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UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION

In re:

WORLD BAZAARS, INC., a California corporation,

Debtor.

Case No. LA 00-24386 ES

Chapter 11

**SECOND AMENDED DISCLOSURE
STATEMENT DESCRIBING SECOND AMENDED
CHAPTER-11 PLAN PROPOSED BY WORLD
BAZAARS, INC. (DATED NOVEMBER 10, 2000);
DECLARATION OF FRANK BUDETTI**

Disclosure Statement Hearing

DATE: November 21, 2000
TIME: 2:00 p.m.
PLACE: Courtroom 1645
Roybal Federal Building
255 E. Temple St.
Los Angeles, CA 90012

Confirmation Hearing

DATE: January 25, 2001
TIME: 10:00 a.m.
PLACE: Courtroom 1645
Roybal Federal Building
255 E. Temple St.
Los Angeles, CA 90012

SUMMARY

Debtor: World Bazaars, Inc.

Recommendation: **World Bazaars, the Bank Group, and the Creditors' Committee recommend that you accept the accompanying Plan, and they urge you to vote in favor of the Plan.**

Who Is Entitled to Vote: You are entitled to vote only if you hold an Allowed Claim in Classes 1, 2, 6, 7, or 9.

Voting Information: If you are entitled to vote, you should have received a ballot with this Plan and Disclosure Statement. After completing and signing your ballot, you should return it to:

Klee, Tuchin, Bogdanoff & Stern LLP
Attn: Shanda D. Pearson, Paralegal
1880 Century Park East, Suite 200
Los Angeles, CA 90067
Facsimile: (310) 407-9090

Your ballot will not be counted unless Klee, Tuchin, Bogdanoff & Stern LLP receives it by 5:00 p.m. Pacific Savings Time on January 11, 2001.

Vote Required to Accept the Plan: For the Plan to be accepted, it must receive the affirmative vote of two-thirds in dollar amount and a majority in number of the Claims actually voted in each Class of impaired Claims. If the Plan is not accepted by each Class, the Court may nevertheless confirm the Plan if the cram-down requirements of Bankruptcy Code section 1129(b) are satisfied.

Confirmation Hearing: The Confirmation Hearing will commence on January 25, 2001 at 10:00 a.m. The Court may periodically continue the Confirmation Hearing without further notice.

Treatment of Claims and Interests: The treatment that you will receive if the Court confirms the Plan is set forth in Section V.A.

Questions: All inquiries about the Plan and Disclosure Statement should be in writing and should be sent to:

Klee, Tuchin, Bogdanoff & Stern LLP
Attn: Mette H. Kurth, Esq.
1880 Century Park East, Suite 200
Los Angeles, CA 90067
Facsimile: (310) 407-9090

NOTICE: THE PLAN, DISCLOSURE STATEMENT, AND BALLOTS CONTAIN IMPORTANT INFORMATION THAT IS NOT INCLUDED IN THIS SUMMARY. THAT INFORMATION COULD MATERIALLY AFFECT YOUR RIGHTS. YOU SHOULD THEREFORE READ THE PLAN, DISCLOSURE STATEMENT, AND BALLOTS IN THEIR ENTIRETY. YOU SHOULD ALSO CONSULT WITH YOUR LEGAL AND FINANCIAL ADVISORS BEFORE VOTING ON THE PLAN.

TABLE OF CONTENTS

I.	DEFINITIONS	1
II.	RULES OF INTERPRETATION.....	7
III.	INTRODUCTION.....	8
IV.	BACKGROUND	9
A.	World Bazaars' Operations.	9
B.	Events Leading to the Chapter-11 Filing.....	9
1.	The 1998 Restructuring.	9
2.	The Attempt to Consolidate Warehouse Operations.	10
3.	The Inability to Obtain Refinancing or to Restructure the Credit Facility.	10
C.	Assets and Liabilities.....	10
1.	Assets.	10
a.	Balance-Sheet Assets.....	10
b.	Potential Claims and Litigation.....	11
(1)	General Avoidance Actions.....	11
(2)	The Abulafias.	12
(a)	The 1998 Restructuring.	12
(b)	The Gibson Sublease.	12
(c)	The Public Auction.	13
(d)	Miscellaneous.	13
(3)	The Wells Fargo Turnover Action.	14
(4)	The APL Litigation.....	14
(5)	Distribution Consultants, Inc.	14
(6)	The SKM Funds, the SKM Lenders, and the Directors.	14
(7)	The Bank Group.....	15
2.	Liabilities.	15
a.	Secured Debts.	16
(1)	The Credit Facility (Bank Group).	16

	(2)	The Term Loan (Equipment Lenders).....	16
	(3)	The Postpetition Lien (Bank Group).....	16
	b.	Unsecured Debts.....	17
	(1)	General Unsecured Claims and Priority Claims.....	17
	(2)	Rejection Damage Claims.....	17
	(3)	Litigation.....	17
	(4)	The WARN-Act Claims.....	17
	c.	The Shareholders.....	18
D.		World Bazaars' Principals.....	19
	1.	The Board of Directors.....	19
	2.	The Officers.....	19
E.		Significant Events During This Liquidation Case.....	19
	1.	The Cash-Collateral Stipulations.....	19
	2.	The Public Auction and the Sale of Substantially All Assets.....	20
	3.	Disposition of Nonresidential Real-Estate Leases.....	21
	4.	Disposition of the Equipment.....	21
	5.	Liquidation of Miscellaneous Assets.....	22
	6.	Reduction of Administrative Overhead.....	22
	7.	Employee-Retention Program.....	22
	8.	The Bank Group Stipulation, the Equipment Stipulation, and the Interim Distributions.....	22
	9.	Employment of Professionals.....	23
	10.	Appointment of the Creditors' Committee.....	24
	11.	The Bar Date, Claim Objections, and Estimated Claims.....	24
V.		SUMMARY OF PLAN PROVISIONS.....	25
A.		What Creditors and Interest Holders Will Receive under the Plan.....	25
	1.	Unclassified Claims.....	25
	a.	Administrative Claims.....	25

b.	Priority Tax Claims	27
2.	Classified Claims and Interests	27
a.	Classes of Secured Claims	27
b.	Classes of Priority Unsecured Claims.	31
c.	Classes of General Unsecured Claims	32
d.	Classes of Interest Holders	38
B.	Means of Effectuating the Plan.	38
1.	Source of Funds	38
2.	The Continuing Estate.	38
C.	Resolution of Litigation	39
1.	Postconfirmation Litigation	39
2.	Claim Objection Deadline.	40
D.	The Bank Group Settlement.	40
E.	Other Provisions of the Plan.	40
1.	Rejection of Executory Contracts and Unexpired Leases.	40
2.	Bar Date for Rejection-Damage Claims	40
3.	Postpetition Contracts and Leases.	41
4.	Post-Confirmation Management.	41
(1)	Appointment of the Plan Administration Committee	41
(2)	Removal of the Plan Administration Committee and Selection of a New Plan Administration Committee.	41
(3)	Powers and Duties of the Plan Administration Committee	41
5.	The Disbursing Agent.	42
6.	Employment of Professionals.	42
7.	Post-Effective-Date Operating and Litigation Expenses	43
8.	Timing of Distributions.	43
9.	Setoff and Recoupment.	44
10.	The Bank Group Release.	44

11.	The Effective Date.....	45
12.	Termination of World Bazaars.	45
13.	Dissolution of the Creditors' Committee.....	45
14.	Dissolution of the Continuing Estate.....	45
15.	Nondischarge of World Bazaars.	45
16.	Injunction.....	46
17.	Retention of Jurisdiction.....	46
F.	Risk Factors.	47
1.	Occurrence of the Effective Date.....	47
2.	Recoveries to Unsecured Creditors.....	48
VI.	TAX CONSEQUENCES OF THE PLAN.....	48
A.	Introduction.	48
B.	Federal Income Tax Consequences to World Bazaars.	49
1.	Sales of Assets and Collection of Accounts Receivable.....	49
2.	Reduction of World Bazaars' Indebtedness.....	49
3.	Carryover and Availability of World Bazaars' Net Operating Losses.....	50
a.	Generally.....	50
b.	Section 382.	50
C.	Tax Consequences to Creditors.	51
1.	In General.	51
a.	Gain/Loss on Exchange.....	51
b.	Tax Basis and Holding Period of Items Received.....	52
2.	Receipt of Interest.....	52
3.	Effect of Modification of Debt.	52
4.	Contingent Payments Under the Plan.....	53
5.	Deemed Receipt of Stock.	53
6.	Claims Constituting Tax Securities.	53
a.	Definition of "Security" for Tax Purposes.....	53

b.	Receipt of Tax Securities.....	54
c.	Receipt of Cash or Debt Not Constituting Tax Securities for Tax Securities.....	54
d.	Determination of Character of Gain.....	54
e.	Tax Basis and Holding Period of Items Received.....	54
f.	Receipt Solely of Boot.....	55
7.	Other Tax Considerations.....	55
a.	Market Discount.....	55
b.	Withholding.....	55
D.	Taxation of Litigation Fund and Litigation Recoveries.....	55
E.	Tax Consequences to Shareholders.....	55
F.	General Disclaimer.....	56
VII.	CONFIRMATION REQUIREMENTS AND PROCEDURES.....	56
A.	Plan Acceptance by Voting.....	56
1.	Who May Vote to Accept or Reject the Plan.....	56
a.	What Is an Allowed Claim.....	56
b.	What Is an Impaired Claim or Interest.....	57
2.	Who is Not Entitled to Vote.....	57
3.	Who Can Vote in More Than One Class.....	57
4.	Votes Necessary to Confirm the Plan.....	57
5.	Votes Necessary for a Class to Accept the Plan.....	58
6.	Deadlines for Voting on the Plan.....	58
B.	Cram Down of Nonconsenting Classes.....	58
C.	Liquidation Analysis.....	58
D.	Feasibility of the Plan.....	61
E.	The Confirmation Hearing and Objections to Confirmation.....	62
VIII.	DISCLAIMERS.....	62
A.	No Duty to Update Information.....	62

B.	Disclosure Statement Is the Sole Source of Information About the Plan.	62
C.	Discrepancies Between Plan and Disclosure Statement.	63
D.	No Admissions Against Interest.	63
	DECLARATION OF FRANK BUDETTI.	64

TABLE OF EXHIBITS

Exhibit 1—List of All Assets	65
Exhibit 2—Financial Statements	66
Exhibit 3—Unexpired Leases to Be Assumed	97
Exhibit 4—Executory Contracts to Be Assumed	98
Exhibit 5—Schedule of Rejection-Damage Claims	99
Exhibit 6—Liquidation Analysis	100
Exhibit 7—Operating Budget	101
Exhibit 8—List of Administrative Expense Claims	102
Exhibit 9—List of Priority Unsecured Claims	103
Exhibit 10—List of General Unsecured Claims	109
Exhibit 11—List of Equity Interests	149
Exhibit 12—Potential Avoidance Actions	150

I.

DEFINITIONS

The definitions contained in the Plan are incorporated into the Disclosure Statement by this reference. In addition to any other terms that are defined in this Disclosure Statement, the following terms (which appear in this Disclosure Statement as capitalized terms), when used in this Disclosure Statement, have the meanings set forth below:

"1998 Restructuring" means the corporate restructuring that is discussed in Section IV.B.1.

"1999 Tax Refunds" means any tax refund that World Bazaars may be entitled to receive from the Franchise Tax Board for the 1999 tax year.

"Abulafia or SKM Escrow Account" means the segregated, interest-bearing accounts to be maintained by the Continuing Estate as set forth in the Plan.

"Abulafias" means Hayim Abulafia; Julie Landstad Abulafia; Hayim and Julie Abulafia as husband and wife; the Abulafia Trust; the Hayim and Julie Abulafia Family Partnership; the Abulafia insurance trust described in Section IV.C.1.b(2)(d); any other entity whose beneficiary is, or that is either partially or entirely controlled by, one of the foregoing entities; and any affiliates of the foregoing entities.

"Abulafia Trust" means the trust established by Declaration of Trust known as the Abulafia Trust, dated March 3, 1994, as amended and restated by the Abulafia Trust (1997 Restatement) dated October 6, 1997. Hayim Abulafia and Julie Landstad Abulafia are co-trustees of the Abulafia Trust.

"Administrative Claim" means a claim for administrative costs or expenses that are allowable under Bankruptcy Code section 503(b). These costs or expenses may include: (a) actual costs or expenses that were incurred after the Petition Date and that were necessary to preserve the Estate and wind down World Bazaars' business; (b) Professional-Fee Claims; (c) Administrative Tax Claims; (d) Ordinary-Course Administrative Claims; or (e) Non-Ordinary-Course Administrative Claims.

"Administrative Tax Claim" means a Claim that is not an Allowed Secured Claim and that a government unit asserts against World Bazaars either for taxes or for related interest or penalties for any tax period that—in whole or in part—falls within the Postpetition Period.

"Allowed Administrative Claim" means an Administrative Claim that is allowed as set forth in the Plan.

"Allowed Claim or Allowed Interest" means a Claim or Interest, other than an Administrative Claim, to the extent that:

- (a) Either: (1) a proof of claim or proof of interest was timely filed; or (2) a proof of claim or proof of interest is deemed timely filed either under Bankruptcy Rule 3003(b)(1)-(2) or by a Final Order; and
- (b) Either: (1) the Claim or Interest is not a Disputed Claim or a Disputed Interest; or (2) the Claim or Interest is allowed either by a Final Order or under the Plan.

Unless otherwise specified in the Plan, an Allowed Claim does not include interest on the Claim accruing after the Petition Date. Moreover, any portion of a Claim that is satisfied or released during this Liquidation Case is not an Allowed Claim.

"Avoidance Action" means any claims or rights—other than Insider Litigation—under:

- (a) Bankruptcy Code sections 510, 542, 543, 544, 547, 548, 549, 550, 551, 552, and 553;
- (b) All fraudulent-conveyance and fraudulent-transfer laws;

- (c) All non-bankruptcy laws vesting in creditors rights to avoid, rescind, or recover on account of transfers;
- (d) All preference laws;
- (e) The Uniform Fraudulent Transfer Act; and
- (f) California Civil Code sections 3440 and 3439 *et seq.*

Avoidance Actions do not include any claims, rights, or causes of action—including any claims, rights, or causes of action against the Bank Group—that have been released under the Plan.

"Avoidance Recoveries" means any cash or other consideration recovered through an Avoidance Action.

"Bank Group" means, collectively, the following entities and their successors or assigns: Citizen's Business Credit, a division of Citizen's Leasing Corporation; Dredner Bank AG, New York and Grand Cayman Branches; Bank Leumi USA; Fleet Capital Corporation, a Rhode Island corporation; Fleet National Bank, formerly known as Bank Boston, N.A.; and SunTrust. SunTrust is the issuing bank and the Bank Group's agent.

"Bank Group Agent" means SunTrust in its capacity as agent for the Bank Group.

"Bank Group Stipulation" means the Stipulation for Interim Distributions to SunTrust Bank, Atlanta as Agent for the Bank Group, and to the Official Committee of Unsecured Creditors.

"Bankruptcy Code" means Title 11 of the United States Code, 11 U.S.C. §§ 101-1330.

"Bankruptcy Rules" means the Federal Rules of Bankruptcy Procedure.

"Business Day" means a day that is not a Saturday, Sunday, or legal holiday.

"CEO" means Chief Executive Officer.

"CFO" means Chief Financial Officer.

"Claim" means a claim—as the term "claim" is defined in Bankruptcy Code section 101(5)—against World Bazaars.

"Claims Litigation" means any rights to object to, settle, compromise, setoff, or resolve Claims or Interests other than Insider Litigation.

"Class" means a group of Claims or Interests as classified under the Plan.

"Collateral Agreement" means the Collateral Agreement made by World Bazaars, Inc. in favor of the SKM Equity Fund II, L.P., as Agent, Dated as of October 4, 1999.

"Committee Expenses" means fees or expenses that: (a) the Creditors' Committee or its professionals actually incur on or after the Effective Date; (b) relate to or arise from Avoidance Actions or Claims Litigation; and (c) do not exceed the Litigation Fund.

"Confirmation Date" means the date on which the Court enters the Confirmation Order on its docket.

"Confirmation Hearing" means the hearing regarding Plan confirmation.

"Confirmation-Hearing Date" means the first date on which the Court holds the Confirmation Hearing.

"Confirmation Order" means the Court order confirming the Plan under Bankruptcy Code section 1129.

"Contingent Debt Regulations" means Treasury regulations under the Internal Revenue Code governing contingent debt instruments.

"Continuing Estate" means the Estate and World Bazaars, as debtor in possession, on and after the Effective Date, as described in Section V.B.2.

"Court" means the United States Bankruptcy Court for the Central District of California or any other court that exercises jurisdiction over this Liquidation Case.

"Credit Facility" means the Credit Agreement between World Bazaars and the Bank Group dated November 3, 1998, as periodically amended and restated.

"Creditors' Committee" means the Official Committee of Unsecured Creditors that the U.S. Trustee appointed in this Liquidation Case.

"Debt Discharge Amount" means actual or constructive debt cancellation.

"Disbursing Agent" means the disbursing agent selected under the Plan or, if no disbursing agent is selected, the Plan Administration Committee.

"Disclosure Statement" means the Second Amended Disclosure Statement Describing Second Amended Chapter-11 Plan Proposed by World Bazaars, Inc. (Dated November 10, 2000), as it may be amended.

"Disputed Claim or Interest" means a Claim or Interest:

- (a) As to which a proof of claim is filed or is deemed filed under Bankruptcy Rule 3003(b)(1) or as to which a proof of interest was filed or deemed filed under Bankruptcy Rule 3003(b)(2); and
- (b) As to which an objection: (1) has been timely filed; and (2) has neither been overruled nor been denied by a Final Order and has not been withdrawn.

"Distribution Equipment" means the pallets, racking, conveyors, and associated Equipment located at the World Bazaars Ontario warehouse as well as all proceeds and products of that Equipment.

"Effective Date" has the meaning set forth in Section V.E.11.

"Equipment" has the meaning set forth in the Term Loan and Collateral Agreement.

"Equipment-Collateral Agent" means the SKM Equity Fund II, L.P. as agent for the Equipment Lenders.

"Equipment Lenders" means, collectively, the Abulafia Trust; the SKM Equity Fund II, L.P.; and the SKM Investment Fund II, L.P.

"Equipment Proceeds" means all cash and other consideration received by World Bazaars on account of the sale of the Equipment.

"Equipment Stipulations" means, collectively: (a) the Stipulation for Interim Distributions to SunTrust Bank, Atlanta, as Agent for the Bank Group, and to the Official Committee of Unsecured Creditors; and (b) the Stipulation Authorizing Partial Distribution of Proceeds from Liquidation of the Equipment Lenders' Collateral and Release of Claims.

"Estate" means the estate created in this Liquidation Case under Bankruptcy Code section 541.

"Final Distribution Date" is the date by which the Disbursing Agent will make all distributions in this Liquidation Case, as set forth in Section VI.E.1 of the Plan.

"Final Order" means an order or judgment of the Court entered on the Court's official docket:

- (a) That has not been reversed, rescinded, stayed, modified, or amended;
- (b) That is in full force and effect; and
- (c) With respect to which: (1) the time to appeal or to seek review, remand, rehearing, or a *writ of certiorari* has expired and as to which no timely filed appeal or petition for review, rehearing, remand, or *writ of certiorari* is pending; or (2) any such an appeal or petition has been dismissed or resolved by the highest court to which the order or judgment was appealed or from which review, rehearing, remand, or a *writ of certiorari* was sought.

"Free and Clear Assets" means any Estate asset not encumbered by a valid and unavoidable lien or security interest under the Credit Facility or the Term Loan. These assets include, at a minimum, the following assets as well as cash proceeds arising from the sale of these assets: Avoidance Actions; employee and shareholder advances; premiums due from Princess International LLC to World Bazaars under the Agreement Regarding Extension of Delivery Deadline and Use of Facilities, Systems, and Equipment; vehicles; unearned retainers; and unexpired leases of nonresidential real property.

"GAAP" means generally accepted accounting principals.

"Great American" means Garcel, Inc., d/b/a Great American Group.

"Initial Cash-Collateral Stipulation" means the Stipulation for Interim Use of Cash Collateral and Adequate Protection that World Bazaars filed in this Liquidation Case.

"Insider" means an insider—as the term "insider" is defined in Bankruptcy Code section 101(31)—of World Bazaars and includes Hayim Abulafia and the Abulafia Trust.

"Insider Litigation" means any claims against World Bazaars' officers and directors or against the Abulafias, including:

- (a) Any claims or rights under:
 - (1) Bankruptcy Code sections 510, 542, 543, 544, 547, 548, 549, 550, 551, 552, and 553;
 - (2) Any fraudulent-transfer laws;
 - (3) All non-bankruptcy laws vesting in creditors rights to avoid, rescind, or recover on account of transfers, including claims relating to illegal dividends;
 - (4) All preference laws; and
 - (5) The Uniform Fraudulent Transfer Act;
- (b) Any rights to object to, settle, compromise, or resolve Claims or Interests; or
- (c) Any rights of equitable subordination or disallowance.

"Insider Litigation Fund" means the costs and expenses actually furnished by the Bank Group—in an amount not to exceed \$150,000—to fund the Insider Litigation.

"Insider Recoveries" means cash or other consideration recovered through prosecution of Insider Litigation; any other litigation or actions against the Abulafias; or any litigation or actions against World Bazaars' directors and officers liability insurance.

"Interest" means the interest—as the term "interest" is defined in Bankruptcy Code section 101(17)—of any entity who holds an equity security in World Bazaars.

"Keen" means Keen Realty LLC.

"Liquidation Case" means World Bazaars' voluntary bankruptcy case that is pending in the Court under chapter 11 of the Bankruptcy Code.

"Litigation Expenses" means any fees or expenses that are set forth in the Litigation Budget and that are actually incurred by World Bazaars, the Creditors' Committee, or their professionals in connection with the Avoidance Actions or the Claims Litigation.

"Litigation Fund" means the segregated account containing \$500,000 to be used to pursue Postconfirmation Litigation.

"Net Avoidance Recoveries" means all Avoidance Recoveries plus any cash in the Litigation Fund on the Final Distribution Date, net of any offsets or counterclaims attributable to the Avoidance Actions.

"Net Equipment Proceeds" means the Equipment Proceeds less all expenses incurred by World Bazaars in relation to the liquidation and sale of the Equipment, including amounts owed to Great American and rent obligations attributable to the liquidation of the Equipment.

"Net Insider Recoveries" means Insider Recoveries less the Insider Litigation Fund, all other costs and expenses of the Insider Litigation, and any fees for services rendered by the professionals and consultants involved in pursuing the Insider Recoveries for the Estate.

"Net Inventory Proceeds" means all of World Bazaars' cash on hand on the Effective Date or other proceeds of the Bank Group's Collateral other than the Equipment Proceeds, the Litigation Fund, Free and Clear Assets, and any cash placed in the Operating Account in accordance with the Plan.

"NOL" means net operating loss.

"Non-Ordinary-Course Administrative Claim" means any Administrative Claim that is not an Ordinary-Course Administrative Claim, an Administrative Tax Claim, or a Professional-Fee Claim. Non-Ordinary-Course Administrative Claims may include Rejected-Lease Administrative Claims.

"Operating Account" means the account established under Section VI.E. of the Plan.

"Operating Budget" means a budget for the Continuing Estate's operation that is reasonable; that is agreed upon by World Bazaars, the Creditors' Committee, and the Bank Group; and that designates those expenses that are reasonable and necessary for the Continuing Estate to consummate the Plan, including expenses needed for the Plan Administration Committee and the Creditors' Committee to pursue litigation in accordance with the Plan, to collect any remaining Estate assets, and to pursue any reasonable Claims Litigation.

"Operating Expenses" means any expenses set forth in the Operating Budget and actually incurred by World Bazaars, the Creditors' Committee, or the Plan Administration Committee.

"Ordinary-Course Administrative Claims" means Administrative Claims—other than Administrative Tax Claims, Professional-Fee Claims, and Non-Ordinary-Course Administrative Claims—based upon liabilities that World Bazaars incurs in the ordinary course of its business and the wind down of its affairs. Ordinary-Course Administrative Claims may include fees or charges assessed against the Estate under 28 U.S.C. § 1930.

"Other Secured Claims" means any Secured Claims that are not expressly classified under the Plan.

"Petition Date" means May 15, 2000.

"Plan" refers to the Second Amended Chapter-11 Plan Proposed by World Bazaars, Inc. (Dated November 10, 2000), as it may be amended.

"Plan Administration Committee" means the committee established in accordance with Section V.E.4(1) or any successor committee selected in accordance with Section V.E.4(2).

"Postconfirmation Litigation" means all claims, rights, or causes of action reserved under the Plan.

"Postpetition Period" means the period beginning on the Petition Date and ending on the Effective Date.

"Priority Claim" means an Allowed Claim entitled to priority against the Estate under Bankruptcy Code section 507(a)(3), 507(a)(4), or 507(a)(6).

"Priority Tax Claim" means an Allowed Claim entitled to priority against the Estate under Bankruptcy Code section 507(a)(8).

"Professional-Fee Claim" means:

- (a) A Claim under Bankruptcy Code sections 327, 328, 330, 331, 503, or 1103 for compensation for professional services rendered or expenses incurred on the Estate's behalf; or
- (b) A Claim either under Bankruptcy Code section 503(b)(4) for compensation for professional services rendered or under Bankruptcy Code section 503(b)(3)(D) for expenses incurred in making a substantial contribution to the Estate.

