

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

----- x
In re: : Chapter 11
Montgomery Ward, LLC, : Case No. 00-4667 (RTL)
a Delaware limited liability company, et al., : Jointly Administered
Debtors. :
----- x

**THIRD AMENDED DISCLOSURE STATEMENT
TO ACCOMPANY THIRD AMENDED PLAN OF LIQUIDATION
FILED BY OFFICIAL COMMITTEE OF UNSECURED CREDITORS
OF MONTGOMERY WARD, LLC, ET AL., UNDER CHAPTER 11
OF THE BANKRUPTCY CODE**

KRONISH LIEB WEINER & HELLMAN LLP
Lawrence C. Gottlieb
Cathy Hershkopf
1114 Avenue of the Americas
New York, New York 10036
(212) 479-6000

MORRIS NICHOLS ARSHT & TUNNELL
Robert J. Dehney
Derek C. Abbott
1201 North Market Street
Wilmington, Delaware 19899
(302) 658-9200

Co-Counsel for the Official Committee of Unsecured Creditors
of Montgomery Ward, LLC, et al.

Dated: May 6, 2002

DISCLAIMER

ALL HOLDERS OF CLAIMS WHO ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE CREDITORS' PLAN ARE ADVISED AND ENCOURAGED TO READ THIS CREDITORS' DISCLOSURE STATEMENT IN ITS ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE CREDITORS' PLAN. THE HOLDERS OF CLASS 4A and 4B CLAIMS AND CLASS 5 INTERESTS WILL NOT RECEIVE OR RETAIN ANY PROPERTY UNDER THE PLAN, ARE DEEMED UNDER SECTION 1126(g) OF THE BANKRUPTCY CODE TO HAVE REJECTED THE CREDITORS' PLAN, AND ARE NOT ENTITLED TO VOTE ON THE CREDITORS' PLAN. THE STATEMENTS CONTAINED IN THIS CREDITORS' DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS CREDITORS' DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(c) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE LAW.

IN PREPARING THIS CREDITORS' DISCLOSURE STATEMENT THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS HAS RELIED ON CERTAIN HISTORICAL AND FINANCIAL INFORMATION CONTAINED WITHIN THE DEBTORS' DISCLOSURE STATEMENT WITH RESPECT TO THE JOINT PLAN OF LIQUIDATION DATED MARCH 1, 2002, FILED BY THE DEBTORS AND GE CAPITAL.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, THE COMMITTEE LITIGATION, CAUSES OF ACTION AND OTHER ACTIONS OR THREATENED ACTIONS, THIS CREDITORS' DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS.

THE INFORMATION CONTAINED IN THIS CREDITORS' DISCLOSURE STATEMENT IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE CREDITORS' PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE CREDITORS' PLAN. THE DESCRIPTIONS SET FORTH HEREIN OF THE ACTIONS, CONCLUSIONS OR RECOMMENDATIONS OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OR ANY OTHER PARTY IN INTEREST, HAVE BEEN SUBMITTED TO OR APPROVED BY SUCH PARTY, BUT NO SUCH PARTY MAKES ANY REPRESENTATION REGARDING SUCH DESCRIPTIONS.

THIS CREDITORS' DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE LIQUIDATION AS TO HOLDERS OF CLAIMS AGAINST, OR INTERESTS, IN THE DEBTORS.

TABLE OF CONTENTS

ARTICLE I

| | |
|--|---|
| INTRODUCTION | 1 |
| A. Definitions | 4 |
| B. Notice To Creditors And Holders Of Interests | 4 |
| C. Voting Procedures, Ballots, And Voting Deadline | 5 |
| D. Solicitation And Right To Vote On The Plan | 6 |
| E. Creditors' Disclosure Statement Enclosures | 8 |
| F. Confirmation Hearing | 8 |

