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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

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In re: : Chapter 11

NORSTAN APPAREL SHOPS, INC. : Case No. 05 – 15265 (CEC)
d/b/a FASHION CENTS, et al. : 05 – 15268 (CEC)
 : (Jointly Administered)

Debtors. :

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**DISCLOSURE STATEMENT FOR
DEBTORS' PLAN OF LIQUIDATION UNDER
CHAPTER 11 OF THE BANKRUPTCY CODE**

<p>THIS IS NOT A SOLICITATION OR ACCEPTANCE OR REJECTION OF THE PLAN. ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE COURT.</p>
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I. INTRODUCTION

The Debtors file this Disclosure Statement in support of the Debtors' Plan of Liquidation under the Bankruptcy Code which is attached as Exhibit "A" hereto (the "Plan").¹ **No statements or information concerning the Debtors are authorized, other than those set forth in this Disclosure Statement.**

A. Notice to Creditors

1. Purpose of this Disclosure Statement The purpose of this Disclosure Statement is to set forth information that (i) summarizes the Plan; (ii) advises creditors of their rights and anticipated recoveries under the Plan; (iii) assists holders of General Unsecured Claims in making an informed decision when voting to accept or reject the Plan; and (iv) assists the Bankruptcy Court in determining whether the Plan should be confirmed.

2. Approval of the Disclosure Statement By order dated [REDACTED], 2008, the Bankruptcy Court approved this Disclosure Statement, finding that it contains "adequate information" as that term is used in section 1125(a) of the Bankruptcy Code.

3. PLEASE READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY. A COPY OF THE PLAN IS ATTACHED AS EXHIBIT "A" HERETO. IF THERE IS ANY INCONSISTENCY BETWEEN THE TERMS OF THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN WILL CONTROL.

4. Ballots Each holder of a General Unsecured Claim is also receiving a ballot ("Ballot") and return envelope to vote to accept (or reject) the Plan. Any Ballot that is properly signed and timely delivered but does not indicate whether the creditor voted to accept or reject the Plan will be deemed to constitute an acceptance of the Plan.

B. Summary Tables of Classification and Treatment of Claims Under the Plan

The following table provides a brief summary of the classifications and treatment of Allowed Claims under the Plan.

Class	Description of Class	Treatment Under the Plan and Estimated Recovery
N/A	Administrative Claims	On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Administrative Claim Cash equal to the Allowed amount of such Claim to the extent such Claim

¹ Capitalized terms used and not otherwise defined herein have the meanings ascribed to them in the Plan. Because the Petition Date occurred prior to enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 ("BAPCPA"), the Bankruptcy Code references in the Plan and in this Disclosure Statement are to the Bankruptcy Code in effect prior to the October 17, 2005 effective date of BAPCPA.

		<p>has not been previously paid by the Debtors.</p> <p>Estimated amount of Allowed Claims in this Class: [REDACTED]</p> <p>Estimated Recovery: 100%</p>
N/A	Priority Tax Claims	<p>On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Priority Tax Claim Cash equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.</p> <p>Estimated amount of Allowed Claims in this Class: [REDACTED]</p> <p>Estimated Recovery: 100%</p>
N/A	Professional Compensation Claims	<p>As soon as is reasonably practicable after the Bankruptcy Court enters an order approving the Professional Compensation Claims, the Liquidating Debtors will pay to each holder of an Allowed Professional Compensation Claim Cash in an amount equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.</p> <p>Estimated amount of Allowed Claims in this Class: \$[REDACTED]</p> <p>Estimated Recovery: 100%</p>
N/A	DIP Lender Claims	<p>The DIP Lender Claims will be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order. Additionally, after payment in full of all Allowed Administrative Claims arising from, relating to, or incurred during the previous sale of substantially all of the assets of Norstan Apparel from the GOB Expense Fund, the GOB Expense Fund Surplus will be paid to the DIP Lender.</p> <p>Estimated amount of Allowed Claims in this Class: \$[REDACTED]</p> <p>Estimated Recovery: [REDACTED]%</p>
1	Subordinated Lenders Claims	<p>The Subordinated Lenders Claims will be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order. In addition, each of the Subordinated Lenders will receive one share of newly-issued stock of</p>

		<p>Norstan Delaware.</p> <p>Estimated amount of Allowed Claims in this Class: \$[REDACTED].</p> <p>Estimated Recovery: [REDACTED]%</p>
2	Other Secured Claims	<p>On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay or transfer to each holder of an Allowed Other Secured Claim, at the option of the Liquidating Debtors, either (i) the proceeds of the sale or disposition of the Collateral securing such Claim to the extent of the value of the holder's secured interest in the Claim, net of the costs of disposition of such Collateral; (ii) the Collateral securing such Claim; or (iii) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code.</p> <p>Estimated amount of Allowed Claims in this Class: \$[REDACTED].²</p> <p>Estimated Recovery: [REDACTED]%</p>
3	Priority Non-Tax Claims	<p>On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Priority Non-Tax Claim, Cash equal to the Allowed amount of such Claim. Allowed Claims of employees or employee benefit plans, in excess of the applicable statutory priority caps under sections 507(a)(3) and (a)(4) of the Bankruptcy Code, respectively, will be treated as General Unsecured Claims.</p> <p>Estimated amount of Allowed Claims in this Class: \$[REDACTED].</p> <p>Estimated Recovery: [REDACTED]%</p>
4	General Unsecured Claims	<p>As soon as reasonably practicable after payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional</p>

² Certain personal property tax claims were filed as secured claims and others as priority claims. Based on a preliminary review of the claims, all were assumed to be priority claims for purposes of the Disclosure Statement.

