain financing and other arrangements with the Sears Entities as set forth in the various agreements, documents, and instruments with the Sears Entities (as such transactions are more particularly described in the Stipulated Final Cash Collateral Order evidencing such financing and arrangements) pursuant to which, inter alia, the Sears Entities made loans and provided other financial accommodations to the Debtors, some of which were secured by certain pre-petition collateral.

The Debtors then commenced the Bankruptcy Case with the intention of selling substantially all of the assets as expeditiously as possible and filing a liquidating chapter 11 plan, and on or about July 18, 2001, the Debtor then obtained the Bankruptcy Court's authorization to dispose of their inventory by conducting going-out-of-business sales at its stores and to enter into an agency agreement with a consortium of liquidators to serve as their agent with respect to these sales.

Early in the cases, the Debtors were able to use cash collateral in which both Congress and the Sears Entities claimed an interest, under the authority of a series of stipulated interim orders permitting such use.

Negotiations over the terms of a final order authorizing the continued use of such cash collateral stalled.

Since the Debtors' cash needs could not be satisfied by cash on hand as of the Petition Date and proceeds of the post-petition inventory sales alternate financing was required.

On September 14, 2001, the Debtors and the Sears Entities agreed in principle upon a settlement and compromise in the form of a term sheet setting forth the material terms and conditions under which the Sears Entities would provide necessary liquidity to the Debtors by, among other things, the purchasing by Sears of the Debtors lease designation rights in exchange for a \$9,500,000.00, plus certain additional consideration. The Settlement and Compromise Agreement became effective as of October 31, 2001.

C. Cash Management

In their First Day Motions, the Debtors obtained authority from the Bankruptcy Court to maintain their existing cash management system, bank accounts and business forms. Subsequent to entry of the Order, the Debtors switched to LaSalle Bank for the operation of their Cash Management System.

D. Payment of Customer Claims

In the ordinary course of business, the Debtors required their customers to pay in full for merchandise upon their purchase, but prior to the delivery of the merchandise. The majority of the purchases made by the Debtors' customers were made through payments made by credit card, by check or in cash (the "Customer Deposits"). As a result, on the Petition Date, the Debtors estimated that they were holding approximately \$7 million on account of Customer Deposits made in cash or by check (the "Cash Deposits") for merchandise which had not yet been delivered to the customers. In their Motion for entry of an Order Authorizing, but not requiring, Debtors to Refund Customer Deposits, filed on July 16, 2001, (the "Customer Deposit Motion") the Debtors sought, subject to the fuller description below, to refund Customer Deposits.

The Debtors sought authority to repay the entire amount of Cash Deposits, however, the Debtors did not, as of the Petition Date have available the funds necessary to repay all of the Cash Deposits and to operate through the contemplated wind down. Therefore, authority was sought within the parameters of ability to pay.

Customer Deposits made by credit card were returned via a credit against the credit cards by which such Customer Deposits were made. As such, under the Order granting the Customer Deposit Motion, third party credit card companies, rather than the Debtors, were to issue credits to such customers.

To date, the Debtors have refunded approximately \$7 million of Cash Deposits. Unfortunately, Cash Deposits were much larger than anticipated. Due to the cash constraints and budgets of these cases, the Debtors only have authority to refund \$7 million of Cash Deposits at this time and therefore some Cash Deposits remain unpaid.

E. Payment of Prepetition Employee Wages and Benefits

Believing it critical to avoid any delay or disruption in paying prepetition compensation or benefits to its employees, because such a delay likely would have damaged the Debtors' relationship with their employees and damaged employee morale at a time when the Debtors were most in need of the continued skill and dedication of these employees to complete an orderly wind-down of the business and maximize the value of the Estates for their Creditors,

the Debtors obtained authority in their First Day Orders, to pay all prepetition accrued compensation and benefits.

F. Joint Administration

On July 18, 2001, the Bankruptcy Court entered an Order consolidating the Debtors' cases for administrative purposes only. The Debtors' cases are currently administered under a single case name and number: In re HomeLife Corporation, et al., Case No. 2412 (JWV), for administrative purposes only.

G. Taxes

As is customary, the Debtors sought and obtained authority to pay all prepetition sales, use and similar tax claims owed to various taxing authorities.

H. Utilities

The Debtors sought and obtained authority to implement procedures to prevent utilities from discontinuing, altering or refusing service and to provide adequate assurance payments to utilities. This enabled the Debtors to avoid disruption of the going-out-of-business sales utilized to liquidate their inventory.

I. Wind Down of Operations

1. Liquidation of Inventory

The Debtors' initial focus was to attempt to sell substantially all of their assets as a going concern or in markets to third parties. However, no third party expressed an interest in pursuing such a transaction with the Debtors, and after consulting with their primary constituents about the value of each of their potential alternatives, the Debtors ultimately determined that the best way to maximize the value of their Estates was to seek a prompt conclusion to the Debtors' reorganization proceedings through a liquidation of their operating assets and confirmation of a liquidating plan of reorganization.

On July 18, 2001, the Debtors obtained the Bankruptcy Court's authority to conduct an auction, dispose of their inventory by conducting going-out-of-business style sales at their stores and to enter into an agency agreement with a consortium of liquidators to serve as Debtors' agent with respect to these sales.

After competitive bidding, the Debtors, in consultation with the Bank Group, determined that a joint venture comprised of Hilco Merchant Resources, LLC, Great American Group, Professional Sales and Consulting, Inc., Schottenstein Bernstein Capital Corp., LLC, the Nassi Group, LLC, and Planned Furniture Promotions, Inc. (the "Agent") had made the highest and best offer to liquidate the Debtors' inventory. The Debtors entered into an Agency Agreement dated July 27, 2001 within which the Agent agreed to pay an initial payment of 83.5% of cost plus 1.75% of the proceeds generated from sales, plus a sliding percentage of additional ("augmentation") goods brought in to Debtors' Stores, to the Debtors for the right to

liquidate Debtors' inventory. On September 4, 2001, the Bankruptcy Court approved the Agency Agreement and the store closing sales at stores commenced shortly thereafter.

2. Sale of Owned Real Estate and Ground Leases

In late August, 2001, Debtors filed a motion to retain an agent to serve as their exclusive real estate disposition agent. After interviewing and listening to proposals from those interested and qualified to serve as the Debtors' agent, and after consultation with Creditors' Committee, the Debtors executed letter of intent dated August 24, 2001 with a joint venture comprised of Hilco Real Estate, LLC and Newmark Retail Financial Advisors, LLC (the "Joint Venture"). On September 4, 2001, the Bankruptcy Court approved in part the motion and the Agency Agreement incorporating the terms of the August 24, 2001 letter of intent.

Pursuant to prior orders of the Court, the Debtors conducted an auction of their owned real property and ground leases on November 15, 2001. As a result of this auction, the Debtors sold the following properties: Store #4325, Coral Springs, FL; Store #4347, Orlando, FL; Store #4495, Naples, FL; Store #4046, Glenn Allen, VA; Store #4704, Fairfax, VA; #4734, Woodbridge, VA; Store #4365, Alpharetta, GA. The Debtors conducted a continued auction of their owned real property and ground leases on December 6, 2001. As a result of this auction, the Debtors sold the following properties: Store #4426, Sunrise, FL; Store #4035, Miami, FL; Store #4105, Jacksonville, FL; Store #4506, Louisville, KY; Store #4238, Pasadena, CA; Store #4024, Montgomeryville, PA; Store #4390, Bloomingdale, IL; Store #4265, Morrow, GA; Store #4547 Kennesaw, GA; Store #4485, Pembroke Pines, FL; Store #4480, Saugus, MA; Store #4560, Stoughton, MA; and Store #4212, Nashua, NH. The Debtors conducted a continued auction with respect to Store #4743 in West Mifflin, PA on March 21, 2002, which resulted in a sale of that property. A summary of the sale prices and the prepetition lien holders for the foregoing is as follows:

<u>Sale Date</u>	<u>Property</u>	<u>Purchase Price</u>	<u>Lien Holders</u>
12/6/01	Store #4365, Alpharetta, GA	\$2,200,000	Bank Group/Furnishings
12/11/01	Store #4495, Naples, FL	\$3,150,000	Fremont
12/12/01	Store #4426, Coral Springs, FL	\$2,725,000	Bank Group/Sears
12/13/01	Store #4734 Woodbridge, VA	\$3,050,000	Bank Group/Furnishings
12/13/01	Store #4046 Glenn Allen, VA	\$2,250,000	Bank Group/Sears
12/13/01	Store #4704 Fairfax, VA	\$3,500,000	Fremont
12/13/01	Store #4347 Orlando, FL	\$2,200,000	Fremont
12/14/01	Store #4238 Pasadena, CA	\$650,000	Sears

<u>Sale Date</u>	<u>Property</u>	<u>Purchase Price</u>	<u>Lien Holders</u>
12/21/01	Store #4105 Jacksonville, FL	\$2,000,000	Fremont
1/11/02	Store #4506 Louisville, KY	\$2,075,000	Bank Group/Sears
1/14/02	Store #4024 Montgomeryville, PA	\$2,700,000	Fremont
1/15/02	Store #4325 Sunrise, FL	\$2,200,000	Bank Group/Sears
1/15/02	Store #4035 Miami, FL	\$4,500,000	Fremont
1/25/02	Store #4390 Bloomingdale, IL	\$1,600,000	Fremont
1/25/02	Store #4265 Morrow, GA	\$1,500,000	Bank Group/Furnishings
1/25/02	Store #4547 Kennesaw, GA	\$2,200,000	Bank Group/Furnishings
1/25/02	Store #4485 Pembroke Pines, FL	\$2,750,000	Bank Group/Sears
2/7/02	Store #4560 Saugus, MA	\$3,530,000	Fremont
2/7/02	Store #4480 Stoughton, MA	\$2,353,000	Fremont
2/7/02	Store #4212 Nashua, NH	\$4,317,000	Fremont
5/22/02	Store #4914 McCandless, PA	\$1,900,000	Bank Group/Furnishings
6/26/02	Store #4009 Lynnwood	\$3,000,000	None
7/22/02	Store #4479 Silverdale	\$1,700,000	Bank Group/Furnishings
8/1/02	Store #4743 West Mifflin, PA	\$1,000,000	Bank Group/Furnishings
10/9/01	Store #4115 Miami, FL	\$1,760,000	Bank Group/Furnishings
12/19/02	Store #4326 Lakeland, FL	\$975,000	None

3. Remaining Assets

As of the date of the filing of this Disclosure Statement, the inventory liquidation has been completed and the sale of real estate interests is substantially completed. The Debtors' primary remaining assets include the Cash received from the Liquidation Sales, from the disposition of Debtors' real property interests, and from the sale of its lease designation rights pursuant to the Settlement and Compromise Agreement. Additional Cash may be realized from the following assets:

(a) Any successful litigation on various Causes of Action owned by the Debtors (primarily consisting of actions in respect to preferential payments, net of certain potential defenses, of a demand value of approximately \$24.4 million); and

(b) Liquidation of other assets not sold in the sales described above (primarily consisting of office furniture and equipment of nominal value).

J. Settlement with the Sears Entities

In order to fund the operation of these cases, the Debtors used cash collateral, in which both the Bank Group and the Sears Entities asserted an interest. While the Debtors were able to use such cash for a period of time pursuant to several stipulated interim orders permitting such use, negotiations over the terms of a final order authorizing the use of cash collateral broke down, with the Debtors, the Bank Group, the Sears Entities and the Committee unable to reach agreement on the terms of a final cash collateral order.

The Debtors' cash needs, including the contemplated refunds to customers for Cash Deposit, could not be satisfied by their cash on hand as of filing and the proceeds from the liquidation of inventory, but could be satisfied by disposing such Debtors' real property interests. Because the timing of realization of sale proceeds of real property was not certain and no consensual agreement was reached as to the use of such proceeds, the Debtors had cash requirements in late September 2001 without available cash to satisfy such requirements.

To address the situation, the Debtors negotiated with various parties, including the Real Estate Agent to arrange for postpetition financing. The Sears Entities opposed the proposed postpetition financing arrangement, and discovery commenced with respect to the Debtors' motion seeking approval of such arrangement.

The negotiations over the terms of a final order authorizing the continued use of cash collateral or the terms of the additional financing by the Real Estate Agent were ongoing at this time as well. It was doubtful that an agreed-upon cash collateral order or financing arrangement could have been achieved without potentially complex and costly litigation or resolving related issues.

Mindful of (a) the significant costs to the Debtors' estates to fight a contested hearing on the use of cash collateral, and possible opposition on debtor in possession financing, (b) the risks of ultimately not prevailing in such litigation; and (c) the desire to obtain maximum value for their interests in nonresidential real property leases, the Debtors determined that it was in the best interests of the estates and their Creditors to reach an expedited resolution of certain

issues among the Debtors and the Sears Entities, while producing maximum value for their interests in non-residential real property leases. Toward that end, the Debtors and the Sears Entities, in good faith, engaged in extensive, arms' length negotiations to attempt to reach a comprehensive resolution of such issues.

An agreement in principle which, among other things, resolved the Debtors' cash requirements was reached between the Debtors and the Sears Entities. After the Bankruptcy Court initially denied the Debtors' request for approval of the settlement with Sears, the Debtors, the Sears Entities and the Committee reached a global resolution of the issues and settlement was modified and approved. The key terms of the Settlement are summarized as follows:

(a) The Sears Entities purchased the Designation Rights with respect to all of the Debtors' leased real property (excluding certain ground leases) (the "Leases or "Leasehold Interests") for \$11.5 million, \$9.5 million of which was in cash;

(b) The Sears Entities then became responsible for occupancy and carry costs for particular locations from particular dates as and to the extent provided in the Settlement and Compromise Agreement;

(c) The Sears Entities and the Debtors remained responsible for certain cure costs and other occupancy costs as set forth in the Settlement;

(d) The Sears Entities authorized the Debtors, among other things, to use (i) up to the \$9.5 million consideration paid for the lease designation rights, (ii) all remaining cash currently on hand and previously authorized to be spent pursuant to one or more of the stipulated interim cash collateral orders, and (iii) up to \$3.82 million of proceeds from augmentation and/or outlet stores sales and/or other proceeds derived from the Debtors' going-out-of-business sales;

(e) The Debtors were required to pay all valid customer claims for Cash Deposits of deposits previously approved in budgets under the stipulated interim cash collateral orders by the later of October 15, 2001 or the closing of the Agreement;

(f) The Sears Entities were granted a postpetition administrative claim of \$10 million, subject to adjustment upward by up to \$2.5 million and downward by up to \$2 million, for the diminution of the Sears Entities' collateral including through the use of the Sears Entities' cash collateral. The Diminution Claim is secured by replacement liens and further protected by a section 507(b) superpriority claim;

(g) The Debtors waived any section 506(c) claims they may have had against the Sears Entities and the Bank Group; and

(h) Certain of the Sears Entities' claims and liens were deemed allowed and not subject to dispute, avoidance or subordination; namely, the liens granted to, and claims of, the particular Sears Entities relating to the transactions that occurred in the April to July, 2001 period. The Debtors and their Estates retained the right to dispute other prepetition claims of the Sears Entities and to offset any other claims against the Sears Entities.

(i) The Debtors released all claims against the Sears Entities with respect to

all matters arising within one year of the petition date.

The terms of the settlement are more fully set out in the "Settlement and Compromise Agreement" which is on file with the Bankruptcy Court.

V. THE LIQUIDATING PLAN

A. Summary Of The Plan

The Plan provides for the mechanism to complete the liquidation of the Liquidating Debtors' Estates and for the distribution of the proceeds and remaining assets of the Liquidating Debtors' Estates to their Creditors. All Interests in the Liquidating Debtors will be extinguished on the Effective Date.

The Plan contemplates entry of the Substantive Consolidation Order, which will effect the substantive consolidation of the Liquidating Debtors' respective cases into a single chapter 11 case. On the Confirmation Date or such other date as may be set by a Final Order of the Court, but subject to the occurrence of the Effective Date: (i) all Intercompany Claims by and among the Liquidating Debtors will be eliminated; (ii) all assets and liabilities of the Liquidating Debtors will be merged or treated as though they were merged; (iii) all prepetition cross-corporate guarantees of the Liquidating Debtors will be eliminated; (iv) all Claims based upon guarantees of collection, payment or performance made by one or more Liquidating Debtors as to the obligations of another Liquidating Debtor shall be discharged, released and of no further force and effect; (v) all Interests of any Liquidating Debtor in any other Liquidating Debtor shall be eliminated; and (vi) each and every Claim filed in the Case of any one Liquidating Debtor will be deemed filed against the consolidated Liquidating Debtors in the consolidated Cases and shall be deemed a single obligation of all of the Liquidating Debtors under the Plan on and after the Confirmation Date.

The Plan will serve as a motion seeking entry of an order substantively consolidating the Liquidating Debtors' Cases. UNLESS AN OBJECTION TO SUBSTANTIVE CONSOLIDATION IS MADE IN WRITING BY ANY CREDITOR AFFECTED BY THE PLAN ON OR BEFORE FIVE (5) DAYS PRIOR TO THE DATE THAT IS FIXED BY THE COURT AS THE LAST DATE ON WHICH ACCEPTANCES TO THE PLAN MAY BE RECEIVED, OR SUCH OTHER DATE AS MAY BE FIXED BY THE COURT, THE SUBSTANTIVE CONSOLIDATION ORDER MAY BE ENTERED BY THE COURT. In the event any such objections are timely filed, a hearing with respect thereto shall be scheduled by the Court, which hearing may, but need not, coincide with the Confirmation Hearing.

Substantive consolidation is an equitable remedy which a bankruptcy court is asked from time to time to apply in cases involving affiliated debtors. As contrasted with procedural consolidation³, substantive consolidation affects the substantive rights and obligations

³ Procedural consolidation is the administrative process, pursuant to Bankruptcy Rule 1015(b), whereby the proceedings of two or more affiliated debtors are conducted as part of a single proceeding for the convenience of the bankruptcy court and parties in interest. Procedural consolidation does not affect the substantive rights of the
(Continued...)

of Creditors and debtors. Substantive consolidation involves the pooling and merging of the assets and liabilities of the affected debtors; all of the debtors in the substantively consolidated group are treated as if they were a single corporate/economic entity. The consolidated assets create a single fund from which all claims against the consolidated debtors are to be satisfied. Consequently, a Creditor of one of the substantively consolidated debtors is treated as a Creditor of the substantively consolidated group of debtors and issues of individual corporate ownership of property and individual corporate liability on obligations are ignored.

Section 105 of the Bankruptcy Code provides the basis for the power to substantively consolidate interrelated Chapter 11 cases. Within this framework of a court exercising its equitable powers, the factors to which courts have looked to determine the appropriateness of substantive consolidation include: (i) whether Creditors dealt with the debtor entities as a single economic unit and did not rely on their separate identities in extending credit, and (ii) whether the affairs of the debtors are so entangled that the consolidation will benefit all Creditors of the Debtors' Estates. Additional factors include: (i) the presence or absence of consolidated financial statements; (ii) the existence of inter-company guarantees or loans; (iii) the unity of interest and ownership between the various corporate entities; (iv) the transfer of assets without observance of corporate formalities; (v) the degree of difficulty in segregating and ascertaining individual assets and liabilities; (vi) the parent, its affiliates and subsidiaries having common directors and/or officers; (vii) the parent or its affiliates financing one another; and (viii) the commingling of assets and business functions. Courts have ordered substantive consolidation where the proponents have demonstrated (i) either a harm to be avoided or (ii) a benefit to be effected generally which, under the circumstances and considering whether the rights of third parties would be unduly prejudiced thereby, it is equitable to effect.

The Liquidating Debtors believe that substantive consolidation is appropriate and justified for purposes of the Plan and the distribution to be effected under the Plan, primarily because two of the three Liquidating Debtors have neither any assets nor any creditors. Therefore, no party can conceivably be prejudiced by substantively consolidating the Liquidating Debtors. On the other hand, the Liquidating Debtors believe that substantive consolidation will facilitate the implementation of the Plan, enabling the Liquidating Debtors to save administrative costs by simplifying administration of the remaining assets and liabilities. Simply stated, substantive consolidation will enable the Liquidating Debtors to reduce administrative costs associated with the Plan and is in the best interests of their Creditors.

B. Classification and Treatment of Claims and Interests

The following is a designation of the Classes of Claims and Interests hereunder.

A Claim or Interest shall be deemed classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of the Claim or Interest qualifies

debtors or their respective creditors and interest holders. The Cases were procedurally consolidated by order of the Court dated July 18, 2001.

within the description of such different Class. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Unclassified Priority Claims have not been classified but the treatment for such unclassified Claims is set forth in Section III.

1. UNCLASSIFIED CLAIMS

(a) Administrative Claims. Unless otherwise agreed by the Holder of an Allowed Administrative Claim (in which event such other agreement shall govern), each Holder of an Allowed Administrative Claim other than Professional Fee Claims shall receive on the Effective Date or, if later Allowed, on the 15th (fifteenth) day after such claim becomes Allowed, Cash in an amount equal to such Allowed Administrative Claim; provided, however, that Allowed Administrative Claims that may be paid from the proceeds of, and in accordance with, insurance policies shall be paid on the later of (i) the Effective Date and (ii) the date that such insurance claim would be paid under the terms of the Liquidating Debtors' applicable insurance policy or policies. The Liquidating Debtors estimate that there will be approximately \$7.1 million in Allowed Administrative Claims, \$1.8 million of which will represent professional Fee Claims.

Professional Fee Claims shall be paid in accordance with the applicable orders of the Bankruptcy Court and the Bankruptcy Code only after the appropriate order(s) allowing such fees and expenses have been entered. Professional Fee Claims shall be paid first out of the Reserve Fund, and to the extent remaining thereafter, from the Operating Account.

(b) Supplemental Administrative Claims Bar Date. All Claims for unpaid Administrative Expense arising after November 22, 2001, through the Confirmation Date, except for the Diminution Claim or any administrative claim of the Sears Entities arising under or relating to the Settlement and Compromise Agreement, must be filed with the Bankruptcy Court and received by the Liquidating Debtors on or before the twentieth day following the Confirmation Date (the "Supplemental Administrative Claim Bar Date").

The Diminution Claim of the Sears Entities, to the extent not previously paid in full, shall be satisfied by Cash payment on the Effective Date provided, however, nothing herein shall alter or limit the rights of the Sears Entities to payments in full of any portion of the Diminution Claim that may become due and payable after the Effective Date. The Sears Entities shall retain all rights, liens and protections granted to them under the Final Cash Collateral Order and the Settlement and Compromise Agreement, including with respect to the Diminution Claim.

(c) Unclassified Priority Claims. Unless otherwise agreed by the Holder of an Allowed Unclassified Priority Claims (in which event such other agreement shall govern), each Holder of an Allowed Unclassified Priority Claims shall receive on the Effective Date or, if later Allowed, on the fifteenth day after such Claims become Allowed, Cash equal to the amount of such Allowed Unclassified Priority Claim.

2. CLASSIFIED CLAIMS

The classification of Claims and Equity Interests against the Liquidating Debtors pursuant to the Plan is as follows:

Class	Status	Voting Rights
Class 1 -- Secured Claims of the Bank Group	N/A	N/A
Class P1 - Priority Claims	Unimpaired	Not Entitled to Vote
Class 2 -- Other Secured Claims	Unimpaired	Not Entitled to Vote
Class 3 -- Unsecured Claims	Impaired	Entitled to Vote
Class 4 - Interests	Impaired	Not Entitled to Vote

(A) Class 1

(i) *Classification:* Class 1 consists of the Secured Claims of the Bank Group against the Liquidating Debtors.

(ii) *Allowed Secured Claims of the Bank Group.* Allowed Secured Claims of the Bank Group are not impaired under the Plan and, prior to the Effective Date, should have been paid in full. Holders of Allowed Secured Claims of the Bank Group are not entitled to vote to accept or reject the Plan. All Allowed Secured Claims of the Bank Group Claims will be discharged in full and expunged on the Effective Date.

(B) Class P1 - Priority Claims

(i) *Classification:* Class P1 consists of all Priority Claims against the Liquidating Debtors except those described in section 507(a)(1), 507(a)(2) or 507(a)(8) of the Bankruptcy Code.

(ii) *Allowed Priority Claims.*

(a) Allowed Priority Claims are not impaired under the Plan and shall receive on the Effective Date, or if later Allowed, on the fifteenth day after such Claim becomes Allowed, Cash equal to the amount of such Allowed Priority Claim.

(C) Class 2 - Other Secured Claims

(i) *Classification:* Class 2 consists of the Other Secured Claims against the Liquidating Debtors.

(ii) *Allowed Other Secured Claims.*

(a) Each Holder of an Allowed Other Secured Claim shall, on the first Distribution Date or, if later Allowed, on the 15th day after such Claim becomes an Allowed Claim, (i) with respect to a Claim that is secured by a Lien on Collateral, at the Debtor's election, either be paid, to the extent not already received, Cash in an amount equal to the value of the Holder's interest in the Debtor's interest in the Collateral securing such Claim or shall receive the collateral without representation, warranty or recourse or (ii) with respect to a Claim that is subject

to offset pursuant to section 553 of the Bankruptcy Code, offset its Claim to the extent of the Debtor's Claim against the Holder.

- (b) Pursuant to section 1126(f) of the Bankruptcy Code, Holders of Allowed Other Secured Claims are unimpaired and are not entitled to vote to accept or reject the Plan.
- (c) The Other Secured Claims of the Sears Entities shall be treated under this Plan in accordance with the terms of the Settlement and Compromise Agreement, the Order approving such Agreement (the "Settlement Order") and the Final Cash Collateral Order. The Sears Entities shall retain all Liens securing such Claims and shall be entitled to the proceeds realized from all Collateral secured by such Liens. To the extent not in conflict with the Settlement and Compromise Agreement, the Settlement Order and the Final Cash Collateral Order, such Other Secured Claims of the Sears Entities shall be treated as Other Secured Claims. Notwithstanding the foregoing, in accordance with applicable law, to the extent that the Sears Entities' prepetition Claim is not a Secured Claim, the Sears Entities shall be entitled to vote with and share Pro Rata in any distribution to Holders of Allowed Claims in Class 3.

(D) Class 3 - Unsecured Claims

(i) *Classification:* Class 3 consists of the Claims of Holders of Unsecured Claims against the Liquidating Debtors.