ARTICLE II

| | |
|--|----|
| OVERVIEW OF THE DEBTORS AND THEIR BUSINESSES; <u>DESCRIPTION OF EVENTS LEADING TO COMMENCEMENT OF THE CASES</u> . | 9 |
| A. Background | 9 |
| B. The Debtors' Chapter 11 Cases | 11 |
| 1. Operations | 11 |
| 2. Professionals | 11 |
| 3. Formation of Creditors' Committee | 11 |
| 4. Formation of Retiree Committee | 12 |
| C. Major Chapter 11 Matters | 12 |
| 1. 'First Day' Orders | 12 |
| 2. Sale of Inventory | 12 |
| 3. Sale of Real Estate | 13 |
| (a) Sale of Right to Market Debtors' Real Estate | 13 |
| (b) Summary of Pertinent Terms of Designation Rights Agreement | 13 |
| (c) Sale Results To Date | 15 |
| (d) Lease Rejections and Other Dispositions | 15 |
| 4. Sale of Furniture, Fixtures, and Equipment | 16 |
| 5. Sale of Other Property | 16 |
| 6. Use of Cash Collateral | 16 |
| (a) Debtors' Use of Cash Collateral. | 17 |
| (b) Termination of Cash Collateral Agreement; Implementation of Wind-Down Budget | 17 |
| (c) Investigation of BT Commercial's Liens | 17 |
| (d) | 18 |
| Letters of Credit | 18 |
| 7. Adequate Protection Required by GE Capital | 18 |
| 8. Employee and Retiree Matters | 18 |
| (a) Payment of Pre-Commencement Date Wages, Salaries, and Benefits | 18 |

| | | | |
|-----|-----|---|----|
| | (b) | Payment of Pre-Commencement Date Severance Claims | 19 |
| | (c) | Retention Program | 19 |
| | (d) | Termination of Retiree and Active Employee Benefit Plans . . . | 20 |
| | (e) | Termination of Pension and Savings Plans | 20 |
| | (f) | Termination of Supplemental Retirement Program | 21 |
| | (g) | Termination of Savings Plan and Transfer of its Sponsorship to GE Capital, Its Affiliates, or Members of Its ERISA Controlled Group | 21 |
| | (h) | Retiree Fund | 21 |
| | (i) | Releases | 21 |
| 9. | | Termination of Pension Plans | 22 |
| 10. | | Credit Card Program | 23 |
| | (a) | Terms of Credit Card Agreement | 23 |
| | (b) | Effect of Wards' Liquidation on Credit Card Program | 23 |
| | (c) | Credit Card Stipulation | 23 |
| | (d) | Transfer of Credit Card Accounts to Wal-Mart | 24 |
| 11. | | Committee Litigation against GE Capital | 24 |
| D. | | Claims and Bar Date | 26 |
| | 1. | Schedules and Statements | 26 |
| | 2. | Bar Date for Claims and Administrative Claims; Supplemental Bar Date | 26 |
| | 3. | Special Bar Date for Retiree Claims | 27 |
| | 4. | Claims Filed Against Debtors | 27 |
| | 5. | Reconciliation of Claims and Retention of Claim Professionals | 27 |
| | 6. | ADR Procedures | 28 |
| | 7. | Reclamation Claims | 29 |
| E. | | Exclusive Periods | 29 |
| F. | | Avoidance Actions: Fraudulent Transfers and Preferences | 30 |
| | 1. | Fraudulent Transfers | 30 |
| | 2. | Preferences | 30 |

ARTICLE III

| | | | |
|----|--|--|----|
| | | SUMMARY OF THE CREDITORS' PLAN OF LIQUIDATION | 31 |
| A. | | Introduction | 31 |
| B. | | Overview | 33 |
| C. | | Summary Of Classification And Treatment Of All Claims And Interests Under The Creditors' Plan | 33 |

ARTICLE IV

MEANS FOR IMPLEMENTATION AND EXECUTION
OF THE CREDITORS' PLAN

| | | | |
|----|----|---|----|
| | | | 39 |
| A. | | \$500 Million Lawsuit Against GE Capital And the GE Entities. | 39 |
| | 1. | <u>The Committee Complaint</u> | 39 |

| | | |
|----|--|----|
| 2. | <u>Basis of the Committee Complaint, The Manipulation of Wards for the Benefit of GE Capital and the GE Entities</u> | 39 |
| 3. | <u>Prosecution and Risks of the Committee Complaint</u> | 41 |
| B. | Succession by Plan Administrator | 43 |
| C. | Plan Administrator | 44 |
| D. | Creation and Distributions of the PA Fund | 44 |
| E. | Acquisition of Plan Assets and Administrative Obligations | 44 |
| F. | Distribution of Proceeds | 44 |
| G. | Directors and Officers | 46 |
| H. | No Revesting of Assets | 46 |
| I. | Substantive Consolidation of the Debtors | 46 |
| J. | Preservation of Rights of Action | 47 |
| K. | Exemption from Certain Transfer Taxes | 48 |

ARTICLE V

| | | |
|----|---|----|
| | <u>TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES</u> | 48 |
| A. | Executory Contracts and Unexpired Leases | 48 |
| B. | Approval of Rejection of Executory Contracts and Unexpired Leases | 48 |
| C. | Bar Date for Filing Proofs of Claim Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Creditors' Plan | 48 |