		<p>Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; and (v) Priority Non-Tax Claims, and after all Unencumbered Proceeds are recovered, each holder of an Allowed General Unsecured Claim will receive a Pro Rata Share of the General Unsecured Claims Recovery Pool.</p> <p>Estimated amount of Allowed Claims in this Class: [REDACTED]</p> <p>Estimated Recovery: [REDACTED]%</p>
5	Equity Interests of Norstan Delaware	On the Effective Date, all Equity Interests of Norstan Delaware will be canceled. Each holder of an Equity Interest in Norstan Delaware will neither receive nor retain any property or interest in property on account of such Equity Interest.
6	Equity Interests of Norstan Apparel	All Equity Interests of Norstan Apparel will continue to be owned by Norstan Delaware but no distributions will be made in respect of such Equity Interests.

II. OVERVIEW OF DEBTOR'S OPERATIONS AND CHAPTER 11 CASE

A. Debtor's Prepetition Business Operations

Norstan Apparel is a Pennsylvania corporation that, on the Petition Date, operated 229 retail stores selling women's budget-priced apparel in 24 states throughout the midwestern, midsouthern, mid-Atlantic and southeastern regions of the United States. On the Petition Date, it had approximately 1,700 employees, 45 of which were members of the "Office and Distribution Employees' Union Local 99 – UNITE." Norstan Apparel is wholly owned by Debtor Norstan Delaware – a Delaware corporation whose only asset is the stock of Norstan Apparel.

Norstan Apparel was formed in 1954 and named after Norman and Stanley Lattman (collectively, the "Lattmans") - the children of the company's founder. Eventually, the Lattmans became the owners of Norstan Apparel with each brother owning equal 50% interests.

On September 18, 2002, Norstan Apparel was purchased from the Lattmans and a trust they controlled through a leveraged buyout (the "LBO") by an investment group headed by Friend Skoler & Co., L.L.C.. After the closing, Norman Lattman continued as the President and managed Norstan Apparel's retail operations until June of 2004.

The LBO was partially financed through a borrowing under a Loan and Security Agreement dated as of September 18, 2002 (the "Senior Loan") with AmSouth Bank ("AmSouth") as lender to Norstan Apparel and NAS Acquisition Corp. – a corporation which, as part of the LBO, merged with and into Norstan Apparel. In connection with the Senior Loan, AmSouth provided a \$7.5 million revolving credit facility, an \$11 million A-Term Note, and a \$2 million B-Term Note. The Senior Loan was secured by substantially all of the assets of Norstan Apparel other than its real property leases, and was guaranteed by Norstan Delaware and NAS Holding Corp. – the sole owner of Norstan Delaware.

To provide further financing for the LBO, NAS Acquisition Corp., Norstan Delaware and NAS Holdings Corp. also entered into a Loan Agreement dated September 18, 2002, pursuant to which the Subordinated Lenders provided \$25 million in additional financing (the “Subordinated Loan”), which was secured by junior loans on substantially all of the Assets of Norstan Apparel other than its real property leases. The Subordinated Loan was assumed by Norstan Apparel following the merger of NAS Acquisition Corp. with and into Norstan Apparel.

To further fund the LBO, Friend Skoler & Co., and certain other parties, contributed equity in the amount of \$17 million.

B. Significant Events Leading to the Commencement of The Bankruptcy Cases

Subsequent to the closing of the LBO, Norstan Apparel’s financial performance deteriorated and its cash flow significantly reduced. Much of this loss was purportedly attributable to increasing competition and a fundamental shift in the market for women’s clothing. As a result of its deteriorating financial condition, Norstan Apparel became unable to service the indebtedness incurred in connection with the LBO. While 2002 – the year of the LBO – was very profitable for Norstan Apparel, subsequent years were less so. For the year ended December 31, 2002, Norstan Apparel recorded EBITDA of approximately \$15 million – its highest ever. For the year ended December 31, 2003, Norstan Apparel recorded EBITDA of approximately \$7.5 million, and for the year ended December 31, 2004, Norstan Apparel recorded EBITDA of approximately \$4.3 million.

In February of 2004, AmSouth agreed to waive certain events of default with respect to the Senior Loans. At the same time, the Subordinated Lenders, Allied and Gleacher, together with the Lattmans, Alex Friend and Steven Skoler, individually, made additional junior loans to Norstan Apparel aggregating \$2.5 million for the purpose of increasing borrowing availability. In December of 2004, AmSouth again agreed to waive certain events of default arising out of Norstan Apparel’s inability to make scheduled loan repayments, and Allied and Gleacher made an additional \$1 million junior loan and provided an additional \$1 million overadvance guarantee to AmSouth. Pursuant to the terms of an amendment to the loan agreement between Allied, Norstan Apparel and Norstan Delaware leading to the new junior loans in December 2004, and as a result of Norstan Apparel’s inability to make scheduled loan repayments, Allied was entitled to and took control of the Board of Directors of Norstan Apparel in February of 2005.

Despite these waivers and additional loans, Norstan Apparel’s financial condition did not improve and it was unable to continue to obtain trade credit from its vendors. On March 15, 2005, AmSouth sent a notice advising the Debtors of the alleged occurrence of events, with which the passage of time, would constitute defaults under the Senior Loan, and exercised its alleged rights to apply the Debtors’ cash to reduce the Revolver. AmSouth further advised the Debtors it would only provide funds necessary to protect, preserve and enhance its collateral unless additional financial support, junior to AmSouth’s position, was forthcoming from the Subordinated Lenders or other third parties.

As a result of these declines, the Debtors, AmSouth, Allied and Gleacher came to realize that the best hope for creditors was to locate a buyer and sell Norstan Apparel’s business as a going concern pursuant to section 363 of the Bankruptcy Code.

As of the Petition Date, approximately \$6.8 million of the A-Term Note remained unpaid. The B-Term Note had been fully repaid and the unpaid revolver balance was approximately \$2 million. The outstanding amount owed to the Subordinated Lenders under the Subordinated Loan was approximately \$31.5 million.

C. Significant Events in These Chapter 11 Cases

1. First Day Motions and Orders

On the Petition Date, the Debtors filed multiple “first day” motions seeking immediate relief from the Bankruptcy Court that the Debtors believed necessary to minimize any disruption in Norstan Apparel’s business so as to further the goal of accomplishing a sale of a going concern.

