IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	:	**Chapter 11**
COLDWATER CREEK INC., *et al.*,[1]	:	**Case No. 14–10867 (BLS)**
Debtors.	:	**(Jointly Administered)**

THIRD AMENDED DISCLOSURE STATEMENT FOR THE THIRD AMENDED JOINT PLAN OF LIQUIDATION OF COLDWATER CREEK INC. AND ITS DEBTOR AFFILIATES PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE

THIS IS NOT A SOLICITATION OF ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL THIS DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT. THE INFORMATION IN THIS DISCLOSURE STATEMENT IS SUBJECT TO CHANGE. THIS DISCLOSURE STATEMENT IS NOT AN OFFER TO SELL ANY SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY ANY SECURITIES.

[1] The Debtors in these proceedings (including the last four digits of their respective taxpayer identification numbers) are: Coldwater Creek Inc. (9266), Coldwater Creek U.S. Inc. (8831), Aspenwood Advertising, Inc. (7427), Coldwater Creek The Spa Inc. (7592), CWC Rewards Inc. (5382), Coldwater Creek Merchandising & Logistics Inc. (3904) and Coldwater Creek Sourcing Inc. (8530). Debtor CWC Sourcing LLC has the following Idaho organizational identification number: W38677. The Debtors' corporate headquarters is located at One Coldwater Creek Drive, Sandpoint, Idaho 83864.

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ARTICLE I.
INTRODUCTION

Coldwater Creek Inc., on behalf of itself and its affiliated debtors and debtors in possession in the above-captioned cases, submits this amended disclosure statement (including all exhibits hereto and as may be amended, supplemented or otherwise modified from time to time, this "***Disclosure Statement***") pursuant to section 1125 of the Bankruptcy Code to Holders of Claims against the Debtors in connection with the solicitation of acceptances with respect to the *Third Amended Joint Plan of Liquidation of Coldwater Creek Inc. and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code* dated August 8, 2014.[2] A copy of the Plan is attached hereto as **Exhibit A** and is incorporated herein by reference. All amendments to the Plan and this Disclosure Statement were made with the requisite corporate authority of each of the Debtors.

This Disclosure Statement sets forth certain information regarding the Debtors' prepetition operations, their reasons for seeking protection under chapter 11, and significant events that have occurred during the Chapter 11 Cases. This Disclosure Statement also answers frequently asked questions regarding chapter 11 plans in general, and the Debtors' Plan in particular, and describes certain terms and provisions of the Plan, certain effects of Confirmation of the Plan, and certain risk factors associated with the Plan. In addition, this Disclosure Statement discusses the requirements for Confirmation of the Plan and alternatives to Confirmation and Consummation of the Plan. Finally, this Disclosure Statement describes the Substantive Consolidation Settlement approved by the Committee and its impact on expected creditor recoveries.

THE DEBTORS BELIEVE THAT THE PLAN WILL ENABLE THEM TO ACCOMPLISH THE OBJECTIVES OF AN ORDERLY LIQUIDATION THAT MAXIMIZES CREDITOR RECOVERIES AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS AND THE HOLDERS OF ALL CLAIMS. ACCORDINGLY, THE DEBTORS URGE HOLDERS OF CLAIMS TO VOTE TO ACCEPT THE PLAN.

THE PLAN REPRESENTS (I) A GLOBAL SETTLEMENT AMONG THE DEBTORS, THE COMMITTEE AND THE TERM LOAN LENDERS, AND (II) AN AGREEMENT APPROVED BY THE COMMITTEE AND THE DEBTORS WITH RESPECT TO THE MODIFIED SUBSTANTIVE CONSOLIDATION OF THE DEBTORS' ESTATES FOR THE PURPOSES OF VOTING AND DISTRIBUTIONS TO CREDITORS, AS SET FORTH IN MORE DETAIL IN ARTICLES VII.J. AND VIII BELOW.

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

AS SET FORTH IN MORE DETAIL IN THE LETTER ENCLOSED HEREWITH, THE COMMITTEE SUPPORTS CONFIRMATION OF THE PLAN AND STRONGLY RECOMMENDS THAT HOLDERS OF GENERAL UNSECURED CLAIMS, GUARANTEED CLAIMS, AND COLDWATER/ASPENWOOD CLAIMS VOTE TO ACCEPT THE PLAN.

ARTICLE II.
OVERVIEW OF THE PLAN

The Plan provides for the orderly and efficient liquidation of the Debtors' remaining assets and distribution to creditors with Allowed Claims. The Plan represents a global settlement among the Debtors, the Committee and the Term Loan Lenders with respect to certain disputes among the parties that were resolved pursuant to the Global Settlement Agreement described in Article VII.J below. The Plan also represents a settlement and compromise of certain inter-estate and intercreditor issues, including but not limited to whether the assets and liabilities of the Debtors should be substantively consolidated[3] for purposes of voting and distributions under the Plan, and the allocation of certain assets and liabilities among the Debtors in the absence of such substantive consolidation (the "**Substantive Consolidation Settlement**"). As set forth in more detail in Article VIII below, the Substantive Consolidation Settlement was approved by the Committee after significant legal and financial analysis and deliberation among the Committee's members, who represent a cross-section of the Debtors' larger unsecured creditor body, with the guidance of the Committee's Professional advisors. By providing for a modified substantive consolidation of the Debtors' Estates for the purposes of voting and Distributions under the Plan, the Substantive Consolidation Settlement efficiently resolves a number of complex inter-estate and intercreditor issues that could have otherwise resulted in substantial uncertainty and costly litigation, as well as diminished and delayed distributions to creditors under the Plan. Except as modified by the Substantive Consolidation Settlement with respect to incremental increases in the Allowed amount of Class 4 Guaranteed Claims and Class 5 Coldwater/Aspenwood Claims, Claims against the Debtors are treated under the Plan in accordance with the priorities established under the Bankruptcy Code.

After months of declining sales and exploring numerous failed out-of-court strategic alternatives, including asset sales and refinancing efforts, the Debtors concluded that they were unable to reorganize on a stand-alone basis and that the best way to maximize value for the benefit of all interested parties was a prompt and orderly wind-down of their business.

In order to liquidate their business as expeditiously as possible, upon the commencement of the Chapter 11 Cases, the Debtors sought authority to conduct "going out of business" sales to liquidate their inventory. Since that time, the Debtors, through nationally-recognized liquidators, have conducted GOB Sales that are ongoing, sold their intellectual property assets, spa business, and a portion of their leasehold interests, and are in the process of closing the sale of a portion of their corporate headquarters campus. The Plan provides for the liquidation and conversion of all of the Debtors' remaining assets to cash and the distribution of the net proceeds realized from the

[3] Substantive consolidation is an equitable remedy pursuant to which the estates of related debtors are combined and treated as a single estate. Creditors of each of the debtors are treated as creditors of the consolidated estate and receive distributions from the consolidated estate.

assets to creditors holding Allowed Claims in accordance with the relative priorities established in the Bankruptcy Code. The Plan contemplates the formation of a Liquidating Trust and appointment of a Liquidating Trustee upon the Effective Date to, among other things, resolve Disputed Claims, investigate and pursue any Claims and Causes of Action not otherwise released under the Plan (if appropriate), make distributions to Holders of Allowed Claims, and close the Chapter 11 Cases. The Plan constitutes a single chapter 11 plan for all of the Debtors and the classifications and treatment of Claims and Interests herein apply to all of the Debtors.

The table below summarizes the classification and treatment of Claims against and Interests in the Debtors and provides the estimated recoveries for each Class under the Plan.[4] For a complete description of Claims and Interests and their treatment, refer to the entire Plan.

Class	Claim/ Interest	Treatment	Estimated Recovery
Class 1	Priority Non-Tax Claims	Except to the extent that a Holder of an Allowed Priority Non Tax Claim agrees to a less favorable treatment, in exchange for settlement and satisfaction of each Allowed Priority Non Tax Claim, each Holder of such Allowed Priority Non Tax Claim shall be paid in full in Cash on or as soon as practicable after the Effective Date. Allowed Priority Non Tax Claims shall be paid as soon as reasonably practicable after the reconciliation of all Disputed Priority Non Tax Claims.	100%
Class 2	Other Secured Claims	Except to the extent that a Holder of an Allowed Other Secured Claim agrees to a less favorable treatment, in exchange for settlement and satisfaction of each Allowed Other Secured Claim, each Holder of such Allowed Other Secured Claim shall receive one of the following treatments, as determined by the Debtors, with the consent of the Committee: (i) payment in full in Cash on or as soon as practicable after the Effective Date, including the payment of any interest required to be paid under section 506(b) of the Bankruptcy Code; (ii) delivery of the collateral securing any such Allowed Other Secured Claim; or (iii) other treatment such that the Allowed Other Secured Claim shall be rendered Unimpaired.	100%

[4] As described in the Risk Factors below, the amount of creditor recoveries are not certain and may be materially higher or lower than described in this Disclosure Statement.

Class	Claim/ Interest	Treatment	Estimated Recovery
Class 3	General Unsecured Claims	Except to the extent that a Holder of an Allowed General Unsecured Claim agrees to a less favorable treatment, in exchange for settlement and satisfaction of each Allowed General Unsecured Claim, each Holder of an Allowed General Unsecured Claim shall receive its Pro Rata share (not to exceed the amount of such Allowed General Unsecured Claim) of the Liquidating Trust Interests issued on account of Liquidating Trust Assets on the Effective Date, representing the right of each Holder of an Allowed General Unsecured Claim to receive Cash Distributions from the Liquidating Trust.	10.5%
Class 4	Guaranteed Claims	Except to the extent that a Holder of an Allowed Guaranteed Claim agrees to a less favorable treatment, in exchange for settlement and satisfaction of each Allowed Guaranteed Claim, each Holder of an Allowed Guaranteed Claim shall receive its Pro Rata share (not to exceed the amount of such Allowed Guaranteed Claim) of the Liquidating Trust Interests issued on account of Liquidating Trust Assets on the Effective Date, representing the right of each Holder of an Allowed Guaranteed Claim to receive Cash Distributions from the Liquidating Trust; *provided*, that, solely for the purpose of Distributions under the Plan, each Allowed Guaranteed Claim shall be deemed to be increased by 65% of the Allowed amount of such Guaranteed Claim.	17.3%
Class 5	Coldwater/ Aspenwood Claims	Except to the extent that a Holder of an Allowed Coldwater/Aspenwood Claim agrees to a less favorable treatment, in exchange for settlement and satisfaction of each Allowed Coldwater/Aspenwood Claim, each Holder of an Allowed Coldwater/Aspenwood Claim shall receive its Pro Rata share (not to exceed the amount of such Allowed Coldwater/Aspenwood Claim) of the Liquidating Trust Interests issued on account of Liquidating Trust Assets on the Effective Date, representing the right of each	12.6%

Class	Claim/ Interest	Treatment	Estimated Recovery
		Holder of an Allowed Coldwater/Aspenwood Claim to receive Cash Distributions from the Liquidating Trust; *provided*, that, solely for the purpose of Distributions under the Plan, each Allowed Coldwater/Aspenwood Claim shall be deemed to be increased by 20% of the Allowed amount of such Coldwater/Aspenwood Claim.	
Class 6	Intercompany Claims	Holders of Intercompany Claims shall not receive any distribution on account of such Intercompany Claims. On the Effective Date, all Intercompany Claims shall be cancelled.	0%
Class 7	Intercompany Interests	Holders of Intercompany Interests shall not receive any distribution on account of such Intercompany Interests. On the Effective Date, Intercompany Interests shall be cancelled.	0%
Class 8	Interests in Coldwater	Holders of Interests in Coldwater shall not receive any distribution on account of such Interests. On the Effective Date, Intercompany Interests shall be cancelled.	0%

In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims (including Fee Claims), DIP Facility Claims, ABL Claims, Term Loan Claims and Priority Tax Claims have not been classified and, thus, are excluded from the Classes of Claims and Interests set forth in Article II of the Plan. The treatment of Administrative Claims (including Fee Claims), DIP Facility Claims, ABL Claims, Term Loan Claims and Priority Tax Claims is set forth below.

A. Administrative Claims

Except with respect to Administrative Claims that are Fee Claims and except to the extent that a holder of an Allowed Administrative Claim and the Debtors agree to less favorable treatment with respect to such Holder, each Holder of an Allowed Administrative Claim will be paid in full in Cash on or as soon as reasonably practicable after the Effective Date.

B. Fee Claims

Professionals asserting a Fee Claim for services rendered on or before the Effective Date must File and serve on the Debtors and such other Entities who are designated by the Bankruptcy Rules, the Confirmation Order, the Interim Compensation Order or any other applicable order of

the Bankruptcy Court, an application for final allowance of such Fee Claim no later than 40 days after the Effective Date; *provided*, *however*, that any Professional who may receive compensation or reimbursement of expenses pursuant to the Ordinary Course Professional Order may continue to receive such compensation or reimbursement of expenses for services rendered before the Effective Date, without further Bankruptcy Court order, pursuant to the Ordinary Course Professional Order. Objections to any Fee Claim must be Filed and served on the Liquidating Trustee and the requesting party no later than 60 days after the Effective Date. For the avoidance of doubt, the fees and expenses incurred by the professionals and advisors to the DIP Agent, the ABL Agent, the Term Loan Agent, and the Term Loan Lenders shall be paid pursuant to the terms of the DIP Order as modified by the Global Settlement Agreement, and such parties shall not be required to file an application for allowance of such fees and expenses.

C. DIP Facility Claims and ABL Claims

In order to fund an orderly-wind down, the Debtors obtained senior secured superpriority financing pursuant to the DIP Facility Credit Agreement. As of the date hereof, all DIP Facility Claims and ABL Claims have been satisfied. Accordingly, Holders of DIP Facility Claims and ABL Claims shall not receive any Distributions under the Plan.

D. Term Loan Claims

Pursuant to the Global Settlement Agreement described in Article VII.J, the Term Loan Claims were Allowed in the amount of $90,739,670.15 and paid in full in Cash on July 23, 2014. Holders of Term Loan Claims shall not receive any further Distribution under the Plan, other than for reasonable expenses and Professional fees to the extent set forth in the DIP Order as modified by the Global Settlement Agreement.

E. Priority Tax Claims

Except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, in settlement and satisfaction of each Allowed Priority Tax Claim, each holder of an Allowed Priority Tax Claim due and payable on or before the Effective Date will receive, on or as soon as reasonably practicable after the Effective Date, at the option of the Debtors, with the consent of the Committee, one of the following treatments: (1) Cash in an amount equal to the amount of such Allowed Priority Tax Claim, plus interest at the rate determined under applicable nonbankruptcy law and to the extent provided for by section 511 of the Bankruptcy Code or (2) such other treatment as may be agreed upon by such holder and the Debtors, with the consent of the Committee, or otherwise determined upon an order of the Bankruptcy Court.

ARTICLE III.
IMPORTANT INFORMATION ABOUT THIS DISCLOSURE STATEMENT

This Disclosure Statement provides information regarding the chapter 11 plan of liquidation that the Debtors are seeking to have confirmed by the Bankruptcy Court. **The Debtors believe that the Plan is in the best interests of all creditors and urge all Holders of Claims entitled to vote to vote in favor of the Plan.**

A. Defined Terms

1. "***A&M***" means Alvarez and Marsal North America, LLC, the Debtors' financial advisors.

2. "***Agency Agreement***" means that certain Agency Agreement between the Debtors and the Stalking Horse dated as of April 11, 2014.

3. "***Auction***" means the auction for the Debtors' inventory, FF&E and intellectual property that took place on May 1-2, 2014.

4. "***Bar Date Order***" means the *Order (I) Establishing Bar Dates for Filing Proofs of Prepetition Claims, Including Section 503(b)(9) Claims, and (II) Approving the Form and Manner of Notice Thereof* [Docket No. 349].

5. "***Bell Declaration***" means the *Declaration of James A. Bell in Support of Voluntary Petitions, First day Motions and Applications* [Docket No. 2], which was filed on the Petition Date.

6. "***Bid Protections***" means the break-up fee and an expense reimbursement provided to the Stalking Horse pursuant to the Bidding Procedures Order.

7. "***Bidding Procedures Order***" means the *Order (I)(A) Authorizing Entry into Agency Agreement, (B) Authorizing Bidding Protections, (C) Authorizing Bidding Procedures and Auction and (D) Scheduling Sale Hearing and Approving Notice Thereof and (II) Granting Related Relief* [Docket No. 266].

8. "***Challenge Period***" means the period of time expiring on July 25, 2014 (as set forth in paragraph 23 of the DIP Order) for the Committee to challenge, among other things, the amount, validity, allowability, priority, status, or amount of the Debtors' prepetition secured debt held by the ABL Lender or Term Loan Lenders, or the validity, extent, perfection or priority of the security interests and liens of the Term Loan Lenders and ABL Lender in and to the prepetition collateral, or otherwise assert any claims or Causes of Action on behalf of the Estates against the ABL Lender or Term Loan Lenders in connection with or related to such prepetition secured debt.

9. "***COD Income***" means cancellation of debt income.

10. "***FF&E***" means furniture, fixtures and equipment.

11. "***GOB Sales***" means the going out of business sales to liquidate the Debtors' inventory approved pursuant to the Store Closing Approval Order.

12. "***IRS***" means the United States Internal Revenue Service.

13. "***Plan***" and the "***Plan of Liquidation***" mean the *Third Amended Joint Plan of Liquidation of Coldwater Creek Inc. and its Debtor Affiliates Pursuant to Chapter 11 of the*

Bankruptcy Code, including the Plan Supplement (as modified, amended or supplemented from time to time), which is incorporated herein by reference.

14. "***Prepayment Premium***" means the prepayment premium described in section 2.05(c) of the Term Loan Credit Agreement in the amount of approximately $23 million dollars as of the Petition Date.

15. "***PWP***" mean Perella Weinberg Partners LP, the Debtors' investment bankers.

16. "***Regulations***" means the United States Treasury Regulations promulgated under the Tax Code.

17. "***SEC***" means the United States Securities and Exchange Commission.

18. "***Second Amended Disclosure Statement***" means the *Second Amended Disclosure Statement for the Second Amended Joint Plan of Liquidation of Coldwater Creek Inc. and Certain of its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code*, dated June 23, 2014 [Docket No. 608-2].

19. "***Second Amended Plan***" means the *Second Amended Joint Plan of Liquidation of Coldwater Creek Inc. and Certain of its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code*, dated June 23, 2014 [Docket No. 608-1].

20. "***Stalking Horse***" means the joint venture of Hilco Merchant Resources, LLC and Gordon Brothers Retail Partners, LLC.

21. "***Substantive Consolidation Settlement***" shall have the meaning ascribed to such term in Article II.

22. "***Tax Code***" means the Internal Revenue Code of 1986, as amended.

23. "***Topping Fee***" means the "Back-Up Topping Fee" (as defined in the Store Closing Approval Order) in the amount of $2.25 million to the Inventory Back-Up Bidder (as defined in the Store Closing Approval Order) in consideration for its participation in the Auction.