"Pro Rata" means proportionately so that the ratio of (a) the amount of consideration distributed on account of an Allowed Claim to (b) the amount of the Allowed Claim is the same as the ratio of (a) the amount of consideration available for distribution on account of all Allowed Claims in the Class in which that Allowed Claim is included to (b) the amount of all Allowed Claims in that Class.

"Public Auction" means the public auction of substantially all of the Estate's assets on July 12, 2000.

"Rejection-Damage Claim" means an Administrative Claim for rent, other obligations, or damages arising under an unexpired real-property or personal-property lease or executory contract that World Bazaars rejects under Bankruptcy Code section 365 or arising from the rejection of such a lease or contract.

"Second Cash-Collateral Stipulation" means the Second Stipulation for Interim Use of Cash Collateral and Adequate Protection that World Bazaars filed in this Liquidation Case.

"Secured Claim" means a Claim that is secured by a valid and unavoidable lien against property in which the Estate has an interest or that is subject to setoff under Bankruptcy Code section 553. A Claim is a Secured Claim only to the extent of the value of the claimholder's interest in the collateral securing the Claim or to the extent of the amount subject to setoff, whichever is applicable, and as determined under Bankruptcy Code section 506(a).

"Secured Tax Claim" means a government unit's Secured Claim for unpaid taxes.

"SKM" means Saunders, Karp & Megrue, which manages the SKM Funds.

"SKM Funds" means, collectively, the SKM Equity Fund II, L.P. and the SK Investment Fund, L.P.

"SKM Lenders" means, collectively, the SKM Equity Fund II, L.P. and the SKM Investment Fund II, L.P.

"SunTrust" means SunTrust Bank, Atlanta.

"Tax Disclosure" means the discussion set forth in Section VI.

"Tax Securities" means securities for federal income tax purposes.

"Term Loan" means the Credit Agreement among World Bazaars, Inc., as borrower and the SKM Equity Fund II, L.P., the SKM Investment Fund II, L.P., and the Abulafia Trust as lenders dated as of October 4, 1999. The SKM Lenders are the agent for the lenders under the Term Loan.

"Unsecured Claim" means a Claim that is not an Administrative Claim, a Priority Tax Claim, a Priority Claim, or a Secured Claim.

"U.S. Trustee" means the Office of the United States Trustee.

"WARN Act" means 29 U.S.C. §§ 2101 *et. seq.*, commonly known as the Worker Adjustment and Retraining Notification Act.

"WARN Act Claims" means all Claims asserting that claimants are entitled to recover damages from World Bazaars for alleged violations of the WARN Act. These Claims include claims asserted by Diane Barbosa, Latiffa William, Jean Sharon Becker, Sherry R. Spratt, Connie C. Jamieson, Nancy Berundage, Jerilyn Crain, and Patricia Carbal, both individually and as asserted representatives of a class of claimants consisting of former employees whose employment was terminated by World Bazaars in or about May 2000 and who allegedly did not receive advance written notice of their termination.

"World Bazaars" means World Bazaars, Inc., a California corporation.

"Zolfo Cooper" means Zolfo Cooper, LLC, which may include Zolfo Cooper Management and, from time to time, some of its affiliates.

II.

RULES OF INTERPRETATION

1. The rules of construction in Bankruptcy Code section 102 apply to this Disclosure Statement.
2. A term that is used in this Disclosure Statement and that is not defined in this Disclosure Statement has the meaning attributed to that term, if any, in the Plan, the Bankruptcy Code, or the Bankruptcy Rules.
3. The definition given to any term or provision in the Plan supercedes and controls any different meaning that may be given to that term or provision in the Disclosure Statement.
4. Whenever it is appropriate from the context, each term, whether stated in the singular or the plural, includes both the singular and the plural.
5. Any reference to a document or instrument being in a particular form or on particular terms means that the document or instrument will be substantially in that form or on those terms. No material change to the form or terms may be made after the Confirmation Date without the consent of any party materially affected.
6. Any reference to an existing document means the document as it has been, or may be, amended or supplemented.
7. Unless otherwise specified, all references to Sections or Exhibits are references to this Disclosure Statement's Sections or Exhibits.
8. Section captions and headings are used only as convenient references and do not affect this Disclosure Statement's meaning.

III.

INTRODUCTION

On May 15, 2000, World Bazaars commenced this Liquidation Case by filing a voluntary petition under Chapter 11 of the Bankruptcy Code. Since that time, as permitted under Bankruptcy Code sections 1107 and 1108, World Bazaars has been winding down its business and managing its affairs as a debtor and debtor in possession.

Chapter 11 allows a debtor to propose a plan of reorganization. The plan may provide for the debtor to reorganize by continuing to operate, to liquidate by selling assets of the estate, or to implement a combination of both. World Bazaars is the party proposing the Plan sent to you concurrently with this document.

This document is the Disclosure Statement for the Plan in this Liquidation Case. The Plan provides that World Bazaars' assets will be liquidated and that the proceeds will be distributed among the company's creditors. Unfortunately, World Bazaars cannot generate sufficient value to satisfy all Allowed Claims in full and to permit entities holding Interests to retain those Interests. The Plan therefore proposes to cancel all Interests without consideration. This Disclosure Statement sets forth the assumptions underlying the Plan, describes the process that the Court will follow when determining whether to confirm the Plan, and describes how the Plan will be executed if it is confirmed by the Court.

The Court has approved this document as an adequate disclosure statement that contains enough information to enable entities affected by the Plan to make informed judgments about the Plan. Since the Court has approved this Disclosure Statement, any entity may now solicit votes for or against the Plan. The Court's approval of this Disclosure Statement is not a determination by the Court regarding the fairness or the merits of the Plan or regarding the accuracy or completeness of the Disclosure Statement. Furthermore, the Plan and Disclosure Statement do not constitute financial or legal advice, and they cannot tell you everything about your rights. You should therefore consult your own advisors if you have questions about how the Plan will affect you and if you wish to determine your best course of action.

You should carefully read the Disclosure Statement. This document explains the treatment that creditors and interest holders should expect to receive if this Court confirms the Plan, who may object to Plan confirmation, and who is entitled to vote on the Plan. It also describes World Bazaars' history and significant events that occurred during this Liquidation Case, the effect of Plan confirmation, and the things the Court may consider in deciding whether to confirm the Plan. It also analyzes the Plan's feasibility and how your treatment under the Plan compares to a Chapter-7 liquidation. **The Court has not yet confirmed the Plan, and its terms are not yet binding on anyone. If the Court later confirms the Plan, however, then the Plan will be binding on World Bazaars and on all creditors and interest holders in this Liquidation Case.**

World Bazaars, the Creditors' Committee, and the Bank Group believe that the Plan provides the greatest and earliest possible recoveries to World Bazaars' creditors, that accepting the Plan is in the best interest of all parties, and that any alternative would delay and diminish distributions in this Liquidation Case. **World Bazaars, the Creditors' Committee, and the Bank Group therefore recommend that all entities that are entitled to vote should vote to accept the Plan.** (Detailed voting instructions are set forth in Section VII.A.).

To receive more information about the Plan, you or your advisors should write to World Bazaars' bankruptcy counsel at the following address:

Klee, Tuchin, Bogdanoff & Stern LLP
Attn: Mette H. Kurth, Esq.
1880 Century Park East, Suite 200
Los Angeles, California 90067
Facsimile: (310) 407-9090

IV.

BACKGROUND

A. World Bazaars' Operations.

World Bazaars was founded in 1977, and over the next 20 years the company became a prominent importer and distributor of home furnishings and decorative items. Before the Petition Date, World Bazaars imported from China and other east Asian countries over 7,000 different products such as lawn and garden decorations, seasonal knick-knacks, nautical-themed decorative items, and household furnishings. In 1999 alone, World Bazaars generated approximately \$122 million in gross annual sales.

World Bazaars' operations were centered in Los Angeles County. Its corporate headquarters and showroom were located in Commerce, California, and its principal warehouse and showroom was located at a state-of-the-art, 725,000 square foot, leased warehouse in Ontario, California. On the Petition Date, roughly 90% of the company's inventory was stored at the Ontario warehouse. The company leased additional warehouses in Commerce and Fontana, California. It also maintained a retail store in Los Angeles and showrooms in Dallas, Texas and Atlanta, Georgia.

Shortly before the Petition Date, World Bazaars directly employed 273 people and used the services of another 222 temporary workers who it "leased" through various agencies. On May 12, 2000, World Bazaars terminated approximately 187 employees and instructed its employee-leasing agencies that it would no longer need the services of roughly 208 leased laborers. As a result, World Bazaars reduced its work force to approximately 100 employees and "leased" workers.

B. Events Leading to the Chapter-11 Filing.

1. The 1998 Restructuring.

During 1997 and 1998, management decided to restructure World Bazaars' operations. At the time, the Abulafia Trust held all of the common stock and equity in World Bazaars, and Wells Fargo Bank, N.A. provided the company's long-term financing under a \$60 million credit facility. World Bazaars' restructuring culminated in late 1998 when the SKM Funds acquired roughly two-thirds of the equity in World Bazaars. Based upon a review of the relevant documents and World Bazaars' books and records, it appears that the restructuring took place in several steps, as set forth below. (The Bank Group has indicated that it does not agree with all of the following discussion and that, in the event of litigation, it would dispute numerous factual assertions and characterizations in this discussion. In addition, the SKM Funds and SKM Lenders have reserved all of their rights regarding the following discussion, as well as any and all factual or legal discussion in this Disclosure Statement, inasmuch as the discussion concerns the SKM Funds, the SKM Lenders, or any other entity.)

On or about October 31, 1998, World Bazaars declared roughly \$23.6 million in dividends in favor of the Abulafia Trust. World Bazaars then issued two so-called "dividend notes" to the Abulafia Trust. On or about November 2, 1998, three transactions took place. First, World Bazaars issued a new class of preferred stock to the SKM Funds. Second, the SKM Equity Funds II, L.P. paid approximately \$20 million into an account at SunTrust, and the SK Investment Fund, L.P. paid approximately \$500,000 into this account. Third, World Bazaars obtained a new, \$70 million Credit Facility from the Bank Group.¹ Shortly thereafter, SunTrust drew down \$51 million on this Credit Facility and placed these funds into the SunTrust account. World Bazaars then used the aggregate, commingled funds in the SunTrust account (approximately \$71.5 million) to satisfy the outstanding dividend notes and to pay the SKM Funds and related entities for their services in connection with the restructuring. World Bazaars used the remaining balance (which was approximately \$47.9 million) to satisfy its credit facility with Wells Fargo. Thus, at the restructuring's conclusion, it appears that World Bazaars had \$51 million in long-term debt and the Abulafia Trust had received \$23.6 million in so-called "dividend payments." It has been suggested that the 1998 Restructuring may have left World Bazaars with unreasonably small capital or without sufficient ability to meet its debts.

¹ See also Section IV.C.2.a(1).

2. The Attempt to Consolidate Warehouse Operations.

Shortly before completing the 1998 Restructuring, World Bazaars decided to consolidate its operations—which were spread among six facilities throughout southern California—into one, state-of-the-art facility. World Bazaars employed Distribution Consultants, Inc., a warehouse consultant, to oversee the consolidation. Under the consultant's supervision, World Bazaars leased an enormous, custom-built warehouse in Ontario and purchased sophisticated, computer-driven Distribution Equipment to replace its existing, manual distribution system. But when World Bazaars moved into the Ontario warehouse in December 1999, the warehouse was not operational, and World Bazaars encountered numerous unanticipated problems. In particular, the Distribution Equipment did not perform according to World Bazaars' expectations or in accordance with the equipment's specifications. The software system was unable to operate the Distribution Equipment as needed to support World Bazaars' operations. As a result, World Bazaars was unable to track its inventory, to control its inventory-location system, to prepare orders for shipment, or to ship merchandise. These difficulties effectively paralyzed World Bazaars' operations.²

3. The Inability to Obtain Refinancing or to Restructure the Credit Facility.³

In the months before the Petition Date, World Bazaars actively attempted to locate refinancing to replace its Credit Facility and to negotiate a restructuring of its Credit Facility. Simultaneously, the company attempted to address its operational problems by conducting an extensive operational analysis. In late 1999, the company also retained as its financial consultant Zolfo Cooper, a nationally known management and turnaround consulting firm. Zolfo Cooper immediately focused on addressing nagging problems associated with the Ontario warehouse and attempting to restore World Bazaars to profitability. In early 2000, Zolfo Cooper also began assisting World Bazaars in its efforts to obtain refinancing or to restructure its Credit Facility.

Although World Bazaars contacted dozens of potential financing sources and received many expressions of interest, World Bazaars was unable to obtain financing or negotiate a restructuring on terms acceptable to the Bank Group, its Equipment Lenders,⁴ and the company. In or about the second week of May 2000, the Bank Group discontinued World Bazaars' financing. At the time, World Bazaars had no significant cash on hand. Without cash or financing, the company could not continue operations. As a result, World Bazaars, in conjunction with the Bank Group, decided to commence an orderly wind-down of its operations and to auction and sell substantially all of its assets. To facilitate this process, World Bazaars commenced this Liquidation Case on May 15, 2000.

C. Assets and Liabilities.

1. Assets.

The identity and liquidation value of the Estate's assets are listed on Exhibit 1. These assets are also described in detail below.

a. Balance-Sheet Assets.

On the Petition Date, World Bazaars' unaudited balance-sheet assets totaled approximately \$55.7 million. The company's most significant asset was its vast inventory, which was listed at approximately \$30 million. World Bazaars also had accounts receivable with a face amount of approximately \$14.2 million. Another \$8.6 million of the company's assets were attributable to plant, property, and equipment, which consisted primarily of the Distribution Equipment. The remaining \$2.9 million in assets consisted of prepaid contracts (\$918,000); cash on hand (\$723,000); miscellaneous furniture, fixtures, and equipment (\$654,000); employee and shareholder advances (\$225,000); deposits (\$130,000); in-

² See Section IV.C.1.b(5) for a discussion of World Bazaars' potential claims against Distribution Consultants, Inc.

³ The Bank Group disputes numerous factual assertions and characterizations in this Section, and it has indicated that in the event of litigation, it would vigorously defend its position with respect to these factual assertions and characterizations.

⁴ See Section IV.C.2.a(2).

ventory samples (\$126,000); vehicles (\$83,000); and interests in insurance policies (\$81,000). Most of these assets—including the inventory, accounts receivable, and Distribution Equipment—were encumbered under the company's Credit Facility and Term Loan.⁵

As a result of its efforts during this Liquidation Case, World Bazaars is currently holding approximately \$7.9 million in cash, substantially all of which represents the proceeds from the liquidation of assets that are encumbered under the company's Credit Facility. These funds are being held in a deposit account at SunTrust, and they are accruing interest at approximately 6.12% per year. In addition, World Bazaars is holding approximately \$60,000 in cash that World Bazaars believes may represent the proceeds from the liquidation of Free and Clear Assets. These funds are being held in a deposit account at Wells Fargo Bank, and they are accruing interest at approximately 6% per year.

b. Potential Claims and Litigation.

Numerous potential claims may be pursued for the Estate's benefit and are being preserved under the Plan. This Postconfirmation Litigation includes Insider Litigation; Claims Litigation; Avoidance Actions; any rights of equitable subordination or disallowance; any claims arising from the 1998 Restructuring; a turnover or preference action against Wells Fargo Bank, N.A.; claims relating to the warehouse consolidation; claims relating to the Public Auction; potential claims against Majestic—CCC IV L.L.C.; and any other claim or right that World Bazaars may have under any applicable law. This Postconfirmation Litigation does not include any claims, rights, or causes of action specifically released under the Plan.

No entity should vote to accept or reject the Plan in the expectation that World Bazaars may or may not pursue any action, whether that action was commenced prepetition; whether that action pertains to preferences, fraudulent transfers, or other claims; and whether that action is discussed below. Except as set forth in Section VIII of the Plan, the Plan releases none of World Bazaars' rights to commence any action. Instead, as set forth in Section V.C., the Plan reserves all of the Estate's rights to pursue actions, including actions not specifically discussed in this Section. Furthermore, World Bazaars reserves all of its rights to object to any Claim or defend itself against any counterclaim asserted by an entity listed in this Section as the possible defendant in a claim or cause of action brought by World Bazaars. The following discussion is not intended to serve as a comprehensive discussion of all potential claims, rights, and causes of action that may be pursued by World Bazaars. Rather, this discussion is intended to familiarize creditors and other parties in interest with certain claims.

(1) General Avoidance Actions.

Numerous Avoidance Actions are discussed below. (World Bazaars has not completed its analysis of these actions, however, and there is no guarantee that World Bazaars will ultimately prevail in any of the Avoidance Actions.) First, certain transfers that World Bazaars made before the Petition Date are potentially recoverable as preferences under Bankruptcy Code section 547 or applicable state law. A transfer may constitute a preference under Bankruptcy Code section 547 if the transfer was for the benefit of a creditor on account of an antecedent debt, the transfer was made while the debtor was insolvent, and the transfer enabled the transferee to receive more than it would have received under a Chapter-7 liquidation. The preference period is 90 days for all entities except Insiders, which are subject to a one-year preference period.⁶ As set forth in Bankruptcy Code section 547(c), a preference action may be subject to several defenses and exclusions. World Bazaars has identified approximately 160 potential preference actions that total \$11.7 million, but it has not yet determined whether any of these actions may be subject to any defenses or exclusions. These potential preference actions are listed in detail on Exhibit 12.⁷ The potentially preferential transfers were made either when World Bazaars issued a check to the transferee or when the transferee exercised an asserted setoff right against World Bazaars.

⁵ See Sections IV.C.2.a(1) and IV.C.2.a(2).

⁶ See 11 U.S.C. § 547(b).

⁷ World Bazaars reserves the right to amend Exhibit 1 to add or delete potential preference actions at any time up to 10 days before the Confirmation Hearing.

Second, transfers made during the year preceding the Petition Date may be recoverable as fraudulent transfers under Bankruptcy Code section 548 or California Civil Code sections 3439-40, while under Bankruptcy Code section 544(b)(1) and California fraudulent-transfer law, transfers made during the four years before the Petition Date may be recoverable as fraudulent transfers. For example, under Bankruptcy Code section 548, World Bazaars may avoid any transfer of an interest or any obligation incurred if the transfer was made within one year before the Petition Date and either: (1) the transfer was made with actual intent to hinder, delay, or defraud World Bazaars' creditors; or (2) the transfer was made for less than reasonably equivalent value and World Bazaars was either insolvent or inadequately capitalized on the transfer date. World Bazaars has identified approximately half a dozen potential fraudulent-transfer actions that total roughly \$24.2 million. These potential fraudulent-transfer actions are listed in detail on Exhibit 12. The most significant of these fraudulent-transfer actions are discussed in greater detail in the following Sections.⁸

(2) The Abulafias.

World Bazaars, the Bank Group, and the Creditors' Committee believe that World Bazaars has numerous, significant claims, rights, and causes of actions against the Abulafias. The primary claims are described in this Section, though there may be other, as yet undiscovered, claims. Based mainly on these claims against the Abulafias, for purposes of any distributions, the Plan seeks to equitably subordinate all of the Abulafias' allowed Claims to the allowed Claims of all other creditors and to transfer any liens in favor of the Abulafias to all other creditors in this Liquidation Case. Some of the main grounds for equitable subordination are discussed in detail in Section V.A.2.c.

(a) The 1998 Restructuring.

At the conclusion of the 1998 Restructuring, the Abulafia Trust had received approximately \$23.6 million in so-called "dividends" while World Bazaars had increased its long-term debt by roughly \$3 million. It has been asserted that World Bazaars may not have received reasonably equivalent value for the transfers under the 1998 Restructuring and that this restructuring may have rendered the company insolvent or inadequately capitalized. As such, the transfers under the 1998 Restructuring may constitute fraudulent transfers under the Uniform Fraudulent Transfers Act. Furthermore, since World Bazaars could not pay its declared "dividends" in connection with the 1998 Restructuring from either current earnings or from surplus assets, those "dividends" may constitute illegal dividends avoidable under the Uniform Fraudulent Transfers Act and California law.

(b) The Gibson Sublease.

Another potentially fraudulent transfer relates to World Bazaars' sublease of its Commerce facility to Gibson Overseas, Inc. In 1994, World Bazaars entered into a Standard Industrial/Commercial Single-Tenant Lease with Hayim and Julie Abulafia. Under that lease, as amended, World Bazaars leased from Hayim and Julie Abulafia the office and warehouse buildings at 2300 and 2400 Yates Avenue in Commerce, California. The leased space totaled roughly 740,000 square feet, and in May 1999, the monthly lease obligations were \$207,420. That month, World Bazaars entered into a written agreement under which it subleased roughly 640,000 square feet of the Commerce facility to Gibson Overseas, Inc. at a rental rate of \$210,000 per month. (This rate was later increased to \$220,500 per month.) Thus, under the two agreements, World Bazaars would net \$2,600 per month.

Nine months before the Petition Date, World Bazaars, on the one hand, and Hayim and Julie Abulafia, on the other hand, amended the Commerce lease to require Gibson Overseas, Inc. to make sublease payments directly to Hayim and Julie Abulafia and to require World Bazaars to pay an additional \$35,000 per month as rent for the roughly 100,000 square feet of office space that it continued to occupy. The total cost to World Bazaars in foregone, net sublease payments and additional rent was \$37,500 per month, or \$337,500 during the nine months before the Petition Date. World Bazaars does not appear to have received any value in exchange for this agreement.

⁸ See Sections IV.C.1.b.(2)(a), (b), and (d); IV.C.1.b(6); and IV.C.1.b(7).

(c) The Public Auction.

As discussed in Section IV.E.2, on July 12, 2000, World Bazaars, through its auctioneer, the Daley-Hodkin Corporation, publicly auctioned substantially all of its assets. Before the auction, the Daley-Hodkin Corporation sent written advertisements to thousands of potential bidders. The Daley-Hodkin Corporation also initiated phone calls and meetings with many entities that had previously bid at similar auctions, and it responded to many inquiries from potential bidders. During these discussions, independent, potential bidders repeatedly told the Daley-Hodkin Corporation that they had been contacted either by Hayim Abulafia or by entities purporting to be involved with him. The potential bidders claimed that these entities had informed them that the auction was a sham. Some bidders said they were told that Hayim Abulafia, World Bazaars, and the Daley-Hodkin Corporation had rigged the Public Auction to ensure that Hayim Abulafia would purchase the Estate's assets at a bargain price. Others said that they were told that the Bank Group had prearranged for World Bazaars and the Daley-Hodkin Corporation to accept the Bank Group's credit bid regardless of the cash bids that were offered. Yet others claimed that they had been told that there would be no auction at all. In the weeks before the Public Auction, the Daley-Hodkin Corporation undertook extraordinary efforts to quell these rumors—all of which, to the best of World Bazaars' knowledge, were unfounded—and to maximize bidding at the Public Auction. World Bazaars has been advised by certain parties-in-interest that they have already begun investigating the alleged activities of Hayim Abulafia and his associates or agents, that these parties believe Hayim Abulafia and his associates or agents did actively deter bidding at the Public Auction, and that these parties believe that the actions of Hayim Abulafia and his associates or agents likely depressed the bids received at the Public Auction.

Furthermore, during the weeks before the Public Auction, World Bazaars learned that a joint venture had been formed between Hayim Abulafia and several potential bidders. This joint venture consisted of substantially all potential "bulk bidders" who had previously expressed an interest in bidding at the Public Auction. These entities are believed to include, among others, Value City Department Stores, Inc.; the Schottenstein Stores Corporation, dba Value City Furniture; EMCC, Inc.; Mazel Stores, Inc.; the Ozer Group, LLC; and Leonard Florence Associates, Inc. Roughly 48 hours before the Public Auction, this joint venture contacted World Bazaars and requested that World Bazaars enter into an agreement acknowledging that the joint venture was a good-faith bidder and waiving any claims that World Bazaars or the Estate might have against the joint venture or its members arising from their conduct in relation to the Public Auction. The joint venture informed World Bazaars that, if the company did not enter into this agreement, the joint venture and its members would not participate in the Public Auction. World Bazaars refused to enter into the agreement, and a modified joint venture—which excluded Hayim Abulafia—did bid at the Public Auction. The Bank Group has advised World Bazaars that it believes that the activities of the joint venture, including the activities of Hayim Abulafia and the other members, discouraged competitive bidding at the Public Auction and probably lowered the successful bid price. The Estate is therefore reserving all of its potential claims against the Abulafias and any other entities involved with the joint venture (including Value City Department Stores, Inc.; the Schottenstein Stores Corporation, dba Value City Furniture; EMCC, Inc.; Mazel Stores, Inc.; the Ozer Group, LLC; and Leonard Florence Associates, Inc.) with respect to this and other matters.

(d) Miscellaneous.

In late June 2000, the Syratech Corporation contacted World Bazaars and expressed interest in subleasing the empty World Bazaars showroom in Atlanta, Georgia for the period from approximately July 7, 2000 through July 14, 2000. The Syratech Corporation offered to pay a rental fee of \$18,000, which was approximately equal to one full month's rent. World Bazaars entered into the sublease. Subsequently, World Bazaars was informed by several, independent sources that Hayim Abulafia, his affiliates, or his agents were showing World Bazaars' inventory samples at the Atlanta showroom and that they were taking merchandise orders and holding themselves out as "World Bazaars." It has been asserted that these actions may have significantly harmed the Estate.