(ii) *Treatment:*

- a. Each Holder of an Allowed Unsecured Claim shall be paid Cash equal to its Pro Rata share of the Cash available to the Estate after satisfaction of the Allowed Secured Claims. Allowed Administrative Claims and Allowed Priority Claims. Such Cash shall be paid in a series of Distributions, beginning after the Effective Date.
- b. Holders of Unsecured Claims are impaired. Pursuant to section 1126(a) of the Bankruptcy Code, Holders of Unsecured Claims are entitled to vote to accept or reject the Plan.
- c. The Liquidating Debtors are unable to determine whether there will be any distributions to Holders of Unsecured Claims and any such distribution hinges on the Liquidating Debtors' collection efforts with respect to Causes of Action.

(E) Class 4 - Interests

(i) *Classification:* Class 4 consists of all Interests in the Liquidating Debtors.

(ii) *Treatment:*

- a. Interests shall be deemed Allowed. There shall be no Distribution to Holders of Allowed Interests. Such Interests shall be deemed canceled.
- b. Interests are impaired. Pursuant to section 1126(g) of the Bankruptcy Code, Holders of Interests are conclusively presumed to have rejected the Plan and therefore are not entitled to vote to accept or reject the Plan.

3. Controversy Concerning Impairment

If a controversy arises as to whether any Claims or Interests, or any Class of Claims or Interests, are Impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy before the Effective Date.

4. Acceptance or Rejection of the Plan

The Impaired Class of Claims shall be deemed to have accepted the Plan if: (a) votes on account of at least two-thirds in amount of the Allowed Claims actually voting in the Class (other than votes by Holders designated under section 1126(e) of the Bankruptcy Code) have voted to accept the Plan; and (b) votes on account of more than one-half in number of the Allowed Claims actually voting in the Class (other than votes by Holders designated under section 1126(e) of the Bankruptcy Code) have voted to accept the Plan.

VI. IMPLEMENTATION OF THE PLAN

A. Limited Continuation of the Liquidating Debtors

The Plan is a plan of liquidation. However, while the Liquidating Debtors have ceased to doing business, Liquidating Debtors will continue to exist to consummate the Plan and perform the other tasks and functions described therein.

1. Consolidation of the Cases

The Plan contemplates and is predicated upon entry of the Substantive Consolidation Order, which shall effect the substantive consolidation of the Cases of the Liquidating Debtors into a single chapter 11 case solely for the purposes of all actions associated with confirmation and consummation of the Plan. On the Confirmation Date or such other date as may be set by a Final Order of the Court, but subject to the occurrence of the Effective Date: (i) all Intercompany Claims by and among the Liquidating Debtors shall be eliminated; (ii) all assets and liabilities of the Liquidating Debtors shall be merged or treated as though they were merged; (iii) any and all prepetition cross-corporate guarantees of the Liquidating Debtors shall be eliminated; (iv) all Claims based upon guarantees of collection, payment or performance made by one or more Liquidating Debtors as to the obligations of another Liquidating Debtor shall be discharged, released and of no further force and effect; (v) all Interests of any Liquidating Debtor in any other Liquidating Debtor shall be eliminated and (vi) each and every Claim filed in the individual Case of any of the Liquidating Debtors shall be deemed filed against the consolidated Debtors in the consolidated Cases and shall be deemed a single

obligation of the Liquidating Debtors under the Plan on and after the Confirmation Date. Notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every Debtor under 28 U.S.C. 1930(a)(6) until a particular case is closed, converted or dismissed.

2. Reservation of Rights

The Debtors reserve the right at any time up to the conclusion of the Confirmation Hearing, to withdraw their request for substantive consolidation, to seek confirmation as if there were no substantive consolidation, and to seek confirmation of the Plan with respect to one Debtor even if confirmation with respect to the other Debtors is denied.

B. Nonconsensual Confirmation

The Liquidating Debtors seek confirmation of the Plan in accordance with section 1129(b) of the Bankruptcy Code, either under the terms provided herein or upon such terms as may exist if the Plan is modified in accordance with section 1127(d) of the Bankruptcy Code.

C. Reservation Of Rights Of The Estate

The Liquidating Debtors and the Creditors' Committee are currently investigating whether to pursue potential Causes of Action. The investigation has not been completed to date and the Plan Administrator, on behalf of the Post-Confirmation Estate, retains all rights on behalf of the Liquidating Debtors and the Post-Confirmation Estate to commence and pursue any and all Causes of Action (under any theory of law or equity, including, without limitation, the Bankruptcy Code, and in any court or other tribunal including, without limitation, in an adversary proceeding filed in the Chapter 11 Cases) discovered in such an investigation to the extent the Plan Administrator, on behalf of the Post-Confirmation Estate, deems appropriate in accordance with the terms of the Post-Confirmation Estate Agreement. Potential Causes of Action currently being investigated by the Liquidating Debtors and the Creditors' Committee, which may but need not, be pursued by the Liquidating Debtors and the Creditors' Committee prior to the Effective Date and/or by the Plan Administrator after the Effective Date to the extent warranted, include, without limitation, the following Causes of Action set forth below:

(a) Any lawsuits for, or in anyway involving, the collection of accounts receivable or any matter related thereto including, without limitation, against those parties set forth on the list of parties in interest filed or to be filed with the Clerk of the Bankruptcy Court as an Exhibit to the Plan Supplement (the "Party in Interest Matrix");

(b) Potential claims for breach of a prepetition contract and otherwise related to actions or inactions by the Liquidating Debtors' prepetition consultants and service providers, including, without limitation, consultants set forth on the Party in Interest Matrix;

(c) All violations against third parties with respect to prepetition violations of applicable federal or state securities laws;

(d) All claims or causes of action arising out of or that relate to prepetition acquisitions or financings;

(e) The collection of monies due customers and vendors listed on the Party in Interest Matrix;

Potential Causes of Action which may be pursued by the Liquidating Debtors prior to the Effective Date, and by the Plan Administrator on behalf of the Post-Confirmation Estate after the Effective Date, include, without limitation, the following:

(f) Any other actual or potential Causes of Action, whether legal, equitable or statutory in nature, arising out of, or in connection with the Liquidating Debtors' businesses or operations, including, without limitation, the following: possible claims against vendors, landlords, sublessees, assignees, customers or suppliers for warranty, indemnity, back charge/set-off issues, overpayment or duplicate payment issues and collections/accounts receivable matters; deposits or other amounts owed by any creditor, lessor, utility, supplier, vendor, landlord, sublessee, assignee, or other entity; employee, management or operational matters; claims against landlords, sublessees and assignees arising from various leases, subleases and assignment agreements relating thereto, including, without limitation, claims for overcharges relating to taxes, common area maintenance and other similar charges; financial reporting; environmental, and product liability matters; actions against insurance carriers relating to coverage, indemnity or other matters; counterclaims and defenses relating to notes or other obligations; contract or tort claims which may exist or subsequently arise; and

(g) Except for the express waiver of certain claims in the Plan, any and all actual or potential avoidance claims pursuant to any applicable section of the Bankruptcy Code, including, without limitation sections 544, 545, 547, 548, 549, 550, 551, 553(b) and/or 724(a) of the Bankruptcy Code, arising from any transaction involving or concerning the Liquidating Debtors.

In addition, there may be numerous Causes of Action which currently exist or may subsequently arise which, because the facts upon which such Causes of Action are based are not fully or currently known by the Liquidating Debtors, cannot be raised during the pendency of the Chapter 11 Cases (collectively, the "Unknown Causes of Action").

Unless Causes of Action against an Entity are or have been expressly waived, relinquished, exculpated, released, compromised or settled in the Plan, the Settlement and Compromise Agreement, the Order approving same, the Final Cash Collateral Order or any other Final Order, the Liquidating Debtors expressly reserve all Causes of Action and Unknown Causes of Action for later adjudication and, therefore, no preclusion doctrine, including, without limitation, the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise) or laches shall apply to such Causes of Action upon or after the confirmation or consummation of the Plan. In addition, the Liquidating Debtors expressly reserve the right to pursue or adopt any claims alleged in any lawsuit in which the Liquidating Debtors are a defendant or an interested party, including the lawsuits described herein, against any person or entity, including, without limitation, the plaintiffs and co-defendants in such lawsuits.

Except as otherwise provided in the Plan or in any contract, instrument, release, indenture or other agreement entered into in connection with the Plan, in accordance with

section 1123(b)(3) of the Bankruptcy Code, any claims, rights, and Causes of Action that the respective Liquidating Debtors or the Post-Confirmation Estate may hold against any Entity shall vest in the Post-Confirmation Estate, and the Plan Administrator, on behalf of the Post-Confirmation Estate, shall retain and may exclusively enforce, as the authorized representative of the Post-Confirmation Estate, any and all such claims, rights, or Causes of Action, as appropriate, in accordance with the best interests of the Post-Confirmation Estate and the terms of the Post-Confirmation Estate Agreement. The Plan Administrator, on behalf of the Post-Confirmation Estate, shall have the exclusive right, authority, and discretion to institute, prosecute, abandon, settle, or compromise any and all such claims, rights, and Causes of Action without the consent or approval of any third party and without any further order of court except as otherwise provided in the Post-Confirmation Estate Agreement. Nothing in this Section is intended to impair any causes of action or theories of recovery that are owned directly by Creditors.

The preservation of Causes of Action in no way serves to revive any Causes of Action already released, nor does it alter or modify any such release.

Subject to the approval of the Bankruptcy Court and final documentation, an agreement in principle has been reached with the Sears Entities that would, among other things, provide for the full and complete release of any possible additional claims by the Debtors and their Estates against the Sears Entities (or their affiliates) that have not already been released.

D. Post-Confirmation Estate

On the Confirmation Date, a Post-Confirmation Estate shall be established for the primary purpose of liquidating the assets, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business, except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Post-Confirmation Estate. The Post-Confirmation Estate shall not be deemed a successor of the Liquidating Debtors. The Liquidating Debtors do not anticipate that the Liquidating Debtors will incur any material United States federal income tax liability from the transfer of the Post-Confirmation Estate Assets to the Post-Confirmation Estate. To the extent that any federal income tax liability results therefrom, the Liquidating Debtors will pay the resulting tax to the IRS. On the Confirmation Date, the Cash and all other assets of the Liquidating Debtors and their Estates, including all causes of action, shall vest in the Post-Confirmation Estate. A Reserve Fund shall be created on the Confirmation Date that will include sufficient funds to pay all Post-Confirmation Fees and Expenses, including the quarterly fees of the United States Trustee. The Post-Confirmation Estate shall be administered by the Plan Administrator in consultation with the Post-Confirmation Estate Oversight Committee, as set forth in more detail in the Post-Confirmation Estate Agreement, a preliminary draft of which is appended to this Disclosure Statement as Exhibit E. The Post-Confirmation Oversight Committee shall consist of a representative designee from the Sears Entities, the Creditors' Committee and the Liquidating Debtor and shall oversee all aspects of the Post-Confirmation Estate. The initial Plan Administrator will be Patrick Regan. The salary of Plan Administrator's will be approximately \$21,345.91 per month. The Plan Administrator will have the power to retain professionals as further detailed in the PCEA. The Post-Confirmation Estate, acting through the Plan Administrator, shall have the exclusive power and authority to investigate, prosecute, and settle

any or all of the Causes of Action. The Post-Confirmation Estate will assume the obligation to pay the Allowed Administrative and Priority Claims (including Claims in Class P1) on the Effective Date. Holders of Allowed Claims in Class 2 and 3 entitled to Distributions under the Plan will become the owners of 100% of the beneficial interests in the Post-Confirmation Estate, which is structured to be treated as a grantor trust for federal income tax purposes. The Post-Confirmation Estate shall cause net proceeds of and/or net recoveries on the Causes of Action to be distributed Pro Rata among the Holders of Allowed Claims in Class 2 and 3 in accordance with the Plan after the payment of Administrative and Priority Claims.

The transfer of the Post-Confirmation Estate Assets to the Post-Confirmation Estate shall be made, as provided in the Plan, for the benefit of the holders of Allowed Claims only to the extent such holders are entitled to distributions under the Plan. In this regard, in satisfaction of Allowed Claims, the Post-Confirmation Estate Assets will be transferred to the Post-Confirmation Estate for the benefit of holders of Allowed Claims in accordance with the plan. Upon the transfer of the Post-Confirmation Estate Assets, the Liquidating Debtors shall have no interest in or with respect to the Post-Confirmation Estate Assets or the Post-Confirmation Estate (other than the right to designate one member of the Post-Confirmation Estate Oversight Committee, as such term is defined in the Post-Confirmation Estate Agreement).

For all federal income tax purposes, all parties (including, without limitation, the Liquidating Debtors, the Plan Administrator and the beneficiaries of the Post-Confirmation Estate) shall treat the transfer of assets to the Post-Confirmation Estate in accordance with the terms of the Plan, as a transfer to the holders of Allowed Claims, followed by a transfer by such holders to the Post-Confirmation Estate and the beneficiaries of the Post-Confirmation Estate shall be treated as the grantors and owners thereof.

As soon as practicable after the Confirmation Date, the Plan Administrator shall apprise each of the Beneficiaries of the value of the PCE Assets deemed transferred to such Beneficiary in form and substance reasonably acceptable to the Plan Administrator. The valuation shall be used consistently by all parties (including the Liquidating Debtors, the Plan Administrator, and the Beneficiaries) for all federal income tax purposes. All such valuations shall be filed with the Bankruptcy Court.

After the Confirmation Date, it shall be the duty of the Plan Administrator to seek and obtain a final decree or decrees from the Bankruptcy Court in these cases.

The Plan Administrator, the Plan Administrator's and the PCE's employees and each of their professionals and representatives shall be and hereby are exculpated by all Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Plan Administrator by the Plan or any Order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date. No holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Plan

Administrator, the PCE or the employees, professionals or representatives of either the Plan Administrator or the PCE for making payments in accordance with the Plan or for implementing the provisions of the Plan, except in the case of gross negligence or willful misconduct. The PCE shall indemnify, defend and hold harmless the Plan Administrator, the Plan Administrator's and the PCE's employees and any of their professionals or representatives from and against any and all claims, causes of action, liabilities, obligations, losses, damages or expenses (including attorneys' fees) (other than only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date) to the fullest extent permitted by applicable law. The obligations of the Liquidating Debtors to indemnify those officers, directors, employees, financial advisors consultants, accountants, attorneys, investment bankers, agents and representative of the Liquidations Debtors for service after the Petition Date, shall be assumed by the PCE. Any action taken or omitted to be taken with the approval of the Bankruptcy Court or the Oversight Committee will conclusively be deemed not to constitute gross negligence or willful misconduct.

E. Cancellation of Notes/Stock Instruments/Agreements

Subject to the provisions of the Plan, all Equity and other ownership interests in any of the Liquidating Debtors and all notes, bonds, indentures, agreements, contracts or other instruments or documents evidencing or creating any indebtedness, obligation or liability of any of the Liquidating Debtors shall be deemed canceled on the Effective Date and shall have no force and effect against the Liquidating Debtors, except for the purpose of evidencing the right to participate in the Distributions contemplated by the Plan.

F. Professional Fees And Expenses

Each person requesting compensation in the Liquidating Debtors' Cases pursuant to sections 326, 327, 328, 330, 331, or 1103 of the Bankruptcy Code on account of services performed or Claims otherwise arising prior to the Confirmation Date shall file an application for allowance of compensation and reimbursement of expenses on or prior to the 30th (thirtieth) Business Day after such date. Failure to timely file an application for such compensation shall result in the claim for such compensation being forever barred. Objections to such applications shall be filed no later than 15 (fifteen) days after completion of service of such applications. Fee and expenses incurred by any Professional or any other professional after the Confirmation Date, who are retained by the Post-Confirmation Creditors' Committee, the Liquidating Debtors, the Oversight Committee or the Plan Administrator, shall be payable without any order of the Bankruptcy Court.

G. Insurance Preservation

Nothing in this Plan, including any releases, shall diminish or impair the enforceability of any policies of insurance that may cover any claims against the Liquidating Debtors or any other Person.

H. Release Of Liens

On the Effective Date, except as provided in the Plan as to any liens of the Sears Entities and LFI, all mortgages, deeds of trust, Liens or other security interests against the property of the Estates shall be released.

VII. PLAN PROVISIONS GOVERNING DISTRIBUTIONS

A. Procedures for Distributions

1. General Rules of Construction

Except as otherwise ordered by the Bankruptcy Court or provided in the Plan, distributions to be made on a specified date will be deemed to have been made on that date if actually made on the later of that date and the date on which such administrative expense or Claim is Allowed, or as soon thereafter as practicable.

Except as otherwise ordered by the Bankruptcy Court or provided in the Plan, Distributions will be made by the Plan Administrator to the Holders of Allowed Claims, unless superseded by proofs of claims or transfers of claims pursuant to Bankruptcy Rule 3001, at the last known addresses of such Holders if the Plan Administrator has been notified in writing of a change of address.

Pursuant to the Plan, the Plan Administrator may, but will not be required to, set off against or recoup from any claimant the payments to be made pursuant to the Plan in respect of such claim, any claims of any nature whatsoever the Plan Administrator may have against the claimant, but neither the failure to do so nor the allowance of any claim will constitute a waiver or release by the Plan Administrator of any such claim the Plan Administrator may have against such claimant.

2. Payments and Distributions on Disputed Claims

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, the Plan Administrator shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distribution, if any, shall be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order.

3. Withholding of Allocated Distributions

The Plan Administrator will withhold from the property to be distributed on the First Distribution Date under the Plan an amount sufficient to be distributed on account of Disputed Claims, which amount will be deposited in the applicable Disputed Claims Reserve.

4. Dates of Distribution

On the Effective Date, the Plan Administrator shall, make Distributions to Holders of Allowed Administrative Claims, Allowed Priority Claims, Allowed Secured Claims

and to the extent they have sufficient assets to do so, to Holders of Allowed Unsecured Claims as called for by the Plan. The timing of distributions (other than distributions mandated on the Effective Date by the Plan) shall be made at the discretion of the Plan Administrator.

5. Undeliverable Distributions.

If a Distribution is returned to the Post-Confirmation Estate as undeliverable, the Plan Administrator shall hold such Distribution and shall not be required to take any further action with respect to the delivery of the Distribution unless and until the earlier of (1) the date on which the Plan Administrator is notified in writing of the then current address of the Holder entitled to receive the Distribution or (2) except as the Bankruptcy Court may otherwise order. If the Plan Administrator is notified in writing of the then current address of the Holder prior to the Final Distribution, the Plan Administrator shall promptly make the Distribution required by the Plan to the Holder at the then current address. If the Plan Administrator is not so notified by the Final Distribution Date, the Distribution shall be deemed undeliverable and the Holder shall be deemed to forfeit the Distribution. The Plan Administrator shall retain such Distribution in the Operating Account for potential for distribution Pro Rata among other Holder of Claims in the same class. For all Distributions that are unclaimed for sixty (60) days after the date of Distribution thereof by mail to the current mailing address for the party entitled thereto the Distribution shall be deemed unclaimed and shall be forfeited by the Holder. The Distribution will remain in the Operating Account for Distribution to Holders of Allowed Class 4 Claims.

6. Sources of Cash and Manner of Payment

The Plan Administrator shall make all Distributions from the Distribution Account. At the option of the Plan Administrator, Distributions may be made in cash, by wire transfer or by a check drawn on the Distribution Account. The Plan Administrator, as applicable, may employ a disbursement and paying agent for the purposes of making any or all Distributions.

7. Interest

Unless otherwise required by applicable bankruptcy law, post-petition interest shall not accrue or be paid on any Claims, and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim.

8. Fractional Dollars; De Minimis Distributions

Whenever any payment of a fraction of a cent would otherwise be called for, the actual payment shall reflect a rounding of such fraction to the nearest whole cent.

No Distribution will be made on account of any Allowed Claim to the Holder of any such Allowed Claim if the amount of such Distribution for the Allowed Claim is less than \$50.00. Immediately before the Final Distribution Date, the Liquidating Debtors shall (i) aggregate the amount of all Distributions that would have been made on account of an Allowed Claim but for this de minimis provision and (ii) on the Final Distribution Date, make a Distribution on account of such Allowed Claim if the aggregate amount meets or exceeds \$50.00.

9. Holdback for Disputed Claim

In making any Distribution on Allowed Claims, the Liquidating Debtors shall calculate the amount of such Distribution (for purposes of making a Pro Rata Calculation) as if each Disputed Claim were an Allowed Claim, unless the Bankruptcy Court enters an order specifying that the Disputed Claim should be treated as being a different amount for purposes of such calculation. No distribution shall be made on any Disputed Claim unless, and only to the extent, it becomes an Allowed Claim, and the Liquidating Debtors shall holdback from Distributions a sufficient amount to make the full Distribution on the Disputed Claim to which the holder of the Disputed Claim would have been entitled if the Disputed Claim ultimately were determined to be an Allowed Claim in the full amount of the Disputed Claim (unless the Bankruptcy Court orders otherwise).

In connection with each Distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) and/or withholding is required, the Liquidating Debtors shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such Distribution, and/or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Liquidating Debtors or Plan Administrator, the Liquidating Debtors or Plan Administrator may, at their sole option, withhold the amount required and distribute the balance to such Person or decline to make such Distribution until the information is received.

10. Compliance with Tax Requirements

In connection with the Plan, to the extent applicable, the Liquidating Debtors shall comply with all tax withholding and reporting requirements imposed on it by any government unit, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements.

11. Distribution Record Date

As of the close of business on the Distribution Date, the transfer register for any instrument, security, or other documentation canceled pursuant to Article IV of the Plan shall be closed and there shall be no further changes in the record Holders of any such instrument, security, or documentation. Moreover, each Debtor shall have no obligation to recognize the transfer of any such instrument, security, or other documentation occurring after the Distribution Date, and shall be entitled for all purposes herein to recognize and deal only with those Holders of record as of the close of business on the Distribution Date.

12. Setoffs

The Liquidating Debtors or Plan Administrator may, pursuant to sections 502(d) or 553 of the Bankruptcy Code or applicable non-bankruptcy law, offset against any Allowed Claim, and the Distributions to be made pursuant to the Plan on account of such Claim (before any distribution is made on account of such Claim), the Claims, rights, and Causes of Action of any nature that the Liquidating Debtors may hold against the Holder of such Allowed Claim;

provided, however, that (1) the failure to effect such a setoff or the allowance of any Claim hereunder shall not constitute a waiver or release by the Liquidating Debtors or Plan Administrator of any such Claims, rights, and Causes of Action that the Liquidating Debtors or Plan Administrator may possess against such Holder, and (2) the Liquidating Debtors' failure to institute, or express or implied waiver of, any Cause of Action referenced in section 502(d) of the Bankruptcy Code shall not constitute a waiver or release by the Liquidating Debtors or Plan Administrator of any right of setoff.

13. Distributions to Reserve Fund on the Confirmation Date

On the Confirmation Date, the Liquidating Debtors shall deposit Cash into the Reserve Fund in an amount reasonably sufficient to pay all Post-Confirmation Fees and Expenses as of the Confirmation Date; provided, however, that such Cash will be used to satisfy Claims of Professionals only pursuant to further order of the Bankruptcy Court.

B. Procedure for Determination of Claims

1. Estimation of Disputed Claims

The Liquidating Debtors, or the Post-Confirmation Estate, may at any time request that the Bankruptcy Court estimate any contingent or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Liquidating Debtors or the Post-Confirmation Estate previously have objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. Subject to the provisions of section 502(j) of the Bankruptcy Code, in the event that the Bankruptcy Court estimates any contingent or Disputed Claim, the amount so estimated shall constitute the allowed amount of such Claim. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Liquidating Debtors may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation and resolution procedures are intended to be cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court.

2. Objections To Claims

Notwithstanding the occurrence of the Confirmation Date, and except as to any Claim that has been Allowed prior to such date, the Liquidating Debtors, or the Plan Administrator, may object to the allowance of any Claim against the Liquidating Debtors or seek estimation thereof on any grounds permitted by the Bankruptcy Code by filing the appropriate pleading with the Bankruptcy Court after the Confirmation Date. All objections shall be litigated to a Final Order; provided, however, that the Plan Administrator (within such parameters as may be established by the Post-Confirmation Estate Agreement) shall have the authority to file, settle, compromise or withdraw any objections to Claims, without approval of the Bankruptcy Court. To the extent any property is distributed to an entity on account of a Claim that is not an Allowed

Claim, such property shall promptly be returned to the Liquidating Debtors for deposit in the Distribution Account.

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, payments and distributions on account of such Allowed Claim shall be made in accordance with the provisions of the Plan governing the Class of Claims to which such Claim belongs. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Claim becomes a Final Order, any property that would have been distributed prior to the date on which a Disputed Claim becomes an Allowed Claim shall be distributed, together with any dividends, payments or other distributions made on account of such property from the date such distributions would have been due had such Claim then been an Allowed Claim to the date such distributions are made.

3. Allocation of Consideration

The aggregate consideration to be distributed to the holders of Allowed Claims under the Plan will be treated as first satisfying an amount equal to the stated principal amount of the Allowed Claim for such holders, as determined for federal income tax purposes, and any remaining consideration as satisfying accrued, but unpaid, interest, if any.

4. Retention of Jurisdiction

Following the Confirmation Date, the Bankruptcy Court shall retain such jurisdiction as is set forth in the Plan. Without in any manner limiting the scope of the foregoing, the Bankruptcy Court shall retain jurisdiction for the following purposes:

- (a) To enforce its orders entered in the bankruptcy case.
- (b) To determine the allowability, classification, priority or subordination of Claims and Interests upon objection, or to estimate, pursuant to section 502(c) of the Bankruptcy Code, the amount of any Claim that is or is anticipated to be contingent or unliquidated as of the Confirmation Date, or to hear proceedings to subordinate Claims or Interests brought by any party in interest with standing to bring such objection or proceeding;
- (c) To construe and enforce the Plan and the documents and agreements filed in connection with the Plan and issue such orders as may be necessary for the implementation, execution and consummation of the Plan;
- (d) To determine any and all applications for allowance of compensation and expense reimbursement for periods on or before the Confirmation Date, and to determine any other request for payment of administrative expenses;
- (e) To determine all matters that may be pending before the Bankruptcy Court on or before the Confirmation Date;
- (f) To resolve any dispute regarding the implementation or interpretation of the Plan that arises at any time before the Cases are closed, including determination, to the extent a dispute arises, of the entities entitled to a Distribution within any particular Class of Claims;

(g) To determine all applications, adversary proceedings, contested matters and other litigated matters that were brought or that could have been brought on or before the Confirmation Date;

(h) To determine matters concerning local, state and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code, and to determine any tax claims that may arise against the Liquidating Debtors as a result of the transactions contemplated by the Plan;

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

(j) To modify the Plan pursuant to section 1127 of the Bankruptcy Code, or to remedy any apparent nonmaterial defect or omission in the Plan, or to reconcile any nonmaterial inconsistency in the Plan so as to carry out its intent and purposes.