24. "***Topping Fee Dispute***" refers to the dispute between the Committee and the Term Loan Lenders as to whether the Topping Fee was to be paid (a) through a reduction in the amount of the Term Loan Claims or (b) if such reduction in the amount of the Term Loan Claims was to occur only to the extent that there were insufficient proceeds from the GOB Sales (or other asset sales) to pay the Term Loan Claims in full.

25. Unless the context requires otherwise, reference to "*we*," "*our*" and "*us*" are to the Debtors.

B. Details About this Disclosure Statement

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

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

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

In the event of any inconsistency between the Disclosure Statement and the Plan, the relevant provision of the Plan, as it relates to such inconsistency, shall govern.

Summaries of the Plan and statements made in this Disclosure Statement are qualified in their entirety by reference to the Plan, this Disclosure Statement and any Plan Supplement document. Summaries of the financial information and the documents annexed to this Disclosure Statement or otherwise incorporated herein by reference, are also qualified in their entirety by reference to those documents. The statements and financial information contained in this Disclosure Statement are made only as of the date of this Disclosure Statement and there is no assurance that the statements contained herein will be correct at any time after such date. Except as otherwise provided in the Plan or in accordance with applicable law, the Debtors are under no duty to update or supplement this Disclosure Statement.

The information contained in this Disclosure Statement is included for purposes of soliciting acceptances to, and confirmation of, the Plan and may not be relied on for any other purpose.

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

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

This Disclosure Statement contains certain forward-looking statements prepared by the Debtors, all of which are based on various estimates and assumptions. Such forward-looking statements are subject to inherent uncertainties and to a wide variety of significant business, economic, and competitive risks, including, among others, those summarized herein. *See* Article X — "Risk Factors." When used in this Disclosure Statement, the words "anticipate,"

"believe," "estimate," "will," "may," "intend," and "expect" and similar expressions generally identify forward-looking statements. Although the Debtors believe that the plans, intentions, and expectations reflected in the forward-looking statements are reasonable, they cannot be sure that they will be achieved. These statements are only predictions and are not guarantees of future performance or results. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated by a forward-looking statement. All forward-looking statements attributable to the Debtors or persons acting on their behalf are expressly qualified in their entirety by the cautionary statements set forth in this Disclosure Statement. Forward-looking statements speak only as of the date on which they are made. Except as required by law, the Debtors expressly disclaim any obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.

As to contested matters, adversary proceedings and other actions or threatened actions, this Disclosure Statement shall not constitute or be construed as an admission of any fact or liability, stipulation or waiver, but rather as a statement made in settlement negotiations pursuant to Rule 408 of the Federal Rules of Evidence and other applicable evidentiary rules. This Disclosure Statement shall not be admissible in any non-bankruptcy proceeding involving the Debtors or any other party, nor shall it be construed to be conclusive advice on the tax, securities or other legal effects of the Plan as to Holders of Claims against, or Interests in, Coldwater Creek Inc. or any of the other Debtors and debtors in possession in the Chapter 11 Cases.

To ensure compliance with Treasury Department Circular 230 each Holder is hereby notified that (a) any discussion of U.S. Federal Tax issues in this Disclosure Statement is not intended or written to be relied upon, and cannot be relied upon, by any Holder for the purpose of avoiding penalties that may be imposed on a Holder under the Tax Code, (b) such discussion is included hereby by the Debtors in connection with the promotion or marketing (within the meaning of Circular 230) by the Debtors of the transactions or matters addressed herein and (c) each Holder should seek advice based on its particular circumstances from an independent tax advisor.

ARTICLE IV.
QUESTIONS AND ANSWERS REGARDING THIS DISCLOSURE STATEMENT

A. What is chapter 11?

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. However, chapter 11 also allows a debtor to conduct an orderly liquidation while remaining in possession of its assets until they can be distributed to holders of claims. Chapter 11 promotes equality of treatment for creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

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

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

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

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

C. What is a Plan?

A chapter 11 plan is the roadmap that governs the final resolution of a chapter 11 case. The plan will provide for the distribution of assets to creditors in satisfaction of their claims and binds the debtor, any person acquiring property under the plan, any creditor or equity interest holder of a debtor and any other person or entity as may be ordered by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code.

D. What is the effect of the Plan on the Debtors' business postpetition?

The Debtors are liquidating pursuant to chapter 11. They retained a liquidator to conduct going out of business sales at each of their retail locations to dispose of their inventory and certain other assets. As of the date hereof, the GOB Sales are largely complete. Cash proceeds from these and other asset sales will be distributed to Entities holding Allowed Claims against the Debtors in accordance with the Plan. Upon completion of the liquidation, the Debtors will cease operations.

E. Am I entitled to vote on the Plan? What will I receive from the Debtors if the Plan is consummated?

Your ability to vote on, and your distribution under, the Plan, if any, depends on what type of Claim you hold. A summary of the classes of Claims (each category of Holders of Claims or Interests, as set forth in Article III of the Plan pursuant to section 1122(a) of the Bankruptcy Code, is referred to as a "**Class**") and their respective voting statuses is set forth below.

The following chart is a summary of the classification and treatment of Claims and Interests under the Plan. Your ability to receive distributions under the Plan depends upon the ability of the Debtors to obtain confirmation of the Plan and meet the conditions to consummate the Plan.

Class	Claim/Interest	Status	Voting Rights
Voting for Holders of Claims and Interests in the Debtors			
Class 1	Priority Non-Tax Claims	Unimpaired	Deemed to Accept
Class 2	Other Secured Claims	Unimpaired	Deemed to Accept
Class 3	General Unsecured Claims	Impaired	Entitled to Vote
Class 4	Guaranteed Claims	Impaired	Entitled to Vote
Class 5	Coldwater/Aspenwood Claims	Impaired	Entitled to Vote
Class 6	Intercompany Claims	Impaired	Deemed to Accept
Class 7	Intercompany Interests	Impaired	Deemed to Accept
Class 8	Interests in Coldwater	Impaired	Deemed to Reject

F. What is my estimated recovery under the Plan?

As of the date hereof, the Debtors expect that Holders of Claims in Classes 1 and 2 will be fully satisfied pursuant to the Plan, while Holders of Intercompany Claims in Class 6, Intercompany Interests in Class 7 and Interests in Coldwater in Class 8 will receive no recovery under the Plan.

The Debtors currently estimate that Holders of Allowed General Unsecured Claims in Class 3 will receive recoveries of approximately 10.5% of the amount of their Claims, Holders of Allowed Guaranteed Claims in Class 4 will receive recoveries of approximately 17.3% of the amount of their Claims, and Holders of Allowed Coldwater/Aspenwood Claims in Class 5 will receive recoveries of approximately 12.6% of the amount of their Claims. However, as described in the Risk Factors below, the amount of creditor recoveries are not certain and may be materially higher or lower than described in this Disclosure Statement because, among other things, administrative expenses may be higher than expected and the value the Debtors or the Liquidating Trustee are able to obtain for unliquidated assets may be higher or lower than expected. A recovery analysis prepared by the Debtors' financial advisors setting forth the assets available for distribution to each Class of creditors, the estimated Claims associated with each Class, and the estimated recovery rates for each Class is attached hereto as Exhibit B (Substantive Consolidation Settlement).

G. How is my estimated recovery under the Plan affected by the Substantive Consolidation Settlement?

As noted above, the Substantive Consolidation Settlement provides for the modified substantive consolidation of the Debtors' Estates for the purposes of voting and Distributions under the Plan. In connection with the modified substantive consolidation of the Debtors' Estates, the Substantive Consolidation Settlement provides for incremental increases in the Allowed amount of each Class 4 Guaranteed Claim (a 65% increase) and Class 5 Coldwater/Aspenwood Claim (a 20% increase). A recovery analysis setting forth the estimated recovery percentages for creditors if the Debtors' Estates were substantively consolidated without giving effect to the Substantive Consolidation Settlement is attached hereto as Exhibit C (Unmodified Substantive Consolidation).

An alternative recovery analysis setting forth the assets that would be available for distribution to each Class of creditors, the estimated Claims associated with each Class, and the estimated recovery rates for each Class in the absence of the Substantive Consolidation Settlement is attached hereto as Exhibit D (Stand-Alone Entity Basis). As indicated in Exhibit D, in the absence of the Substantive Consolidation Settlement (*i.e.*, under a deconsolidated plan), based on the Debtors' analysis, holders of Allowed general unsecured claims against each Debtor would receive the following estimated recoveries:[5]

Debtor	Estimated Recovery
Coldwater Creek Inc.	12.4%
Coldwater Creek U.S. Inc.	11.2%
Aspenwood Advertising, Inc.	27.0%
Coldwater Creek The Spa Inc.	16.6%
CWC Rewards Inc.	3.6%
Coldwater Creek Merchandising & Logistics Inc.	2.0%
Coldwater Creek Sourcing Inc.	0.0%
CWC Sourcing LLC	0.0%

It should be noted that under a deconsolidated plan, Holders of Guaranteed Claims may be entitled to distributions from multiple Debtors, which would likely result in increased recoveries for the Holders of such Claims. It should further be noted that the alternative recovery analyses set forth in Exhibit C and Exhibit D do not take into account potential litigation relating to (1) the allocation of certain assets and liabilities among the Debtors, (2) the validity of the Intercompany Claims between the Debtors, or (3) fraudulent transfer or preference claims between the Debtors' Estates, each of which, in the absence of the Substantive Consolidation Settlement, could have significantly altered the ultimate recovery rates for each Class of creditors.

For the reasons set forth in Article VIII below, the Committee believes that the Substantive Consolidation Settlement is reasonable, fair and equitable, and in the best interests of the Debtors' Estates and creditors.

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

In the event that the Plan is not confirmed or does not go effective, substantial delays in distributions to creditors could occur. It is possible that any alternative may provide Holders of Claims with less of a recovery on their Claims than they would have received pursuant to the Plan.

[5] In the event that the Bankruptcy Court does not approve the Substantive Consolidation Settlement, the Committee reserves its rights to dispute the methodology utilized by the Debtors in arriving at the deconsolidation analysis set forth in Exhibit D.

I. What assets do the Debtors have?

As of the Petition Date, the Debtors' principal assets were their retail inventory, FF&E, intellectual property assets, real estate, spa business, leasehold interests and cash in the amount of $232,000. As of August 6, 2014, the Debtors' book balance of Cash was $15,127,385.76 and they have liquidated the vast majority of these assets. Remaining unliquidated assets include, among other things, (1) certain Causes of Action, (2) the Debtors' wine bar business and related lease, (3) a portion of their Sandpoint, Idaho corporate headquarters campus, (4) the lease for the Debtors' Coeur D'Alene, Idaho call center campus and (5) 2.5 million pounds of catalog paper. As of the Effective Date, all assets that remain unliquidated, including Causes of Action, will be transferred to the Liquidating Trust, reduced to cash and distributed to creditors in accordance with the terms of the Plan and Liquidating Trust Agreement.

J. Do the Debtors have any NOL's?

The Debtors have federal and state NOL's totaling approximately $445 million, representing net aggregate operating losses and carryforwards. The Debtors have used these NOL's to the maximum extent permitted by law, but no longer have the ability to monetize NOL's as they are liquidating their operations and not selling the business as a going concern.

K. What is the Liquidating Trust?

The Liquidating Trust is the trust established pursuant to the Plan, after payment in full in Cash of Administrative Claims, Priority Tax Claims, Priority Non-Tax Claims and Other Secured Claims that are Allowed as of the Effective Date, to collect and hold the Debtors' assets, reduce them to Cash and distribute the proceeds to creditors. The Liquidating Trust will be the successor to the Debtors' estates from and after the Effective Date and, acting through the Liquidating Trustee, will (1) wind down the Debtors' affairs, (2) investigate and, if appropriate, pursue Claims and Causes of Action not otherwise released under the Plan, (3) administer and pursue the Liquidating Trust Assets, (4) resolve all Disputed Claims, (5) make all Distributions from the Liquidating Trust and (6) file appropriate tax returns, among other duties and responsibilities each as provided for in the Liquidating Trust Agreement.

L. What is the role of the Liquidating Trustee?

The Liquidating Trustee will be selected by the Committee and identified in the Plan Supplement. The Liquidating Trustee shall administer the Plan and the Liquidating Trust and shall serve as a representative of the Debtors' estates after the Effective Date.

M. If the Plan provides that I get a distribution, do I get it upon Confirmation or when the Plan goes effective, and what do you mean when you refer to "Confirmation," "Effective Date" and "Consummation?"

"Confirmation" of the Plan refers to approval of the Plan by the Bankruptcy Court. Confirmation of the Plan does not guarantee that you will receive the distribution indicated under the Plan. After Confirmation of the Plan by the Bankruptcy Court, there are conditions that need to be satisfied or waived so that the Plan can be consummated and go effective. The date on which such conditions are satisfied or waived is referred to as the "Effective Date." *See* Article

IX of the Plan, "Conditions Precedent to Confirmation and Consummation of the Plan," for a discussion of the conditions to consummation of the Plan. Distributions will only be made after the Plan is effective and in accordance with the provisions of the Plan governing the allowance, timing and amount of any Distributions. *See* Article VI of the Plan, "Provisions Governing Distributions," and Article VII of the Plan, "Procedures for Resolving Contingent, Unliquidated and Disputed Claims."

N. Is there potential litigation related to the Plan?

Yes. In the event it becomes necessary to confirm the Plan over the objection of certain Classes, the Debtors may seek confirmation of the Plan notwithstanding the dissent of such objecting Classes. The Bankruptcy Court may confirm the Plan pursuant to the "cramdown" provisions of the Bankruptcy Code, which allow the Bankruptcy Court to confirm a plan that has been rejected by an Impaired Class, as long as one Impaired Class of Claims accepts the Plan (determined without including any acceptance by any insider) and the Bankruptcy Court determines that the Plan satisfies section 1129(b) of the Bankruptcy Code. The Debtors believe that they will be able to satisfy this standard. *See* "Risk Factors — The Debtors may not be able to obtain Confirmation of the Plan."

Additionally, it is possible that individual creditors or other parties-in-interest may object to Confirmation of the Plan. The Debtors believe the Plan will satisfy the confirmation requirements set forth in the Bankruptcy Code and will so demonstrate at the Confirmation Hearing.

O. Is there any litigation pending against the Debtors?

Prior to the Petition Date, in the ordinary course of its business, the Debtors were from time to time, the subject of complaints or litigation from customers alleging product defects or injury from spa services and from suppliers alleging breach of contract. The Debtors may also be subject to employee claims based on, among other things, workplace and employment matters, discrimination, harassment or wrongful termination. The Debtors do not expect any of the Claims associated with the above-described litigation to significantly impact creditor recoveries.

P. Will the Liquidating Trust be authorized to pursue claims and causes of action held by the Debtors' Estates after the Effective Date of the Plan?

Yes. Article VIII.I. of the Plan provides that except with respect to the exculpation in **Error! Reference source not found.** of the Plan and the releases in **Error! Reference source not found.** of the Plan, nothing contained in the Plan shall be deemed to be a waiver or relinquishment of any Causes of Action that the Debtors or the Liquidating Trust, as applicable, may have or may choose to assert against any Person.

In accordance with section 1123(b) of the Bankruptcy Code, and except where such Causes of Action have been expressly released in the Plan or the Global Settlement Agreement, the Liquidating Trustee shall retain and may enforce all rights to commence and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in any supplemental documents, and the Liquidating Trustee's rights to commence, prosecute, or settle such Causes of Action shall be

preserved notwithstanding the occurrence of the Effective Date. The Liquidating Trustee may pursue such Causes of Action, as appropriate, in accordance with the best interests of the Liquidating Trust Beneficiaries. No Entity may rely on the absence of a specific reference in the Plan or the Disclosure Statement to any Cause of Action against them as any indication that the Debtors or the Liquidating Trustee, as applicable, will not pursue any and all available Causes of Action against them. Except with respect to Causes of Action as to which the Debtors have released any Entity on or prior to the Effective Date in accordance with a Final Order of the Bankruptcy Court, the Debtors or the Liquidating Trustee, as applicable, expressly reserve all rights to prosecute any and all Causes of Action against any Entity. Unless any Causes of Action against an Entity is expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan, Global Settlement Agreement or a Bankruptcy Court order, the Liquidating Trustee expressly reserves all Causes of Action, for later adjudication, and, therefore, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppels (judicial, equitable or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation of the Plan.

Without limiting the foregoing, and except where such Causes of Action have been expressly released in the Plan or the Global Settlement Agreement, the Liquidating Trustee may pursue (1) all Avoidance Actions including, without limitation, claims for the recovery of preferential transfers pursuant to sections 547 and 550 of the Bankruptcy Code, (2) actions to collect accounts receivable and any other amounts due to the Debtors' Estates, (3) tax refunds or other claims held by the Debtors' Estates and (4) potential recoveries in connection with the Payment Card Interchange Fee and Merchant Discount Antitrust Litigation, Case Number 05-MD-1720 (JG) (JO), pending in the United States District Court for the Eastern District of New York, in each case whether or not such payment, transfer, action or claim is specified in the Debtors' Schedules.

Q. How will executory contracts be treated under the Plan?

On the Effective Date, except as otherwise provided herein, or in any contract, instrument, release, indenture or other agreement or document entered into in connection with the Plan, Executory Contracts and Unexpired Leases shall be deemed rejected as of the Effective Date, unless such Executory Contract or Unexpired Lease: (1) was assumed, assumed and assigned or rejected previously by the Debtors; (2) previously expired or terminated pursuant to its own terms; (2) is the subject of a motion to assume or assume and assign Filed on or before the Confirmation Date; or (4) is identified as an Executory Contract or Unexpired Lease on the Assumed Executory Contracts and Unexpired Lease List included in the Plan Supplement.

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

The deadline to vote on the Plan is **September 10, 2014 at 4:00 p.m.** (prevailing Eastern Time).

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

Detailed instructions regarding how to vote on the Plan are contained in the solicitation packets distributed to Holders of Claims that are entitled to vote on the Plan. You should have

received this Disclosure Statement as part of a solicitation package. If you do not have your ballot, contact the Notice, Claims and Balloting Agent at Coldwater Creek Ballot Processing, c/o Prime Clerk LLC, 830 Third Avenue, 9th Floor, New York, New York 10022, Telephone: (855) 360-2999, Email: coldwaterballots@primeclerk.com.

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

Yes. The Debtors have concluded that they are unable to reorganize on a stand-alone basis and that the best way to maximize value for the benefit of all interested parties is a prompt and orderly wind down of their business pursuant to the Plan. In the opinion of the Debtors and the Committee, proceeding with confirmation of the Plan is preferable to any other alternative. The Plan provides for larger distribution to the Holders of Claims than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. It is the Debtors' and the Committee's view that failure to confirm the Plan at this time would likely result in extensive delays in the Debtors' wind-down process, which will increase both administrative expenses and the length of time that will pass before Holders of Claims receive their recoveries. Administrative Claims against the Debtors continue to accrue during the pendency of the Chapter 11 Cases. In addition, the Debtors and the Committee continue to incur legal fees and to pay their financial advisors out of the Estates as long as the Chapter 11 Cases continue. Therefore, any delay in the progress of the Chapter 11 Cases will result in dissipation of the assets available for Distributions and, ultimately, reduced recoveries for Holders of General Unsecured Claims, Guaranteed Claims, and Coldwater/Aspenwood Claims.