In order to obtain post-Petition Date financing, the Debtors entered into a financing agreement with AmSouth (the “DIP Financing Loan”). Accordingly, as one of their “first day” motions, the Debtors filed their Motion for Interim and Final Orders (I) Pursuant to Bankruptcy Code Sections 101, 361, 362, 363(c), 364(d)(1) and 364(e) and Bankruptcy Rules 2002, 4001 and 9014 Authorizing Debtor Norstan Apparel Shops, Inc. to Obtain Postpetition Financing and Use Cash Collateral; (II) Granting Adequate Protection to Prepetition Secured Parties Pursuant to Bankruptcy Code Sections 361, 362, 363 and 364; and (III) Granting Related Relief (the “DIP Financing Motion”).

A final order approving the DIP Financing Loan – identified as the DIP Financing Order in the Plan - was entered on July 7, 2005 following a resolution of potential claims among the estates, the DIP Lender and the Subordinated Lenders as described below.

2. The Sale of Substantially All of Norstan Apparel’s Assets

As stated above, prior to the Petition Date, the Debtors, AmSouth, Allied and Gleacher came to realize that the best hope for creditors was to locate a buyer and sell Norstan Apparel’s business as a going concern pursuant to section 363 of the Bankruptcy Code. Prior to the Petition Date, the Debtors selected Fashion Cents Acquisition, LLC (“FCA”) as the stalking horse bidder for substantially all of Norstan Apparel’s assets, subject to the receipt of higher and better offers at a bankruptcy auction. FCA’s offer was for a cash payment of \$11,250,000 and the assumption of certain liabilities, including taking over at least 145 of Norstan Apparel’s store locations. Accordingly, the Debtors filed their Motion for Order Pursuant to 11 U.S.C. §§ 105(a), 363 and 365 and Fed. R. Bankr. P. 2002, 6004 and 6006: (I) Approving Sale of All or Substantially All Assets of Norstan Apparel Shops, Inc. to Fashion Cents Acquisition, LLC or Other Successful Bidder(s), Free and Clear of All Liens and Authorizing Fashion Cents Acquisition, LLC to Act as Agent for the Disposition of Certain of the Assets of Norstan Apparel Shops, Inc.; (II) Authorizing the Scheduling of an Auction for Qualified Bidders; (III) Establishing Bidding Procedures; (IV) Approving Breakup Fees; (V) Approving Cure Amount Procedures Relating to Executory Contracts and Unexpired Leases to be Assumed and Assigned and Rejection Procedures for Executory Contracts and Unexpired Leases to be Rejected; (VI) Approving Store Closing Guidelines; (VII) Approving Form and Manner of Notices; (VIII) Scheduling a Hearing for Final Approval of a Sale or other Transaction to the Highest and Best Bidder(s) and (IX) Granting Related Relief (the “Sale Motion”).

On May 6, 2005, the Bankruptcy Court approved the Sale Motion and, on May 19, 2005, an auction was held at which the winning bidder for substantially all of Norstan Apparel’s assets was determined to be not FCA, but rather a consortium of six purchasers: (i) Gordon Brothers Retail Partners, LLC, (ii) DJM Asset Management, LLC, (iii) Rainbow Northeast Leasing, Inc., (iv) Simply Fashion Shores, Ltd., (v) Hilco Merchant Resources, LLC and (vi) Hilco Real Estate LLC (collectively, the “Purchasers”). The Purchasers were selected by the Debtors and the Committee as having presented the highest and best bid as the Purchaser’s bid included a cash payment of \$13,750,000, the assumption of certain liabilities and a series of earn-out payments for two years after the closing of the sale.

After the Bankruptcy Court approved the sale of Norstan Apparel's assets to the Purchasers (the "Sale"), the Debtors conducted store-closing sales, liquidated their inventory and ultimately assigned the unexpired leases for approximately 160 of their retail locations to two of the Purchasers and one other third party. Each of the unexpired leases for store locations that were not assigned were rejected pursuant to section 365(a) of the Bankruptcy Code and the premises surrendered to the landlord.

3. Other Significant Post-Petition Date Activities

After the closing of the store locations, Norstan Apparel retained only a minimum number of employees to complete the final wind-down of its operations. With no business to continue, Norstan Apparel evacuated its headquarters in Long Island City, moved most of its books and records into storage and rejected the collective-bargaining agreement that covered unionized workers.

With no remaining business to reorganize, the Debtors and the Committee sought to retain a professional turnaround manager to oversee the winding-down of the Debtors' estates. Ultimately, the Debtors and the Committee selected Mr. John Palmer of the firm of NachmanHaysBrownstein. Under Mr. Palmer's guidance, the Debtors finalized agreements with several landlords regarding their claims, established deadlines for filing of proofs of claim and administrative expense claims and also worked to review those claims and identify which should be objected to. Mr. Palmer also worked to complete operating reports required by the U.S. Trustee and to evaluate the earn-out payments from the Purchasers.

Additionally, the Committee, through its lead counsel and through ASK Financial commenced (on the Debtors' behalf) approximately 90 actions to recover sums paid by Norstan Apparel in the 90-days prior to the Petition Date (collectively, the "Avoidance Actions"), and also commenced an action against the Lattmans, the Lattman Irrevocable Family Trust, the Jessica Lattman Trust and the Stanley & Ellen Lattman Trust alleging, *inter alia*, that the LBO was a fraudulent conveyance, Adversary Proceeding No. 06-01279 (DEM) (the "LBO Litigation"). Ultimately, the LBO Litigation was settled for \$3 million. Although most of the Avoidance Actions have been resolved, approximately 33 continue to be litigated by the Committee and it is expected that they will be completed this year. It is uncertain what the remaining actions will generate although the remaining actions include most of those in which the largest recoveries are being sought..

4. The Sharing Arrangement and Incoming Proceeds from Litigation

Ultimately, through the DIP Financing Loan and the DIP Financing Order, the Senior Loans were rolled up and were repaid in full. Additionally, AmSouth and the Subordinated Lenders agreed to fund (as part of the DIP Financing Order) certain budgeted costs and expenses necessary to wind-down the Debtors' estates, including the costs and expenses of pursuing the Avoidance Actions and the LBO Litigation.