(k) Prior to the Confirmation Date, the Bankruptcy Court shall retain jurisdiction with respect to each of the foregoing items and all other matters that were subject to its jurisdiction prior to the Confirmation Date.

5. Votes Solicited in Good Faith

Upon entry of the Order confirming the Plan, the Liquidating Debtors will be deemed to have solicited votes on the Plan in good faith and in compliance with the Bankruptcy Code, and pursuant to section 1125(e) of the Bankruptcy Code, the Liquidating Debtors, and each of their respective affiliates, agents, representatives, members, principals, shareholders, officers, directors, employees, advisors and attorneys will be deemed to have participated in good faith and in compliance with the Bankruptcy Code in the offer, issuance, sale, and purchase of securities offered and sold under the Plan, and therefore, will have no liability for the violation of any applicable law, rule or regulation governing the solicitation of votes on the Plan or the offer, issuance, sale, or purchase of the securities offered and sold under the Plan.

VIII. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

As authorized by section 1123(b)(2) of the Bankruptcy Code, except for those unexpired leases of non-residential real property identified in the Settlement and Compromise Agreement which as of the Confirmation Date have not been assumed or rejected and those that may be listed as an Exhibit to the Plan Supplement, all of the Liquidating Debtors' executory contracts and unexpired leases not previously assumed and assigned or rejected pursuant to a Court order are deemed rejected as of the Confirmation Date. The Bankruptcy Court granted an extension of the period in which the Sears Entities can direct the Liquidating Debtors to assume or reject leases under the Settlement and Compromise Agreement until the later of the Effective Date or December 31, 2002 and the Liquidating Debtor have sought a further extension (and may seek such additional extensions) of such period.

Each Entity that is a party to an executory contract or unexpired lease rejected pursuant to the Plan (and only such entities) will be entitled to file, not later than thirty (30) days following the Confirmation Date, a proof of claim for damages alleged to have been suffered due

to such rejection; provided, however, that the opportunity afforded an Entity whose executory contract or unexpired lease is rejected pursuant to the Plan to file a proof of claim on or before such date shall in no way apply to entities that may assert a claim on account of an executory contract or unexpired lease that was previously rejected by the Liquidating Debtors for which a prior bar date was established. Any person or entity that has a claim for damages as a result of the rejection of an executory contract or unexpired lease pursuant to the terms of the Plan that does not file a proof of claim in accordance with the terms and provisions of the Plan will be forever barred from asserting that claim against any of the Liquidating Debtors or any property of the Estates. The rejection, assumption, or assumption and assignment of those unexpired leases that are subject to the Settlement and Compromise Agreement will continue to be governed by such agreement, the Settlement Order and any Orders extending the period in which the Sears Entities can direct the Debtors to assume or reject such leases.

IX. EXCULPATION; RELEASE; INJUNCTION

(1) Each Person or Entity in the Voting Class will be given the option to “opt in” to the provisions contained in Section IX by checking the appropriate box on the Person or Entity’s Ballot.⁴ If the Person or Entity “opts in,” such Person or Entity will, from and after the Confirmation Date, be permanently enjoined from commencing or continuing in any manner, any suit, action or other proceeding, on account of or respecting any Claim, demand, liability, obligation, debt, right, Cause of Action, interest, or remedy released or to be released pursuant to the following:

Any Person or Entity in the Voting Class that “opts in” per the provisions in paragraph (1) above, on the Confirmation Date, in exchange for, among other things, Distributions under the Plan, each Holder of a Claim or Interest shall be deemed, with respect to the Released Parties, to unconditionally release and forever waive all claims, debts, obligations, demands, liabilities, suits, judgments, damages, rights, and causes of action whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part upon any transactions or matters with the Liquidating Debtors, their estates or in connection with the Cases, the Plan or the Disclosure Statement that occurred or could have occurred on or before the Confirmation Date, except for cases of gross negligence or willful misconduct.

(2) Except with respect to the express duties provided in the Plan, none of the Liquidating Debtors, nor any of their respective present or former members, directors, officers, employees, advisors, attorneys, affiliates, subsidiaries or agents, shall have or incur any liability to any Holder of a Claim or Interest, or members of the Creditors’ Committee, or any other party in interest, or any of their respective agents, employees, representatives,

⁴ Ballots are discussed in greater detail in Section XII of the Disclosure Statement and will provide such an “opt out” box for Persons and Entities to check.

financial advisors or attorneys, or any of their successors or assigns, for any act or omission occurring on or after the Petition Date in connection with, relating to, or arising out of the Liquidating Debtors, their Cases, the pursuit or confirmation of the Plan, or the consummation of the Plan, except for their willful misconduct or gross negligence, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan or in the context of these Cases. Except with respect to the express duties provided in the Plan, no Holder of a Claim or Interest, or members of the Creditors' Committee, or any other party in interest, including their respective agents, employees, representatives, financial advisors, or attorneys, shall have any right of action against the Liquidating Debtors, or any of their respective present or former members, directors, officers, employees, advisors, attorneys, affiliates, subsidiaries or agents, for any act or omission in connection with, relating to, or arising out of, the Liquidating Debtors' Cases, the pursuit or confirmation of the Plan, the consummation of the Plan or the administration of the Plan, except for their willful misconduct or gross negligence.

(3) The Liquidating Debtors hereby unconditionally and forever release all the Released Parties, including their officers and directors who were officers or directors (in their capacities as such) as of the Petition Date, from any and all claims, obligations, suits, judgments, damages, rights, causes of action, and liabilities whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part upon any act or omission, transaction, event or other occurrence taking place on or before the Confirmation Date in any way relating to, the Cases, the Plan or the Disclosure Statement except for gross negligence or willful misconduct.

X. CERTAIN FACTORS AFFECTING THE LIQUIDATING DEBTORS

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

A. Certain Bankruptcy Law Considerations

1. Parties in Interest May Object To Liquidating Debtors' Classification of Claims and Interests

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

2. Failure to Satisfy Vote Requirement

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

3. Risk of Non-Confirmation of the Plan

Although the Liquidating Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes.

4. Debtor May Not be Able to Secure Confirmation of the Plan

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 Creditor of the Liquidating Debtors might challenge the adequacy of this Disclosure Statement or the Balloting procedures and results as not being in compliance with the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determined that the Disclosure Statement and the Balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found that any of the statutory requirements for confirmation had not been met, including that the terms of the Plan are fair and equitable to non-accepting Classes. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, a finding by the Bankruptcy Court that the Plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting Classes, confirmation of the Plan is not likely to be followed by a liquidation or a need for further financial reorganization and the value of distributions to non-accepting Holders of claims and interests within a particular class under the Plan will not be less than the value of distributions such Holders would receive if the Liquidating Debtors were liquidated under chapter 7 of the Bankruptcy Code. While there can be no assurance that these requirements will be met, the Plan contemplates a liquidation and, therefore, should satisfy the requirement that it will not be followed by a need for further financial reorganization. In addition, the Liquidating Debtors believe that non-accepting Holders within each Class under the Plan will receive distributions at least as great as would be received following a liquidation under chapter 7 of the Bankruptcy Code when taking into consideration all administrative claims and costs associated with any such chapter 7 case. The Liquidating Debtors believe that Holders of Interests in the Liquidating Debtors would receive no distribution under either a liquidation pursuant to chapter 7 or chapter 11.

The confirmation and consummation of the Plan are also subject to certain conditions as described in Section XII.C. below, entitled "CONFIRMATION OF THE PLAN - Requirements for Confirmation of the Plan - Nonconsensual Confirmation." If the Plan is not

confirmed, it is unclear what distributions Holders of Claims ultimately would receive with respect to their Claims. The cases likely would be converted to cases under chapter 7 or dismissed.

The Liquidating Debtors reserve the right to modify the terms of the Plan as necessary for the confirmation of the Plan without the acceptance of all Impaired Classes. Such modification could result in a less favorable treatment of any non-accepting class or classes, as well as of any classes junior to such non-accepting classes, than the treatment currently provided in the Plan. Such less favorable treatment could include a distribution of property to the class affected by the modification of a lesser value than currently provided in the Plan or no distribution of property whatsoever under the Plan.

5. The Liquidating Debtors May Object to the Amount or Classification of a Claim

The Liquidating Debtors reserve the right to object to the amount or classification of any Claim. The estimates set forth in this Disclosure Statement cannot be relied on by any Creditor whose Claim is subject to an objection. Any such Claim Holder may not receive its specified share of the estimated distributions described in this Disclosure Statement.

6. Consolidation Risks

The Plan contemplates consolidating the Liquidating Debtors into one entity. The Liquidating Debtors can provide no assurance, however, that (i) the Bankruptcy Court will order the Debtors to be substantively consolidated; or (ii) a party in interest will not object to such substantive consolidation.

7. Contingencies Not to Affect Votes of Impaired Classes to Accept 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 or not the Liquidating Debtors are consolidated, and whether the Bankruptcy Court orders certain Claims or Interests to be subordinated to other Claims or Interests. The occurrence of any and all such contingencies which could affect distributions available to Holders of Allowed Claims under the Plan, however, will not affect the validity of the vote taken by the Impaired Class to accept or reject the Plan or require any sort of revote by the Impaired Class.

B. Financial Information; Disclaimer

Although the Liquidating Debtors have used their reasonable best efforts to ensure the accuracy of the financial information provided in this Disclosure Statement, the financial information contained in this Disclosure Statement has not been audited and is based upon an analysis of data available at the time of the preparation of the Plan and Disclosure Statement. While the Liquidating Debtors believe that such financial information fairly reflects the financial condition of the Liquidating Debtors, the Liquidating Debtors are unable to warrant or represent that the information contained herein and attached hereto is without inaccuracies.

C. Certain Tax Matters

For a summary of certain federal income tax consequences of the Plan to certain Holders of Claims and to the Liquidating Debtors, see Section XV., below, entitled “CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN.”

D. Pending Litigation or Demands Asserting Prepetition Liability

As of the date of this Disclosure Statement, there were no pending demands or litigation asserting prepetition liability which the Liquidating Debtors believe will have a material adverse effect on the financial position of the Liquidating Debtors. The Liquidating Debtors are currently involved in various legal proceedings arising in the ordinary course of business operations, including personal injury claims, employment matters, and contractual disputes.

XI. HOW TO VOTE ON THE PLAN

The following is a brief summary regarding the acceptance and confirmation of the Plan. Holders of Claims and Interests are encouraged to review the relevant provisions of the Bankruptcy Code and/or to consult their own attorneys. Additional information regarding voting procedures will be set forth in the Notice accompanying the Plan Supplement.

A. Voting Deadline

All known Holders of Claims in Class 3 as of the Record Date entitled to vote on the Plan will be sent a Ballot together with this Disclosure Statement. Such Holders should read the Ballot carefully and follow the instructions contained therein. Please use only the Ballot that accompanies this Disclosure Statement. **The Liquidating Debtors and the Committee recommend the Holders of Claims in such Class vote to accept the Plan and return the Ballot.**

The Liquidating Debtors have engaged Bankruptcy Management Corporation as their Information and Voting Agent to assist in the transmission of voting materials and in the tabulation of votes with respect to the Plan.

B. Holders of Claims Entitled to Vote

Only the Claims in Class 3 are Impaired under the Plan and entitled to receive a Distribution; consequently, each Holder of such Claim, as of the Record Date established by the Liquidating Debtors for purposes of this solicitation, may vote to accept or reject the Plan.

C. Vote Required for Acceptance by a Class

The Bankruptcy Code defines acceptance of a plan by a class of claims as acceptance by Holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class which cast Ballots for acceptance or rejection of the plan. Thus, acceptance by a class of claims occurs only if at least two-thirds in dollar amount and a majority in number of the Holders of claims cast their Ballots in favor of acceptance.

D. Voting Tabulation

In tabulating votes, the following hierarchy shall be used to determine the Claim amount associated with a Creditor's vote: (1) the Claim amount established by Court order; (2) the Claim amount contained on a proof of Claim (3) the Claim amount contained on an unobjected to Ballot; (4) the Claim amount listed in the Liquidating Debtors' schedules, if any; and (5) in the absence of any of the foregoing, zero. The Claim amount established through this process controls for voting purposes only and does not constitute the Allowed amount of any Claim. Further, the designation of a Claim as disputed, contingent or unliquidated on the Liquidating Debtors' schedules will not be used to disqualify any vote.

To ensure that a vote is counted, Holders of Claims must (i) complete a Ballot, (ii) indicate its decision either to accept or reject the Plan in the boxes provided on the Ballot, and (iii) sign and return the Ballot to the address set forth on the enclosed prepaid envelope.

The Ballot is not a letter of transmittal and may not be used for any purpose other than to vote to accept or reject the Plan and to determine the alleged amount of a beneficial Holder's Claim. Accordingly, at the time the Ballot is transmitted, Creditors should not surrender certificates, instruments, or other documents representing or evidencing their Claims, and neither the Liquidating Debtors nor the Voting Agent will accept delivery of such certificates or instruments surrendered together with a Ballot. The remittance of notes or other evidence of Claims for exchange pursuant to the Plan may only be made by a Holder and will not be accepted if certificates or instruments representing Claims (in proper form for transfer) are delivered together with a letter of transmittal that will be furnished to as provided under the Plan or as notified following Confirmation of the Plan by the Bankruptcy Court.

The Ballot does not constitute, and shall not be deemed to be, a proof of Claim or an assertion or admission of a Claim. If a Creditor casts a Ballot and (a) the Creditor has not timely filed a proof of Claim (or has otherwise had such a proof of Claim deemed timely filed by the Court under applicable law) and is listed on the Liquidating Debtors' schedules of liabilities, if any, as holding a Claim that is contingent, unliquidated or disputed or (b) the Creditor has filed a proof of Claim and the entirety of the Creditor's Claim is the subject of an objection to said Claim filed before the commencement of the Voting Deadline, said Creditor's Ballot shall not be counted in accordance with Bankruptcy Rule 3018, unless temporarily allowed by the Court for voting purposes, pursuant to Bankruptcy Rule 3018(a), after notice and a hearing prior to the Confirmation Hearing. Ballots cast by Creditors whose Claims are not listed on the Liquidating Debtors' schedules of liabilities, but who timely file proofs of Claim in unliquidated or unknown amounts will count for satisfying the numerosity requirement of section 1126(c) of the Bankruptcy Code, but will not count toward satisfying the aggregate dollar amount provisions of that section.

Except to the extent the Liquidating Debtors so determine or as permitted by the Bankruptcy Court, Ballots received after the Voting Deadline will not be accepted or counted by the Liquidating Debtors in connection with the Liquidating Debtors' request for Confirmation of the Plan. The method of delivery of Ballots to be sent to the Voting Agent is at the election and risk of each Holder of a Claim or Interest. Except as otherwise provided herein, such delivery will be deemed made only when the original executed Ballot is actually received by the Voting

Agent. Instead of effecting delivery by mail, it is recommended, though not required, that such Holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. Delivery of a Ballot by facsimile, e-mail or any other electronic means will not be accepted. No Ballot should be sent to any of the Liquidating Debtors, any indenture trustee, or the Liquidating Debtors' financial or legal advisors. The Liquidating Debtors expressly reserve the right to amend, at any time and from time to time, the terms of the Plan (subject to compliance with the requirements of section 1127 of the Bankruptcy Code). If the Liquidating Debtors make a material change in the terms of the Plan or if the Liquidating Debtors waive a material condition, the Liquidating Debtors will disseminate additional solicitation materials and will extend the solicitation, in each case to the extent required by law.

If multiple Ballots are received from an individual Holder of Claims with respect to the same Claims prior to the Expiration Date, the last Ballot timely received will supersede and revoke any earlier received Ballot. Creditors must vote all of their Claims within a particular Plan class either to accept or reject the Plan and may not split their vote. Accordingly, a Ballot that partially rejects and partially accepts the Plan will not be counted.

If a Ballot is signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, such persons should indicate such capacity when signing and, unless otherwise determined by the Liquidating Debtors, must submit proper evidence satisfactory to the Liquidating Debtors to so act on behalf of a beneficial interest Holder.

In the event a designation is requested under section 1126(e) of the Bankruptcy Code, any vote to accept or reject the Plan cast with respect to such Claim not be counted for purposes of determining whether the Plan has been accepted or rejected, unless the Bankruptcy Court orders otherwise.

Any Holder of an Impaired Claim who has delivered a valid Ballot voting on the Plan may withdraw such vote solely in accordance with Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

Subject to any contrary order of the Bankruptcy Court, the Liquidating Debtors reserve the absolute right to reject any and all Ballots not proper in form, the acceptance of which would, in the opinion of the Liquidating Debtors or their counsel, not be in accordance with the provisions of the Bankruptcy Code. Subject to contrary order of the Bankruptcy Court, the Liquidating Debtors further reserve the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot unless otherwise directed by the Bankruptcy Court. The Liquidating Debtors' interpretation of the terms and conditions of the Plan (including the Ballot and the Voting Instructions), unless otherwise directed by the Bankruptcy Court, shall be final and binding on all parties. Unless waived or as ordered by the Bankruptcy Court, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Liquidating Debtors (or the Bankruptcy Court) determine. Neither the Liquidating Debtors nor any other person or entity will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liabilities for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots will not be deemed to have been made until such irregularities have been cured or

waived. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) will not be counted.

E. Voting Procedures

The Record Date for determining which Holders of Class 3 Claims are entitled to vote on the Plan will be the date of the Order approving the Disclosure Statement.

1. Holders of Classes 3 General Unsecured Claims

Holders of Claims in Classes 3 should vote the aggregate principal amount due and owing by the Liquidating Debtors as of the Record Date. THIS CLAIM AMOUNT WILL BE USED FOR VOTING PURPOSES ONLY AND WILL NOT BE DETERMINATIVE OF, OR OTHERWISE AFFECT, THE HOLDERS' CLAIMS OR PLAN TREATMENT OR DISTRIBUTION PURPOSES OR ANY OTHER CHAPTER 11 PURPOSES. The Holders of Claims in Class 3 will also be given the option to "opt in" to the release provisions detailed in Section IX hereof.

2. Withdrawal of Ballot or Master Ballot

Any voter who has delivered a valid Ballot may withdraw its vote by delivering a written notice of withdrawal to the Voting Agent before the Voting Deadline. To be valid, the notice of withdrawal must (a) describe the claim to which it relates, (b) be signed by the party who signed the Ballot to be revoked, and (c) be received by the Voting Agent before the Voting Deadline. The Liquidating Debtors may contest the validity of any withdrawals.

Any holder who has delivered a valid Ballot may change its vote by delivering to the Voting Agent a properly completed subsequent Ballot so as to be received before the Voting Deadline. In the case where more than one timely, properly completed Ballot is received, only the Ballot that bears the latest receipt date will be counted.

XII. CONFIRMATION OF THE PLAN

A. Confirmation

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of a plan. The Liquidating Debtors will request the Bankruptcy Court to schedule a confirmation hearing. Notice of the confirmation hearing will be provided to all known Creditors and Interest Holders or their representatives. The Confirmation hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the confirmation hearing or any subsequent adjourned confirmation hearing. Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules, must set forth the name of the objector, the nature and amount of claims or interests held or asserted by the objector and against the Liquidating Debtors' Estates or property, and the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, with a copy to Chambers, together with proof of service thereof, and served on (i) counsel for the Debtors,

Kirkland & Ellis, 200 East Randolph Drive, Chicago, IL 60601, Attn.: James A. Stempel and Jonathan P. Friedland; (ii) co-counsel for the Debtors, Pachulski, Stang, Ziehl, Young & Jones, PC, 919 North Market Street, 16th Floor, P.O. Box 8705, Wilmington, DE 19899-8705 (Courier 19801), Attn: David W. Carickhoff, Jr.; (iii) counsel for the Committee, Platzer, Swergold, Karlin, Levine, Goldberg & Jaslow, LLP, Attn: Clifford A. Katz; (iv) co-counsel for the committee Zuckerman Spaeder LLP, One Commerce Center, 1201 Orange Street, P.O. Box 1028, Wilmington, DE 19899-1028, Attn: Thomas Macauley; and (v) the Office of the United States Trustee, Attn: David I. Buchbinder, 844 King Street, Room 2311, Wilmington, DE 19801, so as to be received no later than the date and time designated in the notice of the confirmation hearing. Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY AND PROPERLY SERVED AND FILED IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

The Court will hold the Confirmation Hearing commencing at _____ (Eastern Time) on [_____, 2002, at the United States Bankruptcy Court, 824 Market Street, Sixth Floor, Wilmington, DE, before the Honorable Jerry W. Venters, United States Bankruptcy Judge. The Confirmation Hearing may be adjourned from time to time without further notice other than by announcement in the Court on the scheduled date of such hearing. At the Confirmation Hearing, the Court will (i) determine whether the requisite vote has been obtained for approval of the Plan, (ii) hear and determine objections, if any, to the Plan and to confirmation of the Plan that have not been previously disposed of, (iii) determine whether the Plan meets the confirmation requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

B. Acceptance of the Plan

In order for the Plan to be accepted by any class, it must be accepted by Creditors who hold at least two-thirds in dollar amount of the Claims in such impaired class as to which votes are cast, and who comprise more than one-half of the voting Creditors holding claims in such class. A Class is impaired if the legal, equitable, or contractual rights attaching to the Claims in that class are modified, other than by curing defaults and reinstating maturity or payment in full in cash. Creditors whose claims are not impaired by the Plan may not vote and are conclusively presumed, pursuant to the Bankruptcy Code, to have accepted the Plan,

If any impaired Class does not accept the Plan, the Liquidating Debtors may nevertheless seek confirmation of the Plan. As set forth by section 1129(b) of the Bankruptcy Code, to obtain such confirmation and “cram-down” on the dissenting class or classes, the Liquidating Debtors must demonstrate to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each dissenting class. A plan does not discriminate unfairly if, among other things, the dissenting class is treated substantially equally with respect to other classes of equal rank. The Liquidating Debtors will satisfy the “fair and equitable” test if the Liquidating Debtors can demonstrate to the Bankruptcy Court that either; (a) each holder of a claim or interest in the dissenting classes receives or retains, under the Plan, property of a value equal to the allowed amount of its claim or interest; or (b) the holders of Interests that are junior to the Interests of the holders of such dissenting class will not receive or retain any property under the Plan.

UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

C. Requirements for Confirmation of the Plan

1. Consensual Confirmation

(a) General Requirements. At the confirmation hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied:

- (1) The Plan complies with the applicable provisions of the Bankruptcy Code.
- (2) The Liquidating Debtors have complied with the applicable provisions of the Bankruptcy Code.
- (3) The Plan has been proposed in good faith and not by any means proscribed by law.
- (4) Any payment made or promised by the Liquidating Debtors or by a person acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any such payment made before confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- (5) The Liquidating Debtors have disclosed the identity and affiliations of the individual proposed to serve as Plan Administrator after confirmation of the Plan,
- (6) With respect to each Class of Claims or Interests, each Holder of an Impaired Claim or Impaired Interest either has accepted the Plan or will receive or retain under the Plan on account of such Holder's Claim or Interest, property of a value, as of the Confirmation Date of the Plan, that is not less than the amount such Holder would receive or retain if the Liquidating Debtors were liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test" in Section XII C.1.c, below, entitled "CONFIRMATION OF THE PLAN—Requirements for Confirmation of the Plan—Consensual Confirmation—Best Interests Test."
- (7) Except to the extent the Plan meets the "Nonconsensual Confirmation" standards discussed below, each Class of Claims or

Interests has either accepted the Plan or is not Impaired under the Plan.

- (8) Except to the extent that the Holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Administrative Expenses and Priority Claims other than priority tax claims will be paid in full on the Effective Date and that Holders of priority tax claims will receive on account of such Claims deferred Cash payments, over a period not exceeding six years after the date of assessment of such Claims, of a value, as of the Effective Date, equal to the allowed amount of such Claims with interest from the Effective Date.
- (9) At least one Class of Impaired Claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim in such Class.
- (10) Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Liquidating Debtors or any successor to the Liquidating Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of “Feasibility” in Section XII C.1.b, below, entitled “Confirmation of the Plan — Requirements for Confirmation of the Plan—Consensual Confirmation—Feasibility.”
- (11) The Plan provides for the continuation after the Effective Date of payment of all Retiree Benefits (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to subsection 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of the Plan, for the duration of the period the Liquidating Debtors has obligated itself to provide such benefits.

The Liquidating Debtors believe that each of the foregoing elements will be satisfied.

(b) Feasibility. As a condition to confirmation of a plan, section 1129(a) of the Bankruptcy Code requires that the confirmation of the Plan is not likely to be followed by the liquidation of the Liquidating Debtors (unless, like here, such liquidation is proposed in the Plan) or the need for further financial reorganization. Since liquidation is proposed in the Plan, the Liquidating Debtors believe that the Plan meets the feasibility requirement in that it will be able to make all payments required by the Plan without the necessity for further financial reorganization. Moreover, the Liquidating Debtors, with the assistance of the financial advisors, have prepared a feasibility analysis which is annexed to this Disclosure Statement as **Exhibit C** (the “Feasibility Analysis”). The Feasibility Analysis demonstrates that the Plan will effectuate, at a minimum, the payment of all Allowed Administrative and Priority Claims.

(c) Best Interests Test. As described above, the Bankruptcy Code requires that each Holder of a Claim or Interest in an Impaired Class either (a) accepts the plan or (b) receives or retains under the Plan property of a value, as of the Effective Date of the plan, that is not less than the value such Holder would receive or retain if the Liquidating Debtors were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

The first step in meeting this test is to determine the dollar amount that would be generated from the liquidation of the Liquidating Debtors' assets and properties in the context of chapter 7 liquidation cases. The total amount available would be the sum of the proceeds from the disposition of the Liquidating Debtors' assets and the cash held by the Liquidating Debtors at the time of the commencement of the chapter 7 cases. The next step is to reduce that total by the amount of any Claims secured by such assets, the costs and expenses of the liquidation, and such additional Administrative Expenses and Priority Claims that may result from the termination of the Liquidating Debtors' chapter 11 liquidation process and the use of chapter 7 for the purposes of liquidation. Finally, the present value of that amount (taking into account the time necessary to accomplish the liquidation) is allocated to Creditors and shareholders in strict priority in accordance with section 726 of the Bankruptcy Code (see discussion below) and can then be compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

The Liquidating Debtors' costs for liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as fees that might be payable to attorneys and other professionals that such a trustee may engage, plus any unpaid expenses incurred by the Liquidating Debtors during a chapter 11 case and allowed in the chapter 7 case, such as compensation for attorneys, financial advisors, appraisers, accountants and other professionals, and costs and expenses of members of any statutory committee of unsecured Creditors appointed by the United States Trustee pursuant to section 1102 of the Bankruptcy Code and any other committee so appointed. The Debtors have conservatively estimated that these fees and expenses may increase the cost of administration as compared to continuing the chapter 11 liquidation by over \$800,000. In addition, Claims may arise by reason of the breach or rejection of obligations incurred and executory contracts entered into by the Liquidating Debtors both prior to, and during the pendency of, the Chapter 11 Cases. If there is a conversion to chapter 7, it is likely that a breach will occur under the Settlement and Compromise Agreement, potentially entitling the Sears Entities to increase its Administrative Expense Claim. The foregoing types of Claims, costs, expenses, and fees and such other Claims which may arise in a liquidation case or result from a pending chapter 11 case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay pre-chapter 11 Priority and Unsecured Claims.