U. Does the Committee recommend voting in favor of the Plan?

Yes. The Committee fully supports the Plan and strongly recommends that all Holders of Claims in Class 3, Class 4 and Class 5 (the voting Classes) vote to accept the Plan and **not to check the box on the ballot opting out of the releases in the Plan.**

V. Why is the Bankruptcy Court holding a Confirmation Hearing and what is it?

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a hearing on confirmation of the Plan. The confirmation hearing is a time when parties-in-interest can be heard and the Bankruptcy Court can consider whether the Plan meets the requirements of section 1129 of the Bankruptcy Code and the approval of the plan is warranted. The Bankruptcy Court also will consider any objections to the Plan that may have been filed at the confirmation hearing. Any creditor may object to confirmation of the Plan.

W. When is the Confirmation Hearing set to occur?

The Bankruptcy Court has scheduled the Confirmation Hearing for **September 17, 2014** at **11:30 a.m. (prevailing Eastern time).** The Confirmation Hearing may be adjourned from time to time without further notice.

Objections to confirmation of the Plan must be filed and served on the Debtors and certain other parties, by no later than **September 10, 2014 at 4:00 p.m.** (prevailing Eastern Time) in accordance with the notice of the Confirmation Hearing that accompanies this Disclosure Statement.

The Debtors will publish the notice of the Confirmation Hearing, which will contain the deadline for objections to the Plan and the date and time of the Confirmation Hearing, in the national edition of *USA Today* and the *Spokesman Review* to provide notification to those persons who may not receive notice by mail.

X. How can I object to confirmation of the Plan?

Any creditor may object to confirmation of the Plan. Objections to confirmation of the Plan must: (i) be in writing; (ii) state the name and address of the objecting party; (iii) state the amount and nature of the Claim or Interest of such party; (iv) state with particularity the basis and nature of any *objection* to the Plan and, if practicable, proposed modification to the Plan that would resolve such objection; and (v) be filed, together with proof of service, with the Bankruptcy Court and served on the following parties **no later than 4:00 p.m. (prevailing Eastern Time), on September 10, 2014**: (i) Coldwater Creek Inc., One Coldwater Creek Drive, Sandpoint, Idaho 83864, Attn: John E. Hayes III; (ii) counsel to the Debtors, Young Conaway Stargatt & Taylor, LLP, 1000 North King Street, Wilmington, Delaware 19801, Attn: Pauline K. Morgan and Kenneth J. Enos; and Shearman & Sterling LLP, 599 Lexington Avenue, New York, New York 10022, Attn: Douglas P. Bartner and Jill Frizzley; (iii) counsel to the Term Loan Lenders, Kirkland & Ellis LLP, 601 Lexington Avenue, New York, New York 10022 and Klehr Harrison Harvey Branzburg LLP, 919 N. Market Street, Wilmington, Delaware 19801; (iv) counsel to the Committee, Lowenstein Sandler LLP, 1251 Avenue of the Americas, New York, New York 10020, Attn: Norman N. Kinel and Bruce S. Nathan; and (v) the Office of the United States Trustee, J. Caleb Boggs Federal Bldg., 844 North King Street, Room 2207, Lockbox 35, Wilmington, Delaware 19801, Attn: Benjamin Hackman. Objections to confirmation of the Plan not timely filed and served in the manner set forth above may not be considered by the Court and may be overruled.

ARTICLE V.
THE DEBTORS' CORPORATE HISTORY, STRUCTURE AND BUSINESS OVERVIEW

The Debtors operated as a multi-channel retailer that offered merchandise through retail stores across the country, their catalog and e-commerce website, www.coldwatercreek.com. Originally founded in Sandpoint, Idaho in 1984 as a direct, catalog-based marketer, Coldwater evolved into a multi-channel specialty retailer operating 334 premium retail stores, 31 factory outlet stores and seven day spa locations throughout the United States. In their fiscal year 2013, the Debtors generated total revenues of approximately $742 million. Further information regarding the Debtors' business, corporate history, organizational structure and prepetition capital structure may be found in the Bell Declaration [Docket No. 2] and in the Debtors' recent SEC filings, which can be found on the Investors Relations section of their website.

ARTICLE VI.
EVENTS LEADING TO THE CHAPTER 11 FILINGS

The Debtors reached a peak of revenue of $1.1 billion and operating margin of approximately 8% in 2006, with a successful period of store growth from 198 stores in 2005 to 336 stores in 2007. Beginning in 2007, the economic downturn adversely affected the entire

retail industry, including the Debtors, and from 2007 to 2011, the Debtors experienced multiple management changes and strategic shifts that, when combined with the Debtors' unmet sales expectations, led to significant inventory buildup.

From 2011 through 2013, the Debtors attempted a targeted turnaround process, which focused on the following: (a) incorporating cross-channel discipline into product and creative functions; (b) establishing the foundation of product assortment architecture; (c) acquiring retail-centric talent; (d) developing and implementing a real estate optimization program; (e) positioning the brand strategy to ensure focus on the target customer; and (f) re-engineering and product development functions.

In the middle of 2013, the Debtors engaged PWP to launch a sale process for their entire business. PWP engaged with several potentially interested parties, but Coldwater Creek Inc.'s board of directors ultimately ended the sale process when interest did not surface from an appropriate potential buyer. Coincident with the conclusion of the sale process, the Debtors' business performance started to deteriorate further. Late in 2013, the Debtors became concerned that if they were unable to successfully mitigate significantly accelerating negative sales trends, they may not be able to continue to service their debts and operate their business without implementing a financial restructuring and gaining short-term liquidity. The Debtors' poor performance continued throughout the holiday season despite significant cost-cutting efforts.

At this juncture, the Debtors expanded PWP's mandate to conduct a broad review of strategic alternatives, including, among others, a potential sale of all or part of the Debtors' business, raising additional capital through an equity raise or a potential refinancing of the Debtors' existing capital structure to provide additional liquidity to fund the ongoing strategic turnaround. The outcome of this broad strategic review was that there were no interested buyers, but there were several refinancing options available to the Debtors. Ultimately, however, the proceeds available under the proposals to refinance the Term Loan Credit Agreement were not sufficient to gain the Term Loan Agent's support and the Debtors' terminated the refinancing process.

Since the termination of the refinancing process, the Debtors, with the assistance of their advisors, developed and had begun executing a significantly refined business plan in an effort to return the business to profitability over time. However, despite their significant turnaround efforts, the Debtors have concluded that they are unable to reorganize on a stand-alone basis. After months of declining sales and failed out-of-court sales and refinancing processes, the Debtors determined that the best way to maximize value for the benefit of all interested parties was a prompt and orderly wind down of their business. The conclusion to liquidate was reached following a lengthy process in which the Debtors considered and explored all reasonable strategic alternatives with their advisors.

Upon concluding that an orderly liquidation of the Debtors' assets was the only viable alternative, the Debtors engaged with their Term Loan Lenders and ABL Lender to negotiate the terms of the wind-down and a chapter 11 plan of liquidation. After extensive good faith negotiations, the Debtors reached agreement with the Term Loan Lenders and ABL Lender and, prior to the Petition Date, executed a Plan Support Agreement. The Plan Support Agreement provided that the Term Loan Lenders and ABL Lender would support the Debtors' chapter 11

plan in exchange for, among other things, the Debtors' seeking approval of the GOB Sales and adhering to certain milestones related to confirmation of the plan of liquidation filed on the Petition Date. At the time the Plan Support Agreement was entered into, the Debtors and the Term Loan Lenders believed that the Debtors had insufficient assets to satisfy the Term Loan Lenders' Claims. The Plan Support Agreement was an important component of the Debtors' planning for the Chapter 11 Cases because it indicated the Term Loan Lenders' willingness to fund the administrative costs of the Chapter 11 Cases out of the proceeds of their collateral.

In connection with planning the overall strategy and direction for the Chapter 11 Cases, prior to the Petition Date, the Debtors, in consultation with their Term Loan Lenders, sought proposals from nationally-recognized liquidators to conduct GOB Sales and liquidate the Debtors' inventory and certain other assets.[6] The result of that process was the Debtors' selection of the joint venture comprising of Hilco Merchant Resources, LLC and Gordon Brothers Retail Partners, LLC's to act as a stalking horse for the Debtors' post-petition sale and auction process.

Prior to the Petition Date, the Debtors and the Stalking Horse entered in to the Agency Agreement, pursuant to which the Stalking Horse would serve as the Debtors' exclusive agent to sell the Debtors' retail inventory and dispose of any owned FF&E in the Debtors' retail locations, distribution center, call center and corporate offices. The Stalking Horse guaranteed the Debtors' receipt of 97% of the cost of the inventory, with any proceeds in excess of this guaranteed amount to be shared 50/50 between the Debtors and the Stalking Horse (after payment of the Stalking Horse's agency fee). The Agency Agreement was subject to higher and better offers resulting from an auction, which would take place after commencement of the Chapter 11 Cases. The Agency Agreement, therefore, also provided that the Debtors would pay the Stalking Horse Bid Protections if the Stalking Horse was not the successful bidder at the Auction.

ARTICLE VII.
RELIEF GRANTED DURING THE CHAPTER 11 CASES

A. Commencement of the Debtors' Chapter 11 Cases and First Day Pleadings and Certain Related Relief.

On the Petition Date, the Debtors filed a number of motions seeking administrative relief and authorization to pay various prepetition Claims, as set forth in the Bell Declaration. The Bankruptcy Court entered orders approving these motions, which eased the administrative burden of these cases and strain on the Debtors' relationships with employees and customers following the commencement of the Chapter 11 Cases. A list of the orders granting the first day relief is set forth below.

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[6] Additional details regarding the process of soliciting bids from and pursuing retention of a nationally-recognized liquidator are described in detail in the *Declaration of Scott Brubaker in Support of the Debtors' Motion for Orders (I)(A) Authorizing Entry into Agency Agreement, (B) Authorizing Bidding Protections, (C) Authorizing Bidding Procedures and Auction and (D) Scheduling Sale Hearing and Approving Notice Thereof, (II) Authorizing (A) Sale of Assets and (B) Store Closing Sales and (III) Granting Related Relief* [Docket 13].

1. Administrative and Operational First Day Orders

- *Order Authorizing Joint Administration of Related Chapter 11 Cases* [Docket No. 73]

- *Order Authorizing the Payment of Prepetition Sales, Use and Other Taxes and Government Charges* [Docket No. 77]

- *Interim and Final Orders Authorizing the Debtors to Maintain Insurance Policies and Pay all Prepetition and Postpetition Obligations in Respect Thereof* [Docket Nos. 75 and 334]

- *Interim and Final Orders (I) Prohibiting Utility Companies from Discontinuing, Altering, or Refusing Service, (II) Deeming Utility Companies to Have Adequate Assurance of Payment, and (III) Establishing Procedures for Resolving Requests for Additional Assurance* [Docket Nos. 83 and 335]

- *Order Authorizing the Payment of Certain Prepetition Shipping Claims* [Docket No. 78]

- *Order Authorizing the Appointment of Prime Clerk LLC as Claims and Noticing Agent* [Docket No. 76]

2. Employee and Customer First Day Orders

- *Order (Bridge) Authorizing the Debtors to Honor Their Refund Programs on a Limited Basis, and Receive, Process and Honor Credit Card Transactions* [Docket No. 37]

- *Order Authorizing the Debtors to (I) Honor Certain Prepetition Obligations to Customers, (II) Continue Customer Programs in the Ordinary Course of Business and (III) Receive, Process and Honor Credit Card Transactions* [Docket No. 79]

- *Order Authorizing Debtors to: (I) Pay Prepetition Employee and Independent Contractor Wages, Salaries, and Other Compensation, (II) Reimburse Prepetition Employee Business Expenses, (III) Contribute to Prepetition on Employee Benefit Programs and Continue Such Programs in the Ordinary Course, (IV) Make Payments for which Prepetition on Payroll Deductions were made, (V) Pay Workers' Compensation Obligations and (VI) Pay all Costs and Expenses Incident to the Foregoing* [Docket No. 82]

- *Order Authorizing Debtors to Reimburse Prepetition Employee Business Expenses and Pay All Costs and Expenses Incident Thereto* [Docket No. 327]

3. Cash and Financing First Day Orders

- *Interim and Final Orders Authorizing the Debtors to (I) Maintain Existing Bank Accounts, (II) Continue Use of Existing Cash Management System, (III) Continue Use of Existing Business Forms and (IV) Continue Ordinary Course Intercompany Transactions* [Docket Nos. 80 and 336]

- *Interim Order (I) Authorizing the Debtors to Obtain Postpetition Financing and to Use Cash Collateral, (II) Granting Adequate Protection to Prepetition Secured Lenders, (III) Scheduling a Final Hearing, and (IV) Granting Related Relief* [Docket No. 74]

B. Official Committee of Unsecured Creditors

On April 23, 2014, the U.S. Trustee for the District of Delaware appointed the Committee, which is composed of the following parties: The Apparel Group Ltd, Charter Ventures Limited, Chinamine Trading LTD, GGP Limited Partnership, Orient Craft, Ltd., Quad/Graphics, Inc. and Simon Property Group. The Committee selected, and by Order of the Bankruptcy Court retained, (1) Lowenstein Sandler LLP as its counsel, (2) Cozen & O'Connor as its local counsel and (3) GlassRatner Advisory and Capital Group, LLC as its financial advisors.

C. Sale Motions and Store Closing Sales

As discussed above, the Debtors believe that the best way to maximize value for their estates is to liquidate in a considered and orderly manner as expeditiously as possible. To help achieve this goal, on the Petition Date, the Debtors filed a motion seeking authority to, among other things, set a bidding process for soliciting bids in excess of the Stalking Horse bid and conducting an auction for the sale of the asset classes of inventory, FF&E and intellectual property.

On April 29, 2014, the Bankruptcy Court entered the Bidding Procedures Order approving bidding procedures and scheduling an auction for the Debtors' inventory, FF&E and other asset classes. Among other things, the bidding procedures included individualized initial and subsequent overbids applicable to different classes of the Debtors' assets to promote ease of bidding and allowing the Debtors to combine bids on the various classes of assets in an effort to maximize the total potential value of their assets.

The Debtors held the Auction in accordance with the Bidding Procedures Order on May 1-2, 2014. The Stalking Horse, an additional bidder for the inventory and FF&E and five qualified bidders for the Debtors' intellectual property participated in the Auction. After consultation with the Term Loan Lenders, the ABL Lender and the Committee, the Debtors determined that creditor recoveries would be maximized if the Debtors requested additional bids

for combined asset classes. The Debtors conducted several rounds – and many hours – of spirited bidding at the Auction and ultimately, the Stalking Horse prevailed as the winning bidder with a combined bid for inventory, FF&E and intellectual property assets.

On May 6, 2014, the Bankruptcy Court entered the Store Closing Approval Order authorizing, among other things, the Debtors' entry into that certain Amended and Restated Agency Agreement with the Agent pursuant to which the Agent will (i) conduct GOB Sales and (ii) purchase the combined asset classes and for an aggregate purchase price of $161 million, inclusive of the intellectual property asset class for $27 million. As of the date hereof, the GOB Sales are ongoing at approximately 100 remaining store locations and are scheduled to conclude no later than August 31, 2014.

D. Spa Sale

The Bidding Procedures Order also authorized procedures for a sale and auction of the Debtors' spa business. After receiving three qualified bids, the Debtors conducted an auction for their spa assets in accordance with the Bidding Procedures Order on May 20, 2014. After several rounds of bidding, ASJ Consulting, LLC, in partnership with Me Bath, an established skincare and spa product provider that has been a vendor to the Debtors' spas for the past two years, was declared the successful bidder. The winning bid included a cash price of $1,050,000 plus additional consideration for certain inventory at the spa locations.

On May 22, 2014, the Court entered the *Order (I) Authorizing Entry into Asset Purchase Agreement, (II) Authorizing Sale of Assets and (III) Granting Related Relief* [Docket No. 439] authorizing the Debtors to sell assets related to their spa business to ASJ Consulting, LLC pursuant to the Asset Purchase Agreement dated May 20, 2014 between Debtor Coldwater Creek The Spa Inc. and ASJ Consulting, LLC.

The spa sale was subject to, among other things, the successful assumption and assignment of the leases for the seven spa locations. Accordingly, on May 22, 2014, the Debtors filed the *Debtors' Motion for an Order (I) Authorizing the Debtors to Assume and Assign Certain Unexpired Leases of Nonresidential Real Property and Executory Contract, (II) Fixing Cure Amounts with Respect Thereto and (III) Granting Certain Related Relief* [Docket No. 443]. This motion was heard by the Bankruptcy Court on June 12, 2014 and an order approving the assumption and assignment of the spa leases and setting cure amounts with respect thereto was entered on the same date [Docket No. 571]. The sale of the spa assets closed on July 1, 2014.

E. Headquarters Assumption and Sale Motion

On May 19, 2014, the Bankruptcy Court entered an Order to *(I) Assume the Purchase and Sale Agreement with respect to Real Property Located in Kootenai, Idaho, (II) Perform Settlement Conditions Pursuant to the Purchase and Sale Agreement and (III) Sell Real Property Free and Clear of Liens, Claims and Encumbrances* [Docket No. 415] approving the sale of a portion of the Debtors' corporate headquarters to Kootenai Campus, LLC, a company managed by a number of the principals of Litehouse Foods, for $2.6 million pursuant to that certain Purchase and Sale Agreement dated as of April 9, 2014. This transaction is conditioned upon

obtaining local governmental approvals to subdivide the property, which are still pending as of the date hereof. The Debtors expect to close this transaction in the beginning of August 2014.

F. Executory Contracts and Unexpired Leases

On May 6, 2014, the Bankruptcy Court entered an *Order Establishing Procedures for Rejection of Executory Contracts and Unexpired Leases of Nonresidential Real Property* [Docket No. 348] setting forth procedures for the Debtors to reject executory contracts and real property leases as the services and premises provided thereunder are no longer needed for the orderly wind-down of the Debtors' operations. The procedures set forth in this order allow the Debtors to efficiently reject contracts and leases on a rolling basis as the liquidation progresses.

On June 12, 2014, the Bankruptcy Court entered the *Order (A) Establishing Notice Procedures for the Assumption and Assignment of Nonresidential Real Property Leases; (B) Establishing Bidding Procedures, in Connection with an Auction of Nonresidential Real Property Leases; (C) Authorizing and Scheduling an Auction with Respect Thereto; (D) Approving Cure Procedures; and (E) Scheduling a Sale Hearing with Respect to the Outcome of the Auction* [Docket No. 572] approving procedures for the sale, assumption and assignment of the Debtors' leasehold interests and scheduling an auction for certain of those leasehold interests. The Debtors conducted the auction on July 8, 2014 and were able to raise nearly $2 million for the Estates through the sale or termination of certain Unexpired Leases. The Bankruptcy Court entered orders approving the results of the auction on July 17, July 23, July 28, and July 30, 2014 [Docket Nos. 722-726, 755, 768, 787-788].