During the one year before the Petition Date, Hayim Abulafia received from World Bazaars approximately \$71,000 in cash payments in excess of his salary. The company has not yet analyzed these payments to determine whether these potentially fraudulent transfers may be subject to any valid defenses. The Abulafias are also parties to two outstanding accounts receivable. First, Hayim Abulafia owes approximately \$95,000 to World Bazaars on account of so-called "advances" that he received from the company. Second, before the 1998 Restructuring, Hayim Abulafia had directed World Bazaars to purchase a life insurance policy on his life and to transfer this insurance policy into a trust whose beneficiaries are Hayim Abulafia's two daughters. World Bazaars then received a \$112,000 note payable from the trust to the company. Both the advances and the note are still outstanding. Third, it has been asserted that Hayim Abulafia al-

tered bills relating to the remodeling of his personal residence so that they appeared to relate to tenant improvements at one of World Bazaars' showrooms, thereby causing the company to pay roughly \$100,000 of his personal expenses.

(3) The Wells Fargo Turnover Action.

World Bazaars maintained several deposit accounts at Wells Fargo Bank, N.A. It also held an unrelated Wells Fargo credit card. On or about the Petition Date, Wells Fargo—without World Bazaars' knowledge or consent—processed a \$25,000 debit against World Bazaars' general account and credited this amount to the credit card account, thereby paying the credit card account in full. However, this transaction overdrawed the general account by approximately \$25,000. Wells Fargo—again without World Bazaars' knowledge or consent—then transferred \$25,000 from World Bazaars' payroll account into a bank suspense account. Wells Fargo has refused to comply with World Bazaars' demands to return these funds, and it has stated that it intends to set the funds off against the overdrawn general account. World Bazaars believes that Wells Fargo improperly removed these funds from World Bazaars' payroll account and that Wells Fargo is not entitled to a set off. The transaction appears to constitute an unauthorized postpetition transfer in violation of the automatic stay or, if it occurred prepetition, to constitute an avoidable preference. The transaction may also violate the contractual agreements between Wells Fargo and World Bazaars.

(4) The APL Litigation.

On October 26, 1998, approximately \$333,000 of World Bazaars' inventory was destroyed while being transported to the United States from overseas. World Bazaars has filed a claim against the overseas shipper, APL China. The case is pending in a New York State Court, styled, *In the Matter of the Complaint of M.V. President Kennedy, Ltd., et. al.*, No. 98 Civ. 8126 (CSH). The trial in this case is set for April 17, 2001. World Bazaars has received a settlement offer from APL China. APL China has offered to settle the case for 25% of World Bazaars' provable damages, without interest. Based upon discussions with co-counsel, World Bazaars believes that APL China's settlement offer is unreasonably low. World Bazaars will reject the offer but nonetheless believes that the parties may be able to negotiate a reasonable settlement prior to trial.

(5) Distribution Consultants, Inc.

As discussed in Section IV.B.2, World Bazaars' efforts to consolidate its operations into a new, state-of-the-art facility in Ontario, California proved disastrous. Among other things, under the guidance of Distribution Consultants, Inc., World Bazaars transferred its operations from a manual to an automated warehousing system that was never fully functional. As a result, the company was unable to fill orders, and its financial condition rapidly deteriorated. World Bazaars may have contractual or tort claims against Distribution Consultants, Inc. arising from its involvement in the warehouse consolidation.

(6) The SKM Funds, the SKM Lenders, and the Directors.

It has been suggested that World Bazaars may have claims or causes of action against the SKM Funds, the SKM Lenders, or certain of World Bazaars' directors who are also principals of the SKM Funds or the SKM Lenders. The SKM Funds, the SKM Lenders, and the related directors, however, have advised World Bazaars that such assertions are unfounded. At this time, any potential claims, rights, or causes of action against the SKM Funds, the SKM Lenders, or those directors who are also principals of the SKM Funds or the SKM Lenders are being preserved for the benefit of the Estate and its creditors.

Since affiliates of the SKM Funds and the SKM Lenders, including the directors in question, are currently members of World Bazaars' Board of Directors, the Creditors' Committee and the Bank Group have taken the lead in investigating these matters. The Creditors' Committee and the Bank Group are evaluating the various assertions, but they are not in a position at this time to make a determination regarding the suggested claims, rights, or causes of action. World Bazaars is therefore continuing its investigation while simultaneously working with the parties in this Liquidation Case to attempt amicably to settle the suggested claims, rights, or causes of action. World Bazaars and the Creditors' Committee believe that they may have developed a settlement proposal that will resolve these issues.

World Bazaars is reserving all of its rights to modify or supplement this Disclosure Statement before the Confirmation Hearing to the extent needed either to reflect any agreement reached among the parties or, if relevant, to

disclose that the parties have not reached an amicable resolution of any potential claims, rights, or causes of action. If no amicable resolution is reached, then World Bazaars anticipates that it will request that the Bank Group or the Creditors' Committee provide suggested language for an amendment that can be added to the Disclosure Statement to discuss any potential claims, rights, or causes of action that the Bank Group or the Creditors' Committee believe may be meritorious.

If the parties are unable amicably to resolve any potential claims against the SKM Funds, the SKM Lenders, or those directors who are also principals of the SKM Funds or the SKM Lenders, then the Bank Group, the Creditors' Committee, or World Bazaars may file a complaint against the SKM Funds, the SKM Lenders, or those particular directors at any time before ten days before the deadline that this Court sets for filing and serving objections to Plan confirmation. If no such complaint is filed on or before ten days before the deadline for filing and serving objections to Plan confirmation, then the Bank Group, World Bazaars, the Estate, and the Creditors' Committee will be deemed to have waived any claims, rights, or causes of action that they may have against the SKM Funds, the SKM Lenders, and those directors who are also principals of the SKM Funds or the SKM Lenders.

(7) The Bank Group.⁹

World Bazaars has considered whether it may have any valid claims, rights, or causes of action against the Bank Group. In particular, World Bazaars has evaluated the Bank Group's involvement in the 1998 Restructuring and whether World Bazaars received fair value for the Credit Facility. Furthermore, World Bazaars has been advised that, before the Petition Date and the company's decision to liquidate, the Bank Group's agent, Gordon Brothers, contacted some of World Bazaars' significant customers to inquire as to their interest in purchasing the company's inventory through a liquidation. It has been asserted that this contact may have further impaired World Bazaars' operations, made a liquidation inevitable, irreparably damaged World Bazaars' ability to do business, and impaired World Bazaars' value and the value of its assets to the detriment of its other creditors and shareholders. It has been asserted that this contact may give rise to liability against the Bank Group for tortious interference with business relations and related claims.

Based on its analysis, the Creditors' Committee believes that any claims against the Bank Group would be time consuming and costly to pursue and that, when considering the benefits to be realized by the settlement set forth in the Plan, it is reasonable for World Bazaars to release its claims, rights, and causes of action against the Bank Group in exchange for the Bank Group's agreements, releases, and undertakings as discussed in the Plan.

2. Liabilities.

On the Petition Date, World Bazaars' balance-sheet liabilities totaled approximately \$45.2 million. These liabilities were comprised primarily of \$36.1 million asserted under the Credit Facility and a separate, \$5.3 million Term Loan in favor of the Equipment Lenders. World Bazaars also had approximately \$5.8 million in unsecured liabilities, including estimated Rejection-Damage Claims. (Section IV.E.11, which discusses the bar date, also discusses the proofs of claim that have been filed in this Liquidation Case).

Except as set forth in Section V.D (the Bank Group Settlement), nothing in this Plan and Disclosure Statement or the following discussion should be construed as: (1) an admission by World Bazaars as to the nature or extent of any Claim or the nature, extent, or priority of any security interest, including any security interests asserted by the Equipment Lenders or the Bank Group; (2) a waiver by World Bazaars of any claims, rights, or causes of action that it has against any entity asserting a Claim, including counterclaims, offset rights, rights of recoupment, or claims to avoid security interests; (3) a waiver by World Bazaars of any claims that it has against the Equipment Lenders or the Bank Group arising out of the Bankruptcy Code or otherwise, including claims to avoid security interests; or (4) a modification or reallocation of the burden of proof assigned to any secured creditors by Bankruptcy Code section 363(o).

⁹ The Bank Group has indicated that it disputes numerous factual assertions and characterizations in this Section and that, in the event of litigation, it would vigorously defend its position with respect to these factual assertions and characterizations.

a. Secured Debts.

(1) The Credit Facility (Bank Group).

On or about November 3, 1998, World Bazaars obtained a \$70 million Credit Facility from the Bank Group. This Credit Facility was scheduled to mature on May 1, 2005. In connection with the Credit Facility, World Bazaars granted the Bank Group a first priority lien and security interest in substantially all of its assets (other than the Equipment, as to which the Bank Group asserts a junior lien). On the Petition Date, the balance under the Credit Facility was approximately \$36.1 million. The Bank Group credit bid \$2.837 million against the Credit Facility debt to purchase World Bazaars' accounts receivable at the Public Auction. After taking this credit bid into account, the balance under the Credit Facility is approximately \$33.3 million.

The Credit Facility has three components. First, the Bank Group provided World Bazaars with a prepetition, revolving loan commitment of up to \$45 million. This revolving loan enabled World Bazaars to borrow against the total of 85% of eligible receivables and 60% of eligible inventory. Second, the Credit Facility provided for letters of credit with a sublimit of \$15 million, 50% of which was applied against availability under the revolving loan commitment. Third, the Credit Facility included a \$25 million term loan comprised of two \$12.5 million tranches.

On or about October 4, 1999, the Bank Group and World Bazaars entered into a Forbearance Agreement through April 1, 2000. The recitals in the Forbearance Agreement contain statements indicating that World Bazaars was in breach of the covenants under the Credit Facility since December 1998. The Forbearance Agreement provided World Bazaars with a so-called "over-line" advance of up to \$5 million, thereby increasing the revolving loan commitment under the Credit Facility to \$50 million through December 10, 1999, at which time the revolving loan commitment was reduced to \$45 million. In connection with the Forbearance Agreement, World Bazaars executed a Replacement Revolving Loan Note with each Bank Group member.

(2) The Term Loan (Equipment Lenders).

In connection with the Forbearance Agreement, in October 1999 the Equipment Lenders provided World Bazaars with a \$5 million Term Loan. This Term Loan accrues interest at 10% per year, and as of the Petition Date, the outstanding loan balance was approximately \$5.3 million. The interest in the Term Loan is held by the Equipment Lenders in the following percentages:

Equipment Lender	% Interest
SKM Equity Fund II, L.P.	67.5%
Abulafia Trust	30.8%
SKM Investment Fund II, L.P.	<u>1.7%</u>
TOTAL	100%

The Equipment Lenders assert that the Term Loan is secured by a senior lien against, and security interest in, Equipment (including the Distribution Equipment) with a book value of approximately \$8 million.

(3) The Postpetition Lien (Bank Group).

As discussed in Section IV.E.8, World Bazaars and the Bank Group have entered into a Bank Group Stipulation that, among other things, authorizes World Bazaars to use up to \$239,000 of the Bank Group's collateral to fund postpetition operations through December 31, 2000. In exchange for this postpetition extension of credit as well as all previous postpetition extensions of credit (which are estimated to have been roughly \$4 million), World Bazaars has agreed to grant the Bank Group a first priority, postpetition lien on any tax refund that World Bazaars is entitled to receive from the Franchise Tax Board for the 1999 tax year. World Bazaars estimates that this tax refund will be approximately \$215,000. The Court entered an order approving the Bank Group Stipulation on September 22, 2000.

b. Unsecured Debts.

(1) General Unsecured Claims and Priority Claims.

On the Petition Date, World Bazaars had approximately \$3.8 million in unsecured liabilities. World Bazaars' Schedules reflect that approximately \$181,000 of this amount constitutes Priority Tax Claims for unpaid taxes or Priority Claims for employee commissions or salaries. (World Bazaars believes that all but approximately \$19,000 of this amount either is subject to a valid dispute or has been satisfied, and shortly before the hearing to approve this Disclosure Statement, World Bazaars will be filing appropriate Schedule amendments.) The remaining \$3.6 million in unsecured liabilities consists almost exclusively of general Unsecured Claims attributable to unsatisfied trade payables.

(2) Rejection Damage Claims.

As discussed in Sections IV.E.3 and IV.E.4, World Bazaars has already rejected virtually all of its executory contracts and unexpired leases. Any remaining prepetition agreements will be rejected on the Effective Date. World Bazaars estimates that Rejection-Damage Claims could total roughly \$5 million. The most significant Rejection-Damage Claims relate to World Bazaars' rejection of its unexpired, nonresidential, real-estate leases. Majestic-CCC IV L.L.C., the landlord under World Bazaars' lease of the Ontario warehouse, may assert a Rejection-Damage Claim of approximately \$4.23 million. Hayim and Julie Abulafia may assert a Rejection-Damage Claim of approximately \$700,000 arising from World Bazaars' rejection of the Commerce office lease. In connection with the rejection of the real-estate lease relating to World Bazaars' Atlanta showroom, World Bazaars stipulated to a \$5,000 allowed, general unsecured claim in favor of the landlord. The rejection of the real-estate leases relating to World Bazaars' Los Angeles retail store may also give rise to a modest Rejection-Damage Claim. A schedule listing the potential Rejection-Damage Claims that may be asserted against World Bazaars is attached hereto at Exhibit 5. The estimates set forth in Exhibit 5 are given for informational purposes only and do not constitute admissions of liability or a waiver of any defenses to any Rejection-Damage Claims that may actually be asserted against World Bazaars.

(3) Litigation.

On the Petition Date, World Bazaars was a defendant in a handful of matters, all of which have been automatically stayed. First, World Bazaars is the defendant in five workers' compensation matters, which appear to be covered by workers' compensation insurance. Second, World Bazaars is the defendant in two intellectual-property disputes: a federal trademark-infringement action brought by Silvestri, Inc., and a federal copyright-infringement action brought by the Encore Group, Inc. Both matters were consensually settled and dismissals are pending. Finally, World Bazaars is the defendant in two tort actions: a product-liability claim in an unstated amount brought by Melissa Cofone in the Superior Court of New Jersey, and a \$335,000 negligence claim brought by the M.V. President Kennedy, Ltd., APL Bermuda LTD and APL Co. PTE Ltd., and Bareboat Charterers of the M/V APL China in the United States District Court for the Southern District of New York. World Bazaars' insurance carrier is defending these actions, and World Bazaars believes that any liability it may have is covered under its liability insurance.

(4) The WARN-Act Claims.

On or about September 29, 2000, approximately eight former employees of World Bazaars filed individual proofs of claim against World Bazaars asserting a total of approximately \$45,000 that they assert is owed to them on account of World Bazaars' alleged violations of the WARN Act. These former employees assert that up to approximately \$34,000 of this amount is entitled to priority status. Seven of these employees—and one former employee who did not file a proof of claim—also filed a class proof of claim for asserted WARN Act damages. This class proof of claim was filed on behalf of other former World Bazaars employees who were terminated in or about May 2000 and who allegedly did not receive advance notice of their termination. The class proof of claim asserts Claims totaling approximately \$4 million, of which up to \$2.1 million is asserted to be entitled to priority status. If the WARN-Act Claims are allowed, World Bazaars' books and records indicate that these Claims ought to be allowed for no more than roughly \$800,000 with no more than roughly \$350,000 of this amount being entitled to priority status, as the above class claims are grossly overstated (and include many people not entitled to file WARN Act Claims).

The class-action claimants, both individually and on behalf of the claimed class, have also filed in this Liquidation Case a complaint that seeks to enforce their asserted Claims. The first status conference in this adversary

proceeding is scheduled for December 7, 2000. In addition, the Court has reserved December 19, 2000 at 2:00 p.m. for a hearing on any timely motions to certify the adversary proceeding as a class action and any timely summary judgment motions that may be filed in connection with the complaint.

In essence, the WARN Act requires employers of 100 or more full-time employees to provide notice of a plant closing if the shut-down would result in an employment loss during any 30-day period for 50 or more employees, excluding part-time employees.¹⁰ However, there are several statutory exceptions to the WARN Act's notice requirements. The so-called "faltering-company exception" constitutes one of these statutory exceptions,¹¹ and World Bazaars believes that it falls squarely under this exception. World Bazaars believes that it may also have several other defenses to the WARN Act Claims, including defenses that would either excuse it from liability, should any exist, or substantially diminish that liability. World Bazaars therefore believes that it did not violate its obligations under the WARN Act and that the WARN Act Claims should be disallowed in their entirety. Furthermore, World Bazaars believes that these Claims, if allowed, may be Claims in the nature of statutory penalties that may be separately classified or equitably subordinated to all other Claims to the extent that the WARN Act Claims may exceed actual, compensatory damages. Consequently, World Bazaars intends vigorously to defend itself in the adversary proceeding and to seek to disallow the WARN Act Claims. In fact, World Bazaars has already filed an answer in the adversary proceeding denying any liability under the WARN Act as well as a cross-complaint seeking a declaration that to the extent that there are allowed WARN-Act Claims, any portion in excess of actual pecuniary loss would, in a Chapter 7 case, be automatically subordinated to the claims of general unsecured creditors and also an order pursuant to Bankruptcy Code section 510(c) subordinating any portion of the WARN Act Claims exceeding actual damages if World Bazaars is found to have liability under the WARN Act. World Bazaars believes that it has substantially completed negotiations regarding a possible settlement of the WARN Act Claims under which the class-action WARN Act Claims will be allowed for approximately \$130,000. World Bazaars intends soon to file a motion with this Court seeking authority to enter into this settlement agreement.

c. The Shareholders.

The SKM Funds hold two-thirds of the equity in World Bazaars. The Abulafia Trust owns the vast majority of the remaining one-third interest in the company. Two former officers¹² and OMT Enterprises also hold minor Interests. The division of Interests is summarized below:

Interest Holder	Class of Stock	% of Total Equity
The SKM Equity Fund II, L.P.	Series A Preferred	65%
The SK Investment Fund, L.P.	Series A Preferred	1.7%
Abulafia Trust	Common	30.5%
Gerald Mignacca	Common	1.7%
Sonia R. Gros	Common	0.8%
OMT Enterprises	Common	<u>0.3%</u>
TOTAL		100%

¹⁰ See 29 U.S.C. sec. 2101, *et. seq.*

¹¹ See 29 U.S.C. sec. 2102(b)(1).

¹² See Section IV.D.2.

D. World Bazaars' Principals.

1. The Board of Directors.

Just before World Bazaars commenced this Liquidation Case, its Board of Directors consisted of Hayim Abulafia; Gerald Mignacca; Allan Karp; F. Barron Fletcher, III; and David Oddi. On or about the Petition Date, Abulafia and Mignacca resigned their respective board positions, and Michael France was appointed as a board member. The composition of the Board of Directors has not changed since the Petition Date. Thus, the Board of Directors now consists of four members: Karp, Fletcher, Oddi, and France. Karp, Fletcher, and Oddi are principals of Saunders, Karp & Megrue, which manages the SKM Funds and the SKM Lenders. France is a principal of Zolfo Cooper, which is World Bazaars' financial consultant. France has no direct or indirect ownership interest in World Bazaars. No board member is compensated for his services.

2. The Officers.

Just before World Bazaars commenced this Liquidation Case, its officers consisted of the following individuals:

Title	Name
Chief Executive Officer	Hayim Abulafia
President	Gerald Mignacca
Chief Financial Officer and Secretary	Sonia Gros
Senior Vice President, Sales and Marketing	Marcia Ciskowski
Vice President, Sales	John Loughran
Vice President, Promotional Division	Trevor Morgan

On or about May 9, 2000, Abulafia resigned his position as CEO, and World Bazaars appointed Frank Budetti as CEO. Budetti, a graduate of Dartmouth College, is a specialist in business planning and financial operations with over 35 years of diversified business and professional experience. Budetti is a principal of Zolfo Cooper and has no direct or indirect ownership interest in World Bazaars. As CEO, Budetti receives no salary or benefits except for the compensation provided to him by Zolfo Cooper in connection with its employment as World Bazaars' financial advisor.

On the Petition Date, World Bazaars terminated all officers except Sonia Gros and Frank Budetti. Gros retained her position as CFO and Secretary until July 31, 2000. She has no direct or indirect ownership interest in the company other than her 0.83% ownership interest. As of the Petition Date, Gros received an annual salary of \$150,000 plus benefits. After Gros separated from World Bazaars, the CFO's responsibilities were divided between Budetti and the company's Controller, Martin Michael Barrett. Barrett was terminated on or about September 30, 2000, and he now assists World Bazaars as an independent consultant.

E. Significant Events During This Liquidation Case.

1. The Cash-Collateral Stipulations.

Before the Petition Date, World Bazaars and the Bank Group analyzed the company's cash situation and determined that World Bazaars would be unable to complete an orderly wind-down and liquidation without access to the cash collateral generated by the collection of its accounts receivable. Therefore, on the eve of filing, World Bazaars and the Bank Group held extensive negotiations to determine the terms and conditions under which the Bank Group would consent to World Bazaars' use of cash collateral. The Initial Cash-Collateral Stipulation was the product of these negotiations.

On the Petition Date, World Bazaars submitted the Initial Cash-Collateral Stipulation to the Court for approval, and three days later, this Court entered an order approving the stipulation. The Initial Cash-Collateral Stipulation allowed World Bazaars to make expenditures that were needed to avoid immediate and irreparable harm to the Estate and to enable World Bazaars to effect an orderly wind down of its operations. The major expenditures included costs of conducting the Public Auction; payroll for essential personnel; and rent and utilities associated with the Ontario warehouse. Without these expenditures, World Bazaars would have been unable to preserve and sell its assets, and any hope of creditors recovering any meaningful value from the company's wind-down would have been lost. The Initial Cash-Collateral Stipulation, as periodically extended, covered the period through September 1, 2000.

After the Initial Cash-Collateral Stipulation was approved, the Bank Group, World Bazaars, and the newly-appointed Creditors' Committee commenced negotiations regarding the terms of a supplemental stipulation. As a result of those negotiations, World Bazaars, the Bank Group, and the Creditors' Committee ultimately entered into the Second Cash-Collateral Stipulation. The Second Cash-Collateral Stipulation contained several new provisions that were favorable to the Estate. For example, the Second Cash-Collateral Stipulation authorized World Bazaars to use cash collateral to pay rent and marketing expenses relating to its real-estate leases (which are Free and Clear Assets) while the company attempted to market these leases for the benefit of entities holding Unsecured Claims. In exchange, World Bazaars agreed to replenish its collateral account from the first dollars received from any sale of the real-estate leases. The Second Cash-Collateral Stipulation also limited the Bank Group's replacement liens to postpetition assets of a kind in which the Bank Group previously had a lien. And the Second Cash-Collateral Stipulation reserved the Equipment Lender's rights to seek adequate-protection payments or to seek to surcharge the Bank Group's collateral on account of the Estate's use of the Distribution Equipment. The Court approved the Second Cash-Collateral Stipulation on September 7, 2000. This stipulation covered the period from September 7, 2000 through September 30, 2000. (Funding after September 30, 2000 was provided for under the Bank Group Stipulation, which is discussed in Section IV.E.8.).

2. The Public Auction and the Sale of Substantially All Assets.

The cost of operating the Ontario warehouse was roughly \$600,000 per month. Given the magnitude of these warehousing expenses, immediately after commencing this Liquidation Case, World Bazaars began focusing on how best to liquidate its inventory and minimize its warehousing expenses. After extensive analysis and discussions with Zolfo Cooper and the Bank Group, World Bazaars determined that it would be in the best interest of its Estate and creditors for the company promptly to hold the Public Auction and to include in this auction substantially all of its assets, including inventory, receivables, trademarks, customer lists, and vehicles. World Bazaars then located an auctioneer, the Daley-Hodkin Corporation, which could assist with the Public Auction. The Court approved the Daley-Hodkin Corporation's employment on June 26, 2000, and the next week the Daley-Hodkin Corporation and World Bazaars submitted to this Court their proposed auction procedures. These procedures were approved, and on July 12, 2000 World Bazaars, through the Daley-Hodkin Corporation, held the Public Auction. Princess International LLC, which placed substantially all of the highest and best bids at the auction, was subsequently approved by the Court as the winning bidder, and Princess purchased substantially all auction assets—other than accounts receivable—for \$12.6 million. World Bazaars has received payment in full. In addition, the Bank Group entered a credit bid of approximately \$2.837 million for the company's accounts receivable.

According to the terms of sale, Princess was to have removed all purchased inventory from the Ontario warehouse by September 30, 2000. Shortly after the Public Auction, however, Princess requested an extension of this delivery deadline. After extensive negotiations, World Bazaars and Princess agreed to a complex extension agreement. Under this agreement, which was approved by the Court on September 22, 2000, World Bazaars extended the delivery deadline until October 31, 2000 in exchange for a commitment by Princess to pay all Operating Expenses related to the Ontario warehouse as well as a \$100,000 extension fee, a premium of 3% over all operating costs, and \$200,000 in rent on account of Princess's use of the Distribution Equipment. The extension fee and premium are Free and Clear Assets. The \$200,000 rent payment will be used to pay November rent for the Ontario warehouse; this payment will be in exchange for the Equipment-Collateral Agent's commitment to permit the funding from the Equipment Proceeds of certain Operating Expenses needed to liquidate the Equipment for the Equipment Lenders' benefit. The availability of this \$200,000 payment will be applied toward the payment of any adequate-protection claims that the Equipment-Collateral Agent may have in connection with Princess's use of the Equipment.