In addition, the Debtors have undertaken substantial collection activities in regard to preferences. Debtor personnel, along with selected professionals, have extensive background in the transactions which gave rise to the potential preference actions, the analysis supporting these actions, and in some cases relationships with the vendors involved. These advantages are likely to be lost in a conversion to Chapter 7, with the result that despite the additional expenses noted above the overall recovery of assets (primarily resulting from causes of action relating to preferences) will be less, further reducing benefits available to creditors of the estate. The

impact of the increased costs and decreased recoveries are reflected in the Liquidation Analysis attached as Exhibit D hereto.

In applying the “best interests test,” it is possible that Claims and Interests in the chapter 7 case may not be classified according to the seniority of such Claims and Interests as provided in the Plan. In the absence of a contrary determination by the Bankruptcy Court, all pre-chapter 11 Unsecured Claims which have the same rights upon liquidation would be treated as one Class for purposes of determining the potential distribution of the liquidation proceeds resulting from the Liquidating Debtors’ chapter 7 cases. The distributions from the liquidation proceeds would be calculated ratably according to the amount of the Claim held by each Creditor. Therefore, Creditors who are or claim to be third-party beneficiaries of any contractual subordination provisions might be required to seek to enforce such contractual subordination provisions in the Bankruptcy Court or otherwise. Section 510 of the Bankruptcy Code specifies that such contractual subordination provisions are enforceable in a chapter 7 liquidation case.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in a chapter 11 case, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) the erosion in value of assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7, and (iii) increases in claims which would be satisfied on a priority basis or on a parity with creditors in a chapter 11 case, the Liquidating Debtors have determined that Confirmation of the Plan will provide each Creditor and Interest Holder with a recovery that is not less than it would receive pursuant to a liquidation of the Liquidating Debtors under chapter 7 of the Bankruptcy Code.

Moreover, the Liquidating Debtors believe that the value of any Distributions from the liquidation proceeds to each Class of Allowed Claims in a chapter 7 case would be less than the value of Distributions under the Plan because such Distributions in chapter 7 may not occur for a substantial period of time. In this regard, it is possible that Distribution of the proceeds of the liquidation could be delayed for a year or more after the completion of such liquidation in order to resolve the Claims and prepare for Distributions. In the event litigation were necessary to resolve Claims asserted in the chapter 7 cases, the delay could be further prolonged.

D. Conditions Precedent to Confirmation and the Occurrences of the Effective Date

1. Conditions to Confirmation of the Plan

The Plan may not be confirmed unless the Disclosure Statement Order has been entered.

2. Conditions to Occurrence of the Effective Date

The Effective Date is conditioned upon the following:

(a) The entry of the Confirmation Order by the Bankruptcy Court, no stay of the Confirmation Order is in effect and the Confirmation Order has not been reversed, modified or vacated;

(b) Six months have elapsed from the date of the entry of the Confirmation Order.

(c) The appointment of and acceptance by the Plan Administrator has occurred under the Post-Confirmation Estate Agreement.

3. The Confirmation Order

If the Confirmation Order is vacated pursuant to this Section or otherwise, the Plan becomes null and void in all respects.

4. Waiver of Conditions

Waiver by the Liquidating Debtors of any of the conditions precedent to confirmation of the Plan or the occurrence of the Effective Date set forth in herein respectively, shall be in their sole and unanimous discretion and may be effected at any time, without notice to third parties or any other formal action.

E. Modification, Revocation or Withdrawal of Plan

1. Modification of Plan

The Liquidating Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, to amend or modify the Plan at any time prior to the entry of the Confirmation Order. Upon entry of the Confirmation Order, the Liquidating Debtors may, upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim of such holder.

2. Revocation or Withdrawal

(a) The Plan may be revoked or withdrawn prior to the Confirmation Date by the Liquidating Debtors.

(b) If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claims by the Liquidating Debtors or any other Entity or to prejudice in any manner the rights of the Liquidating Debtors or any other Entity in any further proceedings involving the Liquidating Debtors.

XIII. POSTPETITION FINANCIAL INFORMATION

The Liquidating Debtors have filed Statements of Financial Affairs and Schedules of Assets and Liabilities with the Bankruptcy Court as required by the Bankruptcy Code. As Liquidating Debtors in possession, the Liquidating Debtors have filed and will continue to file monthly operating reports with the United States Trustee. This financial information may be examined in the Bankruptcy Court Clerk's Office.

XIV. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) liquidation of the Liquidating Debtors under chapter 7 of the Bankruptcy Code; (ii) dismissal of the Chapter 11 Cases and (iii) an alternative liquidating plan of reorganization.

A. Liquidation under Chapter 7

If no plan can be confirmed, the Liquidating Debtors' Chapter 11 Cases may be converted to a case (or cases) under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be elected to liquidate the assets of the Liquidating Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. The Liquidating Debtors believe that liquidation under chapter 7 would result in (i) smaller distributions being made to Creditors than those provided for in the Plan because of additional administrative expenses involved in the appointment of a trustee and potentially smaller recoveries from Causes of Action, and (ii) potentially no distributions being made to Holders of Class 3 Claims.

B. Liquidation Analysis

The Bankruptcy Code requires that each holder of an Impaired Claim or Interest either (a) accept the Plan or (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Liquidating Debtors were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date. The first step in meeting this test is to determine the dollar amount that would be generated from the liquidation of the Liquidating Debtors' assets and properties in the context of a chapter 7 liquidation case. The gross amount of cash available would be the sum of the proceeds from the disposition of the Liquidating Debtors' assets as well as the Cash held by the Liquidating Debtors at the time of the commencement of the chapter 7 cases. Such amount is reduced by the amount of any Claims secured by such assets, the costs and expenses of the liquidation, and such additional administrative expenses that may result from the termination of the Liquidating Debtors' business and the use of chapter 7 for the purposes of liquidation. Any remaining net Cash would be allocated to Creditors and shareholders in strict priority in accordance with section 726 of the Bankruptcy Code.

The Liquidating Debtors, with the assistance of their financial advisors, have prepared a liquidation analysis which is annexed to this Disclosure Statement as **Exhibit D (the "Liquidation Analysis")**. The Liquidation Analysis demonstrates that the "best interest" test is satisfied by the Plan.

C. Alternative Liquidating Plan of Reorganization

If the Plan is not confirmed, the Liquidating Debtors (or if the Liquidating Debtors' exclusive period in which to file a plan of reorganization has expired, any other party in interest) could attempt to formulate a different plan. Such a plan likely would involve an orderly liquidation of their assets. The Liquidating Debtors believe that the Plan, as described herein, enables Creditors to realize the most value under the circumstances. In a liquidation under chapter 11, the Liquidating Debtors' assets would be disposed of in a more orderly fashion than in a liquidation under chapter 7, possibly resulting in somewhat greater (but indeterminate) recoveries than would be obtained in chapter 7. Further, if a trustee were not appointed, because such appointment is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than those incurred in a chapter 7 case. Although preferable to a chapter 7 liquidation, the Liquidating Debtors believe that any alternative liquidation under chapter 11 would simply create additional delays and expenses and therefore would be a less attractive alternative to Creditors than the Plan.

XV. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion is a summary of certain United States federal income tax consequences of the Plan to the Liquidating Debtors and to certain Holders of Claims and Interests. This discussion is based on the Internal Revenue Code of 1986, as amended (the "IRC"), Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the IRS as in effect on the date hereof. Due to the complexity of certain aspects of the Plan, the lack of applicable legal precedent, the possibility of changes in the law, the differences in the nature of the Claims (including Claims within the same Class) and Interests, the Holders' status and method of accounting (including Holders within the same Class) and the potential for disputes as to legal and factual matters with the IRS, the tax consequences described herein are subject to significant uncertainties. No legal opinions have been requested from counsel with respect to any of the tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to the any of the issues discussed below. Furthermore, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the tax consequences to the Liquidating Debtors and the Holders of Claims and Interests.

This discussion does not purport to address all aspects of federal income taxation that may be relevant to the Liquidating Debtors or the Holders of Claims or Interests in light of their personal circumstances, nor does the discussion deal with tax issues with respect to taxpayers subject to special treatment under the federal income tax laws (including, for example, banks, governmental authorities or agencies, pass-through entities, brokers and dealers in securities, insurance companies, financial institutions, tax-exempt organizations, small business investment companies, regulated investment companies and non-U.S. taxpayers). This discussion does not address the tax consequences to Holders of Claims who did not acquire such Claims at the issue price on original issue. No aspect of foreign, state, local or estate and gift taxation is addressed.

THE FOLLOWING SUMMARY IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE PERSONAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT WITH SUCH HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

A. Consequences to the Liquidating Debtors.

Under the Plan, the Liquidating Debtors are transferring the cash and other assets of their estates along with the obligation to pay Administrative and Priority Claims (including Claims in Class P1) (the "Post-Confirmation Estate Assets") to the Post-Confirmation Estate. For federal income tax purposes, such transfer should be treated as a transfer by the Liquidating Debtors of the Post-Confirmation Estate Assets to the Holders of Allowed Claims in Classes 2 and 3 entitled to distributions under the Plan followed by a transfer of the Post-Confirmation Estate Assets by such Holders to the Post-Confirmation Estate. These transfers (other than the transfers of cash) may result in the recognition of taxable gain or loss by the Liquidating Debtors. Nevertheless, due to available net operating loss and other loss carryforwards, the Liquidating Debtors do not anticipate that a significant federal income tax liability, if any, will be incurred as a result of such transactions. To the extent that any federal income tax liability results from the transfer of the Post-Confirmation Estate Assets to the Post-Confirmation Estate, the Liquidating Debtors will pay the resulting tax to the IRS. The Plan also provides that the Liquidating Debtors will be completely liquidated. As a result, there will be no net operating loss or capital loss carryforwards or other tax attributes available to the Liquidating Debtors or to the Post-Confirmation Estate following the Confirmation Date after giving effect to the transactions contemplated by the Plan.

B. Federal Income Tax Treatment of Post-Confirmation Estate.

1. Classification of Post-Confirmation Estate.

Pursuant to the Plan, the Liquidating Debtors will transfer the Post-Confirmation Estate Assets to the Post-Confirmation Estate, and the Post-Confirmation Estate will become obligated to make Distributions in accordance with the Plan. The Plan provides, and this discussion assumes, that the Post-Confirmation Estate will be treated for federal income tax purposes as a "liquidating trust," as defined in Treasury Regulation Section 301.7701-4(d), and will therefore be taxed as a grantor trust of which the beneficiaries thereof (each, a "Beneficiary") will be treated as the owners and grantors. Accordingly, because a grantor trust is treated as a pass-through entity for federal income tax purposes, no federal income tax should be imposed on the Post-Confirmation Estate itself on the income earned or gain recognized by the Post-Confirmation Estate. Instead, the Beneficiaries will be taxed on their allocable shares of such net income or gain in each taxable year (determined in accordance with the Post-Confirmation Estate Agreement), whether or not they receive any distributions from the Post-Confirmation Estate in such taxable year.

Although the Post-Confirmation Estate has been structured with the intention of complying with guidelines established by the IRS in Rev. Proc. 94-45, 1994-2 C.B. 684, for the

formation of liquidating trusts, it is possible that the IRS could require a different characterization of the Post-Confirmation Estate, which could result in different and possibly greater tax liability to the Post-Confirmation Estate and/or the Holders of Allowed Claims. No ruling has been or will be requested from the IRS concerning the tax status of the Post-Confirmation Estate and there can be no assurance the IRS will not require an alternative characterization of the Post-Confirmation Estate. If the Post-Confirmation Estate were determined by the IRS to be taxable as other than a liquidating trust pursuant to Treasury Regulation Section 301.7701-4(d), it should instead be treated as a partnership, in which case the taxation of the Post-Confirmation Estate and the transfer of assets by the Liquidating Debtors to the Post-Confirmation Estate would be substantially similar to the discussion in the preceding paragraph. If the IRS were successful in arguing that the Post-Confirmation Estate should be treated as other than a liquidating trust or a partnership, the taxation of the Post-Confirmation Estate and the transfer of assets by the Liquidating Debtors to the Post-Confirmation Estate could be materially different than is described herein and could have a material adverse effect on the Holders of Allowed Claims.

2. Tax Reporting.

The Plan Administrator will file tax returns with the IRS for the Post-Confirmation Estate as a grantor trust in accordance with Treasury Regulation Section 1.671-4(a). The Plan Administrator will also send to each Beneficiary of the Post-Confirmation Estate a separate statement setting forth the Beneficiary's allocable share of items of income, gain, loss, deduction or credit and will instruct the Beneficiary to report such items on such Beneficiary's federal income tax return.

3. Reserve for Disputed Claims.

The Plan Administrator must establish a reserve on account of any distributable amounts required to be set aside on account of Disputed Claims. Such amounts, net of certain expenses, shall be distributed as such Disputed Claims are resolved as such amounts would have been distributable had the Disputed Claims been Allowed Claims as of the Confirmation Date, together with any net earnings related thereto. The Post-Confirmation Estate will pay taxes on the taxable net income or gain allocable to Holders of Disputed Claims on behalf of such Holders and, when such Disputed Claims are ultimately resolved, Holders whose Disputed Claims are determined to be Allowed Claims will receive distributions from the Post-Confirmation Estate net of taxes which the Post-Confirmation Estate had previously paid on their behalf.

C. Consequences to Holders of Claims.

The federal income tax consequences of the Plan to a Holder of a Claim will depend upon several factors, including but not limited to: (i) the origin of the Holder's Claim, (ii) whether the Holder is a resident of the United States for tax purposes (or falls into any of the special classes of taxpayers excluded from this discussion as noted above), (iii) whether the Holder reports income on the accrual or cash basis method, (iv) whether the Holder has taken a bad debt deduction or worthless security deduction with respect to this Claim and (v) whether the Holder receives distributions under the Plan in more than one taxable year.

HOLDERS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT UNDER THE PLAN OF THEIR PARTICULAR CLAIMS.

1. Holders of Claims

Generally, a Holder of an Allowed Claim will recognize gain or loss equal to the difference between the "amount realized" by such Holder and such Holder's adjusted tax basis in the Allowed Claim. The "amount realized" is equal to the sum of the cash and the fair market value of any other consideration received under the Plan in respect of a Holder's Claim, including, to the extent such Holder is a Beneficiary of the Post-Confirmation Estate, the fair market value of each such Holder's proportionate share of the assets (net of such Holder's proportionate share of the liabilities) transferred to the Post-Confirmation Estate on behalf of and for the benefit of such Holder (to the extent that such cash or other property is not allocable to any portion of the Allowed Claim representing accrued but unpaid interest (see discussion below)).

The transfer of the Post-Confirmation Estate Assets to the Post-Confirmation Estate by the Liquidating Debtors should be treated for federal income tax purposes as a transfer of such Post-Confirmation Estate Assets to the Holders of Allowed Claims in Classes 1, 2 and 3 to the extent they are Beneficiaries of the Post-Confirmation Estate, followed by a deemed transfer of such Post-Confirmation Estate Assets by such Beneficiaries to the Post-Confirmation Estate. As a result of such treatment, such Holders of Allowed Claims will have to take into account the fair market value of their pro rata share (net of liabilities), if any, of the Post-Confirmation Estate Assets transferred on their behalf to the Post-Confirmation Estate in determining the amount of gain, if any, realized and required to be recognized upon consummation of the Plan on the Confirmation Date. In addition, because a Holder's share of the assets held in the Post-Confirmation Estate may change depending upon the resolution of Disputed Claims, the Holder may be prevented from recognizing any loss in connection with consummation of the Plan until the time that all such Disputed Claims have been resolved. The Plan Administrator will apprise the Holders of Allowed Claims of valuations of the assets transferred to the Post-Confirmation Estate on the behalf of and for the benefit of such Holders by filing such valuation with the Bankruptcy Court, as required by the Plan and the Post-Confirmation Estate Agreement, and such valuations should be used consistently by the Post-Confirmation Estate and such Holders for all federal income tax purposes.

HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR FEDERAL INCOME TAX PURPOSES, ON THE SATISFACTION OF THEIR ALLOWED CLAIMS.

2. Distributions in Discharge of Accrued but Unpaid Interest.

Pursuant to the Plan, distributions received with respect to Allowed Claims will be allocated first to the principal amount of such Allowed Claims, with any excess allocated to accrued but unpaid interest. However, there is no assurance that the IRS will respect such allocation for federal income tax purposes. Holders of Allowed Claims not previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be

treated as receiving taxable interest, to the extent any consideration they receive under the Plan is allocable to such accrued but unpaid interest. Holders previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be entitled to recognize a deductible loss, to the extent that such accrued but unpaid interest is not satisfied under the Plan.

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

3. Character of Gain or Loss; Tax Basis; Holding Period.

The character of any gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss recognized by a Holder of Allowed Claims under the Plan will be determined by a number of factors, including, but not limited to, the status of the Holder, the nature of the Allowed Claim in such Holder's hands, the purpose and circumstances of its acquisition, the Holder's holding period of the Allowed Claim, and the extent to which the Holder previously Claimed a deduction for the worthlessness of all or a portion of the Allowed Claim. The Holder's aggregate tax basis for any consideration received under the Plan will generally equal the amount realized in the exchange (less any amount allocable to interest as described in the preceding paragraph). The holding period for any consideration received under the Plan will generally begin on the day following the receipt of such consideration.

D. Consequences to Holders of Interests.

Pursuant to the Plan, all Interests in the Liquidating Debtors are being extinguished. A Holder of an Interest extinguished under the Plan should generally be allowed a "worthless stock deduction" in an amount equal to the Holder's adjusted basis in the Holder's Interest. A "worthless stock deduction" is a deduction allowed to a Holder of a corporation's stock for the taxable year in which such stock becomes worthless. If the Holder held the Interest as a capital asset, the loss will be treated as a loss from the sale or exchange of such capital asset. Capital gain or loss will be long-term if the Interest was held by the Holder for more than one year and otherwise will be short-term. Any capital losses realized generally may be used by a corporate Holder only to offset capital gains, and by an individual Holder only to the extent of capital gains plus \$3,000 of other income.

E. Withholding.

All Distributions to Holders of Allowed Claims under the Plan are subject to any applicable withholding, including employment tax withholding. The Liquidating Debtors and/or the Post-Confirmation Estate will withhold appropriate employment taxes with respect to payments made to a Holder of an Allowed Claim which constitutes a payment for compensation. The Liquidating Debtors and/or the Post-Confirmation Estate may be required to "backup" withhold a portion (30% for payments made during 2003) of any payments made to a Holder of an Allowed Claim if the Holder (a) fails to furnish the correct social security number or other

taxpayer identification number ("TIN") of such Holder, (b) furnishes an incorrect TIN, (c) has failed to properly to report interest or dividends to the IRS in the past, or (d) under certain circumstances, fails to provide a certified statement signed under penalty of perjury, that the TIN provided is the correct number and that such Holder is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

AS INDICATED ABOVE, THE FOREGOING IS INTENDED TO BE A SUMMARY ONLY AND NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. ACCORDINGLY, EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT SUCH HOLDER'S TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

XVI. MISCELLANEOUS

Notwithstanding anything to the contrary set forth in the Plan or in any Plan Documents, all final orders previously approved by this Court, including the Final Cash Collateral Order and the Settlement Order, and the Settlement and Compromise Agreement shall remain in full force and effect, the terms and provisions thereof are incorporated into and made part of the Plan, and the Sears Entities shall be entitled to all benefits, rights, projections, releases and relief granted under such orders and agreements and in all other orders extended by the Bankruptcy Court.

XVII. CONCLUSION AND RECOMMENDATION

The Liquidating Debtors believe the Plan is in the best interests of all Creditors and urge the Holders of Impaired Claims in Class 3 to vote to accept the Plan and to evidence such acceptance by returning their Ballots so they will be received by the Liquidating Debtors' Voting Agent by the Voting Deadline. The Committee agrees, and also urges Holders of Impaired Claims in Class 3 to vote to accept the Plan.

Dated: Jan 16, 2003

HOMELIFE CORPORATION, ET AL.

By:


Patrick Regan
Chief Financial Officer

EXHIBIT A

The Plan

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JOINT LIQUIDATING
PLAN

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Chapter 11
)
HOMELIFE CORPORATION, et al.,¹) Case No. 2412 (JWV)
) (Jointly Administered)
Debtors.)
)

DEBTORS' JOINT LIQUIDATING PLAN
UNDER CHAPTER 11 OF THE BANKRUPTCY CODE DATED JANUARY 16, 2003

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¹ The Debtors consist of the following entities: HomeLife Corporation, HL Holding Corporation, HomeLife de Puerto Rico, Inc., Furniture Holdings, LLC and HLC 1 LLC.

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**JOINT LIQUIDATING PLAN OF
REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

HomeLife Corporation, Furniture Holdings, LLC and HLC 1 LLC, as Debtors and Debtors in possession, propose the following Joint Liquidating Plan.

INTRODUCTION

The Liquidating Debtors (as defined herein) are to be substantively consolidated and their Estates will be reduced to Cash as soon as practicable. Such Cash will be distributed to the Liquidating Debtors' creditors according to the priorities established by the Bankruptcy Code and the Plan, Pro Rata (defined herein) within each class.

Reference is made to the First Amended Disclosure Statement accompanying the Plan, including the Exhibits thereto (the "Disclosure Statement"), for a discussion of the Liquidating Debtors' history, business, results of operations and properties, and for a summary and analysis of the Plan.

All Holders of Claims and Interests are encouraged to consult the Disclosure Statement and read the Plan and Disclosure Statement in their entirety carefully before voting to accept or reject the Plan.

Nothing in the Plan should be construed as constituting a solicitation of acceptances of the Plan unless and until the Disclosure Statement has been approved and distributed to all Holders of Claims and Interests to the extent required by section 1125 of the Bankruptcy Code.

**SECTION I
DEFINITIONS AND CONSTRUCTION OF TERMS**

Definitions. In addition to such other terms as are defined in other sections of the Plan, the following terms (which appear herein as capitalized terms) shall have the meanings set forth below, such meanings to be applicable to both the singular and plural forms of the terms defined. A term used in the Plan and not defined herein or elsewhere in the Plan, but that is defined in the Bankruptcy Code, has the meaning set forth therein.

1. Administrative Claim means (a) a Claim to the extent that it is of the kind described in section 503(b) of the Bankruptcy Code and is entitled to priority under section 507(a)(1) of the Bankruptcy Code, including claims for cure arising under executory contracts or unexpired leases that are assumed, or assumed and assigned, during the Cases or under the Plan, or (b) fees payable to the Office of the United States Trustee (the "US Trustee") pursuant to 28 U.S.C. § 1930(a).

2. Agency Agreement means the Agency Agreement dated as of July 27, 2001 between the Liquidating Debtors and Hilco Merchant Resources, LLC, Great America Group, Professional Sales and Consulting, Inc., Schottenstein Bernstein Capital Group,

LLC, The Nassi Group, LLC, and Planned Furniture Promotions, Inc., a copy of which is annexed as an exhibit to the Inventory Sale Order.

3. Allowed means, with reference to any Claim or Interest and with respect to the Liquidating Debtors, (a) any Claim against or Interest in the Liquidating Debtors which has been listed by the Liquidating Debtors in their Schedules, as such Schedules may be amended by the Liquidating Debtors from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent and for which no contrary proof of claim or interest has been filed, (b) any Claim or Interest (i) allowed under the Plan, (ii) allowed by Final Order of the Bankruptcy Court, or (iii) as to which the liability of the Liquidating Debtors and the amount thereof are determined by a Final Order of a court of competent jurisdiction other than the Bankruptcy Court or (c) as to which a proof of claim has been timely filed in a liquidated amount with the Bankruptcy Court pursuant to the Bankruptcy Code or any order of the Bankruptcy Court, or filed late with leave of the Bankruptcy Court after notice and a hearing, and in respect of which no objection to the allowance of such Claim or motion to expunge such Claim has been interposed before any final date for the filing of such objections or motions set forth in the Confirmation Order or other order of the Bankruptcy Court.

4. Ballot means those ballots sent to holders of Claims pursuant to the Order (A) Approving Voting Procedures with Respect to Debtors' Joint Liquidating Plan of Reorganization; (B) Scheduling Certain Dates in Connection Therewith; (C) Extending Exclusive Period to Solicit Votes on the Plan; and (D) Limiting Notice of the Confirmation Hearing that are entitled to vote on the Plan.

5. Bank Group means the entities holding claims as lenders (in their capacities as such) under the Credit Agreement.

6. Bankruptcy Code means title 11 of the United States Code, as amended from time to time, as applicable to the Cases.

7. Bankruptcy Court means the United States Bankruptcy Court for the District of Delaware.

8. Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, and the Local Rules of the Bankruptcy Court.

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

10. Cases means the Debtors' collective chapter 11 cases and proceedings under chapter 11 of the Bankruptcy Code currently pending and jointly administered under Case No. 2412 (JWV).

11. Cash means legal tender of the United States of America, which may be conveyed by check or wire transfer.

12. Carve Out has the meaning set forth in Section 10.4 of the Settlement and Compromise Agreement and in the Final Cash Collateral Order.

13. Causes of Action means all claims, crossclaims, counterclaims and causes of action now owned or hereafter acquired by the Liquidating Debtors, whether arising under any contract or under the Bankruptcy Code or other federal or state law, including, without limitation, any causes of action arising under sections 544, 545, 547, 548, 549, 550, 551, 553(b) or other sections of the Bankruptcy Code.

14. Claim means a claim (as defined in section 101(5) of the Bankruptcy Code) against one or more of the Liquidating Debtors, including, but not limited to, (a) any right to payment from one or more of the Liquidating Debtors, whether or not such right is reduced to judgment, liquidated, unliquidated, contingent, matured, unmatured, disputed, undisputed, legal, equitable remedy for breach of performance by one or more of the Liquidating Debtors, if such performance gives rise to a right of payment from one or more such Liquidating Debtors, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.