G. Bar Dates and Claims Process

On May 6, 2014, the Bankruptcy Court entered the Bar Date Order establishing, among other deadlines, June 13, 2014 at 4:00 p.m. (prevailing Eastern time) as the general deadline for filing proofs of claim in the Chapter 11 Cases and October 8, 2014 at 4:00 p.m. (prevailing Eastern time) as the bar date for governmental units to file proofs of claim against the Debtors. With certain exceptions (as set forth in the Bar Date Order), creditors that fail to file proofs of claim by the applicable bar date will not receive a distribution from property of the Debtors' estates. The Debtors, or the Liquidating Trustee, as applicable, reserve the right to object to any claim, whether scheduled or filed, on any grounds on or before the Claims Objection Deadline.

H. Schedules and Statements of Financial Affairs

On May 7, 2014, each of the Debtors filed with the Bankruptcy Court a statement of financial affairs and schedules of assets and liabilities [Docket Nos. 356, 357, 358, 359, 360, 361, 362 and 363]. Further information regarding the Debtors' assets and liabilities is set forth on the Recovery Analyses prepared by the Debtors' financial advisors, copies of which are attached hereto as Exhibit B (Substantive Consolidation Settlement), Exhibit C (Unmodified Substantive Consolidation) and Exhibit D (Stand-Alone Entity Basis).

I. Retention of Key Employees

Retaining key employees is vital to implementing a successful and orderly wind down of the Debtors' operations. Accordingly, on May 12, 2014, the Debtors filed the *Motion to Approve*

Debtors' Key Employee Incentive Program and Key Employee Retention Program [Docket No. 378] seeking to authorize retention bonuses for 28 non-insider employees and incentive bonuses for four executives. The U.S. Trustee and the Committee filed objections to the Debtors' motion. After expedited discovery, including depositions of certain witnesses, settlement negotiations and a hearing before the Bankruptcy Court on June 2, 2014, the Committee withdrew its objections based on the bonuses being approved in reduced amounts that were an acceptable compromise to the Committee under the circumstances. However, by agreeing to such compromise, the Committee did not concede that the retention and incentive bonuses were, in fact, necessary, or retract anything stated in the Committee's objection thereto. The bonuses for four top executives are capped at $1.7 million (reduced from $3.55 million) in the aggregate and are based on the Debtors' achievement of net cash flow in excess of set target amounts while those payable to the non-insider employees total approximately $800,000 (reduced from approximately $1.08 million) and are based on salary and tenure of the individual.

J. Global Settlement Agreement

During the course of the Chapter 11 Cases, the Committee conducted an investigation of potential claims and causes of action against the Debtors, the Debtors' officers and directors, and the Term Loan Lenders, among other parties. In connection with that investigation, the Committee served requests for answers to interrogatories and document requests on the Debtors and Term Loan Lenders, and requested depositions of representatives of the Debtors and Term Loan Lenders. In this regard, pursuant to the DIP Order, the Committee had until July 25, 2014 to commence any action challenging the Term Loan Claims, bring any claims or causes of action against the Term Loan Lenders, or challenge the extent, validity or perfection of liens and/or security interests allegedly held by the Term Loan Lenders in or against the Debtors' assets.

While the Committee's investigation was ongoing, several significant areas of dispute among the Debtors, the Committee and the Term Loan Lenders arose: (1) whether the Term Loan Lenders' claim for the Prepayment Premium was enforceable; (2) the Topping Fee Dispute; (3) whether, depending on the outcome of the Topping Fee Dispute, the Term Loan Claims could be considered Impaired by the Second Amended Plan and the Term Loan Lenders therefore entitled to vote on the Second Amended Plan; and (4) whether certain proposed releases and exculpations in favor of the Debtors' officers and directors and the Term Loan Lenders, among other parties, under the Second Amended Plan were legally permissible and could be approved by the Bankruptcy Court.

1. Payment of the Prepayment Premium

Pursuant to the DIP Order, the Debtors stipulated that they were liable to the Term Loan Lenders in the aggregate amount of $96,522,530.55 as of the Petition Date, including, without limitation, the Prepayment Premium as a result of acceleration of the Term Loan. The Committee contended that there was a legal basis to challenge the enforceability of the Prepayment Premium on at least the following grounds: (a) it was an unenforceable penalty under New York law and therefore not allowable under section 502(b)(1) of the Bankruptcy Code; (b) it was not a reasonable fee or charge allowable under section 506(b) of the Bankruptcy Code; and (c) it was a claim for unmatured interest that is not allowable under section 502(b)(2) of the Bankruptcy Code. The Committee intended to seek standing (if necessary) and to object to

the allowability of the Prepayment Premium on behalf of the Debtors' Estates. The Debtors and Term Loan Lenders contended that the Prepayment Premium was enforceable against the Debtors and disputed each of the Committee's arguments against its enforceability.

2. The Topping Fee Dispute and the Term Loan Lenders' Ability to Vote on the Second Amended Plan

As reflected in paragraph 45 of the Store Closing Approval Order and described above, the Term Loan Lenders and the Committee disputed whether the Term Loan Lenders agreed to pay the $2.25 million Topping Fee (a) through a reduction in the amount of the Term Loan Claims, as contended by the Committee, or (b) only to the extent that there were insufficient proceeds from the GOB Sales (or other asset sales) to pay the Term Loan Claims in full, as contended by the Term Loan Lenders. The parties further disputed whether the resolution of the Topping Fee Dispute would determine whether the Term Loan Claims would be Impaired by the Second Amended Plan and the Term Loan Lenders therefore entitled to vote on the Second Amended Plan. The Debtors and Term Loan Lenders contended that if the Bankruptcy Court determined or the Term Loan Lenders otherwise agreed that the Topping Fee (or some portion thereof) was to be paid through a reduction in the amount of the Term Loan Claims, the Term Loan Lenders would be Impaired by the Second Amended Plan and entitled to vote on the Second Amended Plan. The Committee contended that, regardless of whether the Topping Fee was paid through a reduction in the amount of the Term Loan Claims, the Term Loan Claims would not be Impaired by the Second Amended Plan and, as a result, the Term Loan Lenders would not be entitled to vote on the Second Amended Plan.

3. Release and Exculpation Provisions of the Second Amended Plan

The Debtors, Term Loan Lenders and Committee also disputed whether the proposed releases under the Second Amended Plan were legally permissible and could be approved by the Bankruptcy Court. The Debtors and Term Loan Lenders contended that the proposed releases were fair and reasonable under the circumstances, supported by consideration by each of the parties to be released, and essential to the Debtors' orderly liquidation and wind down. The Committee contended that the proposed releases could not be approved because they did not meet the applicable legal standards for such approval.

4. Terms of the Global Settlement Agreement

On July 7, 2014, key representatives of the Debtors, the Committee and the Term Loan Lenders met and engaged in settlement discussions in an effort to reach a global resolution of the significant areas of dispute among the parties discussed above. The result of these discussions was the Global Settlement Agreement, which was approved by the Bankruptcy Court on July 18, 2014 [Docket No. 734] and a copy of which is attached hereto as Exhibit D. A summary of the key terms of the Global Settlement Agreement is as follows:

- Term Loan Claims: The Term Loan Lenders' agreed to reduce the amount of their claims by $4,400,000 so long as the Term Loan Claims were paid in full and in Cash in the amount of $90,739,670.15 no later than July 21, 2014. The Term Loan Lenders also agreed to waive accrued (and unpaid)

interest and default interest from July 1, 2014 through and including the date of repayment so long as the Term Loan Claims were paid in full in Cash prior to July 21, 2014. The Term Loan Claims were subsequently paid in full in Cash on July 23, 2014, and the Term Loan Lenders waived the condition that the Term Loan Claims be paid in full prior to July 21, 2014.

- Challenge Period and Discovery: Upon the effectiveness of the Global Settlement Agreement, the Challenge Period was deemed expired and all of the Committee's pending requests for answers to interrogatories, document productions and depositions were withdrawn, with prejudice.

- Committee Support for the Plan: The Committee agreed to support the Plan, as revised to reflect the Global Settlement Agreement, and not to object to the release provisions contained in Article VIII of the Plan. **The Committee agreed to encourage creditors to vote in favor of the Plan and not to opt out of the releases provided therein. Each individual member of the Committee also agreed not to opt out of the releases contained in the Plan.**

- Topping Fee: The parties agreed that the Debtors would pay the Topping Fee to the Inventory Back-Up Bidder (as defined in the Store Closing Approval Order) in resolution of the Topping Fee Dispute.

- Releases: The Debtors, the Committee and each individual member of the Committee provided releases to the Term Loan Lenders and the Term Loan Lenders provided releases to the Committee and each individual member of the Committee.

- PWP: PWP agreed to waive payment of its $100,000 monthly fee for the months of July and August 2014 and thereafter in exchange for the Committee withdrawing its objection to PWP's retention application.

The Global Settlement Agreement was the result of arms' length negotiations, which involved substantial concessions by all parties. By entering into the Global Settlement Agreement, the Estates avoided the time and expense that would have been required to litigate the issues in dispute described above, each of which were highly contested, fact intensive, and would have required substantial additional factual discovery and legal briefing by the parties to resolve. The Debtors and the Committee believe that the Global Settlement Agreement resulted in substantial benefit to the Debtors' Estates. In addition to the litigation costs that were avoided, the economic value of the Global Settlement Agreement to the Debtors' general unsecured creditors was estimated to be $5.3 million above the amounts that would have otherwise been available for distribution to them under the Plan.

ARTICLE VIII.
THE SUBSTANTIVE CONSOLIDATION SETTLEMENT

Through its incorporation of the Substantive Consolidation Settlement, the Plan provides for a settlement and compromise of certain inter-estate issues, including but not limited to (1) whether the assets and liabilities of the Debtors should be substantively consolidated for purposes of voting and Distributions under the Plan and (2) the appropriate allocation of certain assets and liabilities among the Debtors in the absence of such substantive consolidation. After considering the various factors weighing in favor of and against substantive consolidation, respectively, and the inter-estate asset and liability and allocation issues, the Committee and the Debtors believe that the Substantive Consolidation Settlement is a fair and reasonable resolution of those issues. The Substantive Consolidation Settlement proposed in the Plan represents a compromise that will eliminate the necessity of costly and time-consuming litigation, and, after taking into account the issues described below, distributes the Debtors' assets to unsecured creditors in a fair and equitable manner.

A. Legal Standard for Substantive Consolidation

Substantive consolidation is an equitable remedy to which the estates of related debtors are combined and treated as a single estate. It pools the assets and liabilities of related debtor entities into a single debtor estate from which all claims are paid (except for inter-entity liabilities, which are erased). Creditors of each of the debtors are treated as creditors of the consolidated estate and receive distributions from the consolidated estate. Substantive consolidation therefore restructures (and revalues) the rights of creditors, and for certain creditors this may increase or decrease their recovery.

The leading case addressing substantive consolidation in the United States Court of Appeals for the Third Circuit, which governs the Delaware courts, is *In re Owens Corning*, 419 F.3d 195 (3d Cir. 2005). In that case, Owens Corning and its subsidiaries comprised a multinational corporate group, with subsidiaries created and utilized for a variety of corporate, tax and regulatory purposes. In 1997, Owens Corning sought and obtained a $2 billion unsecured loan from a syndicate of banks to make a corporate acquisition. One of the banks' conditions to making the loan was obtaining guarantees from each existing and future Owens Corning subsidiary having assets with a book value in excess of $30 million. Within three years of the loan, however, Owens Corning filed for bankruptcy along with 17 of its subsidiaries. In the bankruptcy, the debtors and most of the creditor groups sought substantive consolidation, which was opposed by the bank consortium that made the $2 billion loan. The Third Circuit held that while "this area of law is difficult and this case important, its outcome is easy with the facts before us." *Id.* at 199.

In analyzing whether substantive consolidation was appropriate, the Third Circuit identified the following principles: (1) the separateness of entities should be respected; (2) the harms addressed by substantive consolidation are nearly always those caused by debtors who disregard separateness; (3) the mere benefit to the administration of the case does not call substantive consolidation into play; (4) the remedy of substantive consolidation should be "rare" and one of "last resort" after considering and rejecting other remedies; and (5) while substantive consolidation may be used defensively to remedy the identifiable harms caused by the entangled

affairs of a corporation and its affiliates, it may not be used offensively as part of a strategy to disadvantage a particular group of creditors. *Id.* at 211. Based on those guiding principles, the Third Circuit held that, absent consent, a court can substantively consolidate one or more debtors' estates if either "(i) prepetition [the entities for whom substantive consolidation is sought] disregarded separateness so significantly that their creditors relied on the breakdown of entity borders and treated them as one legal entity, or (ii) postpetition their assets and liabilities are so scrambled that separating them is prohibitive and hurts all creditors." *Id.* Applying that test to the facts in *Owens Corning*, the Third Circuit found that substantive consolidation was not appropriate.

B. Factual Analysis of Substantive Consolidation

The *Owens Corning* decision underscores that substantive consolidation is a decidedly fact-specific inquiry. In analyzing whether the Estates should be substantively consolidated for Plan purposes, counsel for the Committee reviewed and analyzed various documents produced by the Debtors and the Debtors' public filings. In addition, counsel for the Committee and the Committee's financial advisor had several phone conferences and numerous e-mail communications with representatives of the Debtors to discover information relevant to the Committee's substantive consolidation analysis. Based on the information that the Debtors provided and that the Committee's professionals were able to obtain on an informal basis, below are non-exhaustive lists of facts that the Committee considered and which the Committee believes that creditors might rely upon in support of substantive consolidation (in section VIII.B.1) or against substantive consolidation (in section VIII.B.2).

1. Facts Tending to Support Substantive Consolidation

While it is difficult to predict with any degree of certainty whether the Bankruptcy Court would approve substantive consolidation for purposes of voting and Distributions in the Chapter 11 Cases if the issue was presented in a contested litigation, the Committee believes that the facts below tend to support substantive consolidation, as they show that creditors may have perceived and relied upon the Debtors as a single legal entity and economic unit in extending credit, and that creditors did not appear to rely on the separate identity of any Debtor in the ordinary course of business.

- Coldwater Creek Inc. and its subsidiaries maintained and filed financial statements on a consolidated basis only and all the accounting and auditing work for the Debtors was handled by a single firm. None of the subsidiary entities created or maintained separate financial statements. Each subsidiary maintained a "trial balance," which would then be incorporated into the consolidated financials. The Debtors' public filings, including their most recent annual 10-K report filed with the SEC, defined the Debtors and their affiliates collectively as the "Company" or "Coldwater," which includes the entire enterprise.

- All of the Debtors generally used a single letterhead form that stated "Coldwater Creek" at the top, with the Sandpoint, Idaho corporate address at the bottom.

- None of the subsidiaries had its own Dun & Bradstreet D-U-N-S number. Coldwater was the only entity to have a D-U-N-S number and credit report. Thus, none of the Debtors, except for Coldwater, had individual credit ratings.

- In the Debtors' 200-page Apparel Vendor Handbook, virtually all references are simply to "Coldwater Creek" or "Coldwater Creek Inc.," with only minor references to subsidiaries.

- The "Terms and Conditions" for many of the Debtors' prepetition purchase orders defined the "Buyer" as "Coldwater Creek Inc. or one of its direct or indirect subsidiaries." Other purchase orders did not clearly specify the entity placing the order, but instead included shipping addresses only, which did not always specify the particular entity placing the order. For instance, one purchase order listed "COLDWATER CREEK EXECUTIVE" as the entity/name to whom the goods should be shipped.

- Inventory was routinely transferred from M&L to U.S. Inc. with the only consideration being the booking of an intercompany liability that was not settled in cash.

- The Debtors shared overhead, accounting, and other related expenses. For instance, all of the accounting personnel utilized by the Debtors were employed by M&L. Moreover, the subsidiaries did not have their own 401-k plan for employees. Rather, those employees participated in Coldwater's 401-k plan. Employees of the subsidiaries were also allowed to participate in Coldwater's employee stock purchase plan. In addition, all of the company's insurance policies were issued through Coldwater.

- The Debtors' checks used to pay creditors indicated "Coldwater Creek" in large letters at the top, and all checks listed the Debtors' corporate headquarters in Idaho as the address. The checks also stated that "Coldwater Creek" was "doing business as" the particular entity issuing the check. For instance, the checks issued by U.S. Inc. stated "Coldwater Creek dba Coldwater Creek U.S. Inc." Similarly, checks issued for The Spa stated "Coldwater Creek dba Coldwater Creek The Spa Inc," and checks issued for M&L stated "Coldwater Creek Inc. dba Coldwater Creek Merchandising & Logistics Inc." The same was true for checks issued for Aspenwood.

2. Facts Tending not to Support Substantive Consolidation

The Committee also considered the following facts, which could be used to support an argument that substantive consolidation is not appropriate.

- The Debtors appear to have observed most corporate formalities. Among other things, the Coldwater subsidiaries approved significant corporate events through written consents, and intercompany agreements between the Debtors were memorialized through written contracts. This includes (1) an Administrative and Management Services Agreement and a Marketing Services Agreement between

Coldwater and Aspenwood; (2) a Services Agreement between Aspenwood and Rewards; (3) a Demand Note between Coldwater and Rewards; (4) a Services Agreement between M&L and Rewards; and (5) a Gift Card Program Agreement between U.S. Inc., The Spa and Rewards.

- The Debtors were incorporated in different States. The Spa and Sourcing Inc. were Idaho corporations. Rewards was an Arizona corporation. The other Debtors, including Coldwater, were Delaware corporations. The Debtors also had separate offices for certain subsidiaries. For instance, Aspenwood had a design office in New York and M&L had an inventory distribution center in Parkersburg, West Virginia and an information technology call center and offices in Coeur d'Alene, Idaho.

- Although Coldwater filed a consolidated federal tax return, certain subsidiaries filed individual state tax returns.

- The subsidiaries had their own W-2 employees. Most of the Debtors' employees were employed by U.S. Inc. M&L, The Spa Inc. and Aspenwood all had their own employees, and those employees were paid from that particular subsidiary's bank account. Only senior officers were employed and paid by Coldwater.

- Each Debtor had its own separate bank accounts.

- In December 2007, the Debtors' landlords received a notice that the company was revising its corporate structure, such that "Coldwater Creek U.S. Inc., a wholly-owned subsidiary of Coldwater Creek Inc., is assuming all the responsibilities and obligations of Coldwater Creek Inc.," and that all leases were being assigned to the U.S. Inc. entity. The notice further stated that "Coldwater Creek Inc. guarantees performance of the lease obligations by Coldwater Creek U.S. Inc. Therefore, the assignment imposes no additional risk on Landlord."