With respect to distributing the proceeds of the Sale, the Debtors, the Committee, the Senior Lenders and the Subordinated Lenders entered into the Wind-Down Stipulation which was so-ordered by the Bankruptcy Court on July 7, 2005. The Wind-Down Stipulation provides that proceeds from the Sale, along with the earn-out and the proceeds of any other encumbered property, would first be paid over to AmSouth to pay down the DIP Financing Loan, and then to the Subordinated Lenders to pay down the Junior Secured Loans. The Wind-Down Stipulation also provided that any resulting deficiency would be satisfied from the proceeds of unencumbered assets (*i.e.*, recoveries from Avoidance Actions and the LBO Litigation) which proceeds would be shared among the Senior Lenders, the Subordinated Lenders and the Debtor

(for the benefit of other creditors) according to the following formula which is encompassed in paragraph 9 of the Wind-Down Stipulation:

- (a) AmSouth would receive the first \$350,000;
- (b) the Subordinated Lenders would receive the next \$250,000;
- (c) the Debtors would receive the next \$2,000,000, plus an amount equal to the Committee's fees in pursuing the Avoidance Actions and the LBO Litigation that exceeded the amounts specifically carved out for that purpose and which excess is approximately \$2 million as of the date hereof but will increase as the remaining avoidance actions are pursued. This tranche is used to satisfy priority and non-priority claims against the estates other than DIP Lender claims, Subordinated Lender claims and claims to be paid from the GOB Expense Fund;
- (d) AmSouth and the Debtors would share equally until the DIP Loan was paid in full; and
- (e) The Subordinated Lenders and the Debtors would share equally until the Subordinated Loans were paid in full.

To date, the Debtors have received approximately \$1,046,000 from the Avoidance Actions as well as \$3 million from the LBO Litigation. Accordingly, the Debtors have not obtained sufficient unencumbered assets to achieve the sharing with AmSouth contemplated in tranche (d) above. Even at the current level of Committee professional fees spent on Avoidance Actions and the LBO Litigation in excess of the amount provided for in the wind-down budget, sharing with AmSouth would commence upon receipt of a total of approximately \$4.6 million in unencumbered assets. While it is anticipated that the additional Committee professional fees in pursuing the remaining Avoidance Actions will be less than the recoveries from those Avoidance Actions, it is not currently possible to predict the amount of those recoveries, or to predict if the threshold for sharing per paragraph (d) above will be exceeded. To date, the Debtors hold approximately \$2.1 million in cash plus the GOB Expense Fund, while \$415,752 remains to be paid with respect to the DIP Loan. Given the value of the remaining Avoidance Actions, the Debtors do not anticipate that the final tranche (i.e., tranche "(e)" above) is achievable.

III. THE PLAN

A. Summary of the Plan

The Plan is one of liquidation. The Debtors' two separate estates will be substantively consolidated with one another such that a claim against one Debtor will be a claim against both Debtors and inter-company claims between the two Debtors will be cancelled. The Committee will continue to prosecute the Avoidance Actions and the Debtors will use the proceeds thereof, together with cash that the Debtors already have on hand, to pay Allowed Claims in the manner described below.

B. Treatment of Claims Under the Plan

1. Administrative Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Administrative Claim Cash equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.

2. Priority Tax Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Priority Tax Claim Cash equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.

3. Professional Compensation Claims As soon as is reasonably practicable after the Bankruptcy Court enters an order approving the Professional Compensation Claims, the Liquidating Debtors will pay to each holder of an Allowed Professional Compensation Claim Cash in an amount equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors

4. DIP Lender Claims The DIP Lender Claims will be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order

5. Class 1 - Subordinated Lenders Claims The Subordinated Lenders Claims will be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order and will also be given the new stock on Norstan Delaware in order to oversee, through their positions on the Board of Directors, the liquidation of the Debtors and consummation of the Plan.

Subordinated Lenders Claims will be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof will be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

6. Class 2 - Other Secured Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay or transfer to each holder of an Allowed Other Secured Claim, at the option of the Liquidating Debtors, either (i) the proceeds of the sale or disposition of the Collateral securing such Claim to the extent of the value of the holder's secured interest in the Claim, net of the costs of disposition of such Collateral; (ii) the Collateral securing such Claim; or (iii) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code.

Other Secured Claims will be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof will be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code

7. Class 3 - Priority Non-Tax Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will pay to each holder of an Allowed Priority Non-Tax Claim, Cash equal to the Allowed amount of such Claim. Allowed Claims of employees or employee benefit plans, in excess of the applicable statutory priority caps under sections 507(a)(3) and (a)(4) of the Bankruptcy Code, respectively, will be treated as General Unsecured Claims.

Priority Non-Tax Claims will be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof will be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

8. Class 4 - General Unsecured Claims As soon as reasonably practicable after payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; and (v) Priority Non-Tax Claims, and after all Unencumbered Proceeds are recovered, each holder of an Allowed General Unsecured Claim will receive a Pro Rata Share of the General Unsecured Claims Recovery Pool.

General Unsecured Claims are impaired and entitled to vote to accept or reject the Plan.

9. Class 5 - Equity Interests of Norstan Delaware On the Effective Date, all Equity Interests of Norstan Delaware will be canceled. Each holder of an Equity Interest in Norstan Delaware will neither receive nor retain any property or interest in property on account of such Equity Interest.

Class 5 will be deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code

10. Class 6 - Equity Interests of Norstan Apparel All Equity Interests of Norstan Apparel will remain with Norstan Delaware but no distributions will be made in respect of such Equity Interests.

Class 6 is deemed to have accepted the Plan by virtue of Norstan Apparel being a proponent of the Plan.

The Debtor expressly reserves all rights to seek confirmation of the Plan, pursuant to section 1129(b) of the Bankruptcy Code, over the objection of any rejecting Class of Claims or Equity Interests.