15. Class means a category of Holders of Claims or Interests as set forth herein.

16. Collateral means any property or interest in property of the estates or the Liquidating Debtors subject to a Lien to secure the payment or performance of a Claim, which Lien is not subject to avoidance under the Bankruptcy Code or otherwise invalid under the Bankruptcy Code or applicable state law.

17. Confirmation Date means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order approving the confirmation of this Plan on the docket of the Cases.

18. Confirmation Hearing means the hearing held by the Bankruptcy Court to consider confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code, as such hearing may be adjourned or continued from time to time.

19. Confirmation Order means the order of the Bankruptcy Court confirming the Plan pursuant to section 1129 of the Bankruptcy Code.

20. Computation of Time means in computing any period of time prescribed or allowed by the Plan, the provisions of Bankruptcy Rule 9006(a) shall apply.

21. Congress means Congress Financial Corporation (Central).

22. Credit Agreement means the Loan and Security Agreement among HomeLife Corporation, HomeLife de Puerto Rico, the Bank Group and Congress Financial Corporation (Central), as Agent, dated as of February 1, 1999, as amended on June 22, 2000, and as further amended on April 25, 2001.

23. Creditors Committee means the official Committee of Unsecured Creditors.

24. Debtors means HomeLife Corporation, HL Holding Corporation, HomeLife de Puerto Rico, Inc., Furniture Holdings, LLC and HLC 1 LLC.

25. Designation Rights Period means the period in which the Sears Entities may direct the Liquidating Debtors to assume or reject those leases designated in the Settlement and Compromise Agreement.

26. Diminution Claim means the postpetition administrative claim granted to the Sears Entities for the diminution of the Sears Entities' collateral. This claim has been granted and allowed in the amount of \$10 million, subject to adjustment upward by \$2.5 million and downward by \$2 million and is secured by replacement liens and further protected by a section 507(b) superpriority claim as further set forth in the Final Cash Collateral Order, the Settlement and Compromise Agreement and the Settlement Order.

27. Disclosure Statement means the Disclosure Statement that relates to this Plan and is approved by the Court pursuant to section 1125 of the Bankruptcy Code, as such Disclosure Statement may be amended, modified or supplemented (and all exhibits and schedules annexed thereto or referred to therein).

28. Disclosure Statement Order means the order of the Court approving the Disclosure Statement as containing adequate information pursuant to section 1125 of the Bankruptcy Code.

29. Disputed Claim means any Claim against the Liquidating Debtors, to the extent the allowance of which is the subject of a timely objection or request for estimation in accordance with the Plan, the Bankruptcy Code, the Bankruptcy Rules or the Confirmation Order, or is otherwise disputed by the Liquidating Debtors in accordance with applicable law, which objection, request for estimation, or dispute has not been withdrawn or determined by a Final Order.

30. Disputed Claim Holdback means the Cash held back to pay Disputed Claims that may become Allowed Claims.

31. Distribution means any distribution under the Plan to the Holders of Allowed Claims.

32. Distribution Account means an account to be established and maintained for the purpose of making Distributions to claimants.

33. Distribution Date means any date on which a Distribution is made by the Plan Administrator on behalf of the Liquidating Debtors' Estates.

34. Effective Date means the date on which the conditions specified in Section VI hereof have been satisfied or waived.

35. Entity means an entity as defined in section 101(15) of the Bankruptcy Code.

36. Equity means (a) the shares of any class or series of common stock issued by any Liquidating Debtor, (b) all options, warrants, calls, rights, puts, awards, commitments or any other agreements of any character, if any, to acquire such stock, and (c) all Claims arising from rescission of a purchase or sale of such stock or options, warrants, calls, rights, puts, awards, commitments or any other agreements of any character, if any, to acquire such stock or for damages arising from the purchase or sale of the foregoing, and all Claims for indemnity, reimbursement, or contribution on account of such Claims.

37. Estates means the respective estates which were created by the commencement of the Liquidating Debtors' Cases pursuant to section 541 of the Bankruptcy Code, and shall be deemed to include, without limitation, any and all privileges of the respective Liquidating Debtors and any and all interests in their property, whether real, personal or mixed, rights, causes of action, avoidance powers or extensions of time that the respective Liquidating Debtors or their estates shall have had effective as of the commencement of either of the Cases, or which such estate acquired after the commencement of the Cases, whether by virtue of sections 544, 545, 546, 547, 548, 549 or 550 of the Bankruptcy Code or otherwise; provided, however, when the singular "Estate" is used, such term shall mean the estate of the particular Debtor referred to by the context of the reference.

38. Estimated Allowed Claim means the Liquidating Debtors' estimation of the expected Allowed Claim for each Disputed Claim.

39. Estimated Allowed Claim Schedule means the schedule of Estimated Allowed Claims to be filed with the Disclosure Statement.

40. Excluded Cash means the Cash held in the Reserve Fund excluded from use except as provided for herein.

41. Final Cash Collateral Order means the Stipulated Final Cash Collateral Order Providing Authorization for Liquidating Debtors to Use Cash Collateral and Providing Adequate Protection, entered on November 1, 2001 and annexed as Exhibit A to the Plan Supplement.

42. Final Distribution Date means the date of the last Distribution by the Plan Administrator on behalf of the Debtors' Estates.

43. Final Order means an order as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or as to which any right to appeal, move for a stay pending appeal, petition for certiorari, reargue, or rehear shall have been waived in writing in form and substance satisfactory to the Liquidating Debtors or, in the event that an appeal, writ of certiorari, or reargument or rehearing thereof has been sought, such order shall have been denied by the highest court to which such order was appealed, or certiorari, reargument or rehearing shall have been taken and the time to take any further appeal, petition for certiorari or move for reargument or rehearing shall have expired;

provided, however, that the possibility that a motion under Rule 59 or Rule 60 of the Federal Rules of Civil Procedure, or Rule 9023 or Rule 9024 of the Bankruptcy Rules, may be filed with respect to such order shall not cause such order not to be a Final Order.

44. Fremont means Fremont Investment & Loan.

45. Furnishings means Furnishings International, Inc.

46. Holder means a Person or Entity holding a Claim or Equity Interest and, with respect to a vote on the Plan, means the Beneficial Holder as of the Voting Record Date or any authorized signatory who has completed and executed a Ballot or on whose behalf a Master Ballot has been completed and executed in accordance with the Voting Instructions.

47. Intercompany Claim means any Claim of one Liquidating Debtor against any other Liquidating Debtor.

48. Interest means any ownership interest in the Liquidating Debtors, including but not limited to the rights of the Holders of Common Stock or Preferred Stock (in their capacities as such), including the rights of any entity to purchase or demand the issuance of any of the foregoing, including: (a) conversion, exchange, voting, participation, and dividend rights; (b) liquidation preferences; (c) stock options, call rights, warrants and put rights; and (d) share-appreciation rights and restricted stock purchase rights.

49. Inventory Sale Order means the Order (A) Authorizing the Liquidating Debtors to Conduct Going Out Of Business Sales Pursuant to 11 U.S.C. § 363, (B) Approving Agency Agreement and (C) Authorizing the Liquidating Debtors to Enter Into Agency Agreement for Liquidation of Merchandise of Stores entered on or about August 1, 2001.

50. Lien has the meaning set forth in section 101 of the Bankruptcy Code.

51. LifeStyle means LifeStyle Holdings, Ltd.

52. Liquidating Debtors means all of the Debtors, other than HL Holding Corporation and HomeLife de Puerto Rico.

53. Officers means the collective reference to any individuals who were officers and/or directors immediately after the Petition Date and were not terminated for cause.

54. Operating Account means an interest bearing account established and maintained by the Plan Administrator pursuant to the PCEA for the purposes of receiving the corpus of the Estates upon the Confirmation Date, receiving the proceeds of Causes of Actions, paying operating expenses of the Estates to the extent not provided by the Reserve Account and holding Cash that has not been Distributed to claimants including Cash held back to settle Disputed Claims pursuant to Section IV.D.9 of the Plan.

55. Other Secured Claim means any Secured Claim other than any Secured Claim held by the Bank Group.

56. Oversight Committee means the Post-Confirmation Estate Oversight Committee defined below.

57. Person means an individual, corporation, partnership, governmental unit, joint venture, association, joint stock company, limited liability company, limited liability partnership, trust, estate, unincorporated organization or other entity.

58. Petition Date means July 16, 2001, the date on which the Liquidating Debtors filed their voluntary Chapter 11 Petitions.

59. PCE Assets means all assets of the Liquidating Debtors transferred to the Post-Confirmation Estate on the Confirmation Date including, but not limited to all cash, real estate, fixed assets or Cause of Action of the Liquidating Debtors.

60. Plan means this joint liquidating plan under chapter 11, including, without limitation, all documents referenced herein and all exhibits, supplements, appendices and schedules hereto, either in its present form or as the same may be altered, amended or modified from time to time.

61. Plan Administrator means Patrick J. Regan, current Chief Financial Officer of the Debtors or any Person or Entity retained pursuant to the PCEA and designated as the "Plan Administrator" in accordance therewith for the purpose of implementing the applicable provisions of the Confirmed Plan and any successor thereto.

62. Plan Supplement means a separate document to be filed with the Bankruptcy Court containing, among other things, the Post-Confirmation Estate Agreement. The Plan Supplement (containing draft(s) or final version(s) of the foregoing document(s)) shall be filed with the Bankruptcy Court as early as practicable (but in no event later than 14 days) prior to the commencement of the Confirmation Hearing, or on any such other date as the Bankruptcy Court may establish. Any drafts contained in the Plan Supplement may be superseded by final versions that are filed with the Bankruptcy Court.

63. Post-Confirmation Creditors' Committee means the committee that shall come into existence at the time of the dissolution of the Creditors' Committee.

64. Post-Confirmation Estate means the Liquidating Debtors' Estates, as may be vested and transferred to the Entity to be created on the Confirmation Date in accordance with the provisions of the Confirmed Plan, the Plan Supplement, and Post-Confirmation Estate Agreement for the benefit of Holders of Allowed Claims.

65. Post-Confirmation Estate Agreement or the PCEA means the agreement, substantially in the form annexed as Exhibit B to the Plan Supplement, that documents the Post-Confirmation Estate and describes the powers, duties, and responsibilities of the Plan Administrator.

66. Post-Confirmation Estate Oversight Committee means the committee that shall come into existence at the time of the creation of the Post-Confirmation Estate and shall operate as set out in the PCEA.

67. Post-Confirmation Fees and Expenses means the fees and expenses in an amount equal to the aggregate of the unpaid fees and expenses requested by Professionals, for services rendered to the Debtors and the Committee through the Confirmation Date that shall be maintained in the Reserve Fund. It also includes fees and expenses in an amount equal to the anticipated additional fees and expenses for services to be rendered after the Confirmation Date to the Plan Administrator and/or the Post-Confirmation Estate by Professionals or any other professionals the Plan Administrator may retain estimated through the completion date of such services, together with all anticipated additional expenses for consummating the liquidation and distribution of the Assets (including but not limited to the cost of any insurance, U.S. Trustees fees, tax obligations and other post confirmation expenses) and other transactions or obligations contemplated by the Plan; provided, however, the Plan Administrator may, with the approval of the Oversight Committee, transfer additional funds into the Reserve Fund from the Operating Account as may be necessary from time to time.

68. Priority Claim means any Claim that is entitled to priority under section 507(a) of the Bankruptcy Code.

69. Professional Fee Claim means a Claim under section 330, 311 or 503 of the Bankruptcy Code for allowance of compensation and/or reimbursement of expenses in the Cases.

70. Professionals means Kirkland & Ellis, Pachulski, Stang, Ziehl, Young & Jones PC, Sachnoff & Weaver, Marotta Gund Budd & Dzera, LLP, Platzer, Swergold, Karlin, Levine, Goldberg & Jaslow, LLP, Zuckerman & Spaeder LLP, BDO Siedman and BMC Corp.

71. Pro Rata means proportionate, and when applied to a Claim or Interest means that the ratio of the consideration distributed on account of an Allowed Claim or Allowed Interest in a Class to the amount of the consideration distributed on account of all Allowed Claims or Allowed Interests in such Class is the same as the ratio of the amount of such Allowed Claim or Allowed Interest to the amount of all Allowed Claims or Allowed Interests in such Class.

72. Released Parties means all of the officers, directors, employees, attorneys, financial advisors, accountants, investment bankers, agents and representatives (including their respective directors, officers, employees, members and professionals), who were in such positions as of the Petition Date, of the Liquidating Debtors and their subsidiaries, in each case in their capacity as such.

73. Remaining Assets means those assets of the Liquidating Debtors that were not sold prior to the Confirmation Date.

74. Reserve Fund means the account established by the Liquidating Debtors or Plan Administrator into which funds shall be deposited on, and possibly after, the Confirmation Date and from which Post-Confirmation Fees and Expenses shall be paid.

75. Schedules means the schedules of assets and liabilities, the list of Holders of Interests and the statements of financial affairs filed by the Liquidating Debtors under section

521 of the Bankruptcy Code and Bankruptcy Rule 1007, and all amendments and modifications thereto through the Confirmation Date.

76. Sears Entities means Sears, Roebuck and Co., a New York corporation, as the purchaser of the Designation Rights, Sears National Bank, a national banking association, Sears Roebuck Acceptance Corp., a Delaware corporation, and Sears Logistics Services, Inc., a Delaware corporation.

77. Secured Claim means the portion of any Claim, determined in accordance with section 506(a) of the Bankruptcy Code, as of the Confirmation Date, which is (a) secured by a valid, perfected and unavoidable Lien on Collateral, express or implied, arising by contract, operation of law, or otherwise, to the extent of the value of the creditor's interest in the Debtor's interest in the Collateral or (b) subject to offset under section 553 of the Bankruptcy Code, to the extent of the amount subject to offset.

78. Settlement Order means the Final Order entered by the Bankruptcy Court approving the Settlement and Compromise Agreement.

79. Settlement and Compromise Agreement means the Sale of Designation Rights and Settlement Agreement by and among HomeLife Corporation, HL Holdings Corporation, HomeLife de Puerto Rico, Inc., Furniture Holding, LLC, HLC 1 LLC and Sears, Roebuck and Co., Sears National Bank, Sears Roebuck Acceptance Corp. and Sears Logistics Services, Inc., dated as of October 31, 2001 and which is annexed as Exhibit C to the Plan Supplement.

80. Substantive Consolidation Order means an order of the Bankruptcy Court substantively consolidating the Estates of the Liquidating Debtors with and into each other.

81. Unclassified Priority Claim means a Priority Claim described in sections 507(a)(1), 507(a)(2) or 507(a)(8) of the Bankruptcy Code.

82. Unsecured Claim means any Claim that is not an Administrative Claim, Other Priority Claim, Priority Claim, Secured Claim or Interest.

83. Voting Agent means Bankruptcy Management Corp., 1330 E. Franklin Ave., El Segundo, CA 90245, 1-888-909-0100.

84. Voting Record Date means 4:00 p.m. Eastern Time on _____, 2003.

SECTION II CLASSIFICATION AND TREATMENT OF CLAIMS

A. UNCLASSIFIED CLAIMS

1. Administrative Claims. Unless otherwise agreed by the Holder of an Allowed Administrative Claim (in which event such other agreement shall govern), each Holder of an Allowed Administrative Claim other than Professional Fee Claims shall receive on the Effective Date or, if later Allowed, on the 15th (fifteenth) day after such claim becomes

Allowed, Cash in an amount equal to such Allowed Administrative Claim; provided, however, that Allowed Administrative Claims that may be paid from the proceeds of, and in accordance with, insurance policies shall be paid on the later of (i) the Effective Date and (ii) the date that such insurance claim would be paid under the terms of the Liquidating Debtors' applicable insurance policy or policies. The Liquidating Debtors estimate that there will be approximately \$5.9 million in Allowed Administrative Claims, \$2.1 million of which will represent professional Fee Claims.

Professional Fee Claims shall be paid in accordance with applicable orders of the Bankruptcy Court and the Bankruptcy Code, only after appropriate order(s) allowing such fees and expenses have been entered. Professional Fee Claims shall be paid first out of the Reserve Fund, and to the extent remaining thereafter, from the Operating Account.

All Claims for unpaid Administrative Expense arising after November 22, 2001, through the Confirmation Date, except for the Diminution Claims or any administrative claim of the Sears Entities arising under or relating to the Settlement and Compromise Agreement, must be filed with the Bankruptcy Court and received by the Liquidating Debtors on or before the twentieth day following the Confirmation Date.

The Diminution Claim of the Sears Entities, to the extent not previously paid in full, shall be satisfied by Cash payment on the Effective Date provided, however, nothing herein shall alter or limit the right of the Sears Entities to payment in full of any portion of the Diminution Claim that may become due and payable after the Effective Date. The Sears Entities shall retain all Liens and rights and protections granted to them under the Final Cash Collateral Order and the Settlement and Compromise Agreement, including with respect to the Diminution Claim.

2. Unclassified Priority Claims. Unless otherwise agreed by the Holder of an Allowed Unclassified Priority Claims (in which event such other agreement shall govern), each Holder of an Allowed Unclassified Priority Claims shall receive on the Effective Date or, if later Allowed, on the fifteenth day after such Claims become Allowed, Cash equal to the amount of such Allowed Unclassified Priority Claim.

B. CLASSIFIED CLAIMS

The classification of Claims and Equity Interests against the Liquidating Debtors pursuant to the Plan is as follows:

Class	Status	Voting Rights
Class 1 -- Secured Claims of the Bank Group	N/A	N/A
Class P1 - Priority Claims	Unimpaired	Not Entitled to Vote
Class 2 -- Other Secured Claims	Unimpaired	Not Entitled to Vote
Class 3 -- Unsecured Claims	Impaired	Entitled to Vote
Class 4 - Interests	Impaired	Not Entitled to Vote

1. **Class 1 - Secured Claims of The Bank Group**

(a) *Classification:* Class 1 consists of the Secured Claims of the Bank Group against the Liquidating Debtors.

(b) *Allowed Secured Claims of the Bank Group.* Allowed Secured Claims of the Bank Group are not impaired under the Plan and, prior to the Effective Date, should have been paid in full. Holders of Allowed Secured Claims of the Bank Group are not entitled to vote to accept or reject the Plan. All Allowed Secured Claims of the Bank Group Claims will be discharged in full and expunged on the Effective Date.

2. **Class P1 - Priority Claims**

(a) *Classification:* Class P1 consists of all Priority Claims against the Liquidating Debtors except those described in sections 507(a)(1), 507(a)(2) or 507(a)(8) of the Bankruptcy Code.

(b) *Allowed Priority Claims.* Allowed Priority Claims are not impaired under the Plan and shall receive on the Effective Date, or if later Allowed, on the fifteenth day after such Claim becomes Allowed, Cash equal to the amount of such Allowed Priority Claim.

3. **Class 2 - Other Secured Claims**

(a) *Classification:* Class 2 consists of the Other Secured Claims against the Liquidating Debtors.

(b) *Allowed Other Secured Claims.*

- (i) Each Holder of an Allowed Other Secured Claim shall, on the first Distribution Date or, if later Allowed, on the 15th day after such Claim becomes an Allowed Claim, (i) with respect to a Claim that is secured by a Lien on Collateral, at the Debtor's election, either be paid, to the extent not already received, Cash in an amount equal to the value of the Holder's interest in the Debtor's interest in the Collateral securing such Claim or shall receive the collateral without representation, warranty or recourse or (ii) with respect to a Claim that is subject to offset pursuant to section 553 of the Bankruptcy Code, offset its Claim to the extent of the Debtor's Claim against the Holder.
- (ii) Pursuant to section 1126(f) of the Bankruptcy Code, Holders of Allowed Other Secured Claims are unimpaired and are not entitled to vote to accept or reject the Plan.
- (iii) The Other Secured Claims of the Sears Entities shall be treated under this Plan in accordance with the terms of the Settlement and Compromise Agreement, the Settlement Order, and the Final Cash Collateral Order. The Sears Entities shall retain all Liens securing such Claims and shall be entitled to the proceeds realized from all Collateral subject to such Liens. To the extent not in conflict with the Settlement and Compromise Agreement, the Settlement Order and the Final Cash

Collateral Order, such Other Secured Claims of the Sears Entities shall be treated as Other Secured Claims. Notwithstanding the foregoing, in accordance with applicable law, to the extent that the Sears Entities' prepetition Allowed Claim is not a Secured Claim, the Sears Entities shall be entitled to vote with and share Pro Rata in any distribution to Holders of Allowed Claims in Class 3.

4. **Class 3 - Unsecured Claims**

(a) *Classification:* Class 3 consists of the Claims of Holders of Unsecured Claims against the Liquidating Debtors.

(b) *Treatment:*

- i. Each Holder of an Allowed Unsecured Claim shall be paid Cash equal to its Pro Rata share of the Cash available to the Estate after satisfaction of the Allowed Secured Claims, Allowed Other Secured Claims, Allowed Administrative Claims and Allowed Priority Claims. Such Cash shall be paid in a series of Distributions, beginning after the Effective Date.
- ii. Holders of Unsecured Claims are impaired. Pursuant to section 1126(a) of the Bankruptcy Code, Holders of Unsecured Claims are entitled to vote to accept or reject the Plan.
- iii. The Liquidating Debtors are unable to determine whether there will be any distributions to Holders of Unsecured Claims and any such distribution hinges on the collection efforts with respect to Causes of Action.

5. **Class 4 - Interests**

(a) *Classification:* Class 4 consists of all Interests in the Liquidating Debtors.

(b) *Treatment:*

- i. Interests shall be deemed Allowed. There shall be no Distribution to Holders of Allowed Interests. Such Interests shall be deemed canceled.
- ii. Interests are impaired. Pursuant to section 1126(g) of the Bankruptcy Code, Holders of Interests are conclusively presumed to have rejected the Plan and therefore are not entitled to vote to accept or reject the Plan.

SECTION III TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

As authorized by section 1123(b)(2) of the Bankruptcy Code, except for those unexpired leases of non-residential real property identified in the Settlement and Compromise Agreement which as of the Confirmation Date have not been assumed or rejected and those that may be listed as an Exhibit to the Plan Supplement, all of the Liquidating Debtors' executory contracts and unexpired leases not previously assumed and assigned or rejected pursuant to a Bankruptcy Court order are deemed rejected as of the Effective Date. The Court granted an extension of the period in which the Sears Entities can direct the Liquidating Debtors to assume or reject leases under the Settlement and Compromise Agreement until the later of the Effective Date or December 31, 2002 and the Liquidating Debtors have sought a further extension (and may seek additional extensions) of such period.

Each Entity that is a party to an executory contract or unexpired lease rejected pursuant to the Plan (and only such entities) will be entitled to file, not later than thirty (30) days following the Confirmation Date, a proof of claim for damages alleged to have been suffered due to such rejection; provided, however, that the opportunity afforded an Entity whose executory contract or unexpired lease is rejected pursuant to the Plan to file a proof of claim on or before such date shall in no way apply to entities that may assert a claim on account of an executory contract or unexpired lease that was previously rejected by the Liquidating Debtors for which a prior bar date was established. Any person or entity that has a claim for damages as a result of the rejection of an executory contract or unexpired lease pursuant to the terms of the Plan that does not file a proof of claim in accordance with the terms and provisions of the Plan will be forever barred from asserting that claim against any of the Liquidating Debtors or any property of the Estates. The rejection, assumption, or assumption and assignment of those unexpired leases that are subject to the Settlement and Compromise Agreement will continue to be governed by such agreement, the Settlement Order, and any orders that extend the period in which the Sears Entities can direct the Debtors to assume or reject such leases.

SECTION IV IMPLEMENTATION OF PLAN

A. SUBSTANTIVE CONSOLIDATION

i. *Consolidation of the Cases.* The Plan contemplates and is predicated upon entry of the Substantive Consolidation Order, which shall effect the substantive consolidation of the Liquidating Debtors into a single Entity solely for the purposes of all actions associated with confirmation and consummation of the Plan. Two of the three Liquidating Debtors have no assets and no liabilities and Substantive Consolidation will allow the Debtors to reduce expenses, benefiting Creditors. On the Confirmation Date or such other date as may be set by a Final Order of the Court: (i) all Intercompany Claims by and among the Liquidating Debtors shall be eliminated; (ii) all assets and liabilities of the Liquidating Debtors shall be merged or treated as though they were merged; (iii) any and all prepetition cross-corporate guarantees of the Liquidating Debtors shall be eliminated; (iv) all Claims based upon guarantees of collection, payment or performance made by one or more Liquidating Debtors as to the obligations of another Liquidating Debtor shall be discharged, released and of no further force

and effect; (v) all Interests of any Liquidating Debtor in any other Liquidating Debtor shall be eliminated and (vi) each and every Claim filed in the individual Case of any of the Liquidating Debtors shall be deemed filed against the consolidated Liquidating Debtors in the consolidated Cases and shall be deemed a single obligation of the Liquidating Debtors under the Plan on and after the Confirmation Date. Notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every Debtor under 28 U.S.C. 1930(a)(6) until a particular case is closed, converted or dismissed.

ii. *Substantive Consolidation Order.* The Plan shall serve as a motion seeking entry of an order substantively consolidating the Liquidating Debtors' Cases. Unless an objection to substantive consolidation is made in writing by any creditor affected by the Plan as herein provided on or before five (5) Business Days prior to the date that is fixed by the Court as the last date on which acceptances to the Plan may be received, or such other date as may be fixed by the Court, the Substantive Consolidation Order may be entered by the Court. In the event any such objections are timely filed, a hearing with respect thereto shall be scheduled by the Court, which hearing may, but need not, coincide with the Confirmation Hearing.

iii. *Reservation of Rights.* The Liquidating Debtors reserve the right at any time up to the conclusion of the Confirmation Hearing, to withdraw their request for substantive consolidation, to seek confirmation as if there were no substantive consolidation, and to seek confirmation of the Plan with respect to one Liquidating Debtor even if confirmation with respect to the other Liquidating Debtors is denied.

B. NONCONSENSUAL CONFIRMATION

The Liquidating Debtors reserve the right to seek confirmation of the Plan in accordance with section 1129(b) of the Bankruptcy Code, either under the terms provided herein or upon such terms as may exist if the Plan is modified in accordance with section 1127(d) of the Bankruptcy Code.

C. PROCEDURES FOR DETERMINATION OF CLAIMS

1. Objections to Claims; Prosecution of Disputed Claims

The Liquidating Debtors, or the Plan Administrator on behalf of the Post-Confirmation Estate, shall object to the Allowance of Claims or Interests filed with the Bankruptcy Court with respect to which they dispute liability or allowance in whole or in part. All objections may be litigated to a Final Order; provided, however, that the Plan Administrator (within such parameters as may be established by the Post-Confirmation Estate Agreement) shall have the authority to file, settle, compromise or withdraw any objections to Claims, without approval of the Bankruptcy Court.