ARTICLE VI

| | | |
|----|--|----|
| | <u>PROCEDURES FOR RESOLVING AND TREATING DISPUTED CLAIMS</u> | 49 |
| A. | No Distribution Pending Allowance. | 49 |
| B. | Resolution of Disputed Claims | 49 |
| C. | Estimation | 49 |
| D. | Reserve Accounts for Disputed Claims | 50 |
| E. | Investment of Disputed Claims Reserves | 50 |
| F. | Allowance of Disputed Claims | 50 |
| G. | Release of Funds from Disputed Claims Reserves | 50 |
| H. | Mediation of Disputed Claims. | 51 |

ARTICLE VII

| | | |
|----|---|----|
| | <u>ACCEPTANCE OR REJECTION OF THE CREDITORS' PLAN</u> | 51 |
| A. | Classes Entitled to Vote. | 51 |
| B. | Acceptance by Impaired Classes | 51 |
| C. | Elimination of Classes | 51 |

ARTICLE VIII

| | |
|---|----|
| CONDITIONS PRECEDENT TO CONFIRMATION <u>AND EFFECTIVENESS OF CREDITORS' PLAN</u> | 52 |
| A. Conditions to Confirmation | 52 |
| B. Conditions to Effectiveness | 52 |
| C. Waiver of Conditions | 52 |

ARTICLE IX

| | |
|--|----|
| <u>EFFECT OF CONFIRMATION</u> | 52 |
| A. Binding Effect | 52 |
| B. Exculpation and Limitation of Liability | 53 |
| C. Term of Injunctions or Stays | 53 |
| D. Injunction | 53 |

ARTICLE X

| | |
|--|----|
| <u>ADMINISTRATIVE PROVISIONS</u> | 53 |
| A. Retention of Jurisdiction | 53 |
| B. Notices | 55 |
| C. No Admissions | 56 |
| D. The Committee | 56 |
| E. Retiree Committee | 56 |
| F. Effectuating Documents and Further Transactions | 57 |
| G. Post-Confirmation Date Fees and Expenses of Professionals | 57 |
| H. Payment of Statutory Fees | 57 |
| I. | 57 |
| Modification of Creditors' Plan | 57 |
| J. Courts of Competent Jurisdiction | 58 |
| K. Severability | 58 |
| L. Governing Law | 58 |
| M. Headings | 58 |
| N. Exhibits | 58 |

ARTICLE XI

| | |
|---|----|
| <u>CONFIRMATION OF THE PLAN</u> | 59 |
| A. General Requirements of Section 1129 | 59 |
| B. Unfair Discrimination and Fair and Equitable Tests | 59 |
| 1. <u>Secured Creditors</u> | 59 |
| 2. <u>Unsecured Creditors</u> | 59 |
| 3. <u>Equity Interests</u> | 59 |
| C. Feasibility | 60 |
| D. Best Interests Test | 60 |
| E. Acceptance and Cramdown | 61 |

ARTICLE XII

CERTAIN FEDERAL INCOME TAX
CONSEQUENCES OF THE CREDITORS' PLAN 62

- A. Consequences to Holders of Allowed Convenience Claims and General
Unsecured Claims 62
- B. Gain or Loss. 63
- C. Distributions in Discharge of Accrued but Unpaid Interest. 63
- D. Information Reporting and Withholding. 64

ARTICLE XIII

ALTERNATIVES TO LIQUIDATING PLAN 64

ARTICLE XIV

CERTAIN RISK FACTORS 66

- A. Appointment or Election of a Trustee. 66
- B. Committee Litigation 66
- C. Reserves for Subordinated Claims. 66
- D. Bad Debt Deduction. 66
- E. Avoidance Actions. 66

ARTICLE XV

CONCLUSION AND RECOMMENDATION 67

EXHIBITS

- EXHIBIT A - CREDITORS' THIRD AMENDED PLAN OF LIQUIDATION
- EXHIBIT B - COMMITTEE COMPLAINT
- EXHIBIT C - LIQUIDATION ANALYSIS
- EXHIBIT D - BALLOT (CLASS 3B)
- EXHIBIT E - POTENTIAL DISTRIBUTIONS BASED ON RANGE OF RECOVERY FROM THE COMMITTEE LITIGATION

ARTICLE I

INTRODUCTION

Montgomery Ward, LLC (“Wards”), and its Subsidiaries and Affiliates (collectively, the “Subsidiaries and Affiliates” which, together with Montgomery Ward, LLC, is collectively the “Debtors”)¹ filed their petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 28, 2000, in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). The Debtors' chapter 11 cases (the "Chapter 11 Cases") have been pending in the Bankruptcy Court since that time.