- The Debtors' loan agreements with their secured lenders, the terms of which were publicly disclosed, made clear that the lead borrower under the loans was U.S. Inc., that the other borrowers would be The Spa and M&L and that Coldwater and its non-borrower subsidiaries would be guarantors. All of the various entities signed as separate parties to those agreements.

C. Intercompany Claims and Asset & Liability Allocation Issues

Separate and apart from substantive consolidation, there are other significant and complex issues relating to Intercompany Claims and the allocation of assets and liabilities of each Debtor that the Committee considered in reaching the Substantive Consolidation Settlement. Those issues are discussed below.

1. Intercompany Claim Issues

According to information provided to the Committee by the Debtors, large Intercompany Claims accrued among the various Debtor entities, which, if allowed, would constitute the

majority of all general unsecured claims in these cases. For example, the Committee was informed that the subsidiary Debtors hold an aggregate of approximately $502 million in Intercompany Claims against Coldwater Creek Inc. Although the Intercompany Claims do not affect the total assets available for distribution to creditors, they would have a substantial impact on distributions to creditors of each estate in a non-consolidated plan of liquidation because they have the effect of moving assets available for distribution between the Estates.

The Committee believed that there was uncertainty regarding the enforceability of the Intercompany Claims, and whether those claims could be subject to possible objection as to the validity or amount, subordination under section 510(c) of the Bankruptcy Code,[7] or recharacterization as equity contributions.[8] Those matters, if not resolved through settlement and compromise, would potentially result in costly and time-consuming litigation that would delay and diminish the overall amount of distributions to creditors. For example, the existence of the Intercompany Claims posed the following unanswered questions: Are the Intercompany Claims valid obligations of each Debtor? Are the amounts of the Intercompany Claims correct? Can and should the Intercompany Claims be subordinated to the claims of general unsecured creditors? Can and should the Intercompany Claims be recharacterized as equity? Are separate liquidating trusts and trustees for each estate necessary to address these issues? If so, will each liquidating trustee need to retain its own counsel and financial advisors? And would the added expense of multiple liquidating trustees and their respective professionals outweigh any potential benefit to creditors?

The potential subordination and/or recharacterization of the Debtors' Intercompany Claims as equity would directly affect distributions to creditors in these cases in the absence of the Substantive Consolidation Settlement. In determining whether recharacterization of a claim as an equity contribution is proper, courts have adopted a variety of multi-factor tests that focus on the formality of any loan agreement, the financial situation of the borrower at the time the purported loan was made, and the relationship between the debtor and creditor. *See In re SubMicron Sys. Corp.*, 432 F.3d at 455. The Third Circuit, however, has rejected a mechanistic application of such multi-factored tests and stressed that courts must look to the facts on a case by case basis, focusing on the intent of the parties "inferred from what the parties say in their contracts, from what they do through their actions, and from the economic reality of the circumstances." *Id.* at 456 (stating that the answers to the recharacterization question "lie in facts that confer context case-by-case.").

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[7] Section 510(c) states, in relevant part, that after notice and a hearing, the court may "under principles of equitable subordination, subordinate for purposes of distribution all or part of an allowed claim to all or part of another allowed claim."

[8] Although the Bankruptcy Code does not expressly authorize a court to recharacterize debt as equity, bankruptcy courts have authority to do so by virtue of their equitable powers. *See, e.g.*, *In re SubMicron Sys. Corp.*, 432 F.3d 448, 454 (3d Cir. 2006) (recharacterization is "grounded in bankruptcy courts' equitable authority"); *In re Official Comm. of Unsecured Creditors for Dornier Aviation (North America), Inc.*, 453 F.3d 225, 233 (4th Cir. 2006) ("A bankruptcy court's equitable powers have long included the ability to look beyond form to substance and we believe that the exercise of this power to recharacterize is essential to the implementation of the Code's mandate that creditors have a higher priority in bankruptcy than those with an equity interest." (internal citations omitted)).

Thus, like substantive consolidation, subordination and/or recharacterization involve complex, fact-intensive inquiries. The Committee considered this, along with the costs and uncertainty relating to any litigation of Intercompany Claim issues, in approving the Substantive Consolidation Settlement.

2. Asset and Liability Allocation Issues

The proceeds of the Debtors' sale of inventory were allocated by the Debtors based on which Debtor entity held title to the inventory as of the Petition Date. The Debtors' clothing inventory was historically purchased by M&L directly from vendors and shipped to the Debtors' distribution center. Upon shipment of the goods from the Debtors' distribution center to the Debtors' stores, or to customers ordering such goods in catalog and e-commerce transactions, title to the goods was automatically transferred from M&L to U.S. Inc., with the result being that the sale to the customer was always from U.S. Inc., and was accounted for by the Debtors on that basis. However, no cash payment or transfer of funds for purchase of the inventory was ever made by U.S. Inc. Instead, the transaction was booked as an intercompany receivable on the books of M&L and a corresponding intercompany payable on the books of U.S. Inc. Subsequently, on a quarterly basis, the intercompany receivables and payables were "consolidated to" the parent company, Coldwater, such that the remaining net intercompany balances were all between Coldwater, on the one hand, and the various subsidiaries, on the other hand.

The Committee considered whether M&L's estate has any constructive fraudulent transfer claims against U.S. Inc.'s estate arising out of transfers of inventory to U.S. Inc. in exchange for an intercompany payable that was not settled in Cash. Under section 548(a)(1)(B) of the Bankruptcy Code, a transfer by a debtor within the two-year period before its bankruptcy filing may be recoverable as a constructively fraudulent transfer if the debtor (1) received less than a reasonably equivalent value in exchange for the transfer and (2) was insolvent at the time the transfer was made or became insolvent as a result of such transfer (among other alternative criteria). In reaching the Substantive Consolidation Settlement, the Committee analyzed and considered whether M&L's potential constructive fraudulent transfer claims could have an impact on the cash available for distribution to creditors of U.S. Inc. and M&L. The Committee also analyzed and considered whether the receivables and payables that were "consolidated to" or "swept up" from M&L and U.S. Inc. to the parent company, Coldwater, could give rise to constructive fraudulent transfer claims – and the impact that such claims would have on the cash available for creditors of M&L, U.S. Inc. and Coldwater.

The Committee also considered, as an alternative theory of recovery, whether M&L may have significant administrative expense claims against U.S. Inc. for inventory transferred post-petition for no consideration, which could increase the funds available for distribution to creditors of M&L.

Finally, with respect to allocation of the Debtors' liabilities, the Committee was informed that the Debtors allocated 50% of the DIP Facility repayment to U.S. Inc. and 50% to M&L. The Committee was also informed that the Debtors allocated more than 95% of the Term Loan

repayment to M&L.[9] The result would have been that under a non-consolidated plan, the unsecured creditors of M&L would receive an estimated recovery on their claims of approximately 2.0%, versus approximately 11.2% for creditors of U.S. Inc. The Debtors' rationale for allocating the secured debt repayments to U.S. Inc. and M&L only (and not to any other Debtors) was as follows: "U.S. Inc. and M&L are the primary beneficiaries of the proceeds from the credit facilities, as U.S. Inc. accounts for approximately 59% of payroll expense and M&L purchases all merchandise. Other Debtors, as co-borrowers, co-obligors or guarantors under the credit facilities, are jointly and severally liable and any recovery amounts in excess of those from U.S. Inc. and M&L are subject to recovery from those Debtors."[10] This allocation was independent of the other Debtors' cash requirements to operate, including cash needed to pay salaries and other overhead. Therefore, in its deliberation of the Substantive Consolidation Settlement, the Committee analyzed various allocation scenarios, both from a consolidated and non-consolidated perspective, to arrive at a settlement and compromise that best approximated the equitable distribution of the Debtors' assets after taking these issues into account.

D. The Substantive Consolidation Settlement

The Substantive Consolidation Settlement was approved by the Committee after significant legal and financial analysis and deliberation among the Committee's Professional advisors and the Committee's members, who represent a cross-section of the Debtors' larger unsecured creditor body and acted as fiduciaries on behalf of all unsecured creditors.

The Substantive Consolidation Settlement provides for the modified substantive consolidation of the Debtors' Estates for the purpose of Distributions under the Plan, such that each of the Estates of the Debtors are merged into a single consolidated Estate solely for the purpose of Distributions under the Plan, and provides for incremental increases in the Allowed amount of each Class 4 Guaranteed Claim (a 65% increase) and Class 5 Coldwater/Aspenwood Claim (a 20% increase). The Committee approved an increase for Class 4 Guaranteed Claims because under a non-consolidated plan, Holders of Guaranteed Claims may be entitled to distributions from multiple Debtors (many landlords, for instance, would be entitled to distributions from U.S. Inc. and Coldwater, as a result of the guarantees from Coldwater in the lease agreements), which would likely result in substantially increased recoveries for the Holders of such Claims. Likewise, the Holders of Class 5 Coldwater/Aspenwood Claims would have had a significantly higher recovery in a non-consolidated plan, and, therefore, the Committee attempted to provide an equitable increase for Holders of those Claims as part of the Substantive Consolidation Settlement.

Recovery analyses setting forth the assets that would be available for distribution to each Class of creditors, the estimated Claims associated with each Class, and the estimated recovery

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[9] The Committee's understanding is that the Debtors would have allocated the repayment of the DIP Facility and subsequently the Term Loan jointly and severally between CWC U.S. and M&L, as those entities were in the Debtors' view the primary beneficiaries of the proceeds of those facilities. However, after repayment of the DIP Facility, CWC U.S.'s assets were largely depleted and the Term Loan had to be repaid predominantly from M&L's assets.

[10] *See* Second Amended Disclosure Statement, Exhibit B [Docket No. 608-2].

rates for each Class in the absence of the Substantive Consolidation Settlement are attached hereto as Exhibit C (Unmodified Substantive Consolidation) and Exhibit D (Stand-Alone Entity Basis). By providing for a modified substantive consolidation of the Debtors' Estates for the purposes of voting and Distributions under the Plan, the Substantive Consolidation Settlement resolves the complex substantive consolidation, intercreditor, and asset and liability allocation issues outlined above, any one of which could have otherwise resulted in uncertainty and costly litigation – and diminished and significantly delayed distributions to creditors under the Plan.

E. The Substantive Consolidation Settlement is in the Best Interests of All Creditors

The Plan is deemed to be a motion under sections 105, 363 and 1123 of the Bankruptcy Code and Rule 9019 of the Bankruptcy Rules for approval of the compromise and settlement of the issues described above. Confirmation of the Plan shall constitute approval of such motion by the Bankruptcy Court, and the Confirmation Order shall contain findings supporting and conclusions approving the compromise and settlement as fair and equitable and within the bounds of reasonableness.

Bankruptcy Code § 1123(b)(3)(A) states that a plan may provide for "the settlement or adjustment of any claim or interest belonging to the debtor or to the estate." 11 U.S.C. § 1123(b)(3)(A). To approve a compromise or settlement, the Bankruptcy Court must find that the proposed compromise is fair and equitable and in the best interests of the Debtors' Estates. When considering whether a proposed settlement is fair and equitable, the Third Circuit has instructed that the court should consider four factors: (1) the probability of success in litigation, (2) the likely difficulties in collection, (3) the complexity of the litigation involved and the expense, inconvenience and delay necessarily attending it and (4) the paramount interest of the creditors. *See In re RFE Industries, Inc.*, 283 F.3d 159, 165 (3d Cir. 2002).

The Committee believes that the proposed Substantive Consolidation Settlement is in the best interests of the Debtors' Estates because of the complexity of potential substantive consolidation and inter-estate litigation, the Debtors' corporate and operational structure and the available proceeds for distribution to unsecured creditors. The Committee and major creditor constituencies recognized that such litigation would have likely required a detailed, fact-intensive inquiry that would have involved substantial time, energy, and expense to adjudicate. Such lengthy litigation would have also significantly delayed confirmation of the Plan and diminished distributions to creditors.

Therefore, after taking into account the foregoing law and facts, the Committee, with the assistance of its counsel and financial advisor, concluded that the Substantive Consolidation Settlement and the related provisions embodied in the Plan are fair and equitable and in the best interests of the Debtors' Estates and all unsecured creditors. As explained above, the Substantive Consolidation Settlement has been approved by both the Committee and the Debtors.

ARTICLE IX.
RELEASES AND EXCULPATIONS

Under the Plan, the Debtors and, to the extent allowed under applicable law, Holders of Claims, provide releases to the Debtors, the ABL Lender, the ABL Agent, the Term Loan

Lenders, the Term Loan Agent, the DIP Facility Lenders, the DIP Agent, Holders of Series A Preferred Stock, and CC Holdings Agency Corporation,[11] CC Holdings of Delaware, LLC – Series A, and CC Holdings of Delaware, LLC – Series B, each in all respective capacities, and such entity's predecessors, successors and assigns, subsidiaries, affiliates, beneficial owners, managed accounts or funds, current and former officers, directors, principals, shareholders, direct and indirect equity holders, members, partners (general and limited), employees, agents, advisory board members, financial advisors, attorneys, accountants, investment bankers, consultants, representatives, management companies, fund advisors and other Professionals. See Article VIII-B through VIII-D of the Plan.

The Debtors and the Committee agreed that the release provisions set forth in the Plan are fair and reasonable under the circumstances of the Global Settlement Agreement. These provisions were the product of comprehensive and arms' length negotiations among the Debtors, the Term Loan Lenders, and the ABL Lender and the release provisions were integral parts of the consideration for the Plan Support Agreement. Additionally, the Debtors believe that the Debtor releases provided in the Plan are of little or no value to their estates. The scope of these provisions is targeted and has no effect on liability resulting from actual fraud, willful misconduct or gross negligence. The Debtors do not believe, at this time, that any valid Claims or Causes of Action exist against any of the Released Parties. Further, the releases are tailored to apply only to those Holders of Claims in Classes 3, 4 and 5 that do not elect to opt out of the releases.

Pursuant to the Global Settlement Agreement, the Committee supports the Plan, and does not object to the releases and exculpations set forth in the Plan, and each individual member of the Committee has agreed not to opt out of the Plan releases. Furthermore, the Committee strongly recommends that each Holder of a General Unsecured Claim, Guaranteed Claim, and Coldwater/Aspenwood Claim **not** check the box on the ballot opting out of the Plan releases.

The U.S. Trustee has raised formal and informal objections to the proposed release and exculpations in the Plan. In an effort to resolve the U.S. Trustee's objections, the Debtors revised the exculpation provisions in the Plan to make them applicable only to the Debtors, the Committee and their respective predecessors, successors and assigns, subsidiaries, affiliates, beneficial owners, managed accounts or funds, current and former officers, directors, principals, shareholders, direct and indirect equity holders, members, partners (general and limited), employees, agents, advisory board members, financial advisors, attorneys, accounts, investment bankers, consultants, representatives, management companies, fund advisors and other Professionals.

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[11] CC Holdings Agency Corporation is a special purpose vehicle that was established for the purpose of acting as administrative agent and collateral agent pursuant to the Term Loan Agreement. Similarly, CC Holdings of Delaware, LLC – Series A and CC Holdings of Delaware, LLC – Series B are special purpose vehicles that were established for the purpose of making loans pursuant to the Term Loan Agreement and holding preferred securities pursuant to the Stock Purchase and Investor Rights Agreement and the Registration Rights Agreement. Investment funds managed by Golden Gate Private Equity, Inc., together with Angel Island Capital (a portfolio company of Golden Gate Capital) and a Golden Gate Capital operating executive, own in the aggregate 100% of the equity interests in each of CC Holdings Agency Corporation, CC Holdings of Delaware, LLC – Series A and CC Holdings of Delaware, LLC – Series B.

The Debtors disagree with the U.S. Trustee regarding the appropriateness of the releases in the Plan. The Debtors believe that each Released Party has provided sufficient consideration for its respective release. Specifically, the Term Loan Lenders and ABL Lender provided key contributions in the development, negotiation, and documentation of the terms of the Plan and Disclosure Statement, including entering into the Plan Support Agreement and, with respect to the Term Loan Lenders, agreeing to sponsor the Plan. Moreover, the Term Loan Lenders and ABL Lender provided the necessary financing and access to cash collateral to fund the Chapter 11 Cases. The Term Loan Lenders also created significant value by actively participating and negotiating with parties at the GOB Sales auction, which was overwhelmingly successful and allowed for a recovery for general unsecured creditors.

Additionally, the Debtors believe that releases for the Debtors' directors and officers are appropriate because they have made substantial contributions to the Debtors' orderly wind-down, a process that has resulted in recoveries for general unsecured creditors in a case where no recovery on account of general unsecured claims was expected by the Debtors. Furthermore, the Debtors have certain indemnification obligations with respect to their directors and officers. Therefore, any Claims asserted against the Debtors' directors and officers would essentially be a Claim against the Debtors, which could impose additional costs on the Estates and dilute creditor recoveries.

Finally, the releases will not be opposed by the Committee and its individual members pursuant to the Global Settlement Agreement, and the Committee is strongly recommending that general unsecured creditors vote in favor of the Plan and <u>not</u> opt out of the releases contained in the Plan.

For these reasons, the Debtors and the Committee have agreed that the proposed releases are reasonable and appropriate under the circumstances of the Global Settlement Agreement. The Debtors believe that the release and exculpation provisions in the Plan are consistent with applicable law and should be approved in connection with the Confirmation of the Plan. The Debtors will provide further support for the appropriateness of the release provisions set forth in the Plan through evidence at the Confirmation Hearing and in the Debtors' memorandum in support of confirmation of the Plan to be filed prior to the Confirmation Hearing.

ARTICLE X.
RISK FACTORS

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

A. General Considerations

The Plan sets forth the means for satisfying the Claims against and Interests in the Debtors. Certain Claims may not receive payment in full. Nevertheless, the liquidation of the Debtors' business and operations under the proposed Plan avoids the potentially adverse impact

of the likely increased delays and costs associated with a chapter 7 liquidation of the Debtors' business.

B. Risks Relating to Bankruptcy

1. The Debtors May Not Be Able to Obtain Confirmation of the Plan

Section 1129 of the Bankruptcy Code requires, among other things, that: (a) all Impaired Classes vote in favor of a plan or (b) that at least one Impaired Class vote in favor of the plan and that the "cramdown" standards described in Article XII.E are met. The Plan provides that Class 8 is deemed to reject the Plan because Holders of Interests in Coldwater will not receive or retain their Interests under the Plan. Accordingly, the Debtors will seek to confirm the Plan under the cramdown provisions of the Bankruptcy Code.

Additionally, even if the Impaired voting Classes vote in favor of the Plan and, with respect to any Impaired Class deemed to have rejected the Plan, the requirements for "cramdown" are met, the Bankruptcy Court may not confirm the Plan if circumstances warrant. Section 1129 of the Bankruptcy Code requires, among other things, a showing that the value of distributions to dissenting Holders of Claims and interests may not be less than the value such Holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. Although the Debtors and the Committee believe that the Plan will meet such tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Even if the requisite acceptances of a proposed plan are received, the Bankruptcy Court is not obligated to confirm the Plan as proposed.