2. Estimation of Claims

The Liquidating Debtors, or the Plan Administrator on behalf of the Post-Confirmation Estate, may at any time request that the Bankruptcy Court estimate any contingent or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Liquidating Debtors or the Post-Confirmation Estate previously have objected to

such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. Subject to the provisions of section 502(j) of the Bankruptcy Code, in the event that the Bankruptcy Court estimates any contingent or Disputed Claim, the amount so estimated shall constitute the allowed amount of such Claim. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Liquidating Debtors may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation and resolution procedures are intended to be cumulative and not necessarily exclusive of one another. Claims may be estimated and subsequently compromised, settled, withdrawn or resolved by any mechanism approved by the Bankruptcy Court or the Plan Administrator on behalf of the Post-Confirmation Estate.

D. DISTRIBUTIONS

1. Distribution Account.

On the date of each Distribution, the Plan Administrator shall transfer Cash from the Operating Account to the Distribution Account in the amount of the aggregate Distributions being made on that Distribution Date. Such Cash will remain in the Distribution Account until the thirtieth (30) day following the Distribution Date and as soon as practicable thereafter, the Liquidating Debtors shall transfer any remaining unclaimed Distributions to the Operating Account.

2. Dates of Distribution.

On the Effective Date, the Plan Administrator shall make Distributions to Holders of Allowed Administrative Claims, Allowed Priority Claims, Allowed Secured Claims and to the extent the Liquidating Debtors have sufficient assets to do so, to Allowed Unsecured Claims called for by the Plan. The timing of all other Distributions (other than distributions mandated on the Effective Date) shall be made at the discretion of the Plan Administrator.

3. Payments and Distributions on Disputed Claims.

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, the Plan Administrator shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan. Such distribution, if any, shall be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order.

4. Undeliverable Distributions.

If a Distribution is returned to the Post-Confirmation Estate as undeliverable, the Plan Administrator shall hold such Distribution and shall not be required to take any further action with respect to the delivery of the Distribution unless and until the earlier of (1) the date on which the Plan Administrator is notified in writing of the then current address of the Holder entitled to receive the Distribution or (2) except as the Bankruptcy Court may otherwise order. If the Plan Administrator is notified in writing of the then current address of the Holder prior to the

Final Distribution, the Plan Administrator shall promptly make the Distribution required by the Plan to the Holder at the then current address. If the Plan Administrator is not so notified, by the Final Distribution Date, the Distribution shall be deemed undeliverable and the Holder shall be deemed to forfeit the Distribution. The Plan Administrator shall retain such Distribution in the Operating Account for potential for distribution Pro Rata among other Holder of Claims in the same class. For all Distributions that are unclaimed for sixty (60) days after the date of Distribution thereof by mail to the current address for the party entitled thereto, the Distribution shall be deemed unclaimed and shall be forfeited by the Holder. The Distribution will remain in the Operating Account for Distribution to Holders of Allowed Class 4 Claims.

5. Sources of Cash and Manner of Payment.

The Plan Administrator shall make all Distributions from the Distribution Account. At the option of the Plan Administrator, Distributions may be made in (cash, by wire transfer or by a check drawn on the Distribution Account. The Plan Administrator may employ a disbursement and paying agent for the purposes of making any or all Distributions.

6. Interest.

Unless otherwise required by applicable bankruptcy law or as otherwise expressly provided in the Plan, post-petition interest shall not accrue or be paid on any Claims, and no Holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim.

7. Fractional Dollars; De Minimis Distributions.

Whenever any payment of a fraction of a cent would otherwise be called for, the actual payment shall reflect a rounding of such fraction to the nearest whole cent.

No Distribution will be made on account of any Allowed Claim to the Holder any such Allowed Claim if the amount of such Distribution for the Allowed Claim is less than \$50.00. Immediately before the Final Distribution Date, the Plan Administrator shall (i) aggregate the amount of all Distributions that would have been made on account of an Allowed Claim but for this de minimis provision and (ii) on the Final Distribution Date, make a Distribution on account of such Allowed Claim if the aggregate amount meets or exceeds \$50.00.

8. Distributions to Reserve Account on the Confirmation Date.

On the Confirmation Date, the Liquidating Debtors or the Plan Administrator shall deposit Cash into the Reserve Account in an amount reasonably sufficient to pay all Post-Confirmation Fees and Expenses as of and beyond the Confirmation Date; provided, however, that such Cash will be used to satisfy Professional Fee Claims only pursuant to further order of the Bankruptcy Court.

9. Compliance with Tax Requirements.

In compliance with section 346 of the Bankruptcy Code, the Plan Administrator shall comply with all withholding and reporting requirements imposed by federal, state or local taxing authorities in connection with making Distributions pursuant to the Plan.

10. Holdback for Disputed Claim.

In making any Distribution on Allowed Claims, the Plan Administrator shall calculate the amount of such Distribution (for purposes of making a Pro Rata Calculation) as if each Disputed Claim were an Allowed Claim, unless the Bankruptcy Court enters an order specifying that the Disputed Claim should be treated as being a different amount for purposes of such calculation. No distribution shall be made on any Disputed Claim unless, and only to the extent, it becomes an Allowed Claim, and the Plan Administrator shall holdback from Distributions a sufficient amount to make the full Distribution on the Disputed Claim to which the holder of the Disputed Claim would be entitled if the Disputed Claim ultimately were determined to be an Allowed Claim in the full amount of the Disputed Claim (unless the Bankruptcy Court orders otherwise).

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, payments and distributions on account of such Allowed Claim shall be made in accordance with the provisions of the Plan governing the Class of Claims to which such Claim belongs. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Claim becomes a Final Order, any property that would have been distributed prior to the date on which a Disputed Claim becomes an Allowed Claim shall be distributed, together with any dividends, payments or other distributions made on account of such property from the date such distributions would have been due had such Claim then been an Allowed Claim to the date such distributions are made.

In connection with each Distribution with respect to which the filing of an information return (such as an Internal Revenue Service Form 1099 or 1042) and/or withholding is required, the Plan Administrator shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such Distribution, and/or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any Person from whom a tax identification number, certified tax identification number or other tax information required by law to avoid withholding has not been received by the Plan Administrator, the Plan Administrator may, at its sole option, withhold the amount required and distribute the balance to such Person or decline to make such Distribution until the information is received.

E. RESERVATION OF RIGHTS OF THE ESTATE

The Liquidating Debtors and the Creditors' Committee are currently investigating whether to pursue potential Causes of Action. The investigations have not been completed to date and the Plan Administrator, on behalf of the Post-Confirmation Estate, retains all rights on behalf of the Liquidating Debtors and the Post-Confirmation Estate to commence and pursue any and all Causes of Action (under any theory of law or equity, including, without limitation, the

Bankruptcy Code, and in any court or other tribunal including, without limitation, in an adversary proceeding filed in the Chapter 11 Cases) discovered in such investigations to the extent the Plan Administrator, on behalf of the Post-Confirmation Estate, deems appropriate in accordance with the terms of the Post-Confirmation Estate Agreement. Potential Causes of Action currently being investigated by the Liquidating Debtors and the Creditors' Committee, which may but need not, be pursued by the Liquidating Debtors and the Creditors' Committee prior to the Confirmation Date and/or by the Plan Administrator after the Confirmation Date to the extent warranted, include, without limitation, the following Causes of Action set forth below:

(1) Any lawsuits for, or in anyway involving, the collection of accounts receivable or any matter related thereto including, without limitation, against those parties set forth on the list of parties in interest filed or to be filed with the Clerk of the Bankruptcy Court as on Exhibit to the Plan Supplement (the "Party in Interest Matrix").

(2) Potential claims for breach of a prepetition contract and otherwise related to actions or inactions by the Liquidating Debtors' prepetition consultants and service providers, including, without limitation, consultants set forth on the Party in Interest Matrix.

(3) Claims to recover amounts improperly awarded to employees under the terms of any prepetition employment or change in control agreement, including, without limitation, those listed on the Party in Interest Matrix.

(4) All violations against third parties with respect to prepetition violations of applicable federal or state securities laws.

(5) All claims or causes of action arising out of or that relate to prepetition acquisitions or financings.

Potential Causes of Action which may be pursued by the Liquidating Debtors prior to the Confirmation Date and by the Plan Administrator, on behalf of the Post-Confirmation Estate after the Confirmation Date, include, without limitation, the following:

(a) Any other actual or potential Causes of Action, whether legal, equitable or statutory in nature, arising out of, or in connection with the Liquidating Debtors' businesses or operations, including, without limitation, the following: possible claims against vendors, landlords, sublessees, assignees, customers or suppliers for warranty, indemnity, back charge/set-off issues, overpayment or duplicate payment issues and collections/accounts receivable matters; deposits or other amounts owed by any creditor, lessor, utility, supplier, vendor, landlord, sublessee, assignee, or other entity; employee, management or operational matters; claims against landlords, sublessees and assignees arising from various leases, subleases and assignment agreements relating thereto, including, without limitation, claims for overcharges relating to taxes, common area maintenance and other similar charges; financial reporting; environmental, and product liability matters; actions against insurance carriers relating to

coverage, indemnity or other matters; counterclaims and defenses relating to notes or other obligations; contract or tort claims which may exist or subsequently arise.

(b) Except for the express waiver of certain claims in the Plan, any and all actual or potential avoidance claims pursuant to any applicable section of the Bankruptcy Code, including, without limitation sections 544, 545, 547, 548, 549, 550, 551, 553(b) and/or 724(a) of the Bankruptcy Code, arising from any transaction involving or concerning the Liquidating Debtors.

In addition, there may be numerous Causes of Action which currently exist or may subsequently arise which, because the facts upon which such Causes of Action are based are not fully or currently known by the Liquidating Debtors, cannot be raised during the pendency of the Chapter 11 Cases (collectively, the "Unknown Causes of Action").

Unless Causes of Action against an Entity are or have been expressly waived, relinquished, exculpated, released, compromised or settled in the Plan, the Settlement and Compromise Agreement, the Order approving same, the Final Cash Collateral Order or any other Final Order, the Liquidating Debtors expressly reserve all Causes of Action and Unknown Causes of Action for later adjudication and, therefore, no preclusion doctrine, including, without limitation, the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise) or laches shall apply to such Causes of Action upon or after the confirmation or consummation of the Plan. In addition, the Liquidating Debtors expressly reserve the right to pursue or adopt any claims alleged in any lawsuit in which the Liquidating Debtors are a defendant or an interested party, including the lawsuits described herein, against any person or entity, including, without limitation, the plaintiffs and co-defendants in such lawsuits.

Except as otherwise provided in the Plan or in any contract, instrument, release, indenture or other agreement entered into in connection with the Plan, in accordance with section 1123(b)(3) of the Bankruptcy Code, any claims, rights, and Causes of Action that the respective Liquidating Debtors or the Post-Confirmation Estate may hold against any Entity shall vest in the Post-Confirmation Estate, and the Plan Administrator, on behalf of the Post-Confirmation Estate, shall retain and may exclusively enforce, as the authorized representative of the Post-Confirmation Estate, any and all such claims, rights, or Causes of Action, as appropriate, in accordance with the best interests of the Post-Confirmation Estate and the terms of the Post-Confirmation Estate Agreement. The Plan Administrator, on behalf of the Post-Confirmation Estate, shall have the exclusive right, authority, and discretion to institute, prosecute, abandon, settle, or compromise any and all such claims, rights, and Causes of Action without the consent or approval of any third party and without any further order of court except as otherwise provided in the Post-Confirmation Estate Agreement. Nothing in this Section is intended to impair any causes of action or theories of recovery that are owned directly by Creditors.

The preservation of Causes of Action in no way serves to revive any Causes of Action already released before the Confirmation Date, nor does it alter or modify any such release.

F. POST-CONFIRMATION ESTATE

On the Confirmation Date, the Cash and other assets of the Liquidating Debtors and their Estates, including all Causes of Action, shall be transferred to, and vest in, the Post-Confirmation Estate as set forth in the Post-Confirmation Estate Agreement. The Post-Confirmation Estate shall be administered by the Plan Administrator in consultation with the Post-Confirmation Estate Oversight Committee, as set forth in more detail in the Post-Confirmation Estate Agreement attached as an Exhibit to the Plan Supplement. The Post-Confirmation Estate shall have the exclusive power and authority to investigate, prosecute, and settle any or all of the Causes of Action and shall be compensated as provided in the Post-Confirmation Estate Agreement. It shall cause proceeds of or recoveries on the Causes of Action to be distributed in accordance with the Plan.

The Liquidating Debtors will transfer the cash and other assets of their estates along with the obligation to pay Administrative and Priority Claims to the Post-Confirmation Estate, and the Post-Confirmation Estate will become obligated to make Distributions in accordance with Section IV D of this Plan.

For all federal income tax purposes, the transfer of the cash and other assets of the Liquidating Debtors estates along with the obligation to pay Administrative and Priority Claims (including Claims in Class P1) should be treated as a transfer by the Liquidating Debtors of such assets and liabilities to the Holders of Allowed Claims in Classes 2 and 3 entitled to distributions followed by a transfer of such assets and liabilities by such Holders to the Post-Confirmation Estate. For federal income tax purposes the Post-Confirmation Estate will be treated as a "liquidating trust," as defined in Treasury Regulation Section 301.7701-4(d), and will therefore be taxed as a grantor trust of which the beneficiaries thereof will be treated as the owners and grantors.

The Plan Administrator will apprise each of the Holders of Allowed Claims of valuations of the net assets transferred to the Post-Confirmation Estate on the behalf of and for the benefit of such Holder in form and substance reasonably acceptable to the Plan Administrator, as required by this Plan and the Post-Confirmation Estate Agreement, and such valuations should be used consistently by the Post-Confirmation Estate and such Holders for all federal income tax purposes. All such valuations shall be filed with the Bankruptcy Court.

From and after the Confirmation Date, the Oversight Committee, the Plan Administrator and their Professionals shall be exculpated by all Persons and Entities, including, without limitation, holders of Claims and Interests and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon these parties by the Plan or any order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law, except for actions or omissions to act arising out of the gross negligence or willful misconduct of the Oversight Committee, the Plan Administrator or their Professionals. No holder of a Claim or an Interest or other party in interest shall have or pursue any claim or cause of action against the Oversight Committee, the Plan Administrator or their Professionals for making payments in accordance with the Plan or for implementing the provisions of the Plan. The Plan Administrator shall be authorized to obtain (by using Cash in the Post-Confirmation Estate) insurance coverage with respect to the

responsibilities, liabilities and obligations of the Plan Administrator and those Persons hired by the Plan Administrator to discharge such responsibilities, liabilities and obligations.

The Plan Administrator, the Plan Administrator's and the PCE's employees and each of their professionals and representatives shall be and hereby are exculpated by all Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Plan Administrator by the Plan or any Order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date. No holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Plan Administrator, the PCE or the employees, professionals or representatives of either the Plan Administrator or the PCE for making payments in accordance with the Plan or for implementing the provisions of the Plan except in cases of gross negligence or willful misconduct. The PCE shall indemnify, defend and hold harmless the Plan Administrator, the Plan Administrator's and the PCE's employees and any of their professionals or representatives from and against any and all claims, causes of action, liabilities, obligations, losses, damages or expenses (including attorneys' fees) (other than only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date) to the fullest extent permitted by applicable law. The obligations of the Liquidating Debtors to indemnify those officers, directors, employees, financial advisors consultants, accountants, attorneys, investment bankers, agents and representative of the Liquidations Debtors for service after the Petition Date shall be assumed by the PCE. Any action taken or omitted to be taken with the approval of the Bankruptcy Court or the Oversight Committee will conclusively be deemed not to constitute gross negligence or willful misconduct.

G. CONTINUED CORPORATE EXISTENCE; DISSOLUTION OF CERTAIN LIQUIDATING DEBTORS

i. On the Confirmation Date or as promptly thereafter as practicable:

(1) the Liquidating Debtors or Plan Administrator shall establish the Reserve Fund as provided in this Plan; and

(2) the Liquidating Debtors or Plan Administrator shall deposit in the Operating Account all remaining Cash that is property of the Estates as of the Confirmation Date.

ii. On the Effective Date, the Plan Administrator shall:

(1) Shall establish and fund the Distribution Account as provided for in the Plan; and

(2) In making Distributions, the Plan Administrator shall retain in the Operating Account and/or the Reserve Account sufficient cash to

fund the Post-Confirmation Fees and Expenses, including the reasonably anticipated fees and expenses of the Plan Administrator and the Estates' professionals that are incurred after the Confirmation Date.

iii. After the Effective Date, the Plan Administrator shall:

(1) Continue to liquidate as promptly as practicable the assets of the PCE.

(2) Continue to object and present objections to Claims as he deems appropriate.

(3) Cause the Distributions to occur that the Plan contemplates.

(4) Wind up the affairs of the Post-Confirmation Estate consistent with applicable non-bankruptcy law.

iv. As soon as practicable, he Plan Administrator shall (i) effectuate the dissolution of the Liquidating Debtors in accordance with the laws of the State of Delaware and any other applicable law, and (ii) cause the Cases to be closed.

H. DISSOLUTION OF CREDITORS' COMMITTEE AND CREATION OF THE POST-CONFIRMATION CREDITORS' COMMITTEE

The Creditors' Committee shall continue with all rights, powers and authority through the Confirmation Date. On the Confirmation Date, the Creditors' Committee shall be dissolved. All members of the Creditors' Committee shall be deemed members of the Post-Confirmation Creditors' Committee. Any and all litigation commenced by the Creditors' Committee which may be pending as of the Confirmation Date is assigned, substituted and transferred to the Plan Administrator on behalf of the Post-Confirmation Estate.

1. Procedures and Rules. Notwithstanding any other procedures, by-laws or other governing rules that may have been enacted by the Committee prior to the Confirmation Date, after the Confirmation Date, the Post Confirmation Date Committee shall function under the following rules:

i. Any member of the Committee may act by proxy.

ii. The Committee shall prescribe in its own rules of procedures, subject, however, to the following requirements:

(1) All action by the Committee shall be upon the affirmative vote of a majority of the members of the Committee voting, either personally or by proxy;

(2) Presence of a majority of the members by conference call, shall constitute a quorum;

(3) Authorization for or approval of any action may be evidenced by the written consent of a majority by the Committee;

(4) Meetings of the Committee shall be conducted by conference call.

(5) Upon complete consummation of all of the payments under the Plan, and termination of the Post-Confirmation Estate Agreement, the Post-Confirmation Creditors' Committee shall dissolve;

(6) In the event of the death or resignation of any member of the Post-Confirmation Creditors' Committee, the remaining members of the Post-Confirmation Creditors' Committee shall have the right to designate a successor from among the holders of Allowed Unsecured Claims; and

(7) If a Committee member assigns its Claim or releases the Debtor from payment of the balance of its Claim, such act shall constitute a resignation from the Post-Confirmation Creditors' Committee. Until a vacancy on the Post-Confirmation Creditors' Committee is filled, the Post-Confirmation Creditors' Committee shall function in its reduced number. In the event of the death or resignation of the chairperson of the Post-Confirmation Creditors' Committee, his or her successor shall be elected by the remaining members of the Post-Confirmation Creditors' Committee.

2. Powers. The Post-Confirmation Creditors' Committee shall designate one of its members to serve as a member of the Oversight Committee as provided for in the PCEA. Should the Post-Confirmation Creditors' Committee's designee on the Oversight Committee resign or otherwise no longer be able to serve on the Oversight Committee, the Post Confirmation Creditors' Committee shall appoint a replacement. The Post-Confirmation Creditors' Committee may also vote to remove its designee for any reason it sees fit. The Post-Confirmation Creditors' Committee may review the actions of the Oversight Committee and the Post-Confirmation Creditors' Committee's governance and meetings shall, subject to the provisions of the Plan, be designated by the Post-Confirmation Creditors' Committee. The Post-Confirmation Creditors' Committee shall have no other duties or responsibilities except as provided herein or in the PCEA.

3. Retention of Counsel. The Post-Confirmation Creditors' Committee may retain counsel and other Professionals, if necessary. Any Professional retained on behalf of the Post-Confirmation Creditors' Committee or the Liquidating Debtors may undertake work at the request of the Plan Administrator or Oversight Committee for the Post-Confirmation Estate. Any conflict of interest arising from such work shall be waived by the Post-Confirmation Estate and the Post-Confirmation Creditors' Committee and/or the Liquidating Debtors, as applicable.

4. Limited Liability. Neither the Creditors' Committee or the Post-Confirmation Creditors' Committee, nor any of their members or attorneys shall be liable for the

post-petition act, default or misconduct of any other members of the Creditors Committee or the Post-Confirmation Creditors' Committee. Neither the Creditors' Committee or the Post-Confirmation Creditors' Committee's nor any of their members or attorneys shall incur or be under any liability or obligation by reason of any post-petition act done or omitted to be done except for willful misconduct or gross negligence. If the Creditors' Committee or the Post-Confirmation Creditors' Committee determines not to consult with counsel, such determination shall not be deemed to impose any liability on the Creditors' Committee or the Post-Confirmation Creditors' Committee or their members and/or their designees.

I. CANCELLATION OF NOTES/STOCK INSTRUMENTS / AGREEMENTS

Subject to the provisions of the Plan, all Equity and other ownership interests in any of the Liquidating Debtors and all notes, bonds, indentures, agreements, contracts or other instruments or documents evidencing or creating any indebtedness, obligation or liability of any of the Liquidating Debtors shall be deemed canceled on the Confirmation Date and shall have no force and effect against the Liquidating Debtors, except for the purpose of evidencing the right to participate in the Distributions contemplated by the Plan.

J. PROFESSIONAL FEES AND EXPENSES

Each person requesting compensation in the Liquidating Debtors' Cases pursuant to sections 326, 327, 328, 330, 331, or 1103 of the Bankruptcy Code on account of services performed or Claims otherwise arising prior to the Confirmation Date shall file an application for final allowance of compensation and reimbursement of expenses on or prior to the 30th (thirtieth) Business Day after such date. Failure to timely file an application for such compensation shall result in the claim for such compensation being forever barred. Objections to such applications shall be filed no later than 15 (fifteen) days after completion of service of such applications. Reasonable fees and expenses incurred by any Professional or any other professional after the Confirmation Date who may be retained by the Post-Confirmation Creditors Committee, the Liquidating Debtors, the Oversight Committee, or the Plan Administrator may be paid in the ordinary course without any application to or order of the Bankruptcy Court.

K. POST-CONFIRMATION FEES AND EXPENSES

Cash in an amount equal to the aggregate of the unpaid fees and expenses requested by Professionals, for services rendered to the Debtors or the Creditors' Committee through the Confirmation Date shall be maintained in a Reserve Fund. Cash in amount equal to the anticipated additional fees and expenses for services to be rendered after the Confirmation Date to the Plan Administrator and/or the Post-Confirmation Estate by Professionals or any other professionals who may be retained by the Plan Administrator estimated through the completion date of such services, together with all anticipated additional expenses for consummating the liquidation and distribution of the Assets (including but not limited to the cost of any insurance, U.S. Trustees fees, tax obligations and other post confirmation expenses) and other transactions or obligations contemplated by the Plan shall be held on deposit in the Reserve Fund as part of the Excluded Cash.

L. INSURANCE PRESERVATION

Nothing in this Plan, including any releases, shall diminish or impair the enforceability of any policies of insurance that may cover any claims against the Liquidating Debtors or any other Person.

M. RELEASE OF LIENS

On the Effective Date, except as otherwise provided in the Plan as to any Liens of the Sears Entities and Lifestyle, all mortgages, deeds of trust, Liens or other security interests against the property of the Estates shall be released.

SECTION V EXCULPATION; RELEASE; INJUNCTION

A. EXCULPATION; RELEASE; INJUNCTION

(1) Each Person or Entity in the Voting Class will be given the option to “opt in” to the provisions contained in Section V by checking the appropriate box on the Person or Entity’s Ballot.² If the Person or Entity “opts in,” such Person or Entity will, from and after the Confirmation Date, be permanently enjoined from commencing or continuing in any manner, any suit, action or other proceeding, on account of or respecting any Claim, demand, liability, obligation, debt, right, Cause of Action, interest, or remedy released or to be released pursuant to the following:

i. Any Person or Entity in the Voting Class that “opts in” per the provisions in paragraph (1) above, on the Confirmation Date, in exchange for, among other things, Distributions under the Plan, each Holder of a Claim or Interest shall be deemed, with respect to the Released Parties, to unconditionally release and forever waive all claims, debts, obligations, demands, liabilities, suits, judgments, damages, rights, and causes of action whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part upon any transactions or matters with the Liquidating Debtors, their estates or in connection with the Cases, the Plan or the Disclosure Statement that occurred or could have occurred on or before the Confirmation Date except for cases of gross negligence or willful misconduct.

(2) Except with respect to the express duties provided in the Plan, none of the Liquidating Debtors, nor any of their respective present or former members, directors, officers, employees, advisors, attorneys, affiliates, subsidiaries or agents, shall have or incur

² Ballots are discussed in greater detail in Section XII of the Disclosure Statement and will provide such an “opt out” box for Persons and Entities to check.

any liability to any Holder of a Claim or Interest, or members of the Creditors' Committee, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors or attorneys, or any of their successors or assigns, for any act or omission occurring on or after the Petition Date in connection with, relating to, or arising out of the Liquidating Debtors, their Cases, the pursuit or confirmation of the Plan, or the consummation of the Plan, except for their willful misconduct or gross negligence, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan or in the context of these Cases. Except with respect to the express duties provided in the Plan, no Holder of a Claim or Interest, or members of the Creditors' Committee, or any other party in interest, including their respective agents, employees, representatives, financial advisors, or attorneys, shall have any right of action against the Liquidating Debtors, or any of their respective present or former members, directors, officers, employees, advisors, attorneys, affiliates, subsidiaries or agents, for any act or omission in connection with, relating to, or arising out of, the Liquidating Debtors' Cases, the pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan, except for their willful misconduct or gross negligence.

(3) The Liquidating Debtors hereby unconditionally and forever release all the Released Parties, including their officers and directors who were officers or directors (in their capacities as such) as of the Petition Date, from any and all claims, obligations, suits, judgments, damages, rights, causes of action, and liabilities whatsoever, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part upon any act or omission, transaction, event or other occurrence taking place on or before the Confirmation Date in any way relating to the Cases, the Plan or the Disclosure Statement except for cases of gross negligence or willful misconduct.

SECTION VI CONDITIONS TO CONFIRMATION AND THE EFFECTIVE DATE

A. CONDITIONS TO CONFIRMATION OF THE PLAN

The Plan may not be confirmed unless the Disclosure Statement Order has been entered.