In September 2000, Princess requested that World Bazaars grant a further, limited extension of the delivery deadline. World Bazaars agreed to permit Princess to continue to occupy no more than 200,000 square feet at the

Ontario warehouse during November 2000 in exchange for payment of a \$90,000 extension fee. On or about October 25, 2000, World Bazaars filed a motion with this Court seeking approval of the proposed extension.

3. Disposition of Nonresidential Real-Estate Leases.

Shortly after the Petition Date, World Bazaars employed Keen Realty LLC to market and sell the company's unexpired, nonresidential, real-estate leases. Specifically, World Bazaars needed to determine whether there was any assignable value in its Ontario warehouse lease, the Commerce administrative-office lease, the Los Angeles retail lease, or the Atlanta and Dallas showroom leases. Keen conducted a market analysis to determine an estimated value for the leases, and it also conducted a thorough marketing campaign designed to yield the highest and best offers for these leases.

Keen obtained a \$40,000 offer from Blue Ridge Designs, Inc., which was interested in purchasing the Dallas showroom lease. Based upon Keen's input, World Bazaars accepted this offer, and in September 2000, the Court approved the proposed assumption and assignment of the Dallas lease to Blue Ridge Designs. The \$40,000 received by the Estate has been used to replenish the Bank Group's cash-collateral account as reimbursement for subsidizing the expense of preserving the real-estate leases during Keen's marketing period.

During July and August 2000, Keen actively marketed the remaining leases. At the conclusion of this period, and after reviewing its market analysis and the expressions of interest that it had received, Keen concluded that there is no significant value in any of these leases except perhaps the Ontario warehouse lease. Accordingly, World Bazaars sought and received a Court order permitting it to reject the Atlanta showroom lease and the Los Angeles retail lease effective as of August 4, 2000 and to reject the Commerce administrative-office lease effective as of August 31, 2000.

Since shortly after the Petition Date, World Bazaars and Keen have been actively marketing the Ontario warehouse lease. However, it has been asserted that, since the first months of this case, Majestic CCC IV L.L.C., which owns the Ontario warehouse space and is the lessor under World Bazaars' nonresidential real-estate lease, may have also been attempting to market and assign the Ontario warehouse lease for its own benefit. World Bazaars believes that Majestic's activities may have significantly hampered Keen's efforts to market the lease for this Estate. World Bazaars has repeatedly informed Majestic that its actions could constitute a conversion of Estate property or a violation of the automatic stay and has directed Majestic to cease its marketing efforts. However, it appears that Majestic has continued its marketing efforts during the entire pendency of this Liquidation Case. World Bazaars is therefore preserving all of its claims, rights, and causes of action against Majestic, including any right to equitably subordinate Majestic's Claims or to seek damages from Majestic.

4. Disposition of the Equipment.

Early in this Liquidation Case, World Bazaars employed Great American as its equipment liquidator. Great American has guaranteed World Bazaars a minimum purchase price of \$1.75 million for the Equipment. The Equipment has proven to be one of the more difficult assets to dispose of in this Liquidation Case. The Equipment has several components, primarily Distribution Equipment (*i.e.*, racking and conveyor systems); forklifts and similar mobile equipment; and miscellaneous furnishings, fixtures, and office equipment. The 90,000 pallets of inventory that World Bazaars has sold to Princess are sitting on the racking, and the inventory cannot be moved out of the warehouse without using the conveyor systems and mobile equipment. Therefore, World Bazaars cannot deliver much of the Equipment until it has substantially completed delivery of the inventory. The complexity has been further compounded by Princess's request to extend the delivery deadline for its inventory.

To address the various timing issues, Great American and Keen first attempted jointly to market the Equipment and the Ontario warehouse lease. Because this effort was unsuccessful, Great American is now marketing the Distribution Equipment on a stand-alone basis. To maximize the Equipment's value while accommodating Princess's needs, Great American, Princess, and World Bazaars have agreed on a joint liquidation schedule, which has been incorporated into Princess's stipulation¹³ and Great American's retention agreement. Essentially, the liquidation schedule sets

¹³ See Section IV.E.2.

forth deadlines for Princess to release the Equipment, and it entitles Great American to rely on these deadlines in conducting its marketing efforts.

This agreement was approved by the Court on September 22, 2000, and Great American is now marketing the Equipment. To expedite liquidation efforts, World Bazaars has received Court authority for Great American to conduct either orderly private sales or private auctions to determine the best piecemeal bids for the Equipment and authorizing World Bazaars to sell the Equipment to the best bidders subject only to approval by the Equipment Lenders. World Bazaars believes that this procedure is in the best interest of its Estate because it will permit the Estate the greatest possible flexibility in liquidating its Equipment without jeopardizing the complex process of removing 90,000 pallets of inventory from the Ontario warehouse. To date, Great American has received at least \$1.75 million in purchase orders for the Equipment.

5. Liquidation of Miscellaneous Assets.

In August 2000, Great American held an auction through which it arranged for the sale of substantially all of the furniture, fixtures, and equipment at World Bazaars' administrative headquarters. The winning bids at the auction, which were approved by this Court in September 2000, totaled approximately \$80,000. Besides generating cash for the Estate, the disposal of these assets was a critical step towards vacating the company's administrative headquarters and eliminating a rent obligation of approximately \$30,000 per month.

In August 2000, World Bazaars received Court authority to reject 28 executory contracts. These contracts consisted of freight contracts, service agreements, credit agreements, insurance policies, and employment agreements. World Bazaars also received Court authority to reject one unexpired vehicle lease. None of these agreements was needed to complete World Bazaars' wind down efforts, and the rejection of these agreements helped to reduce the administrative expenses of this Liquidation Case.

6. Reduction of Administrative Overhead.

Since commencing this Liquidation Case, World Bazaars has aggressively reduced costs wherever feasible. Immediately following the Public Auction, for example, World Bazaars reduced its staff to a skeleton crew of key administrative personnel and essential warehousemen. World Bazaars has also periodically terminated employees and leased labor whenever positions could be eliminated. As a result, since the Petition Date, the company has terminated all of its remaining employees. World Bazaars' administrative functions are handled by four consultants on an as-needed basis.

Additionally, in August 2000 World Bazaars relocated its administrative headquarters from its office space in Commerce, California (which accommodated over 200 employees) to a small office at the Citadel in Commerce. This space, which is just large enough to accommodate the company's drastically reduced administrative functions, has been rented on a month-to-month basis for \$6,000 per month. Simultaneously, as discussed above, the Commerce lease was rejected, resulting in a savings of \$35,000 per month.

7. Employee-Retention Program.

In connection with its wind-down strategy, shortly before commencing this Liquidation Case World Bazaars terminated roughly 80% of its workforce. The company retained only essential employees. Given the circumstances, morale among the few remaining employees was extremely low, and many critical employees openly sought new, permanent job opportunities. To combat employee attrition, in June 2000, World Bazaars, with Court approval, established an employee-retention program under which employees could receive a bonus of eight weeks salary plus any accrued, unpaid vacation pay if they remained with the company while their services were needed during the wind-down.

8. The Bank Group Stipulation, the Equipment Stipulation, and the Interim Distributions.

The Bank Group and the SKM Lenders have requested that World Bazaars make certain irrevocable distributions to them on account of their Secured Claims. Substantially all of World Bazaars' cash represents proceeds from the sale of the Bank Group's collateral. The sale of the Equipment will generate additional cash, all of which the SKM

Lenders assert will constitute the Equipment Lenders' collateral. World Bazaars believes that the Estate would not be materially harmed from the requested distributions as long as adequate arrangements to fund World Bazaars' administrative and postconfirmation expenses have been made.

World Bazaars, the Bank Group, and the SKM Lenders have engaged in extensive negotiations regarding the possible terms of a Chapter-11 plan as well as the availability of funds in this Liquidation Case. The Bank Group Stipulation, the Equipment Stipulations, and the Plan embody certain agreements among the parties. The key provisions of these documents are certain general releases among the Bank Group, World Bazaars, the Estate, and the Creditors' Committee; the carve-out of \$500,000 from the Bank Group's collateral to be placed into a Litigation Fund to be used to pursue Avoidance Actions and bring Claims Litigation for the benefit of the Estate; the allocation of responsibility and funding commitments for Postconfirmation Litigation; the allocation of responsibility and funding commitments for the continued administration of this Estate from October 1, 2000 through December 31, 2000; and the distribution provisions contained in Section IV of the Plan.

In exchange for these agreements, World Bazaars agreed to distribute to the Bank Group \$10 million in cash on account of its Secured Claims. The Court approved the Bank Group Stipulation on September 22, 2000, and shortly thereafter World Bazaars made the proposed \$10 million distribution.

Furthermore, the SKM Lenders have agreed to certain terms and conditions relating to the liquidation of the Equipment and the payment of related expenses. In exchange for this agreement, World Bazaars has consented to make a partial cash distribution to the SKM Lenders from the Net Equipment Proceeds on account of the SKM Lenders' Secured Claims. The Court approved the Equipment Stipulations on November 16, 2000.

9. Employment of Professionals.

World Bazaars has employed several professionals to assist it with administering its Estate and with its liquidation efforts. The following table lists those professionals as well as the estimates of interim payments that each professional has received. All of these payments are subject to final court approval. Moreover, the figures in the following table are only estimates, and actual amounts may be higher or lower.

Professional / Responsibilities	Date of Entered Order Approving Employment	Total Estimated Fees & Expenses During Chapter 11 Case	Paid to Date	Unapplied Retainer	Estimated Amount Owed on the Effective Date
Klee, Tuchin, Bogdanoff & Stern LLP / Reorganization Counsel	June 23, 2000	\$640,000	\$370,000	\$0	\$270,000
Zolfo Cooper Management, LLC/Financial Consultant	July 11, 2000	\$293,422	\$256,606	\$0	\$36,816
Irell & Manella, LLP / Corporate Counsel	June 12, 2000	\$75,000	\$0	\$100,000	\$0
Daley-Hodkin Corporation/ Auctioneer	June 26, 2000	\$730,000	\$730,000	\$0	\$0
Keen Realty, LLC/Special Real-Estate Consultant	July 26, 2000	\$30,000	\$30,000	\$0	\$0
Garcel, Inc., d/b/a Great American Group/Special Warehouse-Equipment Liquidator	July 26, 2000	\$80,000	\$80,000	\$0	\$0
Sidley & Austin/Creditors' Committee	June 27, 2000	\$130,000	\$75,000	\$0	\$55,000

Professional / Responsibilities	Date of Entered Order Approving Employment	Total Estimated Fees & Expenses During Chapter 11 Case	Paid to Date	Unapplied Retainer	Estimated Amount Owed on the Effective Date
Counsel					
Gregory S. Abrams and his employees, d/b/a A•S•K Financial and A•S•K Financial, Inc. / Collection Representative	Pending		\$0	\$0	\$0 - To Be Paid From Litigation Fund
TOTAL					\$361,816

10. Appointment of the Creditors' Committee.

On May 25, 2000, the U.S. Trustee appointed a Creditors' Committee in this Liquidation Case. The members of the Creditors' Committee are: L.E. Coppersmith, Inc.; Weststaff; Alto Freight Management, Inc.; and Staff Mark, Inc. The Creditors' Committee retained Sidley & Austin as its counsel. (Initially, the Creditors' Committee also included OOCL USA, Inc., but it subsequently resigned.)

11. The Bar Date, Claim Objections, and Estimated Claims.

In June 2000, World Bazaars filed a motion requesting that the Court set a bar date in this Liquidation Case. The Court subsequently set October 2, 2000, as the bar date for filing proofs of claim or interest against the Estate. On August 2, 2000, World Bazaars served notice of this bar date upon all creditors and parties in interest, and on August 4, 2000, World Bazaars caused a notice to be published in the Los Angeles Times.

To date, claimants have filed approximately 254 proofs of claim in which they assert Claims exceeding \$52.2 million. These Claims consist of approximately \$9.5 million in general Unsecured Claims (of which \$5.5 million represents trade creditor Claims and \$4 million represents asserted WARN Act Claims), \$40 million in Secured Claims, and up to \$2.7 million in Priority Claims. (Because the WARN Act Claims do not distinguish between Unsecured and Priority Claims, the estimated maximum \$2.1 million Priority Claim is also included in the \$9.5 in aggregate General Unsecured Claims). No proofs of interest have been filed. Based on its review of the Claims and its books and records, World Bazaars estimates that the aggregate amount of Allowed Unsecured Claims in this Liquidation Case—including approximately \$5 million in Rejection-Damages Claims and \$19.2 million in deficiency Claims—will be no more than approximately \$29.5 million and that Allowed Secured Claims will total approximately \$28.6 million, of which only approximately \$9.4 million is secured by collateral and the remaining \$19.2 million constitutes an unsecured deficiency balance. Allowed Priority Claims are expected to be approximately \$160,000. The actual amount of Allowed Claims may differ materially from this estimate, however, and will be determined only after the resolution of all Disputed Claims.

World Bazaars is reviewing all proofs of claim and proofs of interest to determine whether any objections are appropriate. If so, objections will be filed in accordance with Section VII.B of the Plan. These objections may be filed either before or after the Effective Date. **World Bazaars, the Estate, and the Creditors' Committee—both on their own behalf and on behalf of the Plan Administration Committee and the Creditors' Committee, as representatives of the Continuing Estate—therefore reserve all rights with respect to the allowance or disallowance of any and all Claims and Interests, including Claims and Interests that have not yet been asserted. In voting on the Plan, creditors may not rely on the absence of an objection to their proofs of claim as an indication that World Bazaars, the Creditors' Committee, or the Continuing Estate ultimately will not object to the amount, priority, security, or allowability of their Claims.**

V.

SUMMARY OF PLAN PROVISIONS

A. What Creditors and Interest Holders Will Receive under the Plan.

As required by the Bankruptcy Code, the Plan classifies Claims and Interests in various Classes according to their right to priority. The Plan states whether each Class of Claims or Interests is impaired or unimpaired. The Plan sets forth the treatment that each Class will receive.

1. Unclassified Claims.

Certain types of claims are not placed into voting classes; instead, they are unclassified. They are not considered impaired, and they do not vote on a plan of reorganization because they are automatically entitled to specific treatment provided for them in the Bankruptcy Code. Therefore, World Bazaars has not placed the following Claims into a Class.

a. Administrative Claims.

Administrative Claims are Claims under Bankruptcy Code section 503(b) for costs or expenses of administering this Liquidation Case and that are allowed under Bankruptcy Code section 507(a)(1). The Bankruptcy Code requires that all administrative claims be paid on the date that a plan of reorganization becomes effective, unless a particular claimant agrees to a different treatment.

The following chart lists all of World Bazaars' Administrative Claims and their treatment under the Plan:¹⁴

NAME	ESTIMATED AMOUNT OWED	TREATMENT
ORDINARY-COURSE ADMINISTRATIVE CLAIMS		
Claims under 28 U.S.C. § 1930 / Clerk Office Fees (World Bazaars)	\$250	Unless the entity holding an Allowed Administrative Claim and World Bazaars agree otherwise, the Disbursing Agent will pay to that entity cash in the Allowed Administrative Claim's full amount, without interest, on or before the later of: (a) as soon as practicable after the Effective Date; (b) 30 days after the date on which the Administrative Claim becomes an Allowed Administrative Claim; or (c) the date on which the Allowed Administrative Claim becomes due and payable.
Office of the U.S. Trustee (World Bazaars)	\$250	Same as above.

¹⁴ See Exhibit 8 for detailed information about each Administrative Claim.

NAME	ESTIMATED AMOUNT OWED	TREATMENT
NON-ORDINARY-COURSE ADMINISTRATIVE CLAIMS	\$0	Same as above.
ADMINISTRATIVE TAX CLAIMS	\$0	Same as above.
PROFESSIONAL FEE CLAIMS		
Klee, Tuchin, Bogdanoff & Stern LLP	\$270,000	Same as above.
Zolfo Cooper Management	\$36,816	Same as above.
Sidley & Austin	\$55,000	Same as above.

The Court must rule on all fees listed in this chart before the fees will be owed. This ruling will be made as follows:

Ordinary Course Administrative Claims. Unless World Bazaars objects to an Ordinary-Course Administrative Claim, the Claim will be allowed in accordance with the terms and conditions of the particular transaction that gave rise to the Claim, and the entity holding the Ordinary-Course Administrative Claim need not file any request for payment of its Claim.

Non-Ordinary-Course Administrative Claims. A Non-Ordinary-Course Administrative Claim will be allowed only if on or before the following deadlines, the entity holding the Claim both files with the Court a motion requesting that World Bazaars pay the Claim and serves the motion on World Bazaars, its bankruptcy counsel, and the Plan Administration Committee:

- (1) For Claims arising on or before October 31, 2000, this motion must be filed and served on or before December 31, 2000; and
- (2) For Claims arising after October 31, 2000 and on or before the Effective Date, this motion must be filed and served on or before 60 days after the Effective Date.

Professional-Fee Claims. A Professional-Fee Claim will be allowed only if:

- (a) On or before 60 days after the Effective Date, the entity holding the Claim both files with the Court a motion requesting that World Bazaars pay the Claim and serves the motion on World Bazaars, its bankruptcy counsel, and the Plan Administration Committee;
- (b) The Court, in a Final Order, allows the Claim.

Administrative Tax Claims. An Administrative Tax Claim will be allowed only if:

- (a) On or before the later of: (1) 60 days after the Effective Date; or (2) 120 days after World Bazaars files the tax return for the underlying taxes with the applicable government unit, the entity holding the Administrative Tax Claim both files with the Court either a proof of claim or a motion requesting that World Bazaars pay the Administrative Tax Claim and serves the proof of claim or motion on World Bazaars, its bankruptcy counsel, and the Plan Administration Committee; and
- (b) The Court, in a Final Order, allows the Administrative Tax Claim.

As indicated above, World Bazaars will need to pay approximately \$361 million in Administrative Claims on the Plan's Effective Date unless one or more claimants have agreed to be paid later or the Court has not yet ruled on

one or more Claims. As indicated elsewhere in this Disclosure Statement, adequate provision for payment of these claims is a condition to the occurrence of the Effective Date.

b. Priority Tax Claims.

Priority tax claims are certain unsecured income, employment, and other taxes described by Bankruptcy Code section 507(a)(8). The Bankruptcy Code requires that each entity holding a section 507(a)(8) priority tax claim receive that claim's present value in deferred cash payments over a period not exceeding six years from the date on which the underlying tax was assessed.

The following chart lists all of World Bazaars' estimated allowable section 507(a)(8) Priority Tax Claims and their treatment under the Plan:

Description	Amount Owed	Treatment
<ul style="list-style-type: none"> • Name California EDD • Type of tax Employment Tax 	\$12,900.17 ¹⁵	Unless the entity holding an Allowed Priority Tax Claim and World Bazaars agree otherwise, the Disbursing Agent will pay that entity in full, in cash—without premium or penalty of any kind—as soon as practicable after the Effective Date.
<ul style="list-style-type: none"> • Name California EDD • Type of tax Employment Tax 	\$12,900.17 ¹⁶	Same as above.

2. Classified Claims and Interests.

a. Classes of Secured Claims.

Secured claims are claims secured by liens on estate property. The following chart lists all Classes with Secured Claims against World Bazaars and their treatment under the Plan.

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
1 (Bank Group's Secured Claims Under the Credit Facility)	\$23.3 million	As discussed in the Disclosure Statement, before the Effective Date the Bank Group will have already received a \$10 million, irrevocable, interim distribution on account of its Allowed Class-1 Claim. In addition, within seven days after the Effective Date, the Disbursing Agent will distribute to the Bank Group the Net Inventory Proceeds less any amounts needed	34%	Net Inventory Proceeds.

¹⁵ Claim objection pending. See Exhibit 12.

¹⁶ Claim objection pending. See Exhibit 12.

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>to establish the Litigation Fund discussed below. This treatment will be in full satisfaction of the Bank Group's Allowed Class-1 Claim.</p> <p>World Bazaars has already placed \$312,500 of the Bank Group's Cash Collateral into a Litigation Fund. As soon as practicable after the Effective Date, the Disbursing Agent will transfer an additional \$187,500 of the Bank Group's Cash Collateral into the Litigation Fund. The Bank Group, by its vote to accept this Plan, consents to make its Cash Collateral available for this purpose <i>in lieu</i> of receiving a distribution of these funds on account of its Allowed Class-1 Claim, and the Bank Group agrees that the transferred funds will constitute Free and Clear Assets and that the transfer will be free and clear of any claims or interests of the Bank Group. The Litigation Fund is established for the benefit of entities holding allowed Class-6 Claims, and it may be used by the Creditors' Committee as set forth in the Plan.</p>		
2 (SKM Lenders' Secured Claims Under the Term Loan)	\$3.66 million	<p>As discussed in the Disclosure Statement, before the Effective Date the SKM Lenders will likely have already received on account of their Allowed Class-2 Claims an irrevocable, interim distribution in the amount of five-eighths of their 69.2% share of the Net Equipment Proceeds. As soon as practicable after the Effective Date—subject to the following paragraph—the SKM Equity Fund II, L.P. will receive three-eighths of 67.5% of the Net Equipment Proceeds, and the SKM Investment Fund II, L.P. will receive three-eighths of 1.7% of the Net Equipment Proceeds. (If no interim distributions are made, the SKM Lenders will receive their entire 69.2% share of the Net Equipment Proceed). This treatment will be in full satisfaction of the SKM Lenders' Allowed Class-2 Claims.</p> <p>All distributions under the Plan on account of the SKM Lenders' allowed Class-2 Claims will be placed into the SKM Escrow Account. These distributions will remain in the SKM Escrow Account pending resolution of all Insider Litigation against the SKM Lenders and any other claims that World Bazaars or the Estate may have asserted against the SKM Lenders.¹⁷</p>	Up to 34%	Net Equipment Proceeds.

¹⁷ See Section V.E.9 (Setoff and Recoupment).

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>On or before the Final Distribution Date, the funds in the SKM Escrow Account will either be transferred to the Operating Account for the benefit of the Continuing Estate in accordance with a Final Order or they will be distributed to the SKM Lenders.</p> <p>If World Bazaars, the Bank Group, or the Creditors' Committee do not file a complaint, commence an adversary proceeding, or file a motion asserting claims against the SKM Funds, the SKM Lenders, or those of World Bazaars' directors who are also principals of the SKM Funds or the SKM Lenders on or before ten days before the deadline for filing and serving objections to Plan confirmation, then the Bank Group, World Bazaars, the Estate, the Bank Group, and the Creditors' Committee will be deemed to have waived any claims, rights, or causes of action that they may have against the SKM Funds, the SKM Lenders, and those directors who are also principals of the SKM Funds or the SKM Lenders and all Insider Litigation against the SKM Lenders and any other claims that World Bazaars or the Estate may have against the SKM Lenders will be deemed to be fully resolved.</p>		
3 (Abulafia Trust's Secured Claims Under the Term Loan)	\$1.6 million	<p>As permitted by Bankruptcy Code section 510(c), the Abulafia Trust's Class-3 Claims will be equitably subordinated under the Plan to all other Allowed Claims, and any lien securing the Class-3 Claims will be transferred to the Estate under Bankruptcy Code 501(c)(2) such that the distribution that the Abulafia Trust would otherwise be entitled to on account of its Secured Claims will be treated as an Insider Recovery to be distributed to nonsubordinated Claims under the Plan. As a result of this subordination, Class 3 will not receive any consideration unless and until all Allowed Claims in Classes 1, 2, 4, 5, 6, 7, and 9 are paid in full. At any time until and including ten days before the Confirmation Date, World Bazaars may—with the consent of the Bank Group and the Creditors' Committee—elect to withdraw or defer its request to equitably subordinate the Class-3 Claims in conjunction with Plan confirmation, without prejudice as to any of its rights, including its rights to seek the equitable subordination of the Class-3 Claims in a separate proceeding before or after Plan confirmation. No later than 10 days before the Confirmation Hearing, World Bazaars will file a notice with this Court</p>	0-34%	Net Equipment Proceeds.

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>advising the Court as to whether World Bazaars will seek to equitably subordinate Class 3 under the Plan, and this notice will be served on the Abulafia Trust.</p> <p>If this Court considers World Bazaars' request to equitably subordinate the Abulafia Claims in connection with the Confirmation Hearing, and if the Court, through a Final Order, resolves this request against World Bazaars on the merits either at or before the Confirmation Hearing, then World Bazaars may not bring the equitable subordination action after the Confirmation Hearing. In the absence of such an adverse ruling, any decision by World Bazaars to defer or withdraw its request for equitable subordination is without prejudice to the Estate's right to seek equitable subordination of the Abulafia Claims after the Confirmation Hearing.</p> <p>If this Court does approve the equitable subordination of the Abulafia Trust's Allowed Class-3 Claims, then the Abulafia Trust will receive no distributions on account of its Allowed Class-3 Claims unless and until all Class 1, 2, 4, 5, 6, 7, and 9 Claims have been satisfied in full, at which time the Abulafia Trust will be entitled to receive distributions, not to exceed the amount of its Allowed Class-3 Claims, solely from any recoveries attributable to Postconfirmation Litigation as to which the Abulafias are not defendants.</p> <p>If this Court does not authorize the equitable subordination of the Abulafia Trust's Class-3 Claims under the Plan—or if World Bazaars elects to withdraw or defer its request for equitable subordination without prejudice—then Class 3 will receive, as soon as practicable after the Effective Date, 30.8% of the Net Equipment Proceeds (subject to the Estate's right to assert equitable subordination claims or any other claims). However, all distributions under the Plan on account of the Abulafia Trust's allowed Class-3 Claims will be placed into the Abulafia Escrow Account pending resolution of all Insider Litigation against the Abulafias and any other claims that World Bazaars or the Estate may have against the Abulafias. On or before the Final Distribution Date, the funds in the Abulafia Escrow Account will either be transferred to the Operating Account for the benefit of the Estate in accordance with a Final</p>		

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		Order or they will be distributed to the Abulafias. This treatment will be in full satisfaction of the Abulafia Trust's Allowed Class-3 Claims.		
4 (All Other Secured Claims)	\$0	<p>As soon as practicable after the Effective Date, each entity holding an Allowed Class-4 Claim will receive one of the following treatments in full satisfaction of its Allowed Class-4 Claim:</p> <p>(a) The Disbursing Agent will convey to the entity holding the Claim the collateral in which that entity has a security interest; or</p> <p>(b) The Disbursing Agent will pay to the entity holding the Claim cash in the amount of that entity's Allowed Class-4 Claim.</p> <p>World Bazaars may, in its sole discretion, select which of these treatments each entity holding an Allowed Class-4 Claim will receive. If, by ten days before the Confirmation-Hearing Date, World Bazaars has not notified an entity of the treatment that World Bazaars has selected for that entity's Allowed Class-4 Claim, then World Bazaars will be deemed to have selected the treatment set forth in Subparagraph (a).</p>	100%	Any collateral securing Allowed Class-5 Claims.

b. Classes of Priority Unsecured Claims.