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

Article IX of the Plan sets forth certain conditions that must be fulfilled prior to the Effective Date of the Plan. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan will be met (or waived) or that the other conditions to consummation, if any, will be satisfied.

3. Delays of Confirmation or Effective Date

Any delays of either confirmation or effectiveness of the Plan could result in, among other things, increased administrative costs, including Fee Claims. These negative effects of delays of either confirmation or effectiveness of the Plan could endanger the ultimate approval of the Plan by the Bankruptcy Court.

C. Risk Relating to Estimated Creditor Recoveries

The Allowed amount of Claims in each Class could be greater than projected, which in turn, could cause the amount of distributions to creditors to be reduced substantially. Although the amount of cash to be paid by a liquidator of the business is known by the Debtors, the amount of cash realized for the liquidation of the Debtors' assets not being sold by the liquidator could be less than anticipated, which could cause the amount of distributions to creditors to be reduced substantially.

ARTICLE XI.
SOLICITATION AND VOTING PROCEDURES

On the Petition Date, the Debtors filed the Debtors' Motion For An Order (I) Approving Proposed Disclosure Statement, (II) Approving Key Dates And Deadlines Related To Ballot Solicitation And Tabulation Procedures, Forms Of Ballots And Manner Of Notice And (III) Fixing Date, Time And Place For Confirmation Hearing And Deadline For Filing Objections Thereto [Docket No. 16].

The Disclosure Statement Order will be accompanied by a Ballot or Ballots to be used for voting on the Plan, and will be distributed to the Holders of Claims in Class 3, Class 4 and Class 5. The procedures and instructions for voting and related deadlines will be attached to the Ballots.

ARTICLE XII.
CONFIRMATION OF THE PLAN

A. Requirements for Confirmation of the Plan

Section 1129 of the Bankruptcy Code sets forth the requirements a plan must meet in order to be confirmed. Among the requirements for Confirmation of the Plan are that the Plan (1) is accepted by all Impaired Classes of Claims, or if rejected by an Impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class; (2) is feasible; and (3) is in the "best interests" of creditors. In addition, section 1129(a)(10) of the Bankruptcy Code requires that if a class of claims is impaired under the Plan, at least one class of claims that is impaired under the Plan must accept the Plan, determined without including any acceptance of the Plan by any insider.

At the Confirmation Hearing, the Bankruptcy Court will determine whether the Plan satisfies the requirements of section 1129 of the Bankruptcy Code, including section 1129(a)(10). The Debtors believe that: (1) the Plan satisfies or will satisfy all of the necessary statutory requirements of chapter 11 with respect to each Debtor and (2) the Debtors have complied or will have complied with all of the necessary requirements of chapter 11.

B. Best Interests of Creditors Test

Before the Plan may be confirmed, the Bankruptcy Court must find (with certain exceptions) that the Plan provides, with respect to each Class, that each Holder of a Claim in such Class either (i) has accepted the Plan or (ii) will receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the amount that such Holder would receive or retain if the Debtors liquidated under chapter 7 of the Bankruptcy Code.

The Debtors and the Committee believe that the Plan satisfies the best interests test, because, among other things, the recoveries expected to be available to Holders of Allowed Claims under the Plan will be greater than the recoveries expected to be available in a chapter 7 liquidation.

In a typical chapter 7 case, a trustee is elected or appointed to liquidate a debtor's assets for distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. Generally, secured creditors are paid first from the proceeds of sales of the properties securing their liens. If any assets are remaining in the bankruptcy estate after satisfaction of secured creditors' Claims from their collateral, administrative expenses are next to receive payment. Unsecured creditors are paid from any remaining sales proceeds, according to their respective priorities. Unsecured creditors with the same priority share in proportion to the amount of their Allowed Claims in relationship to the total amount of Allowed Claims held by all unsecured creditors with the same priority. Finally, Holders of Interests receive the balance that remains, if any, after all creditors are paid.

Although the Plan effects a liquidation of the Debtors' remaining assets and a chapter 7 liquidation would have the same goal, the Debtors and the Committee believe that the Plan provides the best source of recovery to creditors. The Plan allows for a wind-down and liquidation of the Debtors' remaining assets in a manner that will reduce costs and maximize value for creditors. Furthermore, liquidating pursuant to chapter 11 avoids additional fees that would be incurred during a chapter 7 case, including potential added time and expense incurred by a chapter 7 trustee and any retained professionals in familiarizing themselves with the Chapter 11 Cases. Accordingly, the Debtors and the Committee believe that the Plan is in the best interests of creditors.

C. Plan Feasibility

Section 1129(a)(11) of the Bankruptcy Code requires that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successors to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. The Plan provides for a liquidation of the Debtors' remaining assets and a distribution of the Cash proceeds to creditors in accordance with the priority scheme of the Bankruptcy Code and the terms of the Plan. The ability to make distributions described in the Plan therefore does not depend on future earnings or operations of the Debtors, but only on the orderly liquidation of the Debtors' remaining assets. Accordingly, the Debtors and the Committee believe that the Plan is feasible and meets the requirements of section 1129(a)(11) of the Bankruptcy Code.

D. Section 1129(a)(10): Impaired Accepting Class

Section 1129(a)(10) of the Bankruptcy Code requires that if a Class of Claims is Impaired under the Plan, at least one class of claims that is Impaired under the Plan must accept the Plan, determined without including any acceptance of the Plan by any insider. In light of the Global Settlement Agreement and the Committee's recommendation that Holders of General Unsecured Claims, Guaranteed Claims, and Coldwater/Aspenwood Claims vote in favor of the Plan, the Debtors and the Committee expect that Class 3, Class 4 and Class 5 will accept the Plan.

E. Section 1129(b): Unfair Discrimination and the "Fair and Equitable" Test

The Debtors will request Confirmation of the Plan under section 1129(b) of the Bankruptcy Code, and they have reserved the right to modify the Plan to the extent, if any, that

Confirmation pursuant to section 1129(b) of the Bankruptcy Code requires modification. The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by an Impaired Class of Claims or Interests if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such Class; provided that at least one Class of Claims that is Impaired under the Plan accepts the Plan, determined without including any acceptance of the Plan by any insider, as required by section 1129(a)(10) of the Bankruptcy Code.

1. No Unfair Discrimination

The "unfair discrimination" test applies to Impaired Classes of Claims or Interests that are of equal priority and are receiving disparate treatment under the Plan. The test does not require that the treatment of such Classes be the same or equivalent, but only that the treatment be "fair." A plan does not discriminate unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class and if no class receives more than it is entitled to for its Claims or Interests. The Debtors and the Committee believe that the treatment of Claims and Interests under the Plan, including the treatment of Allowed General Unsecured Claims, Guaranteed Claims, and Coldwater/Aspenwood Claims in accordance with the Substantive Consolidation Settlement, is fair, and that the Plan does not discriminate unfairly with respect to any Class of Claims or Interests.

2. Fair and Equitable Test: "Cramdown"

The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." The Bankruptcy Code establishes "cramdown" tests for dissenting classes of secured creditors, unsecured creditors and equity holders. As to each dissenting Class, the test prescribes different standards, depending on the type of Claims or Interests in such class:

Secured Creditors. With respect to each class of secured Claims that rejects the Plan, the Plan must provide (a)(i) that each Holder of a secured Claim in the rejecting class retain the liens securing those Claims, whether the property subject to those liens is retained by the Debtor or transferred to another entity, to the extent of the Allowed amount of such secured Claim and (ii) that the secured creditor receives on account of its secured Claim deferred Cash payments having a value, as of the Effective Date of the Plan, of at least the value of the Allowed amount of such secured Claim; (b) for the sale of any property that is subject to the liens securing the Claims included in the rejecting class, free and clear of such liens, with such liens to attach to the proceeds of the sale, and the treatment of such liens on proceeds under clause (a) or (c) of this subparagraph; or (c) for the realization by the secured creditor of the "indubitable equivalent" of its secured Claim.

Unsecured Creditors. With respect to each Impaired Class of unsecured Claims that rejects the Plan, the Plan must provide (a) that each Holder of a Claim in the rejecting class will receive or retain on account of that Claim property that has a value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim; or (b) that no Holder of a Claim or Interest that is junior to the Claims of such rejecting Class will receive or retain under the Plan any property on account of such junior Claim or Interest.

Holders of Interests. With respect to each Impaired Class of Interests that rejects the Plan, the Plan must provide (a) that each Holder of an interest included in the rejecting Class receive or retain on account of that interest property that has a value, as of the Effective Date of the Plan, equal to the greatest of the Allowed amount of any fixed liquidation preference to which such Holder is entitled, any fixed redemption price to which such Holder is entitled, or the value of such Interest; or (b) that no Holder of an Interest that is junior to the Interests of such rejecting class will receive or retain under the Plan any property on account of such junior Interest.

The Plan may be confirmed pursuant to the above-described "cramdown" provisions, over the dissent of certain Classes of Claims and Interests, in view of the treatment proposed for such Classes. The Debtors and the Committee believe that the treatment under the Plan of the Holders of Claims in Classes 3, 4, 5 and 8 will satisfy the "fair and equitable" test because there is no Class of Claims or Interests that is junior to Classes 3, 4, 5 or 8 that will receive or retain any property under the Plan.

ARTICLE XIII.
CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Introduction

The following discussion summarizes certain material U.S. federal income tax consequences of the implementation of the Plan to the Debtors and certain Holders of Claims and Interests. This summary is based on the Tax Code, the Regulations, judicial decisions and published administrative rules and pronouncements of the IRS, all as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect, which could significantly affect the U.S. federal income tax consequences described below. The Debtors have not requested, and will not request, any ruling or determination from the IRS with respect to the tax consequences discussed herein, and the discussion below is not binding upon the IRS or the courts. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position than any position discussed herein.

This summary does not apply to a Holder of a Claim or Interest that is not a "United States person" (as such phrase is defined in the Tax Code). This summary does not address non-U.S., state or local tax consequences of the Plan, and does not purport to address all aspects of U.S. federal income taxation that may be relevant to a Holder in light of its individual circumstances or to a Holder that may be subject to special tax rules (such as persons who are related to the Debtors within the meaning of the Tax Code, broker-dealers, banks, mutual funds, insurance companies, financial institutions, regulated investment companies, tax exempt organizations, pass-through entities, beneficial owners of pass-through entities, subchapter S corporations, persons who hold Claims or Interests as part of a straddle, hedge, conversion transaction or other integrated investment, persons using a mark-to-market method of accounting and Holders of Claims or Interests who are themselves in bankruptcy). This summary also assumes that the various debt and other arrangements to which any of the Debtors are a party will be respected for U.S. federal income tax purposes in accordance with their form.

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

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230 EACH HOLDER IS HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY HOLDER FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON A HOLDER UNDER THE TAX CODE, (B) SUCH DISCUSSION IS INCLUDED HEREBY BY THE DEBTORS IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN AND (C) EACH HOLDER SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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

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

Under section 108 of the Tax Code, a debtor is not required to include COD Income in gross income if the debtor is under the jurisdiction of a court in a case under chapter 11 of the Bankruptcy Code and the discharge of debt occurs pursuant to that proceeding. Instead, as a consequence of such exclusion, a debtor must reduce its tax attributes by the amount of COD Income that it excluded from gross income. Any excess COD Income over the amount of available tax attributes is not subject to U.S. federal income tax and has no other U.S. federal income tax impact.

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

1. Consequences to Holders of Claims and Interests

A Holder of a Claim or Interest will generally recognize ordinary income to the extent that the amount of cash or property received (or to be received) under the Plan is attributable to interest that accrued on a Claim but was not previously paid by the Debtors or included in income by the Holder of the Claim or Interest. To the extent that any Claim entitled to a

distribution is comprised of indebtedness and accrued but unpaid interest thereon, such distribution shall, for U.S. federal income tax purposes, be allocated to the accrued but unpaid interest of the Claim first and then, to the extent the Distribution exceeds the accrued but unpaid interest of the Claim, to the principal amount of the Claim. A Holder of a Claim or Interest will generally recognize gain or loss equal to the difference between the Holder's adjusted basis in its Claim and the amount realized by the Holder upon consummation of the Plan that is not attributable to accrued but unpaid interest. The amount realized will equal the sum of the Cash and the fair market value of other consideration received (or to be received) including, as discussed below, any beneficial interests in the Liquidating Trust.

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

A Holder of a Claim or Interest who receives, in respect of its Claim, an amount, including, as discussed below, any beneficial interests in the Liquidating Trust, that is less than its tax basis in such Claim or Interest may be entitled to a bad debt deduction under section 166(a) of the Tax Code or a worthless securities deduction under section 165(g) of the Tax Code. The rules governing the character, timing, and amount of these deductions depend upon the facts and circumstances of the Holder, the obligor, and the instrument with respect to which a deduction is claimed. Accordingly, Holders are urged to consult their tax advisors with respect to their ability to take such a deduction if either: (a) the Holder is a corporation or (b) the Claim or Interest constituted (i) a debt created or acquired (as the case may be) in connection with a trade or business of the Holder or (ii) a debt the loss from the worthlessness of which is incurred in the Holder's trade or business. A Holder that has previously recognized a loss or deduction in respect of its Claim or Interest may be required to include in its gross income (as ordinary income) any amounts received under the Plan to the extent such amounts exceed the Holder's adjusted basis in such Claim or Interest.

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

Whether the Holder of a Claim or Interest will recognize a loss, a deduction for worthless securities or any other tax treatment will depend upon facts and circumstances that are specific to the nature of the Holder and its Claim or Interests. Accordingly, Holders of Claims and Interests should consult their own tax advisors.

2. Information Reporting and Backup Withholding

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

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

D. Certain U.S. Federal Income Tax Consequences of the Liquidating Trust

The Liquidating Trust will be established for the primary purpose of liquidating the assets transferred to it 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 Liquidating Trust. Thus, the Liquidating Trust is intended to be classified for U.S. federal income tax purposes as a "grantor trust" within the meaning of Treasury Regulation section 301.7701-4(d) and Revenue Procedure 94-45, 1994-2 C.B. 684. No request for a ruling from the IRS will be sought on the classification of the Liquidating Trust. Accordingly, there can be no assurance that the IRS would not take a contrary position to the classification of the Liquidating Trust. If the IRS were to challenge successfully the classification of the Liquidating Trust as a grantor trust, the U.S. federal income tax consequences to the Liquidating Trust and the Holders of Liquidating Trust Interests could vary from those discussed herein (including the potential for an entity-level tax)

For all U.S. federal income tax purposes, all parties with respect to the Liquidating Trust (including, without limitation, the Debtors, the Liquidating Trustee, and the Liquidating Trust Beneficiaries) must treat the transfer of Liquidating Trust Assets (other than those Liquidating Trust Assets placed in the Disputed Claims Reserve) to the Liquidating Trust as (1) a transfer of such Liquidating Trust Assets by the Debtors to the Liquidating Trust Beneficiaries, followed by (2) a transfer of such Liquidating Trust Assets by such beneficiaries to the Liquidating Trust, with the beneficiaries being treated as the grantors and owners of the Liquidating Trust. All parties must also use consistent valuations of the transferred assets.

In general, a liquidating trust is not a separate taxable entity but rather is treated as a grantor trust, pursuant to IRC sections 671 et. seq., owned by the persons who are treated as transferring assets to the trust. Each holder of a beneficial interest in the Liquidating Trust must report on its U.S. federal income tax return its allocable share of income, gain, loss, deduction and credit recognized or incurred by the Liquidating Trust. None of the Debtors' loss carryforwards will be available to reduce any income or gain of the Liquidating Trust. Moreover, upon the sale or other disposition (or deemed disposition) of any of the Liquidating Trust Assets not held in the Disputed Claims Reserve, each Liquidating Trust Beneficiary must report on its U.S. federal income tax return its share of any gain or loss measured by the difference between (1) its share of the amount of cash and/or the fair market value of any property received by the Liquidating Trust in exchange for the Liquidating Trust asset so sold or otherwise disposed of and (2) its adjusted tax basis in its share of the Liquidating Trust asset. The character of any such

gain or loss to the holder will be determined as if such holder itself had directly sold or otherwise disposed of the Liquidating Trust asset. The character of items of income, gain, loss, deduction, and credit to any holder of a beneficial interest in the Liquidating Trust, and the ability of the holder to benefit from any deductions or losses, will depend on the particular circumstances or status of the holder.

Given the treatment of the Liquidating Trust as a grantor trust and subject to the discussion below regarding the Disputed Claims Reserve, each Liquidating Trust Beneficiary has an obligation to report its share of the Liquidating Trust's tax items (including gain on the sale or other disposition of a Liquidating Trust Asset), which obligation is not dependent on the distribution of any Cash or other Liquidating Trust Assets by the Liquidating Trust. Accordingly, a Liquidating Trust Beneficiary may incur a tax liability as a result of holding Liquidating Trust Interests, regardless of whether the Liquidating Trust distributes Cash or other assets. Due to the requirement that the Liquidating Trust maintain certain reserves, the Liquidating Trust's ability to make current Cash Distributions may be limited or precluded. In addition, due to possible differences in the timing of income on, and the receipt of cash from the Liquidating Trust Assets, a Liquidating Trust Beneficiary may be required to report and pay tax on a greater amount of income for a taxable year than the amount of cash received by the holder during the year.

The Liquidating Trust will file annual information tax returns with the IRS as a grantor trust pursuant to Treasury Regulation section 1.671-4(a) that will include information concerning certain items relating to the holding or disposition (or deemed disposition) of the Liquidating Trust Assets (*e.g.*, income, gain, loss, deduction and credit). Each Liquidating Trust Beneficiary will receive a copy of the information returns and must report on its U.S. federal income tax return its share of all such items. The information provided by the Liquidating Trust will pertain to Liquidating Trust Beneficiaries who hold Liquidating Trust Interests in connection with the Plan.

E. Certain U.S. Federal Income Tax Consequences of the Disputed Claims Reserve

It is anticipated that the Liquidating Trustee will make an election under Treasury Regulation section 1.468B-9(c)(2)(ii) to treat the Disputed Claims Reserve as a "disputed ownership fund." Accordingly, a Holder of a Disputed Claim, unlike the holder of an Allowed Claim, will not be treated as receiving any of the Liquidating Trust Assets on the Effective Date due to holding such Disputed Claim.

If and when a Disputed Claim becomes an Allowed Claim, the holder of the now Allowed Claim will become a Liquidating Trust Beneficiary and generally will recognize gain or loss in its taxable year that includes the date of the conversion of the Disputed Claim to an Allowed Claim in an amount equal to the difference between the amount realized in respect of its Allowed Claim and its adjusted tax basis in the Allowed Claim, as further described above under Consequences of the Liquidating Trust.