B. CONDITIONS TO OCCURRENCE OF THE EFFECTIVE DATE

The Effective Date is conditioned upon the following:

i. The entry of the Confirmation Order by the Bankruptcy Court, no stay of the Confirmation Order is in effect and the Confirmation Order has not been reversed, modified or vacated;

ii. Six months have elapsed from the date of the entry of the Confirmation Order.

iii. The appointment of and acceptance by the Plan Administrator has occurred under the Post-Confirmation Estate Agreement.

C. THE CONFIRMATION ORDER

If the Confirmation Order is vacated, the Plan becomes null and void in all respects.

SECTION VII
MISCELLANEOUS

A. RETENTION OF JURISDICTION

Following the Effective Date, the Bankruptcy Court shall retain such jurisdiction as is set forth in the Plan. Without in any manner limiting the scope of the foregoing, the Bankruptcy Court shall retain jurisdiction for the following purposes:

- i. To enforce any Order entered in the Cases;
- ii. To determine the allowability, classification, priority or subordination of Claims and Interests upon objection, or to estimate, pursuant to section 502(c) of the Bankruptcy Code, the amount of any Claim that is or is anticipated to be contingent or unliquidated as of the Effective Date, or to hear proceedings to subordinate Claims or Interests brought by any party in interest with standing to bring such objection or proceeding;
- iii. To construe and enforce the Plan and the documents and agreements filed or executed in connection with the Plan and issue such orders as may be necessary for the implementation, execution and consummation of the Plan;
- iv. To determine any and all applications for allowance of compensation and expense reimbursement for periods on or before the Effective Date, and to determine any other request for payment of administrative expenses;
- v. To determine all matters that may be pending before the Bankruptcy Court on or before the Effective Date;
- vi. To resolve any dispute regarding the implementation or interpretation of the Plan that arises at any time before the Cases are closed, including determination, to the extent a dispute arises, of the entities entitled to a Distribution within any particular Class of Claims;
- vii. To determine all applications, adversary proceedings, contested matters and other litigated matters that were brought or that could have been brought on or before the Effective Date;

viii. To hear and determine all Causes of Action which may be brought by the Plan Administrator on behalf of the Post-Confirmation Estate including, but not limited to, Causes of Action as defined in the Plan;

ix. To determine matters concerning local, state and federal taxes in accordance with sections 346, 505 and 1146 of the Bankruptcy Code, and to determine any tax claims that may arise against the Liquidating Debtors as a result of the transactions contemplated by the Plan;

x. To determine such other matters, or for such other purposes, as may be provided in the Confirmation Order;

xi. To modify the Plan pursuant to section 1127 of the Bankruptcy Code, or to remedy any apparent nonmaterial defect or omission in the Plan, or to reconcile any nonmaterial inconsistency in the Plan so as to carry out its intent and purposes; and

xii. To enter a final decree or decrees in these cases.

After the Effective Date, the Bankruptcy Court shall retain jurisdiction with respect to each of the foregoing items and all other matters that were subject to its jurisdiction prior to the Effective Date.

B. TERMS BINDING

On the Confirmation Date, all provisions of the Plan, including all agreements, instruments and other documents filed in accordance with the Plan and executed by the Liquidating Debtors in connection with the Plan, shall be binding upon the Liquidating Debtors, all Claim and Interest Holders, the Post-Confirmation Estate and all other Persons that are affected in any manner by the Plan. All agreements, instruments and other documents filed in connection with the Plan shall have full force and effect, and shall bind all parties thereto as of the Confirmation Date, whether or not such exhibits actually shall be executed by parties other than the Liquidating Debtors or shall be issued, delivered or recorded on the Confirmation Date or thereafter.

C. ADDITIONAL TERMS OF OTHER INSTRUMENTS

The agreements entered into pursuant to the Plan shall contain such other terms, not inconsistent with the provisions of the Plan, as are reflected in the forms of such agreements and related documents filed with the Bankruptcy Court at least five (5) days prior to the Confirmation Hearing. Any material modification of the documents after such date shall be treated as a Plan modification and shall be governed by section 1127 of the Code.

D. PAYMENT DATES

Whenever any payment to be made under the Plan is due on a day other than a Business Day, such payment shall instead be made, without interest, on the next succeeding Business Day.

E. SUCCESSORS AND ASSIGNS

The rights, benefits and obligations of any person named or referred to in the Plan shall be binding upon, and shall inure to the benefit of, the heir, executor, administrator, successor or assignee of such person.

F. INCONSISTENCIES

In the event that there is any inconsistency between the Plan and the Disclosure Statement, any exhibit to the Plan or any other instrument or document created or executed pursuant to the Plan, the Plan shall govern.

G. COMPLIANCE WITH APPLICABLE LAW

It is intended that the provisions of the Plan (including the implementation thereof) shall be in compliance with all applicable laws and any rules and regulations promulgated thereunder. If the Liquidating Debtors conclude that the Plan may not comply with applicable law, then and in such event the Liquidating Debtors intend to amend the Plan in such respects as they deem necessary to bring the Plan into compliance therewith.

H. GOVERNING LAW

Except to the extent that the Bankruptcy Code or any other federal law is applicable or to the extent the law of a different jurisdiction is validly elected by the Liquidating Debtors, the rights, duties and obligations arising under the Plan shall be governed in accordance with the substantive laws of the United States of America and, to the extent federal law is not applicable, the State of Delaware provided, however, this provision is not intended to change the substantive law which would otherwise govern any particular Causes of Action which may be brought by the Plan Administrator or the Post-Confirmation Estate.

I. MODIFICATION OF PLAN

The Plan may be modified pursuant to section 1127 of the Bankruptcy Code.

J. POST-CONFIRMATION DATE SERVICE LIST - ADDITIONAL PERSONS ENTITLED TO NOTICE

Except as set forth herein, from and after the date of the Confirmation Order becomes a Final Order, Notices of Appearances and demands for service of process filed with the Court prior to such date shall no longer be effective, and no further notices, other than Notice of Entry of the Confirmation Order, shall be required to be sent to such entities unless such entities file a new Notice of Appearance and demand for service of process dated subsequent to the Confirmation Date, which subsequent notice and demand must be filed with the Court and served upon the Plan Administrator and the Oversight Committee.

K. ADMINISTRATIVE CLAIMS BARRED

No claims arising against the Post-Confirmation Estate or the Liquidating Debtors after the Confirmation Date shall be deemed an Administrative Claim under the Plan; provided, however, this provision shall not limit the Sears Entities' Diminution Claim.

L. HEADINGS

The headings used in this Plan are inserted for convenience only and neither constitute a portion of the Plan nor in any manner affect the construction thereof.

M. FULL FORCE AND EFFECT

Notwithstanding anything to the contrary set forth in the Plan, all final orders previously approved by this Court, including the Final Cash Collateral Order and the Settlement Order, and the Settlement and Compromise Agreement shall remain in full force and effect, the terms and provisions thereof are incorporated into and made part of the Plan, and the Sears Entities shall be entitled to all benefits, rights, projections, releases and relief granted under such orders and agreements and in all other orders entered by the Bankruptcy Court.

Dated: Jan 16 2003

HOMELIFE CORPORATION, ET AL.

By:



Patrick Regan
Chief Financial Officer

EXHIBIT B

Order Approving Disclosure Statement

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE**

In re:)	Chapter 11
)	
HOMELIFE CORPORATION, et al., ⁵)	Case No. 2412 (JWV)
)	(Jointly Administered)
Debtors.)	

ORDER APPROVING THIRD AMENDED DISCLOSURE STATEMENT

A disclosure statement under chapter 11 of title 11 of the United States Code (the “Bankruptcy Code”)⁶ having been filed by HomeLife Corporation, Furniture Holdings, LLC and HLC 1 LLC (the “Liquidating Debtors”) on December 12, 2002, referring to a plan under chapter 11 of the Bankruptcy Code filed by the Debtors on December 12, 2002, and amended versions of such disclosure statement and plan having been filed on January __, 2003 (the “Third Amended Disclosure Statement”), and it appearing that the Court has jurisdiction in accordance with 28 U.S.C. §§ 157 and 1334 to consider the adequacy of the Third Amended Disclosure Statement; and it appearing that this matter is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2); and it appearing that venue of this proceeding and the Third Amended Disclosure Statement is properly in this district pursuant to 28 U.S.C. §§ 1408 and 1409; and due and proper notice of the Third Amended Disclosure Statement having been given; and it appearing that the relief requested is in the best interests of the Debtors and their estates and creditors; and after due deliberation and

⁵ The Debtors consist of the following entities: HomeLife Corporation, HL Holding Corporation, HomeLife de Puerto Rico, Inc., Furniture Holding, LLC and HLC 1 LLC. Neither this Disclosure Statement nor the Debtors’ Joint Liquidating Plan of Reorganization applies to or effects HL Holding Corporation or HomeLife de Puerto Rico, Inc.

⁶ Any capitalized terms not defined herein shall have the meaning ascribed to them in the Third Amended Disclosure Statement.

sufficient cause appearing therefore; and it having been determined after proper notice and hearing that the Third Amended Disclosure Statement, as amended, contains adequate information in accordance with section 1125 of the title 11 of the United States Code (the "Bankruptcy Code"); it is hereby

ORDERED, and notice is hereby given, that the Third Amended Disclosure Statement, as amended, is approved as containing adequate information in accordance with section 1125 of the title 11 of the Bankruptcy Code; and it is further

ORDERED, that the Plan attached to the Third Amended Disclosure Statement as Exhibit A shall be in substantially the form attached thereto at the time of distribution; and it is further

ORDERED, that all objections to the adequacy of disclosure contained in the Third Amended Disclosure Statement are overruled on the merits; and it is further

ORDERED, that the Debtors are authorized to take all actions necessary to effectuate this Order; and it is further

ORDERED, that this Court shall retain jurisdiction to hear and determine all matters arising from the implementation of this Order.

Jerry W. Venters
United States Bankruptcy Judge

January __, 2003

EXHIBIT C
FEASIBILITY ANALYSIS AS OF 12/31/02

<u>Assets</u>	<u>Value Range</u>	
	LOW	HIGH
Cash in Operating	\$ 4,780,000	\$ 4,780,000
Insurance Claim Proceeds	890,000	890,000
Preference Actions - Vendors	5,300,000	11,400,000
Other	30,000	30,000
TOTAL	\$11,000,000	\$ 17,100,000

<u>Secured Claims</u>	
Sears Security Interest in Insurance Proceeds	740,000
Filed Claims	90,000
TOTAL	\$ 830,000

<u>Administrative Claims and Expenses</u>	
Taxes and tax compliance	\$ 180,000
Remaining GOB related expenses	350,000
Debtor payroll & remaining KERP payments	540,000
Rent and other office expenses	70,000
Lease Cure Costs	230,000
Sears Diminution Claim	880,000
Other	270,000
Filed Claims	620,000
TOTAL	\$ 3,140,000

<u>Chapter 11 Fee and Expenses</u>	
Unpaid and anticipated fees and expenses to wind up cases	\$ 2,700,000

Liquidation Summary		
	<u>Value Range</u>	
	LOW	HIGH
Assets	\$ 11,00,000	\$ 17,100,000
Secured Claims	830,000	830,000
Administrative Claims	3,140,000	3,140,000
Chapter 11 Fees and Expenses	2,700,000	2,700,000
Assets for Priority and Unsecured Claims	<u>\$ 4,330,000</u>	<u>\$ 10,430,000</u>

	Value Range	
	LOW	HIGH
Estimated Assets Available for Priority and Unsecured Claimants	\$4,330,000	\$ 10,430,000
Estimated Priority Claims	\$2,430,000	\$2,440,000

	Value Range	
	LOW	HIGH
Assets Available	\$ 4,330,000	\$ 10,430,000
Priority Claims	2,440,000	2,430,000
Recovery range for Unsecured Claimants	<u>\$ 1,890,000</u>	<u>\$ 8,000,000</u>
Estimated Unsecured Claims	Greater than \$400,000,000 ⁷	

⁷ The Sears Entities have filed proofs of claim in excess of \$430 million. While some portion of these claims may be paid through the collateral securing the Sears Entities' claims and while some portion of these claims may be disputed, it is likely that the Sears Entities will have a significant Allowed Unsecured Claim.

EXHIBIT D
CHAPTER 7 LIQUIDATION ANALYSIS AS OF 12/31/02

<u>Assets</u>	<u>Value Range</u>	
	LOW	HIGH
Cash in Operating/Real Estate Accounts	\$ 4,780,000	\$ 4,780,000
Insurance Claim Proceeds	890,000	890,000
Preference Actions	3,180,000	7,900,000
Other	30,000	30,000
TOTAL	\$ 8,880,000	\$ 13,600,000

<u>Secured Claims</u>	
Sears Security Interest in Insurance Proceeds	740,000
Filed Claims (est.)	90,000
TOTAL	\$ 830,000

<u>Administrative Claims and Expenses</u>	
Taxes and tax compliance	\$ 180,000
Remaining GOB related expenses	350,000
Debtor payroll & remaining KERP payments	360,000
Rent and other office expenses	70,000
Lease Cure Costs	230,000
Sears Diminution Claim	880,000
Other	270,000
Filed Claims	620,000
TOTAL	\$ 2,960,000

<u>Chapter 7 Fees and Expenses</u>	
Incurred but unpaid Chapter 11 Fees and Expenses at 12/31/02	\$ 1,400,000
Chapter 7 Trustee Fees	450,000
Professional fees	1,820,000
TOTAL	\$ 3,670,000

Liquidation Summary	<u>Value Range</u>	
	LOW	HIGH
Assets	\$ 8,880,000	\$ 13,600,000
Secured Claims	830,000	830,000
Administrative Claims	2,960,000	2,960,000
Chapter 7 & Fees and Expenses	3,670,000	3,670,000
Assets for Priority and Unsecured Claims	\$ 1,420,000	\$ 6,140,000
Net benefit to claimants from continuing Chapter 11 Liquidation	\$ 2,910,000	\$ 4,290,000

EXHIBIT E
Preliminary Draft of Post Confirmation Estate Agreement

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:) Chapter 11
)
HOMELIFE CORPORATION, et al.,⁸) Case No. 01-2412 (JWA)
) (Jointly Administered)
)
Debtors.)

POST-CONFIRMATION ESTATE AGREEMENT

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⁸ The Debtors consist of the following entities: HomeLife Corporation, HL Holding Corporation, Furniture Holdings, LLC and HLC 1 LLC.

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POST-CONFIRMATION ESTATE AGREEMENT

THIS AGREEMENT is made this ____ day of _____, 2002, by and among HomeLife Corporation ("HomeLife"), Furniture Holding LLC and HLC 1 LLC, each a debtor and debtor-in-possession (collectively, the "Debtors"), and Patrick J. Regan or a limited liability company of which he is a managing member ("Regan," and together with any successors, the "Plan Administrator") under the Plan (as defined below).

RECITALS:

- (a) On July 16, 2001, HomeLife and each of the other Debtors, respectively, filed a voluntary petition for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware.
- (b) By order, dated _____, 2002, the Bankruptcy Court confirmed the Debtors' Joint Plan of Reorganization Pursuant to Chapter 11 of the Bankruptcy Code (as the same may have been or may be amended, the "Plan").
- (c) In accordance with the Plan, certain duties and responsibilities shall be borne by the Plan Administrator.
- (d) The Plan provides for, among other things, the establishment of the post-Confirmation Estate ("PCE") with holders of certain Allowed Claims owning of, in the aggregate, one hundred percent (100%) of the beneficial interests of the PCE.
- (e) The PCE is created pursuant to, and to effectuate, the Plan.
- (f) The PCE is created on behalf of, and for the sole benefit of, the holders of Certain Allowed Claims (the "Beneficiaries") under the Plan and to pay Allowed Administrative and Priority Claims.
- (g) The PCE is established for the primary purpose of liquidating the assets transferred to it (the "PCE Assets") for the benefit of the Beneficiaries as a liquidating trust, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the PCE. In particular:
- (h) The PCE is organized for the primary purpose of liquidating the PCE Assets, with no objective to conduct a trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the PCE. The PCE shall not be deemed a successor of the Debtors.

- (i) The PCE provides that the Beneficiaries of the PCE will be treated as the grantors of the PCE and deemed owners of the PCE Assets. This PCE requires the Plan Administrator to file returns for the PCE as a grantor trust pursuant to Reg. §1.671-4(a).
- (j) This PCE provides for consistent valuations of the transferred property by the Plan Administrator and Creditors, and those valuations must be used for all federal income tax purposes.
- (k) All PCE's income is to be treated as subject to tax on a current basis to the Beneficiaries who will be responsible for payment of any tax due.
- (l) This PCE contains a fixed determinable termination date that is not more than five years from the date of creation of the PCE and that is reasonable based on all the facts and circumstances.
- (m) The investment powers of the Plan Administrator other than those reasonably necessary to maintain the value of the PCE Assets and to further the liquidating purpose of the PCE, are limited to powers to invest in demand and time deposits, such as short-term certificates of deposit, in banks or other savings institutions, or other temporary, liquid investments, such as Treasury bills.
- (n) The Plan Administrator is required to distribute at least annually to the Beneficiaries its net income plus all net proceeds from the sale of assets, except that the PCE may retain an amount of net proceeds or net income reasonably necessary to maintain the value of the PCE Assets or to meet claims and contingent liabilities (including disputed claims).
- (o) The PCE is intended to qualify as a "grantor trust" for federal income tax purposes with the Beneficiaries treated as the grantors and owners of the trust.
- (p) Capitalized terms used herein without definition shall have the respective meanings assigned to such terms in the Plan.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and in the Plan, the Liquidating Debtors and the Plan Administrator agree as follows:

SECTION I PLAN ADMINISTRATOR

- A. **Appointment.** The Oversight Committee (as defined in Section II.F.(1) below) hereby appoints [Patrick Regan] to serve as the initial Plan Administrator under

the Plan, and [Regan] hereby accepts such appointment and agrees to serve in such capacity, in each case effective upon the Confirmation Date of the Plan. A successor Plan Administrator shall be appointed by the Oversight Committee in the event that the Plan Administrator is removed or resigns pursuant to this Agreement or the Plan Administrator otherwise vacates the position, and if not so appointed, shall be appointed by the Bankruptcy Court.

- B. **Generally.** The Plan Administrator's powers are exercisable solely in a fiduciary capacity consistent with, and in furtherance of, the purposes of the PCE and not otherwise, except that the Plan Administrator may deal with the PCE Assets for his own account as permitted by the provisions of Section I.D. hereof. The Plan Administrator shall have the authority to bind the PCE but shall for all purposes hereunder be acting in the capacity as Plan Administrator and not individually.
- C. **Scope of Authority.** The responsibilities and authority of the PCE shall include (a) facilitating the prosecution or settlement of objections to and estimations of Claims, (b) calculating and implementing all distributions in accordance with the Plan, (c) filing all required tax returns and paying taxes and all other obligations on behalf of the PCE from funds held by the PCE, (d) periodic reporting to the Bankruptcy Court and parties in interest of the status of the Claims resolution process, distributions on Allowed Claims, prosecution of Bankruptcy Causes of Action and all other causes of action, (e) liquidating the PCE Assets and providing for the distribution of the net proceeds thereof in accordance with the provisions of the Plan, (f) managing the wind-down of the Liquidating Debtors' operations, (g) liquidating and enforcing the any assets or Causes of Action still subject to liens or other encumbrances by the Sears Entities (the "Encumbered Residual Assets") and (h) such other responsibilities as may be vested in the PCE pursuant to the Plan or Bankruptcy Court order or as may be necessary and proper to carry out the provisions of the Plan. Unless otherwise directed by the Bankruptcy Court, the Plan Administrator shall use reasonable best efforts to comply with an affirmative direction from the Oversight Committee.
- D. **Powers.**
 - 1. The powers of the PCE shall, without any further Bankruptcy Court approval in each of the following cases, include (i) the power to invest funds in, and withdraw, make distributions and pay taxes and other obligations owed by the PCE from funds held by the Plan Administrator and/or the PCE in accordance with the Plan, (ii) the power to engage employees and professional persons to assist the PCE and/or the Plan Administrator with respect to its or his responsibilities, (iii) the power to compromise and settle claims, Causes of Action and causes of action on behalf of or against the PCE, and (iv) such other powers as may be vested in or assumed by the PCE or the Plan Administrator pursuant to the Plan, Bankruptcy Court order or as may be necessary and proper to carry out the provisions of the Plan. Except as expressly set forth herein, the PCE shall have absolute discretion to pursue or not to pursue any and all claims,

rights, bankruptcy Causes of Action or other causes of action, as it determines is in the best interests of the Beneficiaries and consistent with the purposes of the PCE, and shall have no liability for the outcome of its decision. The PCE may incur any reasonable and necessary expenses in liquidating and converting the PCE Assets to cash.

2. In connection with the administration of the PCE, except as otherwise set forth in this Agreement or the Plan, the PCE is authorized to perform any and all acts necessary and desirable to accomplish the purposes of the PCE. Without limiting, but subject to, the foregoing, the PCE shall be expressly authorized, but shall not be required, to:
 - (1) hold legal title to the PCE Assets, any and all rights of the Beneficiaries in or arising from the PCE Assets, including, but not limited to, the right to vote any claim or interest held by the PCE Assets in a case under the Bankruptcy Code and receive any distribution therein;
 - (2) protect and enforce the rights to the PCE Assets vested in the PCE by this Agreement by any method deemed appropriate including, without limitation, by judicial proceedings or pursuant to any applicable bankruptcy, insolvency, moratorium or similar law and general principles of equity;
 - (3) compromise, adjust, arbitrate, sue on or defend, abandon, or otherwise deal with and settle, in accordance with the terms set forth in Section IV.B. hereof, claims in favor of or against the PCE as the PCE shall deem advisable;
 - (4) determine and satisfy any and all liabilities created, incurred or assumed by the PCE;
 - (5) file, if necessary, any and all tax and information returns with respect to the PCE and pay taxes properly payable by the PCE, if any;
 - (6) pay all expenses and make all other payments relating to the PCE Assets;
 - (7) obtain insurance coverage with respect to the liabilities and obligations of the Plan Administrator and the PCE (in the form of an errors and omissions policy, fiduciary policy or otherwise);
 - (8) obtain insurance coverage with respect to real and personal property which may be or may become PCE Assets, if any;

- (9) retain and pay such law firms as counsel to the PCE as the PCE in its sole discretion may select to aid in the prosecution of any claims that constitute the PCE Assets, and to perform such other functions as may be appropriate in the Plan Administrator's sole discretion. The Plan Administrator may commit the PCE to and the PCE shall pay such law firms compensation for services rendered and expenses incurred;
- (10) retain and pay a public accounting firm to perform such reviews and/or audits of the financial books and records of the PCE as may be appropriate in the PCE's sole discretion and to prepare and file any tax returns or informational returns for the PCE as may be required. The Plan Administrator may commit the PCE to and the PCE shall pay such accounting firm reasonable compensation for services rendered and expenses incurred;
- (11) retain and pay such third parties as the PCE, in its sole discretion, may deem necessary or appropriate to assist the PCE in carrying out its powers and duties under this Agreement. The Plan Administrator may commit the PCE to and shall pay all such persons or entities compensation for services rendered and expenses incurred, as well as commit the PCE to indemnify any such parties in connection with the performance of services; and
- (12) invest any moneys held as part of the PCE Assets in accordance with the terms of Section I.J. hereof.

E. Additional Powers. Except as otherwise set forth in this Agreement or in the Plan, and subject to the retained jurisdiction of the Bankruptcy Court as provided for in the Plan, but without prior or further authorization, the Plan Administrator may control and exercise authority over the PCE Assets and over the protection, conservation and disposition thereof. No person dealing with the PCE shall be obligated to inquire into the authority of the Plan Administrator in connection with the protection, conservation or disposition of PCE Assets.

F. No Administrative Claims. No expense of the Plan Administrator or of any other employee or professional otherwise engaged by the PCE shall be considered an administrative expense under section 503 of the Bankruptcy Code.

G. Other Activities. The Plan Administrator shall be entitled to perform services for and be employed by third parties; provided, however, that such performance or employment affords the Plan Administrator sufficient time to carry out its responsibilities as Plan Administrator. The Plan Administrator may delegate the performance of services and the fulfillment of responsibilities to other persons. Such persons shall be entitled to be compensated and to be reimbursed for out-of-pocket disbursements in the same manner as the Plan Administrator.

- H. Limitation of Plan Administrator's Authority.** The Plan Administrator shall not and shall not be authorized to engage in any trade or business with respect to the PCE Assets or any proceeds therefrom except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the PCE and shall take such actions consistent with the prompt orderly liquidation of the PCE Assets as are required by applicable law and consistent with the treatment of the PCE as a liquidating trust under Treasury Regulation Section 301.7701-4(d), and such actions permitted herein.
- I. Liability of Plan Administrator.** In no event shall the Plan Administrator, the Plan Administrator's employees, the PCE's employees or any of the Plan Administrator's or PCE's professionals or representatives be held personally liable for any claim asserted against the PCE, the Plan Administrator, the Plan Administrator's employees, the PCE's employees or any of the Plan Administrator's or PCE's professionals or representatives, except to the extent of any case of misconduct or gross negligence. Specifically, the Plan Administrator, the Plan Administrator's employees, the PCE's employees and any of the Plan Administrator's or PCE's professionals or representatives shall not be liable for any negligence or any error of judgment made in good faith, or with respect to any action taken or omitted to be taken in good faith, except to the extent that the action taken or omitted to be taken by the Plan Administrator, the Plan Administrator's employees, the PCE's employees or any of the Plan Administrator's or PCE's professionals or representatives are determined by a Final Order to be due to their own respective gross negligence or willful misconduct.
- J. Reliance by Plan Administrator.** Except as otherwise provided in Section I.8 hereof:
1. the Plan Administrator may rely, and shall be protected in acting upon, any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, or other paper or document believed by him to be genuine and to have been signed or presented by the proper party or parties;
 2. the Plan Administrator may consult with legal counsel, financial or accounting advisors and other professionals to be selected by him, and the Plan Administrator shall not be liable for any action taken or omitted to be taken by him in accordance with the advice thereof; and

3. persons dealing with the Plan Administrator shall look only to the PCE Assets to satisfy any liability incurred by the Plan Administrator to such person in carrying out the terms of this Agreement, and the Plan Administrator shall have no personal obligation to satisfy any such liability.