C. Implementation of the Plan

1. Substantive Consolidation Entry of the Confirmation Order will constitute the approval, pursuant to section 105(a) of the Bankruptcy Code, of the substantive consolidation of the Debtors' estates for all purposes related to Claims and distribution of assets under the Plan. On and after the Confirmation Date (i) all assets and liabilities of either of the Debtors will be treated as though they were merged with and into Norstan Apparel; (ii) no distributions will be made under the Plan on account of any Claim held by either of the Debtors against the other Debtor; (iii) all guarantees of either Debtor of the obligations of the other Debtor will be eliminated; and (iv) each and every Claim and Proof of Claim against either of the Debtors will be deemed one Claim or Proof of Claim against both of the Debtors and a single obligation of the consolidated Debtors on and after the Confirmation Date. The substantive consolidation effected pursuant to the Plan will not affect defenses to any Avoidance Action or Cause of Action or requirements for any third party to establish mutuality in order to assert a right of setoff

2. Vesting of Debtors' Assets in the Liquidating Debtors On the Effective Date, each and every asset of the Debtors including, but not limited to, Cash, Avoidance Actions, Causes of Action and the Debtors' books and records will vest in the Liquidating Debtors and become part of the Liquidation Assets. As of the Effective Date, the Debtors, the Liquidating Debtors, the Committee and any other party in interest will be authorized to execute any documents as may be desirable or necessary to cause such assets to vest in the Liquidating Debtors and become part of the Liquidation Assets.

3. Continuation of Committee Subsequent to the Confirmation Date, the Committee will continue in existence and will have all of the powers, duties and functions provided to it by the Plan, the Bankruptcy Code, Bankruptcy Rules, Local Rules and Final Orders of the Bankruptcy Court, including the right to commence and prosecute Avoidance Actions and other Causes of Action it has been authorized to commence and prosecute by the Bankruptcy Court.

4. Prosecution of Avoidance Actions and Causes of Action From and after the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) to the extent previously authorized by the Bankruptcy Court to commence and prosecute Avoidance Actions and Causes of Action on the Debtors' behalf and in circumstances where

existing counsel for Debtors has a conflict, will have the exclusive power, authority and standing to commence, prosecute and resolve all Avoidance Actions and Causes of Action. After the Effective Date, the costs of prosecution of all Avoidance Actions and Causes of Action will be borne solely from the Expense Reserve. Except as provided in section 5.4 of the Plan, from and after the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) will have the authority to compromise and settle all Avoidance Actions and Causes of Action without further order of the Bankruptcy Court. With respect to the settlement of any Avoidance Action or Cause of Action which the Committee did not bring on behalf of the Debtors or the Liquidating Debtors, not less than five (5) business days prior to entry into such settlement, the Liquidating Debtors will advise counsel to the Committee of the terms and appropriateness of such settlement. If no objection (written or otherwise) to such settlement is received by the Liquidating Debtors prior to the expiration of such five-day period, the Liquidating Debtors will be free to enter into and consummate such settlement. Any disputes between the Liquidating Debtors and the Committee regarding the appropriateness of a settlement of an Avoidance Action or Cause of Action will be resolved by the Bankruptcy Court on motion of either party.

5. Claims Reserve On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will establish and segregate the Claims Reserve from the Liquidation Assets.

6. Expense Reserve On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors will establish and segregate the Expense Reserve from the Liquidation Assets in such an amount as is jointly determined by the Liquidating Debtors and the Committee with any disagreement to be resolved by the Bankruptcy Court.

7. Cancellation of Equity Interests of Norstan Delaware On the Effective Date, all Equity Interests of Norstan Delaware will be canceled and two shares of new common stock of Norstan Delaware will be issued: one share to Allied and one share to Gleacher.

8. Payment of Claims The Liquidating Debtors will make payments in respect of Allowed Claims as follows:

(i) Administrative Claims, Priority Tax Claims, Other Secured Claims On the Effective Date, or as soon thereafter as is reasonably practical, the Liquidating Debtors will (a) remit to the holders of Allowed Administrative Claims, Allowed Priority Tax Claims and Allowed Priority Non-Tax Claims an amount in Cash equal to the Allowed amount of such Claim to the extent not previously paid; and (b) take such steps as are necessary to satisfy Allowed Other Secured Claims in accordance with section 4.6 of the Plan.

(ii) Professional Compensation Claims As soon as is reasonably practicable after the Bankruptcy Court enters an order approving the Professional Compensation Claims, the Liquidating Debtors will pay to each holder of an Allowed Professional Compensation Claim an amount in Cash equal to the Allowed amount of such Claim to the extent such Professional Compensation Claim has not been previously paid by the Debtors.

(iii) DIP Lender Claims and Subordinated Lenders Claims The DIP Lender Claims and the Subordinated Lenders Claims will be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order.

(iv) General Unsecured Claims As soon as reasonably practicable after payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; and (v) Priority Non-Tax Claims, and after all Unencumbered Proceeds

are recovered, each holder of an Allowed General Unsecured Claim will receive a Pro Rata Share of the General Unsecured Claims Recovery Pool.

(v) **Payment of U.S. Trustee Fees** The Liquidating Debtors will make statutorily-required payments to the Office of the United States Trustee until the Chapter 11 Cases are closed.

9. **Administration of GOB Expense Fund** The Liquidation Officer will provide quarterly reports to the DIP Lender detailing the funds remaining in the GOB Expense Fund. After all Allowed Administrative Claims arising from, relating to, or incurred during the previous sale of substantially all of the assets of Norstan Apparel have been satisfied from the GOB Expense Fund, the GOB Expense Fund Surplus will be paid to the DIP Lender.

10. **Provisions Regarding Distributions** Distributions in respect of Allowed Claims will be conducted as follows:

(i) All payments by the Liquidating Debtors will be made by check or wire transfer, in each case, in the sole discretion of the Liquidating Debtors.

(ii) Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim will be made at the address of such holder as set forth on the Schedules unless the holder of such Claim has advised the Debtors or the Liquidating Debtors of a change of that address by the filing of a Proof of Claim or otherwise in writing at the address in section 12.12 of the Plan.