If a Disputed Claim is resolved for an amount less than the amount contributed to the Disputed Claims Reserve with respect to such Disputed Claim, the difference will be released from the Disputed Claims Reserve and distributed to the Liquidating Trust Beneficiaries in accordance with their respective Pro Rata shares. Any such amount received by a Liquidating

Trust Beneficiary will constitute an additional amount realized by such Liquidating Trust Beneficiary and should be reported consistent with prior gain or loss, which has been factored into the Liquidating Trust Beneficiary's basis in the Liquidating Trust Interests.

ARTICLE XIV.
ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

A. Liquidation Under Chapter 7

If no chapter 11 plan can be confirmed, the Chapter 11 Cases may be converted to a case under chapter 7 of the Bankruptcy Code to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under chapter 7 would result in lower distributions being made to creditors than those provided for in the Plan because, among other reasons, (i) additional administrative expenses would be incurred in a chapter 7 liquidation, specifically those of a chapter 7 trustee charging statutory fees of up to 3% of disbursements and any costs of counsel to the chapter 7 trustee to become familiar with the facts and circumstances of these cases and (ii) the additional delay in distributions that would occur if the Chapter 11 Cases were converted to a case under chapter 7.

B. Alternative Plan of Liquidation

The Debtors, with the assistance of their professionals, have considered their options and have concluded that the Plan offers the best and highest recoveries for creditors. The Debtors have concluded that the Plan provides greater potential recoveries for creditors than any feasible alternative.

ARTICLE XV.
RECOMMENDATION

In the opinion of the Debtors and the Committee, the Plan is preferable to the alternatives described herein. It provides for larger distribution to the Holders than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. In addition, any alternative other than confirmation of the Plan would likely result in extensive delays in the Debtors' wind-down process, which will increase both administrative expenses and the length of time that will pass before Holders of Claims will receive their recoveries. Administrative Claims against the Debtors continue to accrue during the pendency of the Chapter 11 Cases. Therefore, any delay in the progress of these cases will result in dissipation of the assets available for Distributions and, ultimately, reduced recoveries for general unsecured creditors. **Accordingly, the Debtors and the Committee strongly recommend that Holders of Claims entitled to vote to accept or reject the Plan support confirmation of the Plan by voting to accept the Plan and that such Holders not check the box on the ballot opting out of the releases provided for in the Plan.**

Dated: August 8, 2014
Wilmington, Delaware

COLDWATER CREEK INC., on behalf of itself and each of the other Debtors

By: */s/ James A. Bell*
Name: James A. Bell
Title: President and Interim CEO

EXHIBIT A

Plan of Liquidation

EXHIBIT B

Recovery Analysis
(Substantive Consolidation Settlement)

Coldwater Creek Inc.

Waterfall Analysis - based on company forecast week ending July 12th
(In $000s, unless otherwise stated)
Claim Estimates as of Assumed Emergence

THE INFORMATION INCLUDED HEREIN IS PRELIMINARY AND IS SUBJECT TO FURTHER REVIEW, UPDATING AND CHANGE, AS MAY BE APPLICABLE AND WHICH MAY BE MATERIAL, AND SHOULD NOT BE RELIED UPON AS DEFINITIVE OR FINAL

	Claim Estimate ($)	Recovery Claim ($)	Recovery Claim %
I. Value Assumptions			
Store Liquidation Net Proceeds (Gross)	N/A	$220,515	100%
Bank Cash (at Petition)	N/A	232	100%
Fee Owned Real Estate	N/A	7,000	45%
IP Sale	N/A	27,000	32%
Spa	N/A	1,115	56%
A/R	N/A	-	100%
Potential Additional Recoveries	N/A	8,023	100%
Total Recovery Value Available for Distribution		**$263,885**	
II. DIP Recovery			
Total DIP Claims	**$36,610**	**$36,610**	**100.0%**
III. Administrative Claims Recovery			
Assets Available for Administrative Claims		**$227,275**	
Total Administrative Claims (Incl. Oper. Disb.)	**$115,525**	**$115,525**	**100.0%**
IV. Priority Claims Recovery			
Assets Available for Priority Claims		**$111,750**	
Total Priority Claims	**$500**	**$500**	**100.0%**
V. Other Secured Claims Recovery			
Assets Available for Other Secured Claims		**$111,250**	
Total Secured Claims	**$90,740**	**$90,740**	**100.0%**
VI. General Unsecured Claims and Other Non-Priority Recovery			
Assets Available for General Unsecured and Other Non-Priority Claims		**$20,510**	
Guaranteed GUC	70,741	12,222	17.3%
Coldwater Creek Inc. & Aspenwood Advertising Inc. GUC	3,684	463	12.6%
Other GUC	74,732	7,825	10.5%
Total Unsecured Claims and Other Non-Priority Claims	**149,158**	**20,510**	
Assets Available for Equity Holders/(Implied Purchase Price)		**-**	

Global Notes: Claim amounts shown are good faith estimates based on the Debtors' books and records and may differ materially from the Proofs of Claim filed against the Debtors in these Chapter 11 Cases. Claims asserted by potential creditors against multiple Debtors on account of the same liability are reflected as a single Claim in the consolidated recovery analysis. In instances where recovery values or potential claims reference an association to a particular legal entity, the note is meant to describe figures shown in the Stand-Alone Entity Basis scenario. As described in the Risk Factors in the Disclosure Statement, the amount of creditor recoveries are not certain and may be materially higher or lower than estimated herein because, among other things, Allowed Claims and administrative expenses may be higher than expected and the value the Debtors or the Liquidating Trustee are able to obtain for unliquidated assets may be higher or lower than expected.

I. Value Assumptions

Store Liquidation Net Proceeds: The proceeds related to inventory include sales receipts on merchandise prior to the commencement of the GOB Sales and the purchase price associated with the inventory sold at the Auction. Such proceeds are split primarily between U.S. Inc. and M&L as owners of the inventory as of the Petition Date (using month-end March 2014 as a proxy), which includes a *pro forma* adjustment of $28.2 million for inventory that was on-order as of the Petition Date. M&L is the Debtor that purchases merchandise. Proceeds are also allocated to The Spa on account of sales at spa locations prior to the closing of the sale of the spa business and to Aspenwood on account of the sales generated by catalogues owned and distributed by Aspenwood.

Intellectual Property: The Debtors' trademarks are owned by Coldwater.

Spa Business: Proceeds from the result of the auction for the sale of the spa business, estimated at $1 million after accounting for applicable purchase price adjustments, are attributable to The Spa.

Real Estate: The headquarters campus in Sandpoint is owned by M&L. Proceeds of leasehold sales are attributed to U.S. Inc. as the tenant of the stores.

FF&E: Proceeds of the sale of furniture, fixtures and equipment are attributed to U.S. Inc. as the tenant of the stores.

Cash: Cash is attributed to the entities based on the book value as of the Petition Date (using month-end March 2014 as a proxy).

Other Potential Recoveries: The Debtors are currently working to forecast and/or monetize other assets that may yield incremental recovery amounts. These include items such as profit sharing per the Agency Agreement, Causes of Action held by the Debtors and the sale of assets not specifically enumerated elsewhere.

II. DIP Claims and Other Secured Claims

DIP Facility Claims and Term Loan Claims: U.S. Inc. and M&L are the primary beneficiaries of the proceeds from the credit facilities, as U.S. Inc. accounts for approximately 59% of payroll expense and M&L purchases all merchandise. Other Debtors, as co-borrowers, co-obligors or guarantors under the credit facilities, are jointly and severally liable and any recovery amounts in excess of those from U.S. Inc. and M&L are subject to recovery from those Debtors.

III. Reduction to Available Proceeds

Administrative Operating Expenses: Expenses incurred post-petition are attributed to the entity that incurred the liability / initiated the disbursement. Expenses are net of reimbursable expenses as a result of the GOB Sale.

Wind Down and Other: Wind down expenses are attributed to Coldwater while other amounts, such as the commission on the leasehold proceeds and placeholder liabilities are attributed to U.S. Inc.

503(b)(9) Claims: Inventory received in the 20 days prior to the Petition Date is assumed to be held by M&L as the purchasing entity for merchandise.

IV. Priority Claims

Priority Taxes of $0.5 million are assumed to be payable by U.S. Inc. as the primary Debtor liable for income taxes, personal property taxes and other operating tax expenses.

V. Other Secured Claims

See Note II above for treatment of Other Secured Claims, which includes the Term Loan Claims.

VI. General Unsecured Claims

The recovery scenarios illustrate varying treatments among the Debtors' general unsecured creditors based on potential substantive consolidation scenarios. The notes below describe the assumptions around the Stand-Alone Entity Basis analysis , which outlines the assets available to holders of general unsecured claims by type and Debtor entity. For purposes of the Substantive Consolidation Settlement and Unmodified Substantive Consolidation analyses , general unsecured creditors are grouped together as set forth therein .

Lease Rejection and Guaranteed Claims: Prepetition amounts owed and lease rejection Claims are listed as a liability of U.S. Inc. as the tenant. In some cases, Coldwater has guaranteed lease obligations or otherwise remained liable after assignment to U.S. Inc., which results in those landlords with such a guaranty having a Claim against both Debtor-entities for the full amount of the estimated lease rejection Claim.

Trade Accounts Payable: Amounts owed to trade vendors as of the Petition Date are good faith estimates based upon the Debtors' books and records as of the week ending June 14, 2014. The amount of such claims may be reduced substantially pending a complete and final claims analysis.

Retention: Employee liabilities, including retention and sign-on bonuses, are reflected as shown in the Debtors' Statements and Schedules.

Customer Liabilities: Gift card and gift certificate liability is as of April 2014 and is reflected at the issued amounts. To the extent customer gift cards or certificates have been redeemed in the ordinary course, this amount may be reduced.

Intercompany Claims: Intercompany Claims are shown on a gross basis across all Debtor-entities for the Stand -Alone Entity recovery analysis.

EXHIBIT C
Recovery Analysis
(Unmodified Substantive Consolidation)

Coldwater Creek Inc.

Waterfall Analysis - based on company forecast week ending July 12th
(In $000s, unless otherwise stated)
Claim Estimates as of Assumed Emergence

THE INFORMATION INCLUDED HEREIN IS PRELIMINARY AND IS SUBJECT TO FURTHER REVIEW, UPDATING AND CHANGE, AS MAY BE APPLICABLE AND WHICH MAY BE MATERIAL, AND SHOULD NOT BE RELIED UPON AS DEFINITIVE OR FINAL

	Claim Estimate ($)	Recovery Claim ($)	Recovery Claim %
I. Value Assumptions			
Store Liquidation Net Proceeds (Gross)	N/A	$220,515	100%
Bank Cash (at Petition)	N/A	232	100%
Fee Owned Real Estate	N/A	7,000	45%
IP Sale	N/A	27,000	32%
Spa	N/A	1,115	56%
A/R	N/A	-	100%
Potential Additional Recoveries	N/A	8,023	100%
Total Recovery Value Available for Distribution		**$263,885**	
II. DIP Recovery			
Total DIP Claims	**$36,610**	**$36,610**	**100.0%**
III. Administrative Claims Recovery			
Assets Available for Administrative Claims		**$227,275**	
Total Administrative Claims (Incl. Oper. Disb.)	**$115,525**	**$115,525**	**100.0%**
IV. Priority Claims Recovery			
Assets Available for Priority Claims		**$111,750**	
Total Priority Claims	**$500**	**$500**	**100.0%**
V. Other Secured Claims Recovery			
Assets Available for Other Secured Claims		**$111,250**	
Total Secured Claims	**$90,740**	**$90,740**	**100.0%**
VI. General Unsecured Claims and Other Non-Priority Recovery			
Assets Available for General Unsecured and Other Non-Priority Claims		**$20,510**	
Total Unsecured Claims and Other Non-Priority Claims	**149,158**	**20,510**	**13.8%**
Assets Available for Equity Holders/(Implied Purchase Price)		**-**	

Global Notes: Claim amounts shown are good faith estimates based on the Debtors' books and records and may differ materially from the Proofs of Claim filed against the Debtors in these Chapter 11 Cases. Claims asserted by potential creditors against multiple Debtors on account of the same liability are reflected as a single Claim in the consolidated recovery analysis. In instances where recovery values or potential claims reference an association to a particular legal entity, the note is meant to describe figures shown in the Stand-Alone Entity Basis scenario. As described in the Risk Factors in the Disclosure Statement, the amount of creditor recoveries are not certain and may be materially higher or lower than estimated herein because, among other things, Allowed Claims and administrative expenses may be higher than expected and the value the Debtors or the Liquidating Trustee are able to obtain for unliquidated assets may be higher or lower than expected.

I. Value Assumptions

Store Liquidation Net Proceeds: The proceeds related to inventory include sales receipts on merchandise prior to the commencement of the GOB Sales and the purchase price associated with the inventory sold at the Auction. Such proceeds are split primarily between U.S. Inc. and M&L as owners of the inventory as of the Petition Date (using month-end March 2014 as a proxy), which includes a *pro forma* adjustment of $28.2 million for inventory that was on-order as of the Petition Date. M&L is the Debtor that purchases merchandise. Proceeds are also allocated to The Spa on account of sales at spa locations prior to the closing of the sale of the spa business and to Aspenwood on account of the sales generated by catalogues owned and distributed by Aspenwood.

Intellectual Property: The Debtors' trademarks are owned by Coldwater.

Spa Business: Proceeds from the result of the auction for the sale of the spa business, estimated at $1 million after accounting for applicable purchase price adjustments, are attributable to The Spa.

Real Estate: The headquarters campus in Sandpoint is owned by M&L. Proceeds of leasehold sales are attributed to U.S. Inc. as the tenant of the stores.

FF&E: Proceeds of the sale of furniture, fixtures and equipment are attributed to U.S. Inc. as the tenant of the stores.

Cash: Cash is attributed to the entities based on the book value as of the Petition Date (using month-end March 2014 as a proxy).

Other Potential Recoveries: The Debtors are currently working to forecast and/or monetize other assets that may yield incremental recovery amounts. These include items such as profit sharing per the Agency Agreement, Causes of Action held by the Debtors and the sale of assets not specifically enumerated elsewhere.

II. DIP Claims and Other Secured Claims

DIP Facility Claims and Term Loan Claims: U.S. Inc. and M&L are the primary beneficiaries of the proceeds from the credit facilities, as U.S. Inc. accounts for approximately 59% of payroll expense and M&L purchases all merchandise. Other Debtors, as co-borrowers, co-obligors or guarantors under the credit facilities, are jointly and severally liable and any recovery amounts in excess of those from U.S. Inc. and M&L are subject to recovery from those Debtors.

III. Reduction to Available Proceeds

Administrative Operating Expenses: Expenses incurred post-petition are attributed to the entity that incurred the liability / initiated the disbursement. Expenses are net of reimbursable expenses as a result of the GOB Sale.

Wind Down and Other: Wind down expenses are attributed to Coldwater while other amounts, such as the commission on the leasehold proceeds and placeholder liabilities are attributed to U.S. Inc.

503(b)(9) Claims: Inventory received in the 20 days prior to the Petition Date is assumed to be held by M&L as the purchasing entity for merchandise.

IV. Priority Claims

Priority Taxes of $0.5 million are assumed to be payable by U.S. Inc. as the primary Debtor liable for income taxes, personal property taxes and other operating tax expenses.

V. Other Secured Claims

See Note II above for treatment of Other Secured Claims, which includes the Term Loan Claims.

VI. General Unsecured Claims

The recovery scenarios illustrate varying treatments among the Debtors' general unsecured creditors based on potential substantive consolidation scenarios. The notes below describe the assumptions around the Stand-Alone Entity Basis analysis , which outlines the assets available to holders of general unsecured claims by type and Debtor entity. For purposes of the Substantive Consolidation Settlement and Unmodified Substantive Consolidation analyses , general unsecured creditors are grouped together as set forth therein .

Lease Rejection and Guaranteed Claims: Prepetition amounts owed and lease rejection Claims are listed as a liability of U.S. Inc. as the tenant. In some cases, Coldwater has guaranteed lease obligations or otherwise remained liable after assignment to U.S. Inc., which results in those landlords with such a guaranty having a Claim against both Debtor-entities for the full amount of the estimated lease rejection Claim.

Trade Accounts Payable: Amounts owed to trade vendors as of the Petition Date are good faith estimates based upon the Debtors' books and records as of the week ending June 14, 2014. The amount of such claims may be reduced substantially pending a complete and final claims analysis.

Retention: Employee liabilities, including retention and sign-on bonuses, are reflected as shown in the Debtors' Statements and Schedules.

Customer Liabilities: Gift card and gift certificate liability is as of April 2014 and is reflected at the issued amounts. To the extent customer gift cards or certificates have been redeemed in the ordinary course, this amount may be reduced.

Intercompany Claims: Intercompany Claims are shown on a gross basis across all Debtor-entities for the Stand -Alone Entity recovery analysis.

EXHIBIT D

Recovery Analysis
(Stand-Alone Entity Basis)

Coldwater Creek Inc.
Entity Level Waterfall Analysis
(In $000s, unless otherwise stated)
Claim Estimates as of Assumed Emergence

THE INFORMATION INCLUDED HEREIN IS PRELIMINARY AND IS SUBJECT TO FURTHER REVIEW, UPDATING AND CHANGE, AS MAY BE APPLICABLE AND WHICH MAY BE MATERIAL, AND SHOULD NOT BE RELIED UPON AS DEFINITIVE OR FINAL

	Coldwater Creek Inc	Coldwater Creek US Inc	Coldwater Creek The Spa Inc	Coldwater Creek Merchandising and Logistics Inc	Aspenwood Advertising Inc	Coldwater Creek Sourcing Inc	Coldwater Creek HK Ltd	CWC Sourcing LLC	CWC Rewards Inc
I. Value Assumptions									
Inventory	-	64,885	2,458	147,466	3,757	-	-	-	-
IP	27,000	-	-	-	-	-	-	-	-
Spas	-	-	1,115	-	-	-	-	-	-
Real Estate	-	2,000	-	5,000	-	-	-	-	-
FF&E	-	1,950	-	-	-	-	-	-	-
Cash	88		136	-	-	-	-	7	-
Potential Additional Recoveries	2,000	2,443	-	3,280	300	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total Recovery Value Available for Distribution	**29,088**	**71,278**	**3,709**	**155,746**	**4,057**	**-**	**-**	**7**	**-**
II. DIP Recovery									
Total DIP Claims	-	18,305	-	18,305	-	-	-	-	-
III. Administrative Claims Recovery									
Assets Available for Administrative Claims	**29,088**	**52,973**	**3,709**	**137,441**	**4,057**	**-**	**-**	**7**	**-**
Total Administrative Claims	**17,985**	**51,756**	**1,972**	**42,705**	**1,106**	**-**	**-**	**-**	**-**
IV. Priority Claims Recovery									
Assets Available for Priority Claims	**11,103**	**1,217**	**1,737**	**94,736**	**2,950**	**-**	**-**	**7**	**-**
Total Priority Claims	**-**	**500**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
V. Other Secured Claims Recovery									
Assets Available for Other Secured Claims	**11,103**	**717**	**1,737**	**94,736**	**2,950**	**-**	**-**	**7**	**-**
Total Secured Claims	**-**	**717**	**-**	**90,023**	**-**	**-**	**-**	**-**	**-**
VI. General Unsecured Claims and Other Non-Priority Recovery									
Assets Available for General Unsecured and Other Non-Priority Claims	**11,103**	**-**	**1,737**	**4,713**	**2,950**	**-**	**-**	**7**	**-**
Total Unsecured Claims and Other Non-Priority Claims	569,968	145,612	34,324	339,052	10,922	-	-	10	34,880
Total Unsecured Claims (Excluding Intercompany Claims)	67,967	78,386	261	40,220	5,452	-	-	-	27,542
Recovery Available After Intercompany Recoveries	**8,400**	**8,764**	**43**	**813**	**1,473**	**-**	**23**	**1**	**992**
Recovery %	**12.4%**	**11.2%**	**16.6%**	**2.0%**	**27.0%**	**N/A**	**N/A**	**N/A**	**3.6%**
Assets Available for Equity Holders/(Implied Purchase Price)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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V. Other Secured Claims

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VI. General Unsecured Claims

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Intercompany Claims: Intercompany Claims are shown on a gross basis across all Debtor-entities for the Stand -Alone Entity recovery analysis.