- J. **Investment and Safekeeping of PCE Assets.** All moneys and other assets received by the PCE shall, until distributed or paid over as herein provided, be held in trust for the benefit of the Beneficiaries, but need not be segregated from other PCE Assets, unless and to the extent required by law. The Plan Administrator shall be under no liability for interest or producing income on any moneys received by the PCE hereunder and held for distribution or payment to the Beneficiaries, except as such interest shall actually be received by the Plan Administrator. Investments of any moneys held by the PCE shall be administered in view of the manner in which individuals of ordinary prudence, discretion and judgment would act in the management of their own affairs; provided, however, that the right and power of the Plan Administrator to invest the PCE Assets, the proceeds thereof, or any income earned by the PCE, shall be limited to the right and power to invest such assets (pending periodic distributions in accordance with Section IV.D. hereof) in demand and time deposits, such as short-term certificates of deposit, in banks or other savings institutions, or other temporary liquid investments, such as Treasury bills; and, provided, further, that the scope of any such permissible investments shall be limited to include only those investments, or shall be expanded to include any additional investments, as the case may be, that a liquidating trust, within the meaning of Treasury Regulation section 301.7701-4(d), may be permitted to hold, pursuant to the Treasury Regulations, or any modification in the IRS guidelines, whether set forth in IRS rulings, other IRS pronouncements or otherwise.
- K. **Authorization to Expend PCE Assets.** The Plan Administrator may expend the assets of the PCE (i) as necessary to meet contingent liabilities and to maintain the value of the assets of the PCE during liquidation, (ii) to pay administrative expenses of the PCE (including, but not limited to, any taxes imposed on the PCE or fees and expenses in connection with litigation), and (iii) to satisfy other liabilities incurred or assumed by the PCE (or to which the assets are otherwise subject) in accordance with this Agreement or the Plan.

L. Compensation of the Plan Administrator.

1. The PCE shall reimburse the Plan Administrator for the actual reasonable out-of-pocket expenses incurred by the Plan Administrator, including, without limitation, necessary travel, lodging, postage, telephone and facsimile charges upon receipt of periodic billings.
2. The Plan Administrator shall be entitled to receive compensation in the amount of \$21,345.91 per month for services rendered on behalf of PCE.
3. The Plan Administrator shall have the power to employ such personnel as deemed necessary by the Plan Administrator, subject to the greater of the limitations contained in applicable exhibits to the Disclosure Statement or such amounts consented to by the Oversight Committee.
4. The PCE Assets shall be subject to the claims of the Plan Administrator, and the Plan Administrator shall be entitled to reimburse himself out of any available cash in the PCE, for his actual reasonable out-of-pocket expenses and against and from any and all loss, liability, expense, or damage which the Plan Administrator may sustain in good faith and without willful misconduct, gross negligence, or fraud in the exercise and performance of any of the powers and duties of the Plan Administrator. If the Plan Administrator is removed pursuant to the provisions of Section V.A hereof or the Plan Administrator dies or becomes disabled, then such former Plan Administrator (or his estate, successor or assigns) and any successor Plan Administrator hereunder shall share any remaining additional compensation pursuant to this Section I.L pro rata based on the total time spent by each as the Plan Administrator hereunder.
5. All compensation and other amounts payable to the Plan Administrator shall be paid from the assets of the PCE. If the cash in the PCE shall be insufficient to compensate and reimburse the Plan Administrator, as the case may be, for any amounts to which they are entitled hereunder, then the Plan Administrator is hereby authorized to reduce to cash that portion of the PCE Assets necessary so as to effect such compensation and reimbursement.

M. Exculpation; Indemnification. The Plan Administrator, the Plan Administrator's and the PCE's employees and each of their professionals and representatives shall be and hereby are exculpated by all Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Plan Administrator by the Plan or any Order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date. No

holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Plan Administrator, the PCE or the employees, professionals or representatives of either the Plan Administrator or the PCE for making payments in accordance with the Plan or for implementing the provisions of the Plan except in cases of gross negligence or willful misconduct. The PCE shall indemnify, defend and hold harmless the Plan Administrator, the Plan Administrator's and the PCE's employees and any of their professionals or representatives from and against any and all claims, causes of action, liabilities, obligations, losses, damages or expenses (including attorneys' fees) (other than only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Effective Date) to the fullest extent permitted by applicable law. The obligations of the Liquidating Debtors to indemnify those officers, directors, employees, financial advisors consultants, accountants, attorneys, investment bankers, agents and representative of the Liquidations Debtors for service after the Petition Date, as described in Section V.A. of the Plan, shall be assumed by the PCE. Any action taken or omitted to be taken with the approval of the Bankruptcy Court or the Oversight Committee will conclusively be deemed not to constitute gross negligence or willful misconduct.

- N. **Termination.** The duties, responsibilities and powers of the Plan Administrator will terminate on the date the PCE is dissolved under applicable law in accordance with the Plan, or by an Order of the Bankruptcy Court or by entry of a final decree closing the Chapter 11 Cases.
- O. **No Bond.** The Plan Administrator shall serve without bond.
- P. **Confidentiality.** The Plan Administrator shall, during the period that he serves as Plan Administrator under this Agreement hold strictly confidential and not use for personal gain any material, non-public information of or pertaining to any entity to which any of the PCE Assets relates or of which he has become aware in his capacity as Plan Administrator.
- Q. **Reports to the Court.** In addition to the reports provided to the Oversight Committee according to Section II.E.3, the Plan Administrator shall provide the Court with a quarterly financial accounting of the Post-Confirmation Estate.
- R. **Final Decree.** It shall be the duty of the Plan Administrator to seek and obtain a final decree or decrees from the Bankruptcy Court.

SECTION II ESTABLISHMENT OF THE PCE

- A. **Transfer of Assets to PCE.** Pursuant to the Plan, the Liquidating Debtors and the Plan Administrator hereby establish, on behalf of the Beneficiaries, and the Liquidating Debtors hereby transfer, assign, and deliver to the PCE, on behalf of the Beneficiaries, all right, title and interest in the PCE Assets, including claims and Causes of Action of the Liquidating Debtors, other than any claims and causes of action waived, exculpated or released in accordance with the provisions

of the Plan. The PCE agrees to accept and hold the PCE Assets in the PCE for the Beneficiaries, subject to the terms of the Plan and this Agreement.

B. Title to Assets.

1. The transfer of the PCE Assets to the PCE (after taking into account the payment by the Liquidating Debtors and the PCE to and/or funding of the Allowed and projected Administrative Expense Claims, Allowed Secured, Other Secured, and Priority Claims as well as any Sears Diminution Claim and the Post-Petition Fees and Expenses (in accordance with the Plan) shall be made for the benefit of the holders of Allowed Claims in Class 3, in accordance with the Plan; provided, however, the transfer of the Encumbered Residual Assets shall be solely for the benefit of the Sears Entities.. The Payment of Distributions and the utilization of all PCE Assets shall be made in accordance with the Plan.
2. For all federal income tax purposes, all parties (including, without limitation, the Liquidating Debtors, the Plan Administrator, and the Beneficiaries) shall treat the transfer of the PCE Assets by the Liquidating Debtors to the PCE, as set forth in this Section II.B, as a transfer to the holders of Allowed Claims in Classes 2 and 3 followed by a transfer of the PCE Assets by such holders to the PCE. Thus, the Beneficiaries shall be treated as the grantors and owners of a grantor trust for federal income tax purposes.

C. Assignment and Assumption of Liabilities. In accordance with the provisions of Section II.B hereof, the Liquidating Debtors hereby transfer and assign, and the PCE hereby assumes and agrees that all PCE Assets will be transferred to the PCE.

D. Funding of PCE. The Liquidating Debtors shall, on the Confirmation Date, transfer to the PCE on behalf of the Beneficiaries (in accordance with Section II.B hereof) the PCE Assets. The Liquidating Debtors shall have no further obligation to provide any funding with respect to the PCE.

E. Valuation of Assets. As soon as practicable after the Confirmation Date, the Plan Administrator shall apprise each of the Beneficiaries of the value of the PCE Assets in form and substance reasonably acceptable to the Plan Administrator. The valuation shall be used consistently by all parties (including the Liquidating Debtor, the Plan Administrator and the Beneficiaries) for all federal income tax purposes. All such valuations shall be filed with the Bankruptcy Court.

F. Post-Confirmation Estate Oversight Committee.

The Post-Confirmation Estate Oversight Committee shall have the authority to oversee the Plan Administrator, including the authority to dismiss, manage or otherwise direct the actions of the Plan Administrator, as further detailed below.

1. Oversight Committee Members. One member of the Post-Confirmation Creditors' Committee as of the Confirmation Date (together with any respective successor, the "Committee Designee"), Patrick J. Regan (together with any successor thereto, the "Debtor Designee") and one person designated by the Sears Entities (together with any successor thereto, the "Sears Designee") shall constitute the initial members of the Post-Confirmation Estate Oversight Committee (the "Oversight Committee").
2. Bylaws. The Oversight Committee shall adopt its own bylaws; provided that such bylaws shall contain the following provisions and other provisions not inconsistent with this Agreement:
 - (a) If for any reason a Committee Designee ceases to be a member of the Oversight Committee, the Post-Confirmation Creditor's Committee may select a successor to that Committee Designee.
 - (b) If for any reason the Debtor Designee ceases to be a member of the Oversight Committee, the Plan Administrator may select a successor to fill the vacancy.
 - (c) If for any reason the Sears Designee ceases to be a member of the Oversight Committee, the Sears Entities shall select a successor to fill the vacancy.
 - (d) The Oversight Committee shall make decisions on matters that fall under its authority by majority vote, except as such matters directly or indirectly pertain to litigation against one of its members. In the case of such litigation, the affected member shall not be eligible to vote on the relevant matter and unanimous action by the other two members shall be required.
3. Reporting. The Plan Administrator may take any action he is empowered to take by Section I herein, unless the Oversight Committee otherwise takes affirmative action to restrict such actions by the Plan Administrator. The Plan Administrator shall submit such reports as he deems reasonable to the Oversight Committee, including, without limitation, reports on the commencement and prosecution of Bankruptcy Causes of Action and the proceeds of liquidation of the PCE Assets. The Plan Administrator shall also report to the Oversight Committee, at the request of any member of the Oversight Committee, on any matter that relates to the PCE Assets or the Post-Confirmation Estate. Provide, however, the Plan Administrator shall take no action that will in any way infringe on attorney-client privilege or jeopardize the viability of on-going litigation by reporting on Causes of Action directly or indirectly to any interested parties that may be on the Oversight Committee.
4. Reimbursement. The PCE shall reimburse each member of the Oversight Committee only for out-of-pocket expenses relating to postage, telephone and facsimile charges.

5. All amounts payable pursuant to paragraph (4) above shall be paid from the Reserve Fund or, as necessary, the Operating Account. If the cash in the PCE shall be insufficient to effect such reimbursement, then the Plan Administrator is hereby authorized to reduce to cash that portion of the PCE Assets (other than the Encumbered Residual Assets) necessary so as to effect such reimbursement.
6. Exculpation. From and after the Confirmation Date, the Oversight Committee members and their professionals and representatives (or their designees) (in such capacities) shall be and hereby are exculpated by all Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such members by the Plan or any Order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law or otherwise, except only for actions or omissions to act only to the extent determined by a Final Order to be due to their own respective gross negligence or willful misconduct after the Confirmation Date. No holder of a Claim or other party in interest will have or be permitted to pursue any claim or cause of action against the Oversight Committee members or the professionals or representatives of such members (in such capacities) for making a decision or casting a vote in implementing the provisions of the Plan.

SECTION III BENEFICIARIES

- A. **Identification of Beneficiaries.** In order to determine the actual names, addresses and tax identification numbers of the Beneficiaries, the Plan Administrator shall be entitled to conclusively rely on the names, addresses and tax identification numbers set forth in the Liquidating Debtors' Schedules or filed proofs of claim. Each Beneficiary's right to distribution from the PCE, which is dependent upon such Beneficiary's classification under the Plan, shall be that accorded to such Beneficiary under the Plan. Each distribution by the Plan Administrator to the Beneficiaries shall be made in accordance with the terms set forth herein.

SECTION IV PURPOSE, AUTHORITY, LIMITATIONS, AND DISTRIBUTIONS

- A. **Purpose of the PCE.** The PCE shall be established for the primary purpose of liquidating its assets, in accordance with Treasury Regulation Section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the PCE. Accordingly, the PCE shall, in an expeditious but orderly manner, liquidate and convert to cash the PCE Assets, make timely distributions and not unduly prolong the duration of the PCE. The liquidation of the PCE

Assets may be accomplished either through the prosecution, compromise and settlement, abandonment or dismissal of any or all claims, rights or causes of action, or otherwise.

B. Resolution of PCE Assets by the Plan Administrator.

1. The Plan Administrator shall be empowered to and, in his sole discretion (subject to the provisions hereof), may take all appropriate action with respect to the prosecution, settlement or other resolution of the PCE Assets. The Plan Administrator shall deal with all collections and settlements within the normal course of his duties.
2. Notwithstanding anything contained in this Agreement to the contrary, the PCE may, but is not required to, submit a proposed settlement to the Bankruptcy Court or such other court of competent jurisdiction for its approval.

C. Books and Records. The PCE shall maintain, in respect of the Post-Confirmation Estate and the Beneficiaries, books and records relating to the assets and income of the PCE and the payment of expenses of, and liabilities of, claims against or assumed by, the PCE in such detail and for such period of time as may be necessary to enable it to make full and proper accounting in respect thereof in accordance with Section V hereof and to comply with applicable provisions of law. Except as provided in Section VII.1. hereof, nothing in this Agreement requires the PCE to file any accounting or seek approval of any court with respect to the administration of the PCE, or as a condition for making any payment or distribution out of the PCE Assets. Beneficiaries shall have the right upon thirty (30) days' prior written notice delivered to the Plan Administrator to inspect such books and records, provided that, if so requested, such Beneficiary shall have entered into a confidentiality agreement satisfactory in form and substance to the Plan Administrator.

D. Application of PCE Assets. The PCE shall apply all PCE Assets, and any proceeds therefrom, as follows:

1. The PCE shall apply all cash constituting PCE Assets and any proceeds therefrom in the order and reflecting the priorities set forth below (except for all Encumbered Residual Assets, and all proceeds therefrom, which shall be paid to the Sears Entities):

FIRST, to pay all the costs and expenses of the PCE including, without limitation, the Post-Confirmation Fees and Expenses and any and all costs, expenses and liabilities incurred by the Plan Administrator in connection with the performance of its duties under this PCE Agreement as well as the costs of the Oversight Committee as set forth herein.

SECOND, to the holders of Allowed Claims or Interests in Classes 2 and 3. All distributions to the holders of Allowed Claims shall be in accordance with the terms of

the Plan, including that the proceeds of collateral must be paid to satisfy the liens of creditors holding secured claims in such collateral.

Notwithstanding anything to the contrary in this Section IV.D.1., prior to making any distribution pursuant to Paragraph SECOND hereof, the Plan Administrator may retain such amounts (i) as are necessary to meet contingent liabilities and to maintain the value of the assets of the PCE during liquidation, (ii) to pay estimated expenses of administration (including any taxes imposed on the PCE or in respect of the assets of the PCE (iii) to satisfy other liabilities incurred or assumed by the PCE (or to which the assets are otherwise subject), all for the term of the PCE and in accordance with this Agreement or the Plan and (iv) to satisfy the Post-Confirmation Fees and Expenses detailed in the Plan; provided, however, that, from the net amount distributable, the Plan Administrator shall reserve, in accordance with the provisions of Section VI.A hereof, such amounts as would be distributable in respect of Disputed Claims (treating such Claims for this purpose, as if they were Allowed Claims).

The PCE hereby grants to the Plan Administrator and the Oversight Committee (other than the Encumbered Residual Assets) a first-priority lien on and security interest in the PCE Assets to secure the payment of all amounts owed to, accrued or reserved on account of the Plan Administrator or the Oversight Committee or to be retained by the Plan Administrator hereunder or otherwise due hereunder. The PCE agrees to take such actions and execute such documents as the Plan Administrator and the Oversight Committee deem appropriate to perfect the Plan Administrator's and the Oversight Committee's liens and security interests hereunder. The Plan Administrator is authorized to execute and deliver all documents on behalf of the PCE and the Plan Administrator to accomplish the purposes of this Agreement and the Plan.

2. Distribution; Withholding. Subject to the provisions of Section IV.D.1. hereof, the PCE shall distribute to the holders of Allowed Claims all net cash income plus all net cash proceeds from the liquidation of the PCE Assets (including as cash for this purpose, all cash equivalents) at such time intervals as decided by the PCE in accordance with the terms of the Plan, provided that the PCE shall make distributions no less frequently than on an annual basis, except that the PCE may retain an amount of net cash proceeds or net cash income reasonably necessary to maintain the value of its assets or to meet claims and contingent liabilities (including Disputed Claims).

- E. **Compliance with Laws.** Any and all distributions of PCE Assets shall be in compliance with applicable laws, including, but not limited to, applicable federal and state securities laws.

SECTION V SUCCESSOR PLAN ADMINISTRATOR

- A. **Resignation.** The Plan Administrator may resign by giving not less than thirty (30) days' prior written notice thereof to the Bankruptcy Court.

- B. Acceptance of Appointment by Successor Plan Administrator.** Any successor Plan Administrator shall be chosen by the Oversight Committee. Any successor Plan Administrator appointed hereunder shall execute an instrument accepting such appointment hereunder and shall file such acceptance with the PCE records. Thereupon, such successor Plan Administrator shall, without any further act, become vested with all the estates, properties, rights, powers, trusts and duties of his predecessor in the PCE with like effect as if originally named herein; provided, however, that a removed or resigning Plan Administrator shall, nevertheless, when requested in writing by the successor Plan Administrator, execute and deliver an instrument or instruments conveying and transferring to such successor Plan Administrator under the PCE all the estates, properties, rights, powers, and trusts of such predecessor Plan Administrator.

SECTION VI DISPUTED CLAIM RESERVE

- A. Disputed Claim Reserve.** The Plan Administrator shall maintain, in accordance with the Plan Administrator's powers and responsibilities under the Plan and this Agreement, a reserve for any distributable amounts required to be set aside on account of Disputed Claims. Such amounts (net of any expenses, including any taxes, of the escrow relating thereto) shall be distributed, as provided herein and in the Plan, as such Disputed Claims are resolved.

SECTION VII REPORTING

- A. Tax and Other Reports.** As soon as practicable after the end of each calendar year, and as soon as practicable upon termination of the PCE, the Plan Administrator shall submit to the Bankruptcy Court a written report including: (i) financial statements of the PCE at the end of such calendar year or period and the receipts and disbursements of the PCE for such period; (ii) a description of any action taken by the Plan Administrator in the performance of his duties which materially and adversely affects the PCE and of which notice has not previously been given to the Beneficiaries, and (iii) subject to Section VII.B(1), a separate statement for each Beneficiary setting forth the holder's share of items of income, gain, loss, deduction or credit and will instruct all such holders to report such items on their federal income tax returns. The Plan Administrator shall promptly submit additional reports to the Bankruptcy Court whenever an adverse material event or change occurs which effects either the PCE or the rights of the Beneficiaries hereunder.
- B. Federal Income Tax.**
1. Grantor Trust Status. Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the issuance of applicable Treasury Regulations, the receipt by the Plan Administrator of a private letter ruling if the Plan Administrator so requests one, or the

receipt of an adverse determination by the IRS upon audit if not contested by the Plan Administrator), the Plan Administrator shall file returns for the PCE as a grantor trust pursuant to Treasury Regulation Section 1.671-4(a).

2. Allocations of PCE Taxable Income. Subject to the provisions of Section VII.B(1) hereof, allocations of PCE taxable income shall be determined by reference to the manner in which an amount of cash equal to such taxable income would be distributed (without regard to any restriction on distributions described herein) if, immediately prior to such deemed distribution, the PCE had distributed all of its other assets (valued for this purpose at their tax book value) to Beneficiaries (treating to the extent determined by the Plan Administrator in his sole discretion, any holder of a Disputed Claim, for this purpose, as a current Beneficiary entitled to distributions), taking into account all prior and concurrent distributions from the PCE (including all distributions held in reserve pending the resolution of Disputed Claims). Similarly, taxable losses of the PCE will be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining PCE Assets. The tax book value of the PCE Assets for this purpose shall equal their fair market value on the Effective Date or, if later, the date such assets were acquired by the PCE, adjusted in either case in accordance with tax accounting principles prescribed by the IRC, the regulations and other applicable administrative and judicial authorities and pronouncements.

- C. **Other.** The Plan Administrator shall also file (or cause to be filed) any other statements, returns or disclosures relating to the PCE, that are required by any governmental unit.

SECTION VIII TRANSFER OF BENEFICIARY'S INTERESTS

- A. **Transfer of Beneficial Interests.** The interests of the Beneficiaries in the PCE, which are reflected only on the records of the PCE maintained by the Plan Administrator, are not negotiable and shall be transferable after written notice to the Plan Administrator only: (a) pursuant to applicable laws of descent and distribution (in the case of a deceased individual Beneficiary); or (b) by operation of law. The Plan Administrator shall not be required to record any transfer in favor of any transferee which, in the sole discretion of the Plan Administrator, is or might be construed to be ambiguous or to create uncertainty as to the holder of the interest in the PCE. Until a transfer is in fact recorded on the books and records maintained by the Plan Administrator for the purpose of identifying Beneficiaries, the Plan Administrator, whether or not in receipt of documents of transfer or other documents relating to the transfer, may nevertheless make distributions and send communications to Beneficiaries, as though it has no notice of any such transfer, and in so doing the Plan Administrator shall be fully protected and incur no liability to any purported transferee or any other Entity.

SECTION IX TERMINATION OF PCE

- A. **Termination of PCE.** The PCE will terminate no later than the fifth (5th) anniversary of the Effective Date; provided, however, on or prior to the date six (6) months prior to such termination, the Bankruptcy Court, upon motion by a party in interest, may extend the term of the PCE for a finite period if it is necessary to the liquidating purpose thereof. Multiple extensions can be obtained so long as Bankruptcy Court approval is obtained at least six (6) months prior to the expiration of each extended term; provided, however, that the Plan Administrator receives an opinion of counsel or a favorable ruling from the IRS that any further extension would not adversely affect the status of the trust as a grantor trust for federal income tax purposes. The Plan Administrator shall not unduly prolong the duration of the PCE and shall at all times endeavor to resolve, settle or otherwise dispose of all claims that constitute PCE Assets and to effect the distribution of the PCE Assets to the Beneficiaries in accordance with the terms hereof and terminate the PCE as soon as practicable. Prior to and upon termination of the PCE, the PCE Assets will be distributed to the Beneficiaries in accordance with their distribution rights under the Plan, subject to the provisions set forth herein. If any distributions of the PCE are not duly claimed such distributions will be disposed of in accordance with the Plan. Notwithstanding anything contained herein to the contrary, if the value of the PCE Assets is less than \$50,000 at any given time, the Plan Administrator may contribute such assets to the charity of his choosing.

SECTION X AMENDMENT AND WAIVER

- A. **Amendment; Waiver.** Any substantive provision of this Agreement may be amended or waived with the approval of the Bankruptcy Court; provided, however, that no change shall be made to this Agreement that would adversely affect the federal income tax status of the PCE as a “grantor trust” (in accordance with Section VII.B(1) hereof), if applicable. Technical amendments to this Agreement may be made as necessary, to clarify this Agreement or enable the PCE to effectuate the terms of this Agreement, with the consent of the Plan Administrator.

SECTION XI MISCELLANEOUS PROVISIONS

- A. **Intention of Parties to Establish Grantor Trust.** This Agreement is intended to create a grantor trust for United States federal income tax purposes and, to the extent provided by law, shall be governed and construed in all respects as a grantor trust.

- B. Preservation of Privilege.** In connection with the rights, claims, and causes of action that constitute the PCE Assets, any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the PCE shall vest in the PCE and its representatives, and the Liquidating Debtors and the Plan Administrator are authorized to take all necessary actions to effectuate the transfer of such privileges. For the avoidance of doubt, neither the Plan Administrator nor the PCE shall be treated as a successor for any purpose to the Liquidating Debtors or their estates.
- C. Cooperation.** The Liquidating Debtors shall provide the Plan Administrator with copies of such of their books and records as the Plan Administrator shall reasonably require for the purpose of performing his duties and exercising his powers hereunder.
- D. Laws as to Construction.** This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to rules governing the conflict of law.
- E. Severability.** If any provision of this Agreement or the application thereof to any person or circumstance shall be finally determined by a court of competent jurisdiction to be invalid or unenforceable to any extent, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and such provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.
- F. Notices.** Any notice or other communication hereunder shall be in writing and shall be deemed to have been sufficiently given, for all purposes, if deposited, postage prepaid, in a post office or letter box addressed to the person for whom such notice is intended at such address as set forth below or such other address as filed with the Bankruptcy Court:

If to the Debtors, the PCE, the Oversight Committee or the Plan Administrator:

[_____]

[_____]

[_____]

Attention: Plan Administrator

Telecopier: () _____

Telephonic Confirmation: () _____

With a copy to:

KIRKLAND & ELLIS
 200 East Randolph Drive
 Chicago, IL 60601

Attention: Jonathan P. Friedland
Telecopier: (312) 861-2200
Telephonic Confirmation: (312) 861-2000

-and-

PACHULSKI, STANG, ZIEHL, YOUNG & JONES PC
919 North Market St., 16th Floor
P.O. Box 8705
Wilmington, DE 19899-8705
Attention: David Carickhoff
Telecopier: (302) 652-4400
Telephonic Confirmation: (302) 652-4100

-and-

OVERSIGHT COMMITTEE

Attention: _____
Telecopier: _____
Telephonic Confirmation: _____

G. Notices if to a Beneficiary. Any notice or other communication hereunder shall be in writing and shall be deemed to have been sufficiently given, for all purposes, if deposited, postage prepaid, in a post office or letter box addressed to the person for whom such notice is intended to the name and address set forth on the Debtor's Schedules or such Beneficiary's proof of claim, such other notice filed with the Bankruptcy Court and the PCE or such other means reasonably calculated to apprise the Beneficiary.

H. Headings. The section headings contained in this PCE Agreement are solely for convenience of reference and shall not affect the meaning or interpretation of this Agreement or of any term or provision hereof.

IN WITNESS WHEREOF, the parties hereto have either executed and acknowledged this Agreement, or caused it to be executed and acknowledged on their behalf by their duly authorized officers all as of the date first above written.

HOMELIFE CORPORATION
DEBTOR AND DEBTOR IN POSSESSION

By: _____
Name: _____

Title: _____

FURNITURE HOLDING LLC
DEBTOR AND DEBTOR IN POSSESSION

By: _____

Name: _____

Title: _____

HLC 1 LLC
DEBTOR AND DEBTOR IN POSSESSION

By: _____

Name: _____

Title: _____

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