(iii) The Liquidating Debtors may, but will not be required to, setoff against any Claim or Proof of Claim (for purposes of determining the Allowed amount of such Claim on which distributions will be made), any claims of any nature whatsoever that the Debtors or Liquidating Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder will constitute a waiver or release by the Debtors or the Liquidating Debtors of any such claim the Debtors or Liquidating Debtors may have against the holder of such Claim

(iv) Checks issued by the Liquidating Debtors will be null and void if not negotiated within sixty (60) days after the date of issuance. Such checks will be stopped and the funds thereof reallocated to other holders of Allowed Claims.

(v) The Liquidating Debtors will comply with all applicable withholding and reporting requirements imposed by all federal and state taxing authorities with respect to distributions under the Plan, and all distributions under the Plan will be subject to any such withholding and reporting requirements.

(vi) The Liquidating Debtors may, but are not required, to make one or more interim distributions to holders of Allowed General Unsecured Claims prior to any final distribution to the holders of such Claims. All such partial distributions will be included in, and are a component of, the Pro Rata Share of the General Unsecured Claims Recovery Pool due to each holder of an Allowed General Unsecured Claim.

11. **Closing of the Bankruptcy Cases** When (i) all Disputed Claims have become Allowed Claims or have been disallowed by Final Order; (ii) all Avoidance Actions and Causes of Action are resolved to Final Order; (iii) all of the Liquidation Assets and Unencumbered Proceeds have been realized; and (iv) the Liquidating Debtors have distributed the Liquidation Assets (including all unused funds in the Claims Reserve and in the Expense Reserve that are not needed to close the Bankruptcy Cases) to holders of Allowed Claims in accordance with the Plan, the Liquidating Debtors will seek authority from the Bankruptcy Court to close the

Bankruptcy Cases in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Rules.

12. Closing of the Bankruptcy Cases by Charitable Gift After payment of Administrative Claims, Professional Compensation Claims and Priority Tax Claims, and after all Avoidance Assets and Causes of Action have been resolved to Final Order and the proceeds thereof distributed in accordance with the Plan, the Liquidating Debtors and the Committee jointly determine that the expense of administering the Plan is likely to exceed the Liquidation Assets (inclusive of the Expense Reserve and the Claims Reserve), the Liquidating Debtors will apply to the Bankruptcy Court for authority to (i) reserve any amounts necessary to close the Bankruptcy Cases; (ii) donate any balance to a charitable organization selected by the Debtors and the Committee and which is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code; and (iii) close the Bankruptcy Cases in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Rules.

13. Tax Payments The Liquidating Debtors will be responsible for payments, out of the Liquidation Assets, of any taxes imposed on the Debtors or the Liquidating Debtors

D. Governance of the Liquidating Debtors

1. Governance Two shares of new common stock of Norstan Delaware will be issued – one share to Allied and one share to Gleacher. The Boards of Directors of Norstan Delaware and of Norstan Apparel will each consist of one member appointed by Allied, one member appointed by Gleacher and the Liquidation Officer. The day-to-day affairs of the Liquidating Debtors will be overseen and controlled by the Liquidation Officer in accordance with the terms of the Plan. The Liquidation Officer will have the power to implement the Plan, carry out its terms, and to take such other actions necessary and incidental thereto including, but not limited to the power to (i) open and operate bank accounts in the name of the Liquidating Debtors; (ii) deposit and distribute money from such bank accounts; (iii) execute any power of attorney, deed, or other instrument necessary to carry out the requirements of the Plan; (iv) insure any part of the Liquidating Debtors' property against risk of loss or damage; (v) engage attorneys and accountants and other professionals as appears to be appropriate; and (vi) apply to the Bankruptcy Court for such orders or other relief as may be necessary to implement the Plan.

2. Successor Liquidation Officer The Liquidation Officer may be removed for Cause upon (i) a determination by a majority of the Boards of Directors of the Liquidating Debtors; or (ii) a determination by the Committee; provided, however, if either the Boards of Directors or Committee object to the removal of the Liquidation Officer, the Bankruptcy Court will resolve the dispute upon motion of any party in interest, and will determine whether Cause exists for removal of the Liquidation Officer. "Cause" for such purposes will consist of proof, established by a preponderance of the evidence, that the Liquidation Officer has engaged in one or more acts of willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or ultra vires acts. In the event of the death, resignation or removal of the Liquidation Officer, the Committee, and the Boards of Directors, subject to Bankruptcy Court approval, will appoint a successor Liquidation Officer. If they are unable to agree on a successor, each may submit a nominee to the Bankruptcy Court and the Bankruptcy Court will choose one of the nominees as the Liquidation Officer. Each successor Liquidation Officer will execute, acknowledge, and deliver to the Bankruptcy Court and to the Committee an instrument accepting the appointment under the Plan and agreeing to be bound thereto.

3. Compensation of the Liquidation Officer The Liquidation Officer will be entitled to compensation in the amount of \$395 per hour (subject to periodic adjustment with the consent of the Committee), plus reimbursement of reasonable expenses. In carrying out his duties, the Liquidation Officer will also be entitled to utilize other professionals employed by his firm at the

same compensation rates that firm charges to non-bankruptcy clients. The Liquidating Officer will submit reasonably detailed monthly invoices to the Committee and the Boards of Directors and will be paid the full amount of such invoices from the Expense Reserve no later than 20 days after the receipt of such invoice unless, prior to the expiration of such 20-day period, the Committee or the Boards of Directors objects to the payment of such invoice. If the compensation dispute regarding the Liquidation Officer cannot be resolved consensually, the dispute will be resolved by the Bankruptcy Court on motion of either party, subject to the standard of review provided in section 330 of the Bankruptcy Code.

4. Compensation of the Committee Members of the Committee will serve without compensation; however, members of the Committee will be entitled to be reimbursed for their reasonable out-of-pocket expenses.