EXHIBIT E

Global Settlement Agreement

EXECUTION VERSION

GLOBAL SETTLEMENT AGREEMENT AND RELEASE

This Global Settlement Agreement and Release (this "Agreement") is entered into as of this 10th day of July, 2014, by and among:

1. Coldwater Creek Inc., and its affiliates who are chapter 11 debtors in case No. 14-10867 (BLS) (Jointly Administered) (collectively, the "Debtors"), in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court");

2. The Official Committee of Unsecured Creditors of Coldwater Creek, Inc., appointed in the Debtors' chapter 11 cases (the "Committee" or the "OCUC");

3. The Apparel Group, Ltd. ("Apparel Group");

4. Charter Ventures Limited ("Charter");

5. Chinamine Trading Ltd. ("Chinamine");

6. GGP Limited Partnership ("GGP");

7. Orient Craft, Ltd. ("Orient");

8. Quad/Graphics, Inc. ("Quad");

9. Simon Property Group ("Simon"); and

10. CC Holdings of Delaware, LLC-Series A, CC Holdings of Delaware, LLC-Series B, and CC Holdings Agency Corporation (collectively, "GGC").

11. The Debtors, the OCUC, Apparel Group, Charter, Chinamine, GGP, Orient, Quad, Simon and GGC are collectively referred to as "the Parties." Apparel Group, Charter, Chinamine, GGP, Orient, Quad, and Simon are collectively referred to as the "OCUC Members."

I. RECITALS

12. On April 11, 2014 (the "Petition Date"), the Debtors filed voluntary petitions for relief under chapter 11 of the United States Code, 11 U.S.C. §§ 101 *et seq*. The Debtors' chapter 11 cases (the "Bankruptcy Cases") are proceeding before the Hon. Brendan Shannon of the Bankruptcy Court.

13. On April 23, 2014, the Office of the United States Trustee for the District of Delaware (the "U.S. Trustee") appointed the OCUC in the Bankruptcy Cases.

14. GGC alleges that it has secured claims of approximately $96.5 million as of the Petition Date, plus interest, fees, costs and expenses accrued but unpaid pursuant to the term loan agreement. Because of interest and other payments that have been made to GGC since the Petition Date, GGC alleges that its secured claims now equal $95,139,670.15 (the "GGC Claims"). The GGC

Claims include principal and accrued interest, as well as a prepayment premium, with respect to a term loan issued by GGC to the Debtors in 2012.

15. The OCUC has been engaged in an investigation of potential claims and causes of action against the Debtors, the Debtors' officers and directors, and GGC (collectively, the "OCUC Claims"). The OCUC has served interrogatories, document requests and has requested depositions of GGC (collectively, the "Discovery"). Pursuant to the *Final Order (I) Authorizing Postpetition Financing, (II) Granting Liens and Providing Super Priority Administrative Expense Priority, (III) Authorizing Use of Cash Collateral, (IV) Granting Adequate Protection to Prepetition Secured Lenders, and (V) Modifying the Automatic Stay* [Docket no. 573] (the "Final DIP Order"), the OCUC currently has until July 25, 2014 (the "Challenge Period") to challenge the GGC Claims, bring any claims or causes of action against GGC, or challenge the extent, validity or perfection of liens and/or security interests allegedly held by GGC in or against the Debtors' assets. The Final DIP Order also requires, among other things, the Debtors to pay (i) interest and default interest to GGC on a current basis and (ii) all of GGC's out of pocket expenses and professional fees in the ordinary course throughout the Bankruptcy Cases.

16. The Debtors filed the Second Amended Joint Plan of Liquidation of Coldwater Creek Inc. and Its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 608] (the "Plan") and the Second Amended Disclosure Statement for the Second Amended Joint Plan of Liquidation of Coldwater Creek Inc. and Its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code [Docket No. 624, Exhibit B]. Prior to execution of this Agreement, the OCUC had informed the Debtors that it would recommend that creditors vote against the Plan and that the OCUC Members intended to vote against the Plan.

17. Prior to execution of this Agreement, the OCUC had filed a motion to terminate the Debtors' exclusive periods to file and solicit acceptances of a plan and also indicated that it planned to object to some or all of the GGC Claims and seek standing to pursue such objections. Prior to the execution of this Agreement, the OCUC also planned to object to the Plan, including to the releases provided in the Plan.

18. The Parties desire to settle and compromise in this Agreement all issues related to the GGC Claims, the OCUC Claims, the Challenge Period, the Discovery, the Committee's opposition to the Plan and all other disputes among the Parties. This Agreement shall not be construed as, or be deemed an admission of, the truth of any allegation or the validity of any claim, as all such allegations and claims are expressly denied. It is agreed that subject to the terms and conditions set forth below and except as otherwise expressly provided below, in consideration of the agreements, promises, and covenants set forth in this Agreement, the GGC Claims, the OCUC Claims, the Challenge Period, the Discovery, and all other disputes among the parties related to the Bankruptcy Cases and the Plan are settled and compromised fully and finally under the following terms and conditions.

19. This Agreement binds all Parties upon execution, and shall become effective on the date it is approved by the Bankruptcy Court (the "Effective Date").

II. SETTLEMENT TERMS AND CONDITIONS

20. The recitals are incorporated by reference and are made a part of this Agreement. In exchange for good and valuable consideration, the amount and sufficiency of which are acknowledged, each Party agrees to the terms of this Agreement, which are as follows.

A. GGC Claims

21. Upon the Effective Date, the GGC Claims will be allowed and paid in full and in cash in the amount of $90,739,670.15 (the "GGC Payment"), which is $4,400,000 less than the current face amount of the GGC Claims. The Debtors will pay by wire transfer the amount of $90,739,670.15 to GGC as soon as practicable after the Effective Date but no later than July 21, 2014.

22. To the extent the GGC Payment is made as provided in the preceding paragraph on or before July 21, 2014, GGC agrees to waive all unpaid interest (including PIK interest) that accrued from July 1, 2014 through and including the date of repayment. If payment is not made in full on or before July 21, 2014, all interest (including PIK interest) will be owed and will continue to accrue through the date that payment is made and, unless otherwise agreed by the Parties in writing, this agreement shall be null and void and all of the Parties shall be returned to the positions they were in prior to the execution of this Agreement.

23. In addition, all of GGC's reasonable expenses and professional fees through the Effective Date of this Agreement will be paid in full by the Debtors on a monthly basis as they are accrued and billed in accordance with the Final DIP Order; provided that all of GGC's reasonable expenses and professional fees through the effective date of any chapter 11 plan will be paid by the Debtors on a monthly basis as they are accrued and billed in accordance with the Final DIP Order in an amount not to exceed $100,000.

24. Upon the Effective Date, all payments made to GGC, whether prior to or as a result of this Agreement, shall be deemed final and not subject to clawback or disgorgement for any reason, whether or not the Plan is confirmed.

B. Challenge Period and Releases

25. Upon execution of this Agreement, the Challenge Period shall be tolled and extended with respect to GGC for the number of days between execution of this Agreement and the earlier of (1) a ruling on the 9019 Motion or (2) July 21, 2014.

26. Upon the Effective Date, the Challenge Period shall be deemed expired with respect to GGC. As of the Effective Date, the Parties agree and acknowledge that the Debtors' Stipulations in Paragraphs E(1) through (8) of the Final DIP Order bind the OCUC and the OCUC Members solely with respect to GGC, and that any potential challenges, claims or causes of action against GGC are barred in accordance with paragraphs 23-25 of the Final DIP Order. For the avoidance of doubt, nothing contained in this Agreement shall affect the OCUC's rights under the Final DIP Order or otherwise with respect to Wells Fargo Bank, National Association.

27. Upon the Effective Date, all Discovery shall be deemed withdrawn. All documents produced to date will be destroyed pursuant to the Protective Order entered in the Bankruptcy Cases as soon as practicable after the Effective Date. In the event that this Agreement is not approved by the Bankruptcy Court, the Discovery shall be deemed reinstated.

28. Upon the Effective Date, the Debtors shall be deemed to release and forever discharge GGC, along with its direct and indirect subsidiaries, divisions, and affiliates, and each of their officers, directors, employees, and any of their legal representatives, from any and all manner of claims, disputes, actions, liabilities, causes of actions, suits, set-offs, counterclaims, demands, or damages, whatsoever, based on any legal or equitable theory, right of action or otherwise (whether arising under federal, state, local law or regulation or common law), foreseen or unforeseen, known or unknown, matured or unmatured, accrued or not accrued. This release expressly includes any claims against GGC, any of its officers, directors, and employees (including but not limited to Neale Attenborough, in all capacities), and any of their legal representatives, regardless of subject matter.

29. Upon the Effective Date, the OCUC, each of the OCUC Members, and any affiliate of an OCUC Member that is a creditor of any of the Debtors shall be deemed to release and forever discharge GGC and any affiliate of GGC that is a creditor of any of the Debtors, and each of their officers, directors, employees, and any of their legal representatives, from any and all manner of claims, disputes, actions, liabilities, causes of actions, suits, set-offs, counterclaims, demands, or damages, whatsoever, based on any legal or equitable theory, right of action or otherwise (whether arising under federal, state, local law or regulation or common law), foreseen or unforeseen, known or unknown, matured or unmatured, accrued or not accrued, related in any way to the Debtors or to the Bankruptcy Cases. This release expressly includes any claims against GGC, any of its officers, directors, and employees (including but not limited to Neale Attenborough, in all capacities), and any of their legal representatives, related in any way to the Debtors or to the Bankruptcy Cases.

30. Upon the Effective Date, GGC and any affiliate of GGC that is a creditor of any of the Debtors shall be deemed to release and forever discharge the OCUC, each of the OCUC Members, and any affiliate of an OCUC Member that is a creditor of any of the Debtors, and each of their officers, directors, employees, and any of their legal representatives, from any and all manner of claims, disputes, actions, liabilities, causes of actions, suits, set-offs, counterclaims, demands, or damages, whatsoever, based on any legal or equitable theory, right of action or otherwise (whether arising under federal, state, local law or regulation or common law), foreseen or unforeseen, known or unknown, matured or unmatured, accrued or not accrued, related in any way to the Debtors or to the Bankruptcy Cases.

31. Upon the Effective Date, the OCUC and each OCUC Member individually agrees that, provided that the Debtors are not materially in breach of this Agreement, (a) it will not object in any way, directly or indirectly, to the release, injunction and exculpation provisions of Article VIII of the Plan (collectively, the "Plan Release Provisions"), (b) it will not object in any way, directly or indirectly, to Plan Release Provisions or any similar provisions in any other plan that may be filed in these cases, (c) it will not propose or support in any way, directly or indirectly, a plan that does not contain Plan Release Provisions or similar provisions reasonably acceptable to the Debtors unless and only to the extent that approval of the Plan Release Provisions or a portion thereof has been previously denied by the Bankruptcy Court and (d) it will not opt out of the Plan Release Provisions

on any ballot it submits to vote on the Plan. This paragraph shall be binding on any transferee of any claim held by any OCUC Member. For the purposes of paragraph 31, the definition of OCUC Member shall be the entity that was appointed to the Committee and any of its affiliates that is a creditor of any of the Debtors.

32. Nothing contained in this Agreement shall constitute a release, waiver or discharge by any OCUC Member or any of its affiliates that is a creditor of any of the Debtors of any prepetition or post-petition claims against the Debtors or the Debtors' estates, whether scheduled, filed or otherwise, and any and all such claims are hereby expressly preserved.

C. Remaining Matters in the Bankruptcy Court

33. The Plan will be amended to reflect the terms of this Agreement, and neither the Debtors nor the OCUC will propose or support any plan that is inconsistent with this Agreement or Article VIII of the Plan; provided, however; that each OCUC Member individually retains its right to object to the Plan on any other basis and is free to vote to accept or reject the Plan. The OCUC will include a letter in the solicitation package distributed to creditors for voting on the Plan, which letter will strongly recommend that creditors vote in support of the Plan and not opt out of the Plan Release Provisions.

34. The Plan will be amended, if necessary, to conform with any decision the OCUC reaches, in its sole discretion, with respect to the non-consolidation or substantive consolidation of any or all of the Debtors' estates and/or the allocation of assets and/or liabilities between and among any or all of the Debtors' estates; provided that if the OCUC decides to seek substantive consolidation and either the Debtors or the Committee are unable to sustain the legal burden associated therewith and the Bankruptcy Court declines to order substantive consolidation, the Plan shall provide that it automatically becomes a non-consolidated plan; provided further that the election of the OCUC as to substantive consolidation shall be made in writing to the Debtors no later than July 31, 2014. Notwithstanding the foregoing or anything else in this Agreement to the contrary, nothing contained herein shall prejudice the right of any OCUC Member, in its individual capacity, from objecting to the Plan on the basis that the Plan is either consolidated or non-consolidated.

35. The Disclosure Statement will be amended to reflect the terms of this Agreement and shall otherwise be in a form reasonably satisfactory to the Committee.

36. Upon the Effective Date, the OCUC will withdraw, with prejudice, all objections to all motions or applications pending before the Bankruptcy Court as of the date hereof, including its motion to terminate exclusivity [Docket No. 525] and its objection to Perella Weinberg's retention application [Docket No. 386], conditioned on Perella Weinberg's agreement to waive its $100,000 monthly fees for each of July and August, 2014 and thereafter.

37. The Debtors and the OCUC agree that the date of the hearing to consider confirmation of the Plan shall be September 8, 2014 or as soon as possible thereafter that the Bankruptcy Court is available to hold such hearing.

38. The Debtors and the OCUC hereby agree that from and after September 1, 2014, the Debtors and the OCUC shall have a co-exclusive period to propose a plan until October 11, 2014; provided, that the Debtors agree that they will not make any material modifications to the Plan without the consent of the OCUC prior to September 1, 2014.

39. Upon the Effective Date, the Debtors shall pay the Back-Up Topping Fee described in paragraph 45 of the *Order (I) Authorizing Entry Into Agency Agreement, (II) Authorizing Sale of Assets and Store Closing Sales and (III) Granting Related Relief* [Docket No. 355] to the Inventory Back-Up Bidder (a contractual joint venture comprised of Tiger Capital Group, LLC, SB Capital Group, LLC and Great American Group WF, LLC) in resolution of the Back-Up Topping-Fee Dispute (defined therein).

D. Other Provisions

40. This Agreement is subject to the approval of the Bankruptcy Court pursuant to Federal Rule of Bankruptcy Procedure 9019. Within 1 day of the execution of this agreement, the Debtors will, with the consent of the OCUC and GGC, file a motion with the Bankruptcy Court for approval of this Agreement (the "9019 Motion") in form reasonably satisfactory to the OCUC and GGC, and all Parties will support the 9019 Motion and the motion for expedited treatment of the 9019 Motion. If this Agreement is not approved by the Bankruptcy Court on or before July 21, 2014, unless otherwise agreed by the Parties in writing, it is null and void and all of the Parties return to the positions they were in prior to the execution of this Agreement.

41. This Agreement constitutes the entire, complete and integrated statement of each and every term and provision agreed to by and among the Parties and is not subject to any condition not provided for herein. This Agreement supersedes any prior representations, promises, or warranties (oral or otherwise) made by any party, and no party shall be liable or bound to any other party for any prior representation, promise or warranty (oral or otherwise) except for those expressly set forth in this Agreement. This Agreement shall not be modified in any respect except by a writing executed by the party to be charged hereto.

42. Each Party, with the assistance of competent counsel, has participated in the drafting of this Agreement. The Parties agree that this Agreement has been negotiated at arms' length by parties of equal bargaining power, each of whom was represented by competent counsel of its own choosing. None of the Parties hereto shall be considered to be the drafter of this Agreement for the purpose of any statute, case law or rule of interpretation or construction that would or might cause any provision to be construed against the drafter hereof.

43. Each Party warrants and represents that in entering into this Agreement it is relying solely on its own judgment, belief and knowledge, and on that of any attorney retained to represent it in this matter. No Party is relying on any representation or statement made by any other Party or any person representing such other Party except for the representations and warranties expressly set forth in this Agreement.

44. The Parties expressly declare and represent that they have read this Agreement and that they have consulted with their respective counsel regarding this Agreement. The Parties expressly declare and represent that they fully understand the content and effect of this Agreement,

that they approve and accept the terms and conditions contained herein, and that they enter into this Agreement willingly, knowingly, and without compulsion.

45. Each of the Parties further declares and represents that he or she is competent to execute this instrument and that he or she is duly authorized, and has the full right and authority, to execute this Agreement on behalf of the Party for whom he or she is signing.

46. This Agreement may be executed in counterparts. Facsimile signatures shall be considered as valid signatures as of the date hereof.

47. This Agreement shall be interpreted in accordance with the laws of Delaware, without giving effect to any choice-of-law or conflict of laws provisions. Any lawsuit related to the terms of this Agreement shall be brought exclusively in the Bankruptcy Court.

IN WITNESS WHEREOF, this Global Settlement Agreement and Release has been executed by the undersigned as of the 10th day of July, 2014.

/s/ James Bell
James Bell, President, Coldwater Creek Inc.
For the Debtors

/s/ Ronald M. Tucker
Ronald M. Tucker, Co-Chair
For the OCUC

/s/ Alan Barnett
Alan Barnett, Co-Chair
For the OCUC

/s/ David Ludwig
David Ludwig
For Apparel Group

Howard Cohen
For Charter

/s/ Alan Barnett
Alan Barnett
For Chinamine

/s/ Julie Minnick Bowden
Julie Minnick Bowden
For GGP

/s/ Michael T. Eversden
Michael T. Eversden
For Orient

/s/ Mike Vechart

Mike Vechart
For Quad

/s/ Ronald M. Tucker
Ronald M. Tucker
For Simon

/s/ Joshua Olshansky
Joshua Olshansky
For GGC