Priority claims that are referred to in Bankruptcy Code sections 507(a)(3), (4), (5), (6), and (7) must be placed in classes. The Bankruptcy Code requires that each person holding such a claim receive cash on the date that the plan of reorganization becomes effective and that the cash payment equal the allowed claim amount. However, a class of unsecured, priority claims may elect to accept deferred cash payments with a value, on the Effective Date, equal to the allowed claim amount. The following chart identifies the Plan's treatment of the Class containing all of World Bazaars' Priority Claims.¹⁸

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
5 (Priority Claims)	\$160,000	As soon as practicable after the Effective Date, the Disbursing Agent will pay to each entity holding an Allowed Class-5 Claim cash equal to the amount of the Allowed Class-5 Claim, without interest.	100%	Cash on hand.

¹⁸ See Exhibit 9 for detailed information about each Priority Claim.

c. Classes of General Unsecured Claims.

Unsecured Claims are not entitled to priority under Bankruptcy Code section 507(a). The following chart identifies the Plan's treatment of the Classes containing all of World Bazaars' general Unsecured Claims:¹⁹

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
6 (General Unsecured Claims)	<p>Bank Group: \$15.7 million</p> <p>Non-Bank Group: \$10.5 million</p>	<p>Subject to the following paragraph, on or before the Final Distribution Date, entities holding Allowed Claims in Class 6 and 7 will also receive the following treatment:</p> <p>(a) The Net Insider Recoveries will be distributed as follows:</p> <p>(1) The first \$500,000 of Net Insider Recoveries will be distributed to Classes 6 and 7 such that the Bank Group receives 50% of these distributions on account of its Allowed Class-6 Claim and 50% of these distributions are made <i>Pro Rata</i> to all other entities holding Allowed Claims in Classes 6 and 7; and</p> <p>(2) Any Insider Recoveries exceeding \$500,000 will be distributed <i>Pro Rata</i> to entities holding Allowed Claims in Classes 6 and 7;</p> <p>(b) The Net Avoidance Recoveries and any cash remaining in the Litigation Fund will be distributed <i>Pro Rata</i>—without taking into consideration any other distributions under the Plan—to entities holding Allowed Claims in Classes 6 and 7, subject to any dilution that results when Avoidance Recoveries, if any, increase the aggregate amount of Allowed Claims in Classes 6 and 7, except that, by its vote to accept the Plan, the Bank Group agrees that any distributions from Net Avoidance Recoveries and that would otherwise have been made to the Bank Group on account of its unsecured deficiency Claim will be distributed <i>Pro Rata</i> to all Class-6 creditors other than the Bank Group;</p>	<p>Minimum of 4% for Non Bank Group Claims plus additional recoveries contingent on Disposition of Postconfirmation Litigation.</p>	<p>Postconfirmation Litigation and other cash on hand.</p>

¹⁹ See Exhibit 10 for detailed information about each Unsecured Claim.

²⁰ See Section V.E.9 (Setoff and Recoupment).

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>(c) Any other cash on hand or assets, if any, will be distributed as follows:</p> <p>(1) The first \$500,000 will be distributed to Classes 6 and 7 such that the Bank Group receives 50% of these distributions on account of its Allowed Class-6 Claim and 50% of these distributions are made <i>Pro Rata</i>—without taking into account any other distributions under the Plan—to all other entities holding Allowed Claims in Classes 6 and 7; and</p> <p>(2) Any remaining cash will be distributed <i>Pro Rata</i> to entities holding Allowed Claims in Classes 6 and 7;</p> <p>Notwithstanding anything to the contrary in this Plan, unless all claims against the SKM Lenders have been waived or released, any distributions made before the Final Distribution Date under this Section on account of Allowed Class-7 Claims will be placed into the SKM Escrow Account. These distributions will remain in the SKM Escrow Account pending resolution of all Insider Litigation against the SKM Lenders and any other claims that World Bazaars or the Estate may have against the SKM Lenders. On or before the Final Distribution Date, the funds in the SKM Escrow Account and any distributions to be made under this Section will either be transferred to the Operating Account for the benefit of the Estate in accordance with a Final Order or will be distributed to the SKM Lenders.²⁰</p>		
7 (SKM Lenders' Unsecured Claims)	\$2.4 million	See above.	Up to 4% plus additional recoveries contingent on Disposition of Postconfirmation Litigation and claims against SKM Lenders.	Postconfirmation Litigation and other cash on hand.
8 (Abulafias' Unsecured Claims)	\$1.9 million	As permitted by Bankruptcy Code section 510(c), the Abulafias' Class-8 Claims will be	(A) 0% (B) Contin-	Postconfirmation

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>equitably subordinated under the Plan to all other Allowed Claims. As a result of this subordination, Class 8 will not receive any consideration unless and until all Allowed Class 1, 2, 4, 5, 6, 7, and 9 Claims are paid in full. World Bazaars may—subject to approval by the Bank Group and the Creditors' Committee—at any time until and including 10 days before the Confirmation Hearing, elect to withdraw or defer its request to equitably subordinate the Class-8 Claims in conjunction with Plan confirmation, without prejudice as to any of its rights, including its rights to seek the equitable subordination of the Class-8 Claims in a separate proceeding before or after confirmation of the Plan. No later than 10 days before the Confirmation Hearing, World Bazaars will file a notice with this Court advising the Court as to whether World Bazaars will seek to equitably subordinate Class 8 under the Plan, and this notice will be served on the Abulafias.</p> <p>If this Court considers World Bazaars' request to equitably subordinate the Abulafia Claims in connection with the Confirmation Hearing, and if the Court, through a Final Order, resolves this request against World Bazaars on the merits either at or before the Confirmation Hearing, then World Bazaars may not bring the equitable subordination action after the Confirmation Hearing. In the absence of such an adverse ruling, any decision by World Bazaars to defer or withdraw its request for equitable subordination is without prejudice to the Estate's right to seek equitable subordination of the Abulafia Claims after the Confirmation Hearing.</p> <p>If this Court does approve the equitable subordination of the Abulafias' Allowed Class-8 Claims, then the Abulafias will receive no distributions on account of their Allowed Class-8 Claims unless and until all Class 1, 2, 4, 5, 6, 7, and 9 Claims have been satisfied in full, at which time the Abulafias will be entitled to receive distributions, not to exceed the amount of their Allowed Class-8 Claims, solely from any recoveries attributable to Postconfirmation Litigation as to which the Abulafias are not defendants.</p> <p>If this Court does not authorize the equitable subordination of the Abulafias' Claims under the Plan—or if World Bazaars elects to withdraw or defer its request for equitable subordi-</p>	<p>gent on Disposition of Postconfirmation Litigation and Claims against the Abulafias.</p>	<p>Litigation and other cash on hand.</p>

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		<p>nation without prejudice—then Class 8 will receive the same treatment as Class 7 (subject to the Estate's right to assert equitable subordination claims or any other claims), but all distributions under the Plan on account of the Abulafias' Allowed Class-8 Claims will be placed into the Abulafia Escrow Account. These distributions will remain in the Abulafia Escrow Account pending the resolution of the Insider Litigation against the Abulafias as well as any other claims that World Bazaars or the Estate may have against the Abulafias. On or before the Final Distribution Date, the funds in the Abulafia Escrow Account will either be transferred to the Operating Account for the benefit of the Estate in accordance with a Final Order or they will be distributed to the Abulafias.</p>		
9 (WARN Act Claims)	\$130,000	<p>A settlement proposal is currently being finalized. If approved, the WARN Act claimants are expected to receive claims totaling roughly \$130,000 on account of their class-action Claim. (Of this amount, roughly one-third will be allocated to counsel for the class-action claimants as an Administrative Claim and two-thirds will be allocated to allowed Claims in Class 5). If this settlement is not finalized or approved, then the WARN Act claimants will receive the treatment set forth below. Before the confirmation of the Plan, World Bazaars intends to file a counterclaim for declaratory relief and equitable subordination of the Class-9 Claims asserted in the adversary proceeding initiated by the WARN Act claimants. The counterclaim will seek to declare that any amounts due the WARN Act claimants would, in a Chapter 7 case, be "damages [that] are not compensation for actual pecuniary loss," such that they would be subordinate to the claims of general unsecured creditors to the extent that these Claims may constitute statutory penalties rather than compensatory damages pursuant to Bankruptcy Code section 726(a)(4). The counterclaim will also seek to subordinate the WARN Act Claims in accordance with Bankruptcy Code section 510(c). If the Class-9 Claims are allowed and the counterclaims are successful, in whole or in part, then that portion of the Class-9 Claims that constitutes compensation in excess of actual pecuniary loss will be subordinated to all other Allowed Claims other than any Class-3 or Class-8 Claims. As a result of this subordination, the WARN Act claimants will not receive any consideration on ac-</p>	100%	N/A

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
		count of the subordinated Class-9 Claims unless and until all Allowed Claims other than Class-3 and Class-8 Claims are paid in full. If the Court does not authorize the subordination of the WARN Act Claims, then these Claims, if allowed, will nevertheless continue to be separately classified in Class-9 to the extent that they constitute general, Unsecured Claims for statutory damages. In this event, in accordance with this Court's order allowing the WARN Act Claims, the WARN Act Claims will be deemed either to be Priority Claims in Class 5 or to be Unsecured Claims in Class-9. Entities holding any allowed Class-9 Claims that are not subordinated will receive no consideration on account of their Class-9 Claims except to the extent that these Claims are Claims for actual damages, to which extent the Claims will be deemed to be Class-7 Claims.		

The Bank Group's Class-6 Claims: Acceptance of Less Favorable Treatment. Under the formula set forth in Section IV.E. of the Plan, by its vote to accept the Plan, the Bank Group will agree to receive slightly less favorable treatment on account of its Allowed Class-6 Claims than will be afforded to certain creditors with Allowed Claims in Classes 6 and 7. For example, although the Bank Group's Allowed Class-6 Claim is estimated to comprise roughly 56% of Class-6 Claims, the Bank Group will receive only 50% of the first \$500,000 of Net Insider Recoveries and other cash, and any Net Avoidance Recoveries to which the Bank Group would otherwise have been entitled will be distributed to Class-6 claimants other than the Bank Group. Under Bankruptcy Code section 1123(a)(4), a plan of reorganization must provide the same treatment for holders within the same class unless a holder agrees to accept less favorable treatment. As discussed elsewhere in the Disclosure Statement, the Plan represents a compromise regarding the claims and liens of the Bank Group and, in connection with the compromise, it is anticipated that the Bank Group will agree to permit other unsecured creditors to receive enhanced recoveries.

As noted above, World Bazaars believes that the Bank Group likely has a validly perfected, senior lien on substantially all of World Bazaars' assets, and World Bazaars is prepared to so acknowledge in accordance with the Plan. To facilitate World Bazaars' wind down and the orderly distribution of its assets, the Bank Group has agreed that it will recover, for its own benefit, only certain proceeds from the Postconfirmation Litigation. This agreement is embodied in the Bank Group Stipulation, in which the Bank Group has agreed not to oppose the Plan and Disclosure Statement. The agreement will be reiterated by the Bank Group's affirmative vote to support the Plan.

The Abulafia Claims: Equitable Subordination and Escrow. The Ninth Circuit Court of Appeals has held that bankruptcy courts may subordinate claims where subordination would promote a just and equitable distribution of an estate's assets.²¹ Bankruptcy courts generally apply a three-prong test in determining whether equitable subordination is appropriate. As stated by the Fifth Circuit Court of Appeals, to equitably subordinate a claim: "(1) [T]he claimant must have engaged in some type of inequitable conduct; (2) the misconduct must have resulted in injury to the creditors or conferred an unfair advantage on the claimant; and (3) equitable subordination of the claim must not be inconsistent with the provisions of the Bankruptcy Code."²² There are, in turn, at least three generally recognized categories of inequi-

²¹ See *Trone v. Smith (In re Wetgate-California Corp.)*, 642 F.2d 1174, 1177 (9th Cir. 1981).

²² *Fabricators, Inc. v. Technical Fabricators, Inc.*, 926 F.2d 1458, 1455-56 (5th Cir. 1991) (citations omitted); *accord Coopers & Lybrand v. Lazar (In re Lazar)*, 83 F.3d 306 (9th Cir. 1996).

table conduct: (1) fraud, illegality, and breach of fiduciary duties; (2) undercapitalization; and (3) the claimant's use of the debtor as an alter ego.²³

As discussed in Section IV.C.1.b(2), it has been suggested that the Abulafias engaged in all three recognized types of misconduct in respect to World Bazaars and this Estate. First, it has been suggested that, in many respects, the Abulafias treated World Bazaars as their alter ego. For example, the Abulafias owe World Bazaars approximately \$200,000 on account of personal advances and loans. Hayim and Julie Abulafia were the landlords for World Bazaars' business offices in Commerce, California, and in May 1999, they caused World Bazaar to sublease space to a third party on terms that passed certain benefits of the sublease on to Hayim and Julie Abulafia, as the landlord. And through the 1998 Restructuring the Abulafias received approximately \$23.6 million in so-called "dividends" from World Bazaars. In addition, Hayim Abulafia may have attempted to interfere with the Public Auction in order to obtain Estate assets at an artificially low price.

Second, it has been asserted that the 1998 Restructuring, which resulted in payment of a \$23.6 million "dividend" to the Abulafia Trust, may have left World Bazaars without adequate capital. It is asserted that the 1998 Restructuring and other prepetition activities harmed creditors by draining much-needed cash from the company and thereby causing or hastening its demise.

Third, it is asserted that, once World Bazaars commenced this Liquidation Case, Hayim Abulafia engaged in numerous activities that interfered with this Estate and with World Bazaars' ability to sell its inventory. For example, Hayim Abulafia and his representatives are reported to have told numerous potential bidders that Hayim Abulafia would be buying the inventory and that they should not bid at the Public Auction. Hayim Abulafia is also reported to have organized a consortium of potential bidders to attend the Public Auction to prevent competitive bidding. It is asserted that, by interfering with the Public Auction, the Abulafias limited competitive bidding and depressed the sale price for the Estate's assets. If true, the depression of the auction price would have harmed creditors of the Estate by leaving them with fewer available liquidation proceeds.

Finally, not only is equitable subordination not inconsistent with the Bankruptcy Code, but Bankruptcy Code section 501(c) specifically authorizes equitable subordination for purposes of distribution.

Based on both the Abulafias' apparent abuse of their control over World Bazaars before the Petition Date and their alleged interference with World Bazaars and the Estate after the Petition Date, it has been asserted that the Abulafias' Allowed Claims should be equitably subordinated to all other Claims in this Liquidation Case. The Plan therefore seeks such an equitable subordination.

World Bazaars may—no later than 10 days before the Confirmation-Hearing Date—decide whether to pursue its request for equitable subordination in connection with Plan confirmation or to defer or withdraw this request without prejudice and to reserve the Estate's right to seek equitable subordination of the Abulafia Claims either before or after Plan confirmation. If this Court considers World Bazaars' request to equitably subordinate the Abulafia Claims in connection with the Confirmation Hearing, however, and the Court, through a Final Order, resolves this request against World Bazaars on the merits either at or before the Confirmation Hearing, then World Bazaars may not bring the equitable subordination action after the Confirmation Date.

If this Court finds that the Abulafias' Allowed Claims should not be equitably subordinated under the Plan or if World Bazaars decides to defer or withdraw its request for equitable subordination in conjunction with Plan confirmation, then any distributions on account of the Abulafias' Allowed Claims will be placed into the Abulafia Escrow Account pending resolution of all claims, rights, and causes of action that World Bazaars or the Estate may have against the Abulafias.

²³ See *Fabricators*, 926 F.2d at 1467.

d. Classes of Interest Holders.

Interest holders are entities that hold ownership interests (*i.e.*, equity interests) in a debtor. If the debtor is a corporation, entities holding preferred or common stock in the debtor are interest holders. If the debtor is a partnership, the interest holders include both general and limited partners. If the debtor is an individual, the debtor is the interest holder. The following chart identifies the Plan's treatment of the Classes of Interest holders.²⁴

Class #	Estimated Allowed Claims	Proposed Treatment, Amount of Each Payment, and Timing	Projected % Return	Source of Funds
10 (Interests)	N/A	Allowed Class-10 Interests will receive and retain no value under the Plan, and all Allowed Class-10 Interests will be cancelled on the Effective Date, without payment of any consideration.	0%	N/A

B. Means of Effectuating the Plan.

1. Source of Funds.

Administrative Claims, Priority Tax Claims, and Allowed Class-5 Claims (Priority Claims) are estimated to be approximately \$521,000. These obligations must be paid in full on or as soon as practicable after the Effective Date. The obligations will likely be paid from cash made available by subordinating approximately \$523,000 in distributions that would otherwise have been made to the Abulafias and the liquidation of miscellaneous Free and Clear Assets (estimated to be \$60,000).

Interim distributions to Classes 1, 2, and 3 have already been made, or soon will be made, from the cash proceeds received from the liquidation of the secured creditors' collateral. Any remaining distributions under the Plan will be made from any undistributed proceeds received from the liquidation of the collateral. Specifically, Class 1 will be satisfied from the Net Inventory Proceeds, which are estimated to be \$7.6 million, and Class 2 and 3 will be satisfied from any undistributed Net Equipment Proceeds, which are estimated to be \$638,000. World Bazaars does not believe that there are any Allowed Claims in Class 4. The distributions to Classes 6 and 7, and any distributions to Class 8, will be made solely from any recoveries attributable to Postconfirmation Litigation as to which entities holding Class 6, 7, or 8 Claims, respectively, are not defendants, and from any cash on hand available at the time of the distribution. If Claims in Class 9 are allowed and not subordinated, these claims will be deemed to be Class-5 or Class-6 Claims, as appropriate. Class 10 will receive no distributions under the Plan.

2. The Continuing Estate.

World Bazaars believes that, by the Effective Date, the company will have liquidated substantially all of its assets other than the Postconfirmation Litigation. The Estate will continue in existence after the Effective Date as the Continuing Estate. The Continuing Estate will hold title to the Postconfirmation Litigation and any other Estate assets as well as any property that is acquired after the Effective Date and that would otherwise become Estate property under Bankruptcy Code section 541. The Continuing Estate will hold its assets solely for the benefit of entities who are entitled under the Plan to receive that property or the net proceeds from the liquidation of that property.

On the Effective Date, a Plan Administration Committee will be created under the Plan, and World Bazaars will have no further responsibilities or obligations. The Plan Administration Committee will be the Continuing Estate's principal agent for managing, administering, liquidating, and disbursing its assets and, subject to this Court's jurisdiction, will exercise all of the powers and duties set forth in this Plan. In particular, the Plan Administration Committee will be the Continuing Estate's agent for pursuing all Postconfirmation Litigation other than Avoidance Actions and Claims Litigation and, subject to this Court's jurisdiction, will exercise the powers and duties authorized under this Plan. The

²⁴ See Exhibit 11 for more detailed information about each interest holder.

Creditors' Committee, however, will be the Continuing Estate's agent for liquidating the Avoidance Actions and managing the Claims Litigation.

World Bazaars believes that the continuation of the Estate through the Continuing Estate is appropriate and is in the best interest of the Estate's creditors. Bankruptcy Code section 1123(b)(6) states that a plan may include any other appropriate provision not inconsistent with applicable provisions of the Bankruptcy Code. The continuation of the Estate is not inconsistent with the Bankruptcy Code and is therefore appropriate. Furthermore, this provision is in the best interest of World Bazaars' Estate and creditors. World Bazaars, its Estate, and its Continuing Estate exist solely to wind down the company's affairs and to distribute its assets. After the Effective Date, these efforts will consist primarily of the pursuit of the Insider Litigation and payment of quarterly U.S. Trustee's fees. As discussed in Section VI.D., there are meaningful tax benefits to be gained from creating a Continuing Estate to hold the Estate's assets after the Effective Date. These benefits might be lost if the Litigation Fund and recoveries from Postconfirmation Litigation were vested in a reorganized entity. Creating a reorganized entity could also impose on World Bazaars time consuming, costly obligations to create and file amended bylaws and articles of incorporation and to issue new shares of stock. Furthermore, since the Estate's few, remaining obligations can readily be handled by the Plan Administration Committee, the creation of a reorganized entity upon the Effective Date will not provide creditors with any meaningful benefit to offset the potentially adverse tax consequences and the additional costs of creating the new entity.

C. Resolution of Litigation.

As permitted by Bankruptcy Code section 1123(b)(3), except as expressly released in the Plan, the Continuing Estate will hold title to and—through the Creditors' Committee and the Plan Administration Committee, as its representatives—may enforce, any claims, rights, or causes of action that World Bazaars or its Estate may hold or have against any entity. These claims and rights include:

- (a) Avoidance Actions;
- (b) Insider Litigation;
- (c) Claims Litigation, including Claims Litigation initiated after the Effective Date;
- (d) All claims, rights, and causes of action discussed in Section IV.C.1.b, including any claims arising from the 1998 Restructuring and any claims arising from the Public Auction;
- (e) Any rights of equitable subordination or disallowance;
- (f) Derivative claims that may be brought by or on behalf of World Bazaars or its Estate;
- (g) Potential claims against Majestic—CCC IV L.L.C.; and
- (h) Any other claims or rights of any kind that either World Bazaars or its Estate may have or hold under any applicable law.

Any recoveries relating to these claims, rights, or causes of action will be retained by the Continuing Estate free and clear of all Claims and Interests, and the Continuing Estate, through the Plan Administration Committee and the Creditors' Committee, may pursue these claims, rights, or causes of action in accordance with its best interests.

1. Postconfirmation Litigation.

The Creditors' Committee will continue after the Effective Date solely to serve as the Continuing Estate's representative with respect to Postconfirmation Litigation. The Creditors' Committee will serve as the Continuing Estate's representative with respect to Postconfirmation Litigation and it may, in its sole discretion, abandon, litigate, compromise, or settle any Avoidance Actions or Claims Litigation. All Committee Expenses related to the Postconfirmation Litigation will be payable solely from the Litigation Fund. The Creditors' Committee will, in its sole discretion, determine what amounts from the Litigation Fund will be used for litigation expenses and what funds will remain available for distribution

to Class-6. Any Avoidance Recoveries and any cash remaining in the Litigation Fund will be distributed in accordance with the Plan.

2. Claim Objection Deadline.

Except as otherwise provided in Section IV.A of the Plan (regarding allowance of Administrative Claims), objections to any Claim or Interest must be filed, and must be served upon the entity holding the Claim or Interest, on or before the Claim Objection Deadline. The Claim Objection Deadline is the later of: (a) April 30, 2001; or (b) six months after the date on which the particular proof of claim or interest was filed.

D. The Bank Group Settlement.

The Plan provides for a settlement among the Creditors' Committee, World Bazaars, the Estate, and the Bank Group under which the Creditors' Committee, on behalf of entities holding Allowed Unsecured Claims; World Bazaars; and its Estate will waive all claims, rights, and causes of action against the Bank Group other than obligations under this Plan, including any and all claims based on fraudulent conveyances, preferences, or other causes of action arising out of the 1998 Restructuring. In consideration, the Bank Group agrees, among other things: (a) to waive all claims against World Bazaars or the Estate other than the Allowed Class-1 and Class-6 Claims and Allowed Administrative Claims; (b) to make available \$500,000 for the Litigation Fund from amounts that it may otherwise be entitled to receive on account of its Allowed Class-1 Claim;²⁵ and (b) to agree to a less favorable treatment on account of its Allowed Class-6 Claims relative to any Allowed Class-6 Claims held by entities other than Insiders and the members of the Bank Group.

It would be costly and time consuming for World Bazaars to pursue claims that it might have against the Bank Group. Moreover, based on the analysis conducted by World Bazaars and the Creditors' Committee, these claims might be difficult to establish and to recover upon. The proposed settlement avoids litigation costs and uncertainty while bringing into the Estate much needed cash (which can be used, in turn, to pursue more meritorious claims such as Avoidance Actions) and limiting potential Claims against the Estate. World Bazaars therefore believes that the proposed settlement is in the best interest of the Estate and World Bazaars' creditors.

E. Other Provisions of the Plan.

1. Rejection of Executory Contracts and Unexpired Leases.

On the Effective Date, World Bazaars will reject any and all agreements that it executed before the Petition Date—except for any agreements that were previously assumed or rejected either by a Final Order or under Bankruptcy Code section 365—to the extent that these agreements constitute executory contracts or unexpired leases under Bankruptcy Code section 365. The Confirmation Order will constitute a Court order approving this rejection.

The agreements to be rejected under this Section include all executory contracts and unexpired leases listed on the Schedule of Rejected Agreements attached to the Plan as Exhibit 1. (Listing an agreement on the Schedule of Rejected Agreements is not an admission that the agreement is an executory contract or unexpired lease or that World Bazaars has any liability under the agreement.) World Bazaars reserves the right to amend the Schedule of Rejected Agreements at any time before the Confirmation Hearing to: (a) delete any agreement; or (b) add any executory contract or unexpired lease and provide for its rejection under this Section. World Bazaars will provide notice of any amendment to the Schedule of Rejected Agreements to each entity affected by the amendment.

2. Bar Date for Rejection-Damage Claims.

Any Rejection-Damage Claim arising from rejection under the Plan of an executory contract or unexpired lease must be filed with the Court and served on World Bazaars, its bankruptcy counsel, and the Plan Administration Committee within 30 days after the Effective Date. Any Rejection-Damage Claims that are not timely filed and served will

²⁵ The Litigation Fund will be created in part by the segregation of \$312,500 under the Bank Group Stipulation and in part by the segregation of \$187,500 in accordance with this Plan.

be forever barred and unenforceable against World Bazaars, its Estate, and its property, and the entities holding these Claims will be barred from receiving any distributions under the Plan on account of their Rejection-Damage Claims.

3. Postpetition Contracts and Leases.

Except as expressly provided in the Plan or the Confirmation Order, all contracts, leases, and other agreements that World Bazaars entered into after the Petition Date will remain in full force and effect after the Effective Date.

4. Post-Confirmation Management.

(1) Appointment of the Plan Administration Committee.

Consistent with Bankruptcy Code section 1123(a)(7), on the Effective Date, World Bazaars' existing Board of Directors and officers will be replaced by the Plan Administration Committee. The Plan Administration Committee will consist of the Bank Group Agent and Richard Havel, as counsel for the Creditors' Committee. No member of the Plan Administration Committee will receive any compensation from the Continuing Estate for services rendered. The Plan Administration Committee will be the sole entity responsible for managing and administering the Continuing Estate's assets and carrying out the provisions contained in this Plan from and after the Effective Date. The Plan Administration Committee will take actions based on unanimous vote. The Court will retain jurisdiction to resolve any disputes between the Plan Administration Committee members. The Plan Administration Committee may be removed solely in accordance with Section V.E.4(2).

(2) Removal of the Plan Administration Committee and Selection of a New Plan Administration Committee.

The Plan Administration Committee will serve until the earliest of: (a) the entry of a Final Order closing this Liquidation Case; (b) the replacement of the Plan Administration Committee by order of the Bankruptcy Court; or (c) the dismissal of this Liquidation Case. The Bankruptcy Court will resolve any dispute under this Section.

Subject to the following restrictions, the Creditors' Committee and the Bank Group may terminate their respective representatives on the Plan Administration Committee with or without cause, and either member of the Plan Administration Committee may resign with or without cause. If a Plan Administration Committee member resigns or is terminated, the Creditors' Committee or the Bank Group, respectively, may select a successor representative. If a Plan Administration Committee member resigns or is terminated, that resignation or termination will not be effective until: (a) the Creditors' Committee or the Bank Group, respectively, has selected a successor representative or the Plan Administration Committee has been dissolved; and (b) the Creditors' Committee, the Bank Group, or the Plan Administration Committee member has filed with the Court, and served on the U.S. Trustee, a notice indicating that the Plan Administration Committee member has resigned or been terminated and indicating either who the successor member will be or indicating that the Plan Administration Committee has been dissolved. All actions by the Creditors' Committee under this Section should be made by majority vote.

(3) Powers and Duties of the Plan Administration Committee.

Commencing on the Effective Date, World Bazaars and the Continuing Estate will conduct no business, and their sole purpose will be to wind up their affairs in accordance with applicable law and this Plan. The Plan Administration Committee—as the representative of the Continuing Estate—will manage and administer the Continuing Estate's assets solely for the benefit of entities holding Allowed Unsecured Claims. From and after the Effective Date, the Plan Administration Committee is authorized to take any action reasonable and necessary to implement this Plan and to wind up the Continuing Estate. The Plan Administration Committee may take such actions without further supervision of this Court or the U.S. Trustee and free of any restrictions imposed by the Bankruptcy Code, the Bankruptcy Rules, or the Guidelines of the Office of the United States Trustee other than those restrictions that the Plan or Confirmation Order expressly impose on the Continuing Estate or the Plan Administration Committee.

In particular, the Plan Administration Committee will liquidate and reduce to cash all assets of the Continuing Estate as expeditiously as possible and in a manner consistent with the realization of fair value of those assets. The powers and duties of the Plan Administration Committee will include all of the powers and duties of a chapter-11 trustee.

tee (as specified in Bankruptcy Code section 1106), and the members of the Plan Administration Committee will serve as, and have all the powers of, officers and directors of World Bazaars. To this end, the Plan Administration Committee may:

- (a) Commence or continue litigation, arbitration, and other dispute resolution procedures—including turnover actions and avoiding actions under the Bankruptcy Code or other applicable law—to realize upon Postconfirmation Litigation other than Avoidance Actions or Claims Litigation and settle, compromise, or litigate to judgment any Postconfirmation Litigation other than Avoidance Actions or Claims Litigation;
- (b) Collect, sell, lease, or otherwise dispose of tangible and intangible assets of the Continuing Estate;
- (c) File tax returns and obtain determinations of tax liabilities from taxing authorities; and
- (d) Take any other actions contemplated under this Plan or otherwise reasonable and necessary to consummate this Plan.

In addition, the Plan Administration Committee must comply with all withholding and reporting requirements imposed on it by taxing authorities and governmental units and with the Continuing Estate's obligations to pay U.S. Trustee's quarterly fees under 28 U.S.C. § 1930(a)(6). In order to permit the U.S. Trustee properly to calculate any fees owed under 28 U.S.C. § 1930(a)(6), the Plan Administration Committee should file quarterly Interim Statements with the U.S. Trustee. Moreover, on or before the time of any hearing to dismiss or close this Liquidation Case, the Plan Administration Committee should file with the Court a report summarizing all distributions made and expenses incurred under the Plan.

The Plan Administration Committee and its members may not:

- (a) Take any action that is inconsistent with this Plan; or
- (b) Conduct any business after the Effective Date other than winding down the Continuing Estate in accordance with applicable law and this Plan.

The Plan Administration Committee may designate one of its members as the plan administrator and may delegate any of its powers and duties to the plan administrator and provide the plan administrator with complete authority to carry out any of the powers or duties so delegated. If a plan administrator is selected, then any reference in this Plan to the Plan Administration Committee will be deemed to include the plan administrator. If the Plan Administration Committee is dissolved, then the plan administrator's powers and duties will automatically be revoked.

5. The Disbursing Agent.

The Plan Administration Committee may select a Disbursing Agent to carry out the administrative functions needed to implement the distributions required under this Plan. For example, the Disbursing Agent may create and maintain a claims database, write and send checks, or respond to inquiries regarding distributions. The Disbursing Agent may be employed without Court authorization, but the Disbursing Agent's compensation must be consistent with the Operating Budget. If the Plan Administration Committee is dissolved, then the Disbursing Agent's powers and duties will automatically be revoked.

6. Employment of Professionals.

Periodically after the Confirmation Date, the Plan Administration Committee may employ persons or professionals reasonably necessary to assist it in performing its duties under this Plan. The Plan Administration Committee may employ these persons or professionals without Court authorization, but their employment must be consistent with the Operating Budget and the Plan's provisions regarding professional fees and expenses.

7. Post-Effective-Date Operating and Litigation Expenses.

Commencing on the Effective Date, the Continuing Estate, through the Plan Administration Committee, may, in the ordinary course of business, incur and pay any of the expenses set forth in the Operating Budget. But the Continuing Estate may neither incur nor pay any expenses or fees that are not set forth in the Operating Budget. Before the Effective Date, the Operating Budget may be amended by written agreement among World Bazaars, the Creditors' Committee, and the Bank Group. After the Effective Date, the Operating Budget may be amended by the Plan Administration Committee in its sole discretion. A true and correct copy of any amended Operating Budget will be promptly filed with this Court. World Bazaars, the Bank Group, the Creditors' Committee, and the Plan Administration Committee may not unreasonably withhold approval of, or require, any expenditure or amendment. Any dispute regarding the Operating Budget will be resolved by the Bankruptcy Court.

To receive reimbursement for Committee Expenses to be paid from the Litigation Fund, the Creditors' Committee should provide to the Plan Administration Committee a copy of an invoice requesting payment. The Plan Administration Committee must, within five Business Days after receiving the invoice, provide the Creditors' Committee with both a written statement either approving or disputing the invoice and prompt payment of any undisputed fees and expenses. If the Creditors' Committee receives a timely objection, then the parties will exercise their best efforts to resolve the dispute. Failing a timely, consensual resolution, the parties may present the dispute to this Court for resolution.

8. Timing of Distributions.

On the Effective Date, the Disbursing Agent will transfer to the Operating Account an amount at least equal to the aggregate Operating Budget. If practicable, the Operating Account will be maintained in an interest-bearing account with all interest being credited to the Operating Account. Except as otherwise provided in this Plan, any proceeds that are received by World Bazaars after the Effective Date will be promptly placed into the Operating Account.

All Administrative Claims and Priority Tax Claims will be paid in cash as soon as practicable after the Effective Date. As discussed in Section IV.E.8, World Bazaars has already made, or likely soon will make, interim distributions to the Bank Group and the SKM Lenders on account of their Allowed Class-1 and Class-2 Claims. The remaining distributions to Secured Lenders will be made as soon as practicable after the Effective Date.

The Plan Administration Committee may, in its sole discretion, direct the Disbursing Agent to make one or more interim distributions to entities holding Allowed Claims in Classes 6 and 7, and possibly Class 8. (The Class-7 and Class-8 distributions, however, are subject to escrow as discussed above.) The Plan Administration Committee will also select a Final Distribution Date as soon as practicable after it determines that the following events, which are preconditions to final distributions in this Liquidation Case, have occurred:

1. All of the Estate's assets have been liquidated and reduced to cash;
2. The Creditors' Committee has notified World Bazaars in writing that all Avoidance Actions have either been liquidated and reduced to cash or abandoned;
3. The Creditors' Committee has notified the Plan Administration Committee in writing that all Claims Litigation has been completed, all Disputed Claims either have become Allowed Claims or have been disallowed by a Final Order, and no further Claims Litigation will be pursued;
4. All other Postconfirmation Litigation, including the Insider Litigation, has been either liquidated and reduced to cash or abandoned;
5. All Allowed Administrative Claims, Allowed Priority Tax Claims, and Allowed Claims in Classes 1, 2, 3, 4, and 5 plus all related interest, fees, and costs to be paid under the Plan have been satisfied in full according to the terms of this Plan; and
6. All expenses incurred by the Continuing Estate are paid or satisfied in full according to this Plan's terms.

The Plan Administration Committee will file a notice of the occurrence of the Final Distribution Date no later than 30 days before the proposed Final Distribution Date. This notice should be served on the Creditors' Committee, the U.S. Trustee, and any parties entitled to special notice in this Liquidation Case. On the Final Distribution Date, the Disbursing Agent will distribute the Net Avoidance Recoveries, the Insider Recoveries, and any cash on hand to Classes 6 and 7 and possibly Class 8, as set forth in Section V.A.2.

9. Setoff and Recoupment.

NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE PLAN, THE CONTINUING ESTATE MAY SET OFF, RECOUP, OR WITHHOLD AGAINST THE DISTRIBUTIONS TO BE MADE ON ACCOUNT OF ANY ALLOWED CLAIM OR ALLOWED INTEREST—INCLUDING ANY DISTRIBUTIONS TO THE SKM LENDERS OR THE ABULAFIAS, ANY FUNDS HELD IN THE SKM ESCROW ACCOUNT, AND ANY FUNDS HELD IN THE ABULAFIA ESCROW ACCOUNT—ANY CLAIMS THAT WORLD BAZAARS, THE ESTATE, OR THE CONTINUING ESTATE MAY HAVE AGAINST THE ENTITY HOLDING THE ALLOWED CLAIM OR ALLOWED INTEREST. NEITHER WORLD BAZAARS NOR THE CONTINUING ESTATE WILL WAIVE OR RELEASE ANY CLAIM THAT IT MAY HAVE AGAINST THOSE ENTITIES BY FAILING TO EFFECT SUCH A SETOFF OR RECOUPMENT; BY ALLOWING ANY CLAIM AGAINST OR INTEREST IN WORLD BAZAARS, ITS ESTATE, OR THE CONTINUING ESTATE; OR BY MAKING A DISTRIBUTION ON ACCOUNT OF AN ALLOWED CLAIM OR ALLOWED INTEREST.

10. The Bank Group Release.

Effective on confirmation, if the Bank Group votes to accept the Plan, then World Bazaars (in its corporate capacity and on behalf of the Estate), the Estate, the Continuing Estate, the Bank Group, each Bank Group member, and the Creditors' Committee, as well as any of their successors, assigns, or agents—without executing any document or entry of any order other than the Confirmation Order—will be deemed to have waived and released each other and all of their respective predecessors, successors, assigns, or agents of all claims, rights, obligations, and defenses arising under or relating to the following laws, to the extent that they arise in connection with the 1998 Restructuring, the Credit Facility, World Bazaars, the Estate, or this Liquidation Case: Bankruptcy Code sections 510, 542, 543, 544, 547, 548, 549, 550, 551, 552, and 553; all fraudulent conveyance laws; all preference laws; and California Civil Code sections 3439 and 3440, *et seq.* This release includes any right that the Bank Group may have to surcharge the Estate for any alleged diminution in the value of the Bank Group's collateral and any Administrative Claims that the Bank Group or Bank Group members may have. This release does not include obligations imposed under the Plan.

The Bank Group's vote to accept the Plan also serves as an acknowledgement by the Bank Group Agent, the Bank Group, and each Bank Group member that they are each familiar with California Civil Code section 1542, which provides that:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

The Creditors' Committee and World Bazaars acknowledge that they are also familiar with California Civil Code section 1542. To the full extent that they may lawfully do so, the Bank Group, each Bank Group member, the Creditors' Committee, World Bazaars, the Estate, and the Continuing Estate waive and relinquish all rights and benefits that each party has or may have under California Civil Code section 1542 or any similar law.

The Bank Group, the Bank Group members, World Bazaars, the Creditors' Committee, and their professionals have made reasonable investigations of the facts and law relevant to the claims released under this Section. Each party expressly assumes the risk that the facts or law may be different than it now believes them to be, and each party agrees that this release will be effective notwithstanding any such differences.

11. The Effective Date.

The Plan will not be consummated or become binding unless and until the Effective Date occurs. The Effective Date will be the first Business Day, as determined by World Bazaars in its reasonable discretion, that is no later than February 28, 2001 and on which the following conditions have been satisfied:

- (a) At least ten days have passed since the Confirmation Date;
- (b) The Court has entered a Final Order disallowing or subordinating the WARN Act Claims or approving the separate classification of the WARN Act Claims in accordance with this Plan;
- (c) The Confirmation Order is not stayed; and
- (d) World Bazaars is satisfied that adequate provisions have been made to fully satisfy all Administrative Claims, Priority Tax Claims, and allowed Priority Claims in Class 5 as required under the Plan.

World Bazaars may waive, in whole or in part, any condition to the Effective Date other than the requirements of Subparagraphs (c) and (d). To be effective, however, the waiver must be filed with the Court.

12. Termination of World Bazaars.

On the Effective Date, World Bazaars' officers and directors automatically will be terminated without any further action. Upon the Effective Date and the appointment of the Plan Administration Committee, World Bazaars will have no rights to operate its business or to perform any of the functions of a debtor in possession set forth in Bankruptcy Code section 1107. Instead, the Plan Administration Committee will have full and complete power to act on behalf of the Continuing Estate in a manner consistent with this Plan. The Confirmation Order will constitute an order of the Bankruptcy Court under Bankruptcy Code section 1107(a) limiting the rights, powers, and duties of World Bazaars in accordance with this Plan.

13. Dissolution of the Creditors' Committee.

As of the Effective Date, the Creditors' Committee members will be released and discharged from all rights and duties arising from or related to this Liquidation Case except for their duties regarding final applications for compensation and their rights and duties under the Plan. Neither the professionals retained by the Creditors' Committee nor the Creditors' Committee members will be entitled to compensation or reimbursement of expenses for any services rendered or expenses incurred after the Effective Date except for: (a) services or expenses relating to their applications for compensation that were pending on the Effective Date or that were timely filed after the Effective Date; or (b) Litigation Expenses. The Creditors' Committee will automatically be dissolved upon entry of a Court order closing this Liquidation Case.

14. Dissolution of the Continuing Estate.

Once this Plan has been consummated, this Liquidation Case has been closed, and the Court has entered a final decree in this Liquidation Case, the Continuing Estate will automatically be dissolved without any further action.

15. Nondischarge of World Bazaars.

In accordance with Bankruptcy Code section 1141(a)(3), the Confirmation Order will not discharge Claims. However, no entity holding a Claim may receive any payment from, or seek recourse against, any assets that are to be distributed under this Plan other than assets required to be distributed to that entity under the Plan. As of the Confirmation Date, all entities are precluded from asserting against any property that is to be distributed under this Plan any Claims, rights, causes of action, liabilities, or Interests based upon any act, omission, transaction, or other activity that occurred before the Confirmation Date except as expressly provided in this Plan or the Confirmation Order.

16. Injunction.

Except as otherwise provided in this Plan or the Confirmation Order, as of the Confirmation Date all entities that have held, currently hold, or may hold a Claim or Interest that would be discharged upon Confirmation of this Plan but for the provisions of Bankruptcy Code section 1141(d)(3) and the Plan are permanently enjoined from taking any of the following actions on account of that Claim or Interest:

- (a) Commencing or continuing any action or proceeding on account of that Claim or Interest other than to enforce a right to a distribution with respect to that Claim or Interest under this Plan;
- (b) Enforcing any judgment, award, decree, or order against any property to be distributed under the Plan other than as permitted under the Plan; and
- (c) Creating, perfecting, or enforcing any lien or encumbrance against any property to be distributed under this Plan other than as permitted under this Plan.

17. Retention of Jurisdiction.

Notwithstanding the entry of the Confirmation Order or the occurrence of the Effective Date, the Court will retain jurisdiction over this Liquidation Case after the Effective Date to the fullest extent provided by law, including the jurisdiction to:

- (a) Allow, disallow, determine, liquidate, classify, establish the propriety or secured or unsecured status of, estimate, or limit any Claim, Interest, or Committee Expense;
- (b) Grant or deny any and all applications for allowance of compensation or reimbursement of expenses authorized under the Bankruptcy Code or the Plan for periods ending on or before the Effective Date, including Committee Expenses and compensation of expenses relating to professional fees and expenses of the Continuing Estate relating to prosecuting any claims of the Estate;
- (c) Resolve any motions pending on the Effective Date to assume, assume and assign, or reject any executory contract or unexpired lease to which World Bazaars is a party or with respect to which World Bazaars may be liable, and to hear, determine, and if necessary, liquidate any and all Claims arising from such a motion;
- (d) Ensure that distributions to entities holding Allowed Claims and Allowed Interests are accomplished under the Plan provisions;
- (e) Resolve any and all applications, motions, adversary proceedings, and other matters that involve World Bazaars and that are pending before the Court on the Effective Date;
- (f) Enter any orders necessary or appropriate to implement, consummate, or enforce the provisions of the Plan and of all contracts, releases, and other agreements or documents entered into under or in connection with the Plan;
- (g) Resolve any and all controversies, suits, or issues that may arise either in connection with the Plan's consummation, interpretation, or enforcement or in connection with any entity's rights or obligations under the Plan;
- (h) Under Bankruptcy Code section 1127, modify the Plan, the Disclosure Statement, or any contract, release, or other agreement or document created in connection with the Plan or Disclosure Statement;
- (i) Remedy—in any manner necessary and appropriate to consummate the Plan and to the extent authorized by the Bankruptcy Code—any defect, omission, or inconsistency in any Court order,

the Plan, the Disclosure Statement, or any contract, instrument, release, or other agreement or document created in connection with the Plan or Disclosure Statement;

- (j) Issue injunctions, enter and implement orders, or take any other actions that may be necessary or appropriate to restrict any entity's interference with the Plan's consummation or enforcement;
- (k) Enter and implement any orders that are necessary and appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;
- (l) Determine any other matters that may arise in connection with, or relate to, the Plan, the Disclosure Statement, the Confirmation Order, or any contract, release, or other agreement or document created in connection with the Plan or the Disclosure Statement;
- (m) Resolve any disputes between the members of the Plan Administration Committee including disputes regarding the Postconfirmation Litigation or the Operating Budget; and
- (n) Enter an order closing this Liquidation Case.

If the Court abstains from exercising jurisdiction, or is without jurisdiction, over any matter, this Section will not effect, control, prohibit, or limit the exercise of jurisdiction by any other court that has jurisdiction over that matter.

F. Risk Factors.

1. Occurrence of the Effective Date.

The Plan's Effective Date is conditioned on World Bazaars having adequate cash to satisfy approximately \$521,000 in estimated Effective-Date obligations such as Administrative Claims and Priority Claims. If World Bazaars cannot satisfy these obligations, the Plan will not become effective and World Bazaars may well be forced to convert this Liquidation Case to a case under chapter 7 of the Bankruptcy Code. World Bazaars is currently holding approximately \$60,000 that it believes may constitute Free and Clear Assets. Furthermore, World Bazaars is seeking to subordinate the Abulafia Trust's Allowed Class-3 Claims to all other Claims and may seek to have the Abulafia Trust's lien in the Equipment transferred to all creditors in this Liquidation Case other than the Abulafias. If successful, the subordination and lien transfer will make available approximately \$523,000 in assets that may be used to satisfy Allowed Claims (other than the Abulafias' Claims) including Effective-Date obligations.

As discussed in section IV.C.2.b(4), several former World Bazaars employees have asserted individual and class-action WARN Act Claim against the Estate. These claimants assert roughly \$4 million in Unsecured Claims, of which they assert that roughly \$2.1 million is entitled to priority status. World Bazaars believes that the estimated liability to the Estate if the claimants prevail is highly exaggerated. Based on a cursory review of its books and records, World Bazaars believes that the WARN Act Claims, if allowed, would total no more than roughly \$800,000 and that no more than roughly \$350,000 of that amount could be entitled to priority status. World Bazaars believes that it has substantially completed negotiations regarding a possible settlement of the WARN Act Claims under which the class-action WARN Act Claims will be allowed for approximately \$130,000. World Bazaars intends soon to file a motion with this Court seeking authority to enter into this settlement agreement.

Nevertheless, if the settlement is not consummated and if the WARN Act Claims are allowed and each WARN Act claimant is found to be entitled to up to \$4,300 as a Priority Claim, and if World Bazaars does not succeed in subordinating the Class-3 Claims before the Effective Date, then World Bazaars' Free and Clear Assets (estimated to be \$60,000) will be insufficient to satisfy the WARN Act Claims. Even if World Bazaars succeeds in subordinating Class-3 claims and transferring the Abulafia Trust's liens to other claimants, after satisfaction of other Administrative and Priority Claims, no more than \$285,000 would likely be available to satisfy WARN Act Priority Claims. Thus, if the WARN Act Claims are allowed, World Bazaars may well have no choice other than to convert this Liquidation Case to a case under Chapter 7 of the Bankruptcy Code. As demonstrated in the liquidation analysis set forth in Section VII.C, if this Liquidation Case is converted to a Chapter-7 case, there will be no significant cash available to satisfy any Priority Claims or Unsecured Claims, and the WARN Act claimants will likely receive little or nothing on account of their Claims.

2. Recoveries to Unsecured Creditors.

The Plan provides for substantially all cash assets to be distributed to secured creditors on account of their Allowed Secured Claims as soon as practicable after the Effective Date. The Bank Group has agreed to permit World Bazaars to use \$500,000 that would otherwise be paid to the Bank Group on account of its Class-1 Claim to establish a Litigation Fund. This Litigation Fund will be controlled by the Creditors' Committee and may be used either to provide cash distributions on account of certain Unsecured Claims or to pursue Avoidance Actions and Claims Objections for the benefit of certain unsecured creditors. Thus, the actual recovery to unsecured creditors is in the control of the Creditors' Committee and depends largely on the Creditors' Committee's litigation strategy and its success in pursuing Avoidance Actions and Claim Objections.

The Plan also provides that the Plan Administration Committee, through counsel, will pursue Insider Litigation. If successful, the Insider Litigation could prove to be a significant source of recovery for the unsecured creditors in this Liquidation Case. However, many of the claims that comprise the Insider Litigation are factually and legally complex. World Bazaars also anticipates that the Abulafias will vigorously defend themselves against any Insider Litigation. It is therefore impossible to project with any accuracy what the recoveries associated with the Insider Litigation might ultimately be in this Liquidation Case.

VI.

TAX CONSEQUENCES OF THE PLAN

A. Introduction.

Implementation of the Plan may have federal, state, and local tax consequences to World Bazaars and to the creditors and shareholders of World Bazaars. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan, and the following disclosure (the "Tax Disclosure") does not constitute and is not intended to constitute either a tax opinion or tax advice to any Person. Rather, the Tax Disclosure is provided for informational purposes only.