5. Retention of Professionals The Liquidating Debtors and the Committee may retain and reasonably compensate counsel (including current counsel to the Debtors and the Committee) and other service providers to assist in administration of Liquidating Debtors, implementation of the Plan, and pursuit of Avoidance Actions and Causes of Action. Counsel and other service providers so retained will submit reasonably detailed monthly invoices to the Liquidation Officer and to the Committee and will be paid the full amount of such invoices from the Expense Reserve no later than 20 days after the Liquidating Debtors' and Committee's receipt of such invoice unless, prior to the expiration of such 20-day period, the Liquidation Officer or the Committee objects to the payment of such invoice. If the Committee, the Liquidation Officer and the professional in question are unable to resolve the objection, the dispute will be resolved by the Bankruptcy Court on motion of either party. Any other dispute regarding the retention of professionals by the Liquidating Debtors or the Committee will be resolved by the Bankruptcy Court upon motion of a party in interest, subject to the standard of review provided in section 330 of the Bankruptcy Code.

6. Books and Records The Liquidating Debtors will have the responsibility of storing and maintaining all books and records of the Debtors not already in the possession of professionals retained by the Debtors in the Bankruptcy Cases until the Bankruptcy Cases are closed after which time such books and records may be abandoned or destroyed without further order. Within thirty (30) days of the Confirmation Date, any third party in possession of the Debtors' books and records (other than counsel to the Liquidating Debtors and the Committee) will turnover such documents to the Liquidating Debtors.

7. Investments The Liquidation Officer will invest Cash comprising Liquidation Assets (including any earnings thereon or proceeds therefrom) as permitted by section 345 of the Bankruptcy Code and in accordance with guidelines of the Office of the United States Trustee

8. Plan Disputes Any dispute relating to the interpretation and/or implementation of the Plan will be resolved by the Bankruptcy Court on motion of a party in interest.

E. Procedures for Disputed Claims.

1. Objections to Claims After the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) will have the exclusive power and authority to prosecute and resolve objections to Claims provided, however, the Committee will not exercise that power unless the Liquidating Debtors have refused to object to a Claim the Committee has requested be objected to. No later than 90 days after the Effective Date, the Liquidating Debtors and the Committee will file all objections to Claims, except that the Liquidating Debtors and the Committee may object to Proofs of Claim filed after the Effective Date no later than 90 days after the filing of such Proof of Claim. The Court may extend such objection periods for cause shown upon motion of the Liquidating Debtors and the Committee.

2. No Distribution Pending Allowance Notwithstanding any other provision of the Plan, if any portion of a Claim is a Disputed Claim, no payment or distribution will be made to the holder on account of such portion of the Claim which constitutes a Disputed Claim unless and until such Disputed Claim becomes Allowed. Nothing contained herein, however, will be construed to prohibit payment of distribution on account of any undisputed portion of a partially Disputed Claim.

3. Distributions Upon Disputed Claims that Become Allowed Claims Distributions to holders of Disputed Claims that subsequently become Allowed Claims will be paid by the Liquidating Debtors no later than the later to occur of (i) sixty (60) days after the Disputed Claim becomes an Allowed Claim; and (ii) Liquidating Debtors' making of other distributions under the Plan to holders of Allowed Claim in the same Class.

4. Estimation The Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) may, at any time, request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors, the Committee or the Liquidating Debtors previously objected to such Claim, provided, however, the Committee will not exercise that power unless the Liquidating Debtors have refused to seek to estimate a Claim the Committee has requested be estimated. The Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated will constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Liquidating Debtors and the Committee may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. On and after the Effective Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

5. Resolution of Objections to Claims Notwithstanding anything to the contrary in the Plan, from and after the Effective Date, the Liquidating Debtors and the Committee will have the authority jointly to settle all objections to Claims without further order of the Bankruptcy Court. With respect to the settlement of any objection to claims which the Committee did not bring on behalf of the Debtors or the Liquidating Debtors, not less than 5 business days prior to entry into such settlement, the Liquidating Debtors will advise the Committee of the terms and appropriateness of such settlement. If no objection (written or otherwise) to such settlement is received by the Liquidating Debtors prior to the expiration of such 5-day period, the Liquidating Debtors will be free to enter into and consummate such settlement. Any disputes between the Liquidating Debtors and the Committee regarding the appropriateness of a settlement of an objection to a Claim will be resolved by the Bankruptcy Court on motion of either party.

F. Executory Contracts and Unexpired Leases.

1. Executory Contracts and Unexpired Leases On the Confirmation Date, all executory contracts and unexpired leases to which either of the Debtors is a party as of the Petition Date will be deemed rejected as of the Confirmation Date, except for executory contracts or unexpired leases that have been assumed, assumed and assigned, or rejected pursuant to Final Order of the Bankruptcy Court entered prior to the Confirmation Date.

2. Approval of Rejection of Executory Contracts and Unexpired Leases Entry of the Confirmation Order will constitute the approval, pursuant to section 365(a) of the Bankruptcy

Code, of the rejection of the executory contracts and unexpired leases as of the Confirmation Date pursuant to section 8.1 of the Plan.

3. Rejection Claims In the event that the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to the Plan results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a filed Proof of Claim, will be forever barred and will not be enforceable against the Debtors or their estates, the Liquidating Debtors or their estates, or any assets to be distributed under the Plan unless a Proof of Claim is filed with the Bankruptcy Court on or before thirty (30) days after the Confirmation Date. Nothing herein will constitute an extension of time to file Proofs of Claim in respect of executory contracts or unexpired leases previously assumed, assumed and assigned, or rejected prior to the Confirmation Date.

G. Effectiveness of the Plan

1. Conditions Precedent to Confirmation of Plan The following is the only condition precedent to the confirmation of the Plan: The Bankruptcy Court will have entered the Confirmation Order.

2. Conditions Precedent to Effective Date The following are the only conditions to the occurrence of the Effective Date: (i) no stay of the Confirmation Order will then be in effect; and (ii) the Liquidating Debtors and the Committee will jointly file a notice with the Bankruptcy Court announcing the occurrence of the Effective Date.