The official committee of unsecured creditors of the Debtors (the "Committee") was appointed on January 12, 2001, by the United States Trustee under section 1102(a)(1) of the Bankruptcy Code. Since that time, the Committee has acted in these cases on behalf of unsecured creditors of the Debtors. On January 24, 2002, the Committee filed with the Bankruptcy Court its Plan of Liquidation of the Official Committee of Unsecured Creditors of Montgomery Ward, LLC *et al.* under Chapter 11 of the Bankruptcy Code dated January 24, 2002 (as subsequently amended, the “Creditors’ Plan”),² and the Disclosure Statement to Accompany the Plan of Liquidation of the Official Committee of Unsecured Creditors of Montgomery Ward, LLC *et al.*, under Chapter 11 of the Bankruptcy Code (as subsequently amended, the “Creditors’ Disclosure Statement”).³

The Committee submits this Creditors’ Disclosure Statement pursuant to Section 1125 of Title 11 of the United States Code (the “Bankruptcy Code”) to creditors of the Debtors (collectively, the “Creditors”) and holders of interests in the Debtors (collectively, the “Interests”) in connection with (i) the solicitation from the Creditors of acceptances of the Creditors’ Plan (a copy of the Creditors’ Plan is attached hereto as Exhibit A) proposed by the Committee and filed with the Bankruptcy Court and (ii) the hearing on confirmation of the Creditors’ Plan scheduled for July 12, 2002, at 10:00 a.m. Eastern Daylight Time (the “Confirmation Hearing”).

¹ Montgomery Ward, LLC, Montgomery Ward Development, LLC, The 535 LLC, MW 7th & Carroll, LLC, Brandywine DC, LLC, AMW Realty, LLC, Barretward Properties, LLC, 998 Monroe, LLC, and American Delivery Service, LLC.

² The Creditors’ Plan dated January 24, 2002, has been amended. All references to the Creditors’ Plan shall hereafter be understood to refer to the Creditors’ Plan as amended to date.

³ The Creditors’ Disclosure Statement dated January 24, 2002, has been amended. All references to the Creditors’ Disclosure Statement shall hereafter be understood to refer to the Creditors’ Disclosure Statement as amended to date.

The Creditors' Plan provides for the liquidation and conversion of all of the Debtors' remaining assets to Cash and the distribution of the net proceeds realized therefrom by a Plan Administrator to the Creditors in accordance with the priorities established by the Bankruptcy Code. The Creditors' Plan is a plan of liquidation and pursuant to the terms and conditions of the Creditors' Plan, the Debtors' Chapter 11 Cases are substantively consolidated.

THE PRIMARY UNLIQUIDATED ASSET OF THE ESTATES IS THE COMMITTEE'S \$500 MILLION LAWSUIT AGAINST GE CAPITAL AND CERTAIN OF ITS SUBSIDIARIES AND AFFILIATES. (For a summary of the lawsuit, see Article II, Section C.11, and Article IV, Section A, of this Creditors' Disclosure Statement, and for a detailed description see the Committee Complaint attached as EXHIBIT B hereto.)

IF SUCCESSFUL IN MOST RESPECTS, THE LAWSUIT WOULD RESULT IN A DISTRIBUTION TO GENERAL UNSECURED CREDITORS OF 100% OF THEIR ALLOWED CLAIMS.

Any litigation is inherently unpredictable and, therefore, the recovery cannot be quantified in advance. It is possible that the Committee's lawsuit may not be successful or may generate less value than required to pay unsecured creditors in full.

As described in Article IV, Section A, of this Creditors' Disclosure Statement, the Committee unanimously believes that the Modified Plan of Liquidation filed by GE Capital on or about May 1, 2002, provides a recovery for unsecured creditors of the Debtors that is inadequate. Although GE Capital's Plan provides a 20% cash distribution to holders of Allowed General Unsecured Claims on the effective date of such plan, the Committee sees GE Capital's settlement offer as an attempt to avoid facing the merits of the Committee's lawsuit against the GE Entities by asking the creditors to accept a settlement that the Committee, which is familiar with the wealth of documentary evidence supporting the Committee Complaint, has already rejected as seriously deficient.