Moreover, the Tax Disclosure summarizes only certain of the federal income tax consequences associated with the Plan's implementation, and does not attempt to comment on all such aspects of the Plan's implementation. Moreover, certain of the federal income tax consequences described in the Tax Disclosure are dependent on factual determinations that are subject to uncertainties. Similarly, the Tax Disclosure does not attempt to consider any facts or limitations applicable to any particular creditor or shareholder which may modify or alter the consequences described below. The Tax Disclosure also does not address state, local, or foreign tax consequences or the consequences of any federal tax other than the federal income tax.

The Tax Disclosure is based upon the provisions of the Internal Revenue Code of 1986, as amended, the regulations promulgated thereunder, existing judicial decisions, and administrative rulings. In light of the numerous recent amendments to the Internal Revenue Code, no assurance can be given that legislative, judicial, or administrative changes will not be forthcoming that would affect the accuracy of the discussion below. Any such changes could be material and could be retroactive with respect to the transactions entered into or completed prior to the enactment or promulgation thereof. Finally, the tax consequences of certain aspects of the Plan are uncertain due to a lack of applicable legal authority and may be subject to judicial or administrative interpretations that differ from the discussion below.

Tax legislation has been introduced into Congress which, if enacted, would fundamentally alter the basic scheme of federal taxation by replacing the federal income tax with a national retail sales tax or a form of value added tax. Other proposed tax legislation would transform the current graduated-rate federal income tax into an income-based flat tax. Although fundamental tax reform of the type described above is unlikely to be enacted in 2000, it may be enacted in 2001 or subsequent years. Insofar as the discussion below addresses income tax consequences in 2000 and/or subsequent years, such discussion may be completely invalidated if fundamental tax reform is enacted.

Creditors and shareholders therefore are advised to consult with their own tax advisors regarding the tax consequences to them and to World Bazaars of the transactions contemplated by the Plan, including federal, state, local, and foreign tax consequences.

B. Federal Income Tax Consequences to World Bazaars.

1. Sales of Assets and Collection of Accounts Receivable.

As discussed above, World Bazaars terminated all business operations in May 2000 and sold substantially all its inventory with a GAAP book value of approximately \$30 million and other assets, including accounts receivable with a face amount of approximately \$14.2 million, at auction on July 12, 2000, generating gross proceeds of approximately \$15.4 million. World Bazaars' accountants have advised World Bazaars that the auction generated a net loss for tax purposes on an overall basis. World Bazaars' accountants have also advised World Bazaars that the sale of World Bazaars' Distribution Equipment is likely to generate a net loss for tax purposes on an overall basis. Accordingly, World Bazaars' accountants believe that World Bazaars will incur a net loss in its current taxable year and therefore should not incur any net tax liability as a result of Plan transactions to and including the Effective Date. As discussed below, there is a possibility that post-effective date resolution of various litigation contemplated, including the Postconfirmation Litigation, could result in recoveries by World Bazaars, but World Bazaars does not believe that any such recoveries would result in the realization of substantial amounts of taxable income by World Bazaars.

2. Reduction of World Bazaars' Indebtedness.

Because World Bazaars will not recommence any business operations under the Plan but instead will liquidate its remaining assets, World Bazaars will be denied a discharge with respect to its outstanding indebtedness. Nevertheless, the modification of the terms of World Bazaars' indebtedness that occurs (or may be deemed to occur) as a result of the confirmation and consummation of the Plan may create constructive debt cancellation for tax purposes. (The amount of actual or constructive debt cancellation will hereinafter be referred to as a "Debt Discharge Amount.")

In general, the Internal Revenue Code provides that a taxpayer who realizes a cancellation or discharge of indebtedness must include the Debt Discharge Amount in its gross income in the taxable year of discharge to the extent that the Debt Discharge Amount exceeds any consideration given (or deemed to have been given under the debt modification rules discussed below in Section VI.C.3) for such discharge. World Bazaars' Debt Discharge Amount may be increased to the extent that unsecured creditors holding unscheduled claims fail to timely file a proof of Claim and have their Claims discharged on the Confirmation Date pursuant to section 1141 of the Code. No income from the discharge of indebtedness is realized to the extent that payment of the liability being discharged would have given rise to a deduction.

If a taxpayer is in a case under the Bankruptcy Code and a cancellation of indebtedness occurs pursuant to a confirmed plan, however, such Debt Discharge Amount is specifically excluded from gross income (the "Bankruptcy Exception"). It is unclear whether the constructive cancellation of indebtedness that may occur as a result of the Plan's implementation qualifies for exclusion from income under the Bankruptcy Exception. World Bazaars intends to take the position that the Bankruptcy Exception applies to it.

The Debt Discharge Amount is also excluded from income if and to the extent World Bazaars is insolvent at the time of cancellation (the "Insolvency Exception"). World Bazaars believes it is insolvent within the meaning of this rule. Accordingly, even if World Bazaars were unable to exclude constructive debt cancellation from income under the Bankruptcy Exception, World Bazaars believes it likely qualifies to exclude such cancellation under the Insolvency Exception.

Accordingly, World Bazaars believes it will not be required to include in income any Debt Discharge Amount as a result of Plan transactions. The Internal Revenue Code, however, requires certain tax attributes of World Bazaars to be reduced by the Debt Discharge Amount excluded from income. Tax attributes are reduced in the following order of priority: net operating losses and net operating loss carryovers; general business credits; minimum tax credits; capital loss carryovers; basis of property of the taxpayer; passive activity loss or credit carryovers; and foreign tax credit carryovers. Tax attributes are generally reduced by one dollar for each dollar excluded from gross income, except that general tax credits, minimum tax credits, and foreign tax credits are reduced by 33.3 cents for each dollar excluded from gross income. An election can be made to alter the order of priority of attribute reduction by first applying the reduction against depreciable property held by the taxpayer in an amount not to exceed the aggregate adjusted basis of such property. World Bazaars does not presently intend to make such election. If this decision were to change, the deadline for

making such election is the due date (including extensions) of World Bazaars federal income tax return for the taxable year in which such debt is discharged pursuant to the Plan.

The tax attribute reduction rules may eliminate a large amount of World Bazaars' net operating losses and/or other tax attributes of World Bazaars. In such event, depending upon the amount of, and the attribution of, the recovery, if any, from the Litigation, World Bazaars may realize taxable income that is not sheltered by net operating loss carryovers.

3. Carryover and Availability of World Bazaars' Net Operating Losses.

a. Generally.

Based on its 1999 federal income tax return as filed, World Bazaars will have approximately \$2.6 million of net operating losses ("NOLs") carrying forward from the tax year ending March 31, 2000. World Bazaars anticipates that it will have an NOL in the current tax year (that is, the tax year ending March 31, 2001) in excess of \$25 million. The utilization of such NOLs is expected to be sharply restricted under Internal Revenue Code section 382 because an ownership change is likely to occur in connection with the implementation of the Plan.

Such NOL amounts are subject to review and significant adjustment upon audit by the Internal Revenue Service. In addition, estimates of World Bazaars NOLs are subject to legal and factual uncertainty. The tax attribute reduction rules of section 108 of the Internal Revenue Code likely will severely reduce World Bazaars' NOLs as a result of debt cancellation attributable to the implementation of the Plan.

b. Section 382.

Section 382 of the Internal Revenue Code places potentially severe limitations upon the use of a corporation's NOLs and certain other tax attributes if an "ownership change" occurs with respect to such corporation's stock. Based upon the elimination of the current stock ownership of World Bazaars on the Effective Date, World Bazaars believes that an "ownership change" likely will occur with respect to World Bazaars on the Effective Date. Accordingly, the limitations and restrictions of section 382 should apply.

Under section 382, following an "ownership change" the amount of a loss corporation's taxable income that can be offset by pre-ownership change NOLs during any post-ownership change year generally cannot exceed an amount equal to the loss corporation's value immediately before the ownership change (excluding proscribed contributions to capital) multiplied by the long-term tax-exempt rate. The long-term tax-exempt rate changes from month to month based on changes in prevailing interest rates. For ownership changes occurring in November 2000, the long-term tax-exempt rate is 5.41 percent.²⁶

In addition, the section 382 limitation for any of the five years following the Effective Date is increased by the amount of any gain recognized in that year from the sale of an asset to the extent that such asset has unrealized built-in gain at the time of the ownership change. The built-in gain rule applies only if at the time of the ownership change the loss corporation has net unrealized built-in gain that exceeds the lesser of (a) \$10 million or (b) fifteen percent of the fair market value of its assets (excluding cash and cash equivalents). World Bazaars believes that any recoveries under the Litigation would constitute a return of capital and thus not result in substantial taxable income. But to the extent any such Litigation recoveries might be taxable to World Bazaars, the Litigation should constitute a build-in gain asset and, as a result, unrealized built-in gain should exist that meets or exceeds the foregoing criteria.

Moreover, no NOLs will survive (except for certain items specified in section 382(c)(2) of the Internal Revenue Code) if the loss corporation does not continue its historic business or use a significant portion of its assets in such a business at all times during the two-year period beginning on the date of the ownership change. If the loss corporation has more than one line of business, continuity of business enterprise for this purpose requires only that it continue a significant line of business. It is unclear how these rules apply to World Bazaars in the post-Effective Date period in light

²⁶ *Id.*

of the discontinuation of its historic business, but the continuation of the pursuit of recoveries from the Litigation on behalf of World Bazaars' creditors.

The section 382 provisions discussed above, however, may be ameliorated by certain provisions of section 382 that provide a more liberal rule for a corporation that is in a bankruptcy case when the ownership change occurs. These provisions - sections 382(l)(5) and 382(l)(6) - are discussed below.

Section 382(l)(5) of the Internal Revenue Code generally provides that the limitations of section 382 shall not apply to any ownership change occurring in a case under the jurisdiction of a bankruptcy court under the Code if qualifying creditors and shareholders own fifty percent or more of the loss corporation's stock after such ownership change. Under section 382(l)(5), the loss corporation's NOLs and specified credits must be recomputed to eliminate deductions for interest paid or accrued by the loss corporation on that portion of the debt which was exchanged for stock, and for which the loss corporation had previously claimed deductions for federal income tax purposes during (a) the three taxable years prior to the taxable year in which the ownership change occurs, and (b) the portion of the taxable year of the ownership change up to, but not including, the ownership change date.

A tax election exists which permits a loss corporation to which section 382(l)(5) applies to elect to have section 382(l)(5) not apply. If such election is made by an eligible loss corporation, (or, alternatively, if the loss corporation's ownership change does not qualify under section 382(l)(5)) and if new stock is exchanged for old debt under a plan of reorganization, the section 382 limitation is determined under section 382(l)(6) of the Internal Revenue Code, which allows the value of the loss corporation (immediately before the ownership change) to be increased by the added value that results from the elimination of creditors' claims pursuant to the plan.

World Bazaars intends to take the position that the ownership change with respect to World Bazaars that is likely to occur on the Effective Date qualifies under section 382(l)(5) and is reviewing the extent to which such application would be beneficial. World Bazaars also intends to take the position that section 382(l)(6) will apply to such ownership change in the event section 382(l)(5) does not apply.

Any shift (deemed or actual) in the ownership of stock of World Bazaars, directly or by attribution, outside the scope of the Plan may trigger or already may have triggered) the application of section 382 and other provisions of the Internal Revenue Code that may affect the availability of the World Bazaars' NOLs. Because the federal income tax consequences of any such shift would depend on the particular facts and circumstances at such time and the application of complex legislation and regulations, World Bazaars expresses no views as to the effect of any transactions outside the scope of the Plan or the survival of any NOLs or other carryovers.

C. Tax Consequences to Creditors.

The tax consequences of the Plan's implementation to a creditor will depend on whether the creditor's present debt Claim constitutes a "security" of World Bazaars for federal income tax purposes and the type of consideration received, or deemed received, by the creditor in exchange for its Claim, whether the creditor reports income on the cash or accrual method, whether the creditor receives consideration in more than one tax year of the creditor, and whether all the consideration received by the creditor is deemed to be received by that creditor in an integrated transaction. The tax consequences upon the receipt of cash, debt instruments, or other property allocable to interest are discussed in Section VI.C.2.

1. In General.

a. Gain/Loss on Exchange.

A creditor will recognize gain or loss on the actual or constructive (see Section VI.C.3 below) exchange of such creditor's existing Claims (other than Claims for accrued interest) for cash and any other consideration received equal to the difference between (i) the "amount realized" in respect of such Claims and (ii) the creditor's tax basis in such Claims. The "amount realized" will be equal to the sum of the cash and (i) as to a cash-basis taxpayer, the fair market value of all other consideration received, and (ii) as to an accrual-basis taxpayer, the face amount of any new debt instruments and fair market value of the other consideration received or deemed to be received, less any amounts allocable to interest, unstated interest, or original issue discount.

b. Tax Basis and Holding Period of Items Received.

The aggregate tax basis in the items received or deemed received by a creditor will equal the amount realized in respect of such items (other than amounts allocable to any accrued interest). The holding period for items received or deemed received in the exchange will begin on the day following the exchange.

2. Receipt of Interest.

Income attributable to accrued but unpaid interest will be treated as ordinary income, regardless of whether the creditor's existing Claims are capital assets in its hands.

A creditor who, under its accounting method, was not previously required to include in income accrued but unpaid interest attributable to existing Claims, and who exchanges or is deemed to exchange its interest Claim for cash or other property pursuant to the Plan will be treated as receiving ordinary interest income to the extent of any consideration so received allocable to such interest, regardless of whether that creditor realizes an overall gain or loss as a result of the exchange of its existing Claims. A creditor who had previously included in income accrued but unpaid interest attributable to its existing Claims will recognize a loss to the extent such accrued but unpaid interest is not satisfied in full. For purposes of the above discussion, "accrued" interest means interest that was accrued while the underlying Claim was held by the creditor. The extent to which consideration distributed under the Plan is allocable to such interest is uncertain.

3. Effect of Modification of Debt.

A modification of the terms of indebtedness can result in a constructive exchange of the new modified debt for the old unmodified debt. Under Treasury Regulations, a constructive exchange occurs if the alteration of the terms of indebtedness constitutes a "significant modification" as defined in such regulations. Creditors are cautioned that the IRS is likely to take the position that the modification of a creditor's rights that occurs pursuant to the Plan is a "significant modification," thereby creating the constructive exchange described above.

The regulations' approach is to establish specific rules for determining the significance of certain types of modifications and to provide a general rule for dealing with modifications not otherwise addressed. The general rule broadly provides that a modification is a significant modification only if, based on all facts and circumstances, the legal rights or obligations that are altered and the degree to which they are altered is "economically significant." The specific rules deal with (a) a change in yield, (b) a change in the timing of payments, (c) a change in the identity of the obligor or the security for the debt, (d) certain changes in the nature of the debt, and (e) a change in accounting or financial covenants.

A full and complete discussion of these specific rules would consume many pages and is beyond the scope of this Disclosure Statement. What follows is an abbreviated discussion of the specific rules. Creditors and other parties in interest should consult their own tax advisors with respect to the application of the Treasury Regulations' debt modification rules to the treatment of their Claims under the Plan.

Change in Yield. A change in yield is a significant modification if the new yield (determined under rules promulgated in the Treasury Regulations) varies from the annual yield on the unmodified debt (determined as of the date of modification) by more than the greater of (a) one-fourth of one percent (twenty-five basis points), or (b) five percent of the annual yield of the unmodified debt.

Changes in Timing of Payments. A modification that changes the timing of one or more payments due under the terms of the debt is a significant modification if it "results in the material deferral of scheduled payments." The regulations establish a safe harbor whereby the deferral of one or more scheduled payments is not a material deferral if the deferred payments are unconditionally payable no later than at the end of the safe harbor period. The safe harbor period begins on the original due date of the first scheduled payment that is deferred and extends for a period equal to the lesser of five years or fifty percent of the original term of the debt.

Change in Obligor or Security. The substitution of a new obligor on a recourse debt generally is a significant modification. For this purpose, the filing of a bankruptcy petition in and of itself does not result in the substitution of a new obligor. A modification that releases, substitutes, adds or otherwise alters the collateral for, a guarantee on, or other form of credit enhancement for a recourse debt is a significant modification if the modification results in a change in pay-

ment expectations. A change in the priority of debt relative to other debt of the borrower is a significant modification if it results in a change of payment expectations.

Changes in the Nature of a Debt Instrument. A modification in the terms of a claim that results in an instrument or property right that is not debt for federal income tax purposes is a significant modification. For this purpose, any deterioration in the financial condition of the obligor between the issue date of the debt and the modification date generally is not taken into account.

Accounting and Financial Covenants. A modification that adds, deletes, or alters customary accounting or financial covenants is not a significant modification.

A modification described above that is effective only upon the occurrence of a substantial contingency or that is effective on a deferred basis is tested under the general rule rather than the specific rules. Modifications occurring pursuant to a plan of reorganization generally are treated as occurring on the effective date of the plan.

4. Contingent Payments Under the Plan.

As described above, a modification of a debt instrument can result in a constructive exchange of the new modified debt for the old unmodified debt. World Bazaars intends to treat the contingent distributions to which creditors are entitled under the Plan as modified debt instruments subject to Treasury Regulations governing contingent debt instruments (the "Contingent Debt Regulations"). The Contingent Debt Regulations require a portion of the contingent payment to be treated as interest when actually received by the creditor. The interest portion of the contingent payment is the excess of the amount of the payment over the present value of the payment discounted at the applicable federal rate from the date of payment to the date of constructive exchange (i.e. the Effective Date of the Plan at which time the debt was materially modified). The interest portion of the contingent payment is includible in gross income by the creditor and deductible from gross income by the World Bazaars in their respective taxable years in which the contingent payment is made.

5. Deemed Receipt of Stock.

Pursuant to the Plan, on the Effective Date, World Bazaar will cancel all its equity interests thereby eliminating holders of Interests (Class 10). On the same date, World Bazaars will issue one share of stock for the benefit of creditors in Class 6 (General Unsecured Claims) and, depending upon the outcome of Postconfirmation Litigation, possibly Classes 7 and 8. Thus, creditors in Class 6 (General Unsecured Claims), and depending upon the outcome of Postconfirmation Litigation, possibly Classes 7 and 8 (Unsecured Claims), will be entitled to the distribution of any residual property of World Bazaars.

6. Claims Constituting Tax Securities.

a. Definition of "Security" for Tax Purposes.

The determination whether a Claim of any particular creditor constitutes a "security" for federal income tax purposes is based upon the facts and circumstances surrounding the origin and nature of the Claim and its maturity date. Generally, Claims arising out of the extension of trade credit have been held not to be "securities" for federal income tax purposes ("Tax Securities"). Instruments with a term of five years or less rarely qualify as Tax Securities. On the other hand, bonds or debentures with an original term in excess of ten years have generally been held to be Tax Securities. World Bazaars believes, but cannot provide any assurance, that a Claim based upon a Term Loan constitutes a Tax Security.

Treasury Regulations (applicable to transactions occurring on or after March 9, 1998) provide that a right to acquire common stock generally is treated as a Tax Security having a zero principal amount.

EACH CREDITOR IS URGED TO CONSULT ITS OWN TAX ADVISOR IN THIS REGARD.

b. Receipt of Tax Securities.

Section 354 of the Internal Revenue Code provides for nonrecognition of gain or loss by holders of Tax Securities of a corporation who exchange these Claims solely for stock or Tax Securities, pursuant to certain tax reorganizations, including a recapitalization pursuant to section 368(a)(1)(E) of the Internal Revenue Code. The nonrecognition rule of section 354 is not applicable by its terms if: (i) the principal amount of Tax Securities received exceeds the principal amount of Tax Securities surrendered; or (ii) Tax Securities are received, but none are surrendered; or (iii) rights to common stock, common stock or Tax Securities are received for accrued interest.

c. Receipt of Cash or Debt Not Constituting Tax Securities for Tax Securities.

A creditor whose existing Claims constitute Tax Securities of World Bazaars may recognize gain (but not loss) if, such creditor receives cash, debt of World Bazaars not constituting Tax Securities, or other property ("boot") in addition to rights deemed to be Tax Securities of World Bazaars. Under the Plan World Bazaars is not formally issuing any instruments that it intends to be Tax Securities. Cash distribution rights to classes other than Class 6 (General Unsecured Claims), and depending upon the outcome of Postconfirmation Litigation, possibly Classes 7 and 8 (Unsecured Claims), likely constitute boot, unless they are reclassified by the IRS as a contingent debt that is a Tax Security. The amount of such gain, if any, to a cash-basis taxpayer will equal the lesser of (i) the excess, if any, of the sum of cash and fair market value of all other consideration received over the basis of the creditor in such creditor's existing claims (other than any Claims in respect of accrued interest); or (ii) the amount of cash and the fair market value of other boot items.

d. Determination of Character of Gain.

In the case of a creditor whose existing Claim constitutes a capital asset in such creditor's hand, the gain required to be recognized will be classified as a capital gain, except to the extent of interest (including accrued market discount, if any). Any gain recognized will be treated as ordinary income to the extent of accrued market discount. To the extent gain at least equal to any accrued market discount is not recognized by the holder, such unrecognized accrued market discount will be attributed to any Tax Securities received. Any gain recognized by the creditor upon a subsequent sale or exchange of such Tax Securities or common stock rights or common stock will be ordinary income to the extent of such accrued market discount. In this regard, it should be noted that section 582(c) of the Internal Revenue Code provides that the sale or exchange of a bond, debenture, note or certificate, or other evidence of indebtedness by a bank or certain other financial institutions shall not be considered the sale or exchange of a capital asset. Accordingly, any gain recognized by such creditors as a result of the Plan's implementation will be ordinary income, notwithstanding the nature of their Claims. Any capital gain recognized by a creditor will be long-term gain with respect to those Claims for which the creditor's holding period is more than one year, and short-term capital gain with respect to such Claims for which the creditor's holding period is one year or less.

e. Tax Basis and Holding Period of Items Received.

The aggregate tax basis of any Tax Securities or common stock rights or common stock received or deemed received in exchange for Tax Securities by a cash basis creditor, other than amounts received on account of interest, will be a substituted basis equal to the creditor's basis in the Claim surrendered (other than any Claims in respect of accrued interest), increased by any gain recognized on the exchange, and decreased by the amount of any cash and the fair market value of any other boot items received. If a creditor subsequently recognizes any gain on the sale or exchange of any stock deemed received, the gain recognized by such creditor on such sale or exchange will be treated as ordinary income to the extent of any bad debt deduction attributable to such creditor's Claim or ordinary loss deduction previously claimed by such creditor, provided that the stock constitutes a capital asset in the creditor's hands.

A creditor's holding period for any Tax Securities or common stock rights or common stock (other than Tax Securities or common stock rights or common stock deemed received on account of interest) received pursuant to the Plan will include the period during which such creditor held the Tax Securities exchanged or deemed exchanged therefor.

f. Receipt Solely of Boot.

A creditor holding Tax Securities who receives solely cash and/or other boot items in full satisfaction of such creditor's Claim will be required to recognize gain or loss on the exchange. The creditor will recognize gain or loss equal to the difference between the amount realized in respect of such Claim and the creditor's tax basis in the Claim. It is likely that creditors holding Tax Securities of World Bazaars will be deemed to have received solely cash and/or other boot items in full satisfaction of such creditor's Claims.

7. Other Tax Considerations.

a. Market Discount.

If a creditor has a lower tax basis in a debtor obligation than its face amount, the difference may constitute market discount under section 1276 of the Internal Revenue Code. (Certain debtor obligations are excluded from the operation of this rule, such as obligations with a fixed maturity date not exceeding one year from the date of issue, installment obligations to which section 453B of the Internal Revenue Code applies and, in all likelihood, demand instruments). Holders in whose hands debtor obligations are market discount bonds will be required to treat as ordinary income any gain recognized upon the exchange of such obligations to the extent of the market discount accrued during the holder's period of ownership, unless the holder has elected to include such market discount in income as it accrued.

b. Withholding.

The Disbursing Agent will withhold any amounts required by law from payments made to creditors. This may require payments by certain creditors of the required withholding tax on non-cash consideration deemed issued under the Plan. In addition, creditors may be required to provide general tax information to the Disbursing Agent.

D. Taxation of Litigation Fund and Litigation Recoveries.

Section 468B(g) of the Internal Revenue Code provides that escrow accounts, settlement funds or similar funds are subject to current taxation. It also provides that the IRS shall prescribe regulations for the taxation of any such account or fund, whether as a grantor trust or otherwise. The IRS issued final regulations regarding settlement funds on December 18, 1992. However such regulations specifically reserve the tax treatment of settlement funds in bankruptcy and the treatment of stock of the issuer to satisfy such obligations. On February 1, 1999, the IRS issued proposed regulations respecting disputed ownership funds, but such rules are to become effective only when final regulations are published. Thus there is some uncertainty as to who is responsible for reporting income generated by the funds in the Litigation Fund formed pursuant to the Plan or recoveries from any Litigation constituting taxable income.

World Bazaars intends to take the position that the Litigation Fund (and any taxable recoveries as a result thereof) are property of and taxable to World Bazaars. If the Litigation Fund (and any recoveries as a result thereof constituting taxable income) is not treated as taxable to World Bazaars, by analogy to the treatment of such funds in the proposed regulations, it is possible that the fund (and any taxable recoveries as a result thereof) will be taxed as a separate taxpayer similar to a trust or C corporation. If the Litigation Fund is treated as a grantor trust created by World Bazaars, then the income generated by such fund (and any recoveries as a result thereof) would likely be reportable on World Bazaars' federal income tax return. If the Litigation Fund is not treated as such a grantor trust, it will likely be treated as an association or trust taxable currently as a separate entity on its income, including any recoveries as a result of the Litigation. It is also possible that the fund could be treated as a grantor trust for which the creditor beneficiaries are treated as grantors. As such, the creditor beneficiaries would be subject to current taxation on the income generated by such fund and any recoveries from the Litigation as a result thereof. Pursuant to the Plan and related documents, any party responsible for administering such fund will also be required to file appropriate income tax returns and pay any tax due out of such fund (and any recoveries) as a result of any taxable income earned in such fund or as a result of the Litigation.

E. Tax Consequences to Shareholders.

Section 165(g) of the Internal Revenue Code provides that if any "security" (which is defined to include a share of stock in a corporation) becomes worthless during the holder's taxable year, the loss resulting therefrom shall be treated as a loss from the sale or exchange, on the last day of the holder's taxable year, of a capital asset. The cancella-

tion under the Plan of all of the World Bazaars' equity and the prohibition against any property being distributed to or retained by holders of Interests (Class 10) establishes that such equity is worthless for tax purposes on and after the Effective Date (or possibly the Confirmation Date). It is possible, however, that such equity can be viewed as becoming worthless on a date earlier than either the Confirmation Date or the Effective Date. World Bazaars takes no position with respect to when its equity became worthless for tax purposes.

F. General Disclaimer.

ENTITIES CONCERNED WITH THE TAX CONSEQUENCES OF THE PLAN SHOULD CONSULT THEIR OWN ACCOUNTANTS, ATTORNEYS AND/OR ADVISORS. WORLD BAZAARS MAKES THE AFOREMENTIONED DISCLOSURE OF POSSIBLE TAX CONSEQUENCES FOR THE SOLE PURPOSE OF ALERTING READERS OF TAX ISSUES THEY MAY WISH TO CONSIDER. WORLD BAZAARS CANNOT AND DOES NOT REPRESENT THAT THE TAX CONSEQUENCES MENTIONED ABOVE ARE COMPLETELY ACCURATE BECAUSE, AMONG OTHER THINGS, THE TAX LAW EMBODIES MANY COMPLICATED RULES, WHICH MAKE IT DIFFICULT TO ACCURATELY STATE WHAT THE TAX IMPLICATIONS OF ANY ACTION MIGHT BE.

VII.

CONFIRMATION REQUIREMENTS AND PROCEDURES

Many requirements must be met before the Court may confirm a Chapter-11 plan. Some of the requirements are that the plan must be proposed in good faith, that the plan must be accepted, that the plan must pay creditors at least as much as they would receive in a Chapter-7 liquidation, and that the plan is feasible. These requirements are not the only requirements for confirmation, however. The following discussion is intended only to alert you to basic confirmation issues that you may wish to consider as well as certain deadlines. World Bazaars cannot and does not represent that the discussion is a complete summary of the law on the topic of confirmation. **Because the law regarding plan confirmation is very complex, if you are concerned about confirmation of the Plan you should consult with your own attorneys.**

A. Plan Acceptance by Voting.

1. Who May Vote to Accept or Reject the Plan.

A creditor may vote for or against a Chapter 11 Plan if that creditor has a claim that: (a) either is an allowed claim or is allowed for voting purposes; (b) is classified in an impaired class; and (c) is entitled to receive or retain some property on account of its claim. If a chapter 11 plan provides that a class will not receive or retain any property on account of its claims, that class is deemed to reject the plan under Bankruptcy Code section 1126(g) and therefore is not entitled to vote.

Any entity whose Claim is subject to an objection is not eligible to vote on the Plan unless and until that objection is resolved in that entity's favor or, after notice and a hearing under Bankruptcy Rule 3018(a), the Court temporarily allows that entity's Claim for the purpose of voting to accept or reject the Plan. Any entity that seeks temporary allowance of its Claim for the purpose of voting on the Plan must promptly take the steps necessary to arrange an appropriate hearing with the Court. (World Bazaars intends to file an appropriate motion before the Court seeking authority to implement the procedures described in this Paragraph.)

a. What Is an Allowed Claim.

As noted above, an entity holding a Claim must first have an Allowed Claim to have the right to vote. An Allowed Administrative Claim means an Administrative Claim that is allowed as set forth in Section IV.A.1 of the Plan. Otherwise, an Allowed Claim means a Claim to the extent that:

- (a) Either: (1) a proof of claim was timely filed; or (2) a proof of claim is deemed timely filed either under Bankruptcy Rule 3003(b)(1) or 3003(b)(2) or by a Final Order; and

- (b) Either: (1) the Claim or Interest is not a Disputed Claim or a Disputed Interest; (2) the Claim or Interest is allowed by a Final Order; or (3) the Claim or Interest is allowed under the Plan.

Unless otherwise specified in the Plan, an Allowed Claim does not include interest on the Claim accruing after the Petition Date. Moreover, any portion of a Claim that is satisfied or released during this Liquidation Case is not an Allowed Claim.

b. What Is an Impaired Claim or Interest.

As noted above, an entity holding an Allowed Claim or Allowed Interest has the right to vote only if it is in a Class that is impaired under the Plan. A Class is impaired if the Plan alters the legal, equitable, or contractual rights of the members of that Class. For example, a Class comprised of Unsecured Claims is impaired if the Plan fails to pay the members of that Class 100% of what they are owed.

In this Liquidation Case, World Bazaars believes that Classes 1, 2, 6, 7, and 9 are impaired but will receive or retain some property under the Plan. Entities holding Claims in each of these Classes are therefore entitled to vote to accept or reject the Plan. Classes 3, 8, and 10 are impaired but will receive or retain no property under the Plan. Classes 3, 8, and 10 are therefore deemed to reject the Plan and are not entitled to vote. World Bazaars believes that Classes 4 and 5 are unimpaired. These Classes are therefore deemed to accept the Plan, and they are not entitled to vote. Entities who dispute World Bazaars' characterization of their Claim or Interest as being impaired or unimpaired may file an objection to the Plan contending that World Bazaars has incorrectly characterized the Class.

2. Who is Not Entitled to Vote.

In this Liquidation Case, the following four types of Claims are not entitled to vote:

- (a) Claims that are not allowed;
- (b) Claims in unimpaired Classes;
- (c) Claims entitled to priority under Bankruptcy Code sections 507(a)(1), (a)(2), and (a)(8); and
- (d) Claims in Classes that do not receive or retain any value under the Plan.

Claims in unimpaired Classes are not entitled to vote because, under Bankruptcy Code section 1126(f), those Classes are deemed to have accepted the Plan. Claims entitled to priority under Bankruptcy Code sections 507(a)(1), (a)(2), and (a)(7) are not entitled to vote because those Claims are not placed in Classes, and they are required to receive certain treatment specified by the Bankruptcy Code. Claims in Classes that do not receive or retain any value under the Plan do not vote because those Classes are deemed to have rejected the Plan under Bankruptcy Code section 1126(g). **EVEN IF YOUR CLAIM IS IN A CLASS OR OF A TYPE THAT IS NOT ALLOWED TO VOTE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.**

3. Who Can Vote in More Than One Class.

A creditor whose Claim has been allowed in part as a Secured Claim and in part as an Unsecured Claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the secured part of its Claim and another ballot for the unsecured part of its Claim. For example, the Plan classifies the Secured Claims of the Bank Group under the Credit Facility in Class 1 and the Bank Group's remaining claims against World Bazaars in Class 6. The Bank Group may therefore vote its Secured Claims under the Credit Facility in Class 1 and its remaining Claims in Class 6.

4. Votes Necessary to Confirm the Plan.

Because impaired Classes exist under the Plan, the Court cannot consensually confirm the Plan unless: (a) at least one impaired Class has accepted the Plan without counting the votes of any insiders within that Class,²⁷ and

²⁷ See Bankruptcy Code section 1129(a)(10).

(b) all impaired Classes have voted to accept the Plan.²⁸ However, as discussed in Section VII.B., the Plan may be eligible to be confirmed by cram down on nonaccepting Classes.

5. Votes Necessary for a Class to Accept the Plan.

A Class of Claims is considered to have accepted the Plan when more than one-half in number and at least two-thirds in dollar amount of the Claims that actually voted have voted in favor of the Plan. A Class of Interests is considered to have accepted the Plan when at least two-thirds in dollar amount of the Interests that are in that Class and that actually voted have voted to accept the Plan.

6. Deadlines for Voting on the Plan.

If you are entitled to vote, it is in your best interest to vote on the enclosed ballot and to timely return the ballot to:

Klee, Tuchin, Bogdanoff & Stern LLP
Attn: Shanda D. Pearson, Paralegal
1880 Century Park East, Suite 200
Los Angeles, California 90067

A self-addressed envelope is enclosed for your convenience. If Klee, Tuchin, Bogdanoff & Stern LLP does not receive your ballot by January 11, 2001 at 5:00 p.m. Pacific Savings Time, it will not be counted.

B. Cram Down of Nonconsenting Classes.

As noted above, if at least one impaired Class accepts the proposed Plan, determined without including the vote of any Insider, the Court may confirm the Plan over the objection of nonaccepting Classes if the nonaccepting Classes are treated as required by the Bankruptcy Code.²⁹ The process by which nonaccepting Classes are forced to be bound by the terms of the Plan is commonly referred to as "cram down." The Bankruptcy Code allows the Plan to be crammed down on nonaccepting Classes of Claims or Interests if it meets all consensual requirements except the voting requirements of Bankruptcy Code section 1129(a)(8) (*i.e.*, acceptance by all impaired classes) and if the Plan does not discriminate unfairly and is fair and equitable toward each impaired Class that has not voted to accept the Plan.³⁰ World Bazaars intends to ask the Court to confirm the Plan by cram down on the impaired Classes if any of these Classes do not vote to accept the Plan.

C. Liquidation Analysis

Another confirmation requirement is the so-called "Best-Interest Test," which requires a liquidation analysis. Under the Best-Interest Test, if a creditor or interest holder is in an impaired class and that creditor or interest holder does not vote to accept a Chapter-11 plan, then that creditor or interest holder must receive or retain under the plan property worth at least as much as the property that the creditor or interest holder would receive or retain if the debtor were liquidated under Chapter 7 of the Bankruptcy Code.

For the Court to be able to confirm the Plan, the Court must find that entities holding Claims and Interests who do not accept the Plan will receive at least as much under the Plan as they would receive under a Chapter-7 liquidation. World Bazaars maintains that the Plan meets this requirement. World Bazaars' proposed Plan is, in essence, a liquidating plan that provides for the orderly liquidation and distribution of World Bazaars' remaining assets, which consist primarily of the Postconfirmation Liquidation. Through the Bank Group Stipulation, World Bazaars has already begun to

²⁸ See Bankruptcy Code section 1129(a)(8).

²⁹ See Bankruptcy Code section 1129(b).

³⁰ See Bankruptcy Code section 1129(b) and applicable case law.

implement the Plan by funding \$312,500 of the Litigation Fund that the Plan will establish to finance Postconfirmation Litigation.

If this Liquidation Case is converted to a Chapter-7 case, a Chapter-7 trustee would be appointed by the Court. This trustee would likely be elected by World Bazaars' unsecured creditors, including the Bank Group, which holds an estimated \$17.1 million deficiency claim. It is therefore reasonable to assume that the Chapter-7 trustee would continue to implement the same basic liquidation strategy as is embodied in the Plan and would use the funds already made available in contemplation of the creation of a Litigation Fund to pursue litigation on behalf of the Estate. World Bazaars therefore believes that recoveries to creditors in a Chapter-7 case would be roughly equivalent to their recoveries under the Plan.

The Chapter-7 trustee would distribute available proceeds in accordance with the priorities established under the Bankruptcy Code. Under this priority scheme, secured creditors are paid first from the sales proceeds of assets on which the secured creditor has a lien. Administrative claims are paid next. Then unsecured creditors are paid from any remaining sales proceeds, according to their rights to priority. Unsecured creditors with the same priority share *Pro Rata*. Finally, interest holders receive any balance that remains after all creditors are paid.

Although the Plan emulates the liquidation strategy and distribution scheme that would be pursued in a Chapter-7 case, the Plan has several meaningful advantages over a Chapter-7 case. First, all administrative expenses of a Chapter-7 case, including the Chapter-7 trustee's fees (which may be as high as 3% of the total amount disbursed) and fees and costs of the trustee's counsel, accountants, and other professionals appointed in the Chapter-7 case (most of which are provided by statute) would have to be paid in full before payment of unpaid Chapter-11 Administrative Expenses. The Chapter-11 Administrative Expenses would, in turn, be paid in full before any distribution could be made to unsecured creditors or shareholders. The Plan, however, would ensure that all fees and expenses to be incurred under the Plan will first be approved as reasonable by World Bazaars, the Bank Group, and the Creditors' Committee.

Second, the costs and delays associated with a Chapter-7 case and resulting litigation with the Bank Group should concern creditors. The Plan and the interrelated Bank Group Stipulation implement a global settlement with the Bank Group under which the Bank Group will make available \$500,000 for a Litigation Fund for the benefit of certain unsecured creditors in this Liquidation Case as well as certain funds to finance Insider Litigation. The Litigation Fund will be available upon the Effective Date, and it may either be distributed to certain unsecured creditors or used to pursue Postconfirmation Litigation for the benefit of these creditors. Through the Bank Group Stipulation, the Bank Group has already released its liens in approximately \$312,500 to establish the Litigation Fund. As for the remaining \$187,500 and any funds to finance Insider Litigation, the Bank Group has indicated that these funds will not be available outside of the Plan and that it will vigorously defend itself against any claims that World Bazaars or a Chapter-7 trustee might bring. A Chapter-7 trustee would not have the benefit of these funds and would therefore have fewer resources available to pursue litigation on behalf of the Estate. Given that there are no significant cash assets in this Liquidation Case, the Chapter-7 trustee might be forced to abandon litigation that could otherwise prove a source of recovery for unsecured creditors such as the Bank Group Litigation and Insider Litigation.

Furthermore, any litigation with the Bank Group for purposes of avoiding or subordinating the Bank Group's Claims to permit a distribution to unsecured creditors could last for many years and poses the risk of little eventual recovery for unsecured creditors. However, the Bank Group and the Creditors Committee—who will be primarily responsible for overseeing the administration of the Plan—are already intimately familiar with this case and are prepared to assist with the liquidation. World Bazaars is also optimistic that it will shortly settle all claims against the SKM Lenders and the SKM Funds, and it has nearly completed its efforts to employ counsel to pursue claims against the Abulafias. It is therefore likely that, if this Liquidation Case were converted to a Chapter-7 case, distributions to secured creditors would be significantly delayed while the Chapter-7 trustee pursued litigation alternatives, and distributions to unsecured creditors, if available at all, could be delayed for years pending the outcome of that litigation.

The following tables demonstrate that World Bazaars' creditors and interest holders will receive at least as much under the Plan as they would receive under a Chapter-7 liquidation. This information is provided by Martin Barrett, who was World Bazaars' Controller on and after the Petition Date.

LIQUIDATION ANALYSIS

	Estimated Value (in thousands)
CURRENT AND NONCURRENT ASSETS	
Cash	
Cash General Checking	240
DIP Blocked Collection Account	7,350
DIP Additional Proceeds Account	60
DIP Lease Deposits Account	20
Litigation Fund	312
Prepaid Expenses & Other	
Prepetition Deposits	42
Post-petition Utility Deposits	52
Receivables—Current	
Accounts Receivable—Suppliers	0
Advances to Employees	5
Advances to Shareholder	92
Loans Receivable—Noncurrent (Abulafia Trust)	112
Preference Recoveries	Contingent
Fraudulent-Transfer Recoveries	
General	Contingent
1998 Restructuring	Contingent
Gibson Sublease	340
Abulafia	71
FIXED ASSETS (Net Property & Equipment)	1,800
OTHER ASSETS (INTANGIBLES)	
General Litigation	
Public Auction	Contingent
Distribution Consultants, Inc.	Contingent
1999 Tax Refund	215
TOTAL ASSETS AT LIQUIDATION VALUE	10,661
LESS LIQUIDATION COSTS	100
LESS CHAPTER-7 FEES AND EXPENSES	320
LESS SECURED CREDITORS' RECOVERY	7,600
Bank Group (Credit Facility)	
SKM Lenders (Term Loan)	1,225
The Abulafia Trust (Term Loan)	525
Bank Group (Postpetition Lien)	215
LESS CHAPTER 11 ADMINISTRATIVE EXPENSES	361
LESS PRIORITY CLAIMS	30
BALANCE AVAILABLE FOR UNSECURED CLAIMS	285
TOTAL AMOUNT OF UNSECURED CLAIMS	31,400
Percentage of their Claims that entities holding Unsecured Claims would receive or retain in a Chapter-7 liquidation	1% or more, depending on the outcome of Postconfirmation Litigation
Percentage of their Claims that entities holding Unsecured Claims will receive or retain under the Plan	4% or more, contingent on disposition of Postconfirmation Litigation

Below is a demonstration, in table format, that all creditors and interest holders will receive at least as much under the Plan as they would receive under a Chapter-7 liquidation.

<u>CLAIMS & CLASSES</u>	<u>PAYOUT PERCENTAGE UNDER THE PLAN</u>	<u>PAYOUT PERCENTAGE IN CHAPTER-7 LIQUIDATION</u>
Unclassified Administrative and Priority Tax Claims	100%	100%
1 (Bank Group's Secured Claims under the Credit Facility)	34%	34%
2 (SKM Lenders' Secured Claims under the Term Loan)	0-34%	50%
3 (Abulafia Trust's Secured Claims under the Term Loan)	0-34%	0-50%
4 (All Other Secured Claims)	100%	100%
5 (Priority Claims)	100%	100%
6 (General Unsecured Claims)	4% or more contingent on Disposition of Postconfirmation Litigation.	1% or more, depending on whether the Chapter-7 successfully pursues all postconfirmation litigation.
7 (SKM Lenders' Unsecured Claims)	4% or more contingent on Disposition of Postconfirmation Litigation.	1% or more, depending on whether the Chapter-7 successfully pursues all postconfirmation litigation and the resolution of claims against the SKM Lenders
8 (Abulafias' Unsecured Claims)	0% or more, contingent on disposition of Postconfirmation Litigation.	0% or more, depending on whether the Chapter-7 successfully pursues all Postconfirmation Litigation and the resolution of claims against the Abulafias
9 (WARN Act Claims)	100%	100%, depending on resolution of litigation
10 (Interests)	0%	0%

D. Feasibility of the Plan.

To be confirmed, the Plan must also be feasible. Feasibility means that—unless a liquidation or further reorganization is proposed under the Plan—confirmation is not likely to be followed by the liquidation, or the need for further financial reorganization, of World Bazaars.

There are at least two important aspects of a feasibility analysis. First, the debtor must have enough cash on hand on the plan's effective date to pay all the claims that are entitled to be paid on the Effective Date. World Bazaars maintains that this aspect of feasibility is satisfied here. Under the Plan, World Bazaars is required, on the Effective Date, to make certain one-time payments to entities holding Administrative Claims, Priority Tax Claims, and Allowed Claims in Classes 4 and 5. World Bazaars believes that these obligations will consist of approximately \$521,000 in cash payments plus assignment of the 1999 Tax Refund to the Bank Group. World Bazaars has already consented to the assignment of the 1999 Tax Refund. The cash payments will be made from cash made available by subordinating approximately \$523,000 in distributions that would otherwise have been made to the Abulafia Trust, any budget surpluses, and the liquidation of miscellaneous Free and Clear Assets. World Bazaars believes that these sources may provide sufficient funds to pay all Claims that are entitled to be paid on the Effective Date. In any event, the availability of sufficient funds to satisfy Effective-Date obligations is a condition to the occurrence of the Plan's Effective Date.

Second, World Bazaars must have enough cash over the life of the Plan to make the required Plan payments. After the Effective Date, World Bazaars may make only those expenditures that are provided for under the Operating Budget. The Claims Litigation and the Avoidance Actions will be paid from the Litigation Fund in accordance with the Operating Budget, and the Insider Recoveries will be partially funded by the Insider Litigation Fund with all other costs, expenses, and fees arising from the pursuit of the Insider Litigation to be paid from any recoveries. All other expenses under the Operating Budget will be paid from approximately \$60,000 in Free and Clear Assets, the subordination of Class-3 Claims and transfer of liens, and any additional cash generated from the liquidation of assets and the pursuit of Postconfirmation Litigation. Distributions to claimants will be made solely from the net proceeds from the liquidation of collateral and from any recoveries on account of the Postconfirmation Litigation. Based on its projections, World Bazaars believes that it should have sufficient funds to satisfy its liquidation expenses and to make the distributions called for under the Plan.

E. The Confirmation Hearing and Objections to Confirmation.

After reviewing all of the ballots received on the Plan, World Bazaars will file a motion seeking an order confirming the Plan. If a sufficient number and amount of affirmative votes have been received, the motion will seek consensual confirmation of the Plan. If not, World Bazaars anticipates that the motion will request that the Court cram down the Plan. The Confirmation Hearing will take place on January 25, 2001, at 10:00 a.m. in Courtroom 1645 of the Roybal Federal Building, 255 East Temple Street, Los Angeles, California.

Any party in interest in this Liquidation Case, including any creditor or shareholder who votes to reject the Plan, may file an objection to confirmation. January 11, 2001 is the deadline for filing such an objection with the Court and serving it on World Bazaars' reorganization counsel, Klee, Tuchin, Bogdanoff & Stern LLP.

VIII.

DISCLAIMERS

A. No Duty to Update Information.

The financial information used to develop and prepare this Disclosure Statement is based on World Bazaars' books and records, its financial projections, and numerous other sources. This information was prepared and compiled by World Bazaars under the direction of the company's Controller, Martin Michael Barrett. This information is the sole responsibility of World Bazaars, and World Bazaars' professional advisors have not independently verified this information.

Unless this Disclosure Statement expressly states otherwise, the statements contained in the Disclosure Statement are made as of September 20, 2000.

UNDER NO CIRCUMSTANCES WILL THE DELIVERY OF THIS DOCUMENT OR THE EXCHANGE OF ANY RIGHTS MADE IN CONNECTION WITH THE PLAN CREATE AN IMPLICATION OR REPRESENTATION THAT THE INFORMATION REFLECTED IN THIS DOCUMENT DID NOT CHANGE AFTER IT WAS COMPILED. WORLD BAZAARS ASSUMES NO DUTY TO UPDATE OR SUPPLEMENT ANY OF THE DISCLOSURES CONTAINED IN THIS DOCUMENT OR TO CORRECT OR UPDATE ANY FORWARD-LOOKING STATEMENTS TO REFLECT NEW INFORMATION, FUTURE EVENTS, OR OTHER CHANGES.

B. Disclosure Statement Is the Sole Source of Information About the Plan.

World Bazaars has not authorized anyone to disseminate any information about the Plan other than the information that is in this Disclosure Statement. Moreover, no representations that concern World Bazaars and that are inconsistent with anything in this Disclosure Statement are authorized unless the Court orders otherwise. The statements and information that are set forth in this Plan and Disclosure Statement are the only statements and information regarding World Bazaars that have been approved by the Court for purposes of soliciting acceptances or rejections of the Plan.

C. Discrepancies Between Plan and Disclosure Statement.

World Bazaars believes that the Disclosure Statement accurately describes the Plan. If there are any discrepancies between the Plan and the Disclosure Statement, however, the Plan provisions control. You should therefore be sure to read the Plan as well as the Disclosure Statement.

D. No Admissions Against Interest.

Information regarding World Bazaars' history, operations, and financial condition is included in this Disclosure Statement only to solicit Plan acceptances. Inasmuch as this information may relate to contested matters, the information in this Disclosure Statement should be treated as a statement made in settlement negotiations and not as an admission or stipulation. Nothing contained in this Disclosure Statement is an admission or a declaration against interest by World Bazaars for purposes of any existing or future litigation, and the information in this Disclosure Statement is not admissible against World Bazaars in any proceeding.

Dated: November 10, 2000

WORLD BAZAARS, INC.
Debtor and Debtor in Possession

By: _____ /s/
FRANK BUDETTI
Chief Executive Officer

SUBMITTED BY:

_____/s/
METTE H. KURTH, ESQ., an Attorney with
KLEE, TUCHIN, BOGDANOFF & STERN LLP
Bankruptcy Counsel for
WORLD BAZAARS, INC.

DECLARATION OF FRANK BUDETTI

I, Frank Budetti, declare under penalty of perjury under the laws of the United States of America that the following statements are true and based upon my personal knowledge:

1. I am the Chief Executive Officer of World Bazaars, Inc.

2. World Bazaars' reorganization counsel, Klee, Tuchin, Bogdanoff & Stern, LLP, including attorneys Michael L. Tuchin and Mette H. Kurth, prepared the foregoing Plan and Disclosure Statement at my direction and with my review, input, and assistance as well as the review, input, and assistance of other personnel and professionals of World Bazaars.

3. All financial data contained in the Plan and Disclosure Statement has been generated by World Bazaars from information in its books and records.

4. All facts and representations in the Plan and Disclosure Statement are true to the best of my knowledge.

5. To the best of my knowledge, no fact material to a claimant or equity security holder in voting to accept or reject the proposed Plan has been omitted.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

Executed on this 10th day of November, 2000, at Los Angeles, California.

/s/
FRANK BUDETTI