H. Effect of Confirmation

1. Binding Effect Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, on and after the Confirmation Date, the provisions of the Plan will bind any holder of a Claim against the Debtors and their respective successors and assigns, whether or not the Claim is impaired under the Plan and whether or not such holder has accepted the Plan.

2. Injunctions and Stays After the Confirmation Date, to the fullest extent permitted by law, all injunctions or stays arising under or entered during the Bankruptcy Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect.

3. Preservation of Causes of Action All claims, rights and Causes of Action, as well as the Avoidance Actions, against any Entity, are expressly preserved and will vest in the Liquidating Debtors on the Effective Date. The Liquidating Debtors (or the Committee on the Debtors' behalf to the extent previously authorized by order of the Bankruptcy Court or any other provision of the Plan) will exclusively enforce all Avoidance Actions and Causes of Action, as the case may be, that the Debtors or the Liquidating Debtors may hold against any Entity, and will pursue such Avoidance Actions and Causes of Action in accordance with the best interest of the Liquidating Debtors.

4. Preservation of Attorney-Client Privilege On the Effective Date, the Liquidating Debtors will possess, control and retain any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) of the Debtors and Debtors-in-Possession.

5. Injunction On and after the Confirmation Date, all Entities are permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively, or otherwise) on account of or respecting any Claim, debt, right or Cause of Action against the Debtors or the Liquidating Debtors, or against a third party for

which the Liquidating Debtors retains sole and exclusive authority to pursue in accordance with the Plan.

6. Injunction Against Interference with Plan Upon entry of the Confirmation Order, all holders of Claims and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, will be enjoined from taking any actions to interfere with the implementation or consummation of the Plan

I. Retention of Jurisdiction by the Bankruptcy Court

1. Jurisdiction of Bankruptcy Court The Bankruptcy Court will retain jurisdiction over all matters arising under, out of, or related to the Bankruptcy Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

(i) To hear, adjudicate and resolve any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date, including, without limitation, any Avoidance Action or Cause of Action; provided, however, that nothing herein will prevent the Liquidating Debtors from commencing and prosecuting any Avoidance Action or Cause of Action in another court of competent jurisdiction;

(ii) To ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

(iii) To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim;

(iv) To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(v) To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Entity with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

(vi) To hear and determine any application to modify the Plan in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(vii) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated hereby, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(viii) To take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan or to maintain the integrity of the Plan following consummation;

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

(xi) To hear and determine matters concerning taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(xii) To hear and determine any other matters related to the Plan and not inconsistent with the Bankruptcy Code and title 28 of the United States Code; and

(xiii) To enter a final decree closing the Bankruptcy Cases

J. Miscellaneous Provisions of the Plan

1. Effectuating Documents and Further Transactions On the Effective Date, the Debtors, the Liquidating Debtors, the Liquidation Officer and the Committee, and any other party in interest will be authorized and directed to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be reasonably necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

2. Exemption from Transfer Taxes Pursuant to section 1146(a) of the Bankruptcy Code, the delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any deeds, bills of sale, or assignments executed in connection with any disposition of assets contemplated by the Plan (including transfers of assets to and by the Liquidating Debtors) will not be subject to any stamp, real estate transfer, mortgage recording, sales, use, or other similar tax.

3. Exculpation and Indemnification To the maximum extent permitted by the Bankruptcy Code and applicable law, neither the Debtors, the Liquidating Debtors, the Liquidation Officer, the Committee, nor any of their respective present or former members, officers, directors, employees, advisors, professionals, or agents, will have or incur any liability to any holder of a Claim for any act or omission in connection with, related to, or arising out of the Bankruptcy Cases, including, without limitation, the settlement after the Petition Date of any Avoidance Action or Cause of Action, the formulation or negotiations regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, and the prosecution and administration of the Bankruptcy Cases, except for fraud, willful misconduct, gross negligence malpractice, criminal conduct, misuse of confidential information that caused damages, or ultra vires acts and, in all respects, the Debtors, the Liquidating Debtors, the Liquidation Officer, and the Committee, and each of their respective members, officers, directors, employees, advisors, professionals, and agents will be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. The Debtors, the Liquidating Debtors, the Liquidation Officer, the Committee, and each of their respective present or former members, officers, directors, employees, advisors, professionals, or agents will be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its actions or omissions except for any actions or omissions involving fraud, willful misconduct, gross negligence malpractice, criminal conduct, misuse of confidential information that caused damages, or ultra vires acts. Nothing in section 12.3 of the Plan will limit the liability of the professionals of the Debtors, the Liquidating Debtors, the Liquidation Officer and the Committee to their respective clients pursuant to Disciplinary Rule 6-102 of the New York Lawyer's Code of Professional Responsibility.

4. Modification of Plan The Plan may be amended, modified, or supplemented by the Debtors in the manner provided for by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise direct. In addition, after the Confirmation Date, so long as such action does not materially adversely affect the treatment of holders of Claims

under the Plan, the Debtors (and as of the Effective Date, the Liquidating Debtors) may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan. Prior to the Effective Date, the Debtors may make appropriate technical adjustments and modifications to the Plan without further order or approval of the Bankruptcy Court.

5. Revocation or Withdrawal of Plan The Debtors reserve the right to revoke or withdraw the Plan at any time prior to the Confirmation Date. If the Debtors take such action, the Plan will be deemed null and void. In such event, nothing contained herein will be deemed to constitute a waiver or release of any Claim by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any other Entity in any further proceedings involving the Debtors.

6. Courts of Competent Jurisdiction If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising out of the Plan, such abstention, refusal, or failure of jurisdiction will have no effect upon and will not control, prohibit, or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

7. Severability If, prior to the entry of the Confirmation Order, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, at the request of the Debtors or the Committee, will have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision will then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order will constitute a judicial determination and will provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

8. Governing Law Except to the extent the Bankruptcy Code or other federal or foreign law is applicable, the rights, duties, and obligations arising under the Plan will be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law thereof.

9. Successors and Assigns All the rights, benefits, and obligations of any Entity named or referred to in the