ARTICLE I

INTRODUCTION

Montgomery Ward, LLC (“Wards”), and its Subsidiaries and Affiliates (collectively, the “Subsidiaries and Affiliates” which, together with Montgomery Ward, LLC, is collectively the “Debtors”)¹ filed their petitions for relief under Chapter 11 of the United States Bankruptcy Code on December 28, 2000, in the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”). The Debtors' chapter 11 cases (the "Chapter 11 Cases") have been pending in the Bankruptcy Court since that time.

The official committee of unsecured creditors of the Debtors (the "Committee") was appointed on January 12, 2001, by the United States Trustee under section 1102(a)(1) of the Bankruptcy Code. Since that time, the Committee has acted in these cases on behalf of unsecured creditors of the Debtors. On January 24, 2002, the Committee filed with the Bankruptcy Court its Plan of Liquidation of the Official Committee of Unsecured Creditors of Montgomery Ward, LLC *et al.* under Chapter 11 of the Bankruptcy Code dated January 24, 2002 (as subsequently amended, the “Creditors’ Plan”),² and the Disclosure Statement to Accompany the Plan of Liquidation of the Official Committee of Unsecured Creditors of Montgomery Ward, LLC *et al.*, under Chapter 11 of the Bankruptcy Code (as subsequently amended, the “Creditors’ Disclosure Statement”).³

The Committee submits this Creditors’ Disclosure Statement pursuant to Section 1125 of Title 11 of the United States Code (the “Bankruptcy Code”) to creditors of the Debtors (collectively, the “Creditors”) and holders of interests in the Debtors (collectively, the “Interests”) in connection with (i) the solicitation from the Creditors of acceptances of the Creditors’ Plan (a copy of the Creditors’ Plan is attached hereto as Exhibit A) proposed by the Committee and filed with the Bankruptcy Court and (ii) the hearing on confirmation of the Creditors’ Plan scheduled for July 12, 2002, at 10:00 a.m. Eastern Daylight Time (the “Confirmation Hearing”).

¹ Montgomery Ward, LLC, Montgomery Ward Development, LLC, The 535 LLC, MW 7th & Carroll, LLC, Brandywine DC, LLC, AMW Realty, LLC, Barretward Properties, LLC, 998 Monroe, LLC, and American Delivery Service, LLC.

² The Creditors’ Plan dated January 24, 2002, has been amended. All references to the Creditors’ Plan shall hereafter be understood to refer to the Creditors’ Plan as amended to date.

³ The Creditors’ Disclosure Statement dated January 24, 2002, has been amended. All references to the Creditors’ Disclosure Statement shall hereafter be understood to refer to the Creditors’ Disclosure Statement as amended to date.

The Creditors' Plan provides for the liquidation and conversion of all of the Debtors' remaining assets to Cash and the distribution of the net proceeds realized therefrom by a Plan Administrator to the Creditors in accordance with the priorities established by the Bankruptcy Code. The Creditors' Plan is a plan of liquidation and pursuant to the terms and conditions of the Creditors' Plan, the Debtors' Chapter 11 Cases are substantively consolidated.

THE PRIMARY UNLIQUIDATED ASSET OF THE ESTATES IS THE COMMITTEE'S \$500 MILLION LAWSUIT AGAINST GE CAPITAL AND CERTAIN OF ITS SUBSIDIARIES AND AFFILIATES. (For a summary of the lawsuit, see Article II, Section C.11, and Article IV, Section A, of this Creditors' Disclosure Statement, and for a detailed description see the Committee Complaint attached as EXHIBIT B hereto.)

IF SUCCESSFUL IN MOST RESPECTS, THE LAWSUIT WOULD RESULT IN A DISTRIBUTION TO GENERAL UNSECURED CREDITORS OF 100% OF THEIR ALLOWED CLAIMS.

Any litigation is inherently unpredictable and, therefore, the recovery cannot be quantified in advance. It is possible that the Committee's lawsuit may not be successful or may generate less value than required to pay unsecured creditors in full.

As described in Article IV, Section A, of this Creditors' Disclosure Statement, the Committee unanimously believes that the Modified Plan of Liquidation filed by GE Capital on or about May 1, 2002, provides a recovery for unsecured creditors of the Debtors that is inadequate. Although GE Capital's Plan provides a 20% cash distribution to holders of Allowed General Unsecured Claims on the effective date of such plan, the Committee sees GE Capital's settlement offer as an attempt to avoid facing the merits of the Committee's lawsuit against the GE Entities by asking the creditors to accept a settlement that the Committee, which is familiar with the wealth of documentary evidence supporting the Committee Complaint, has already rejected as seriously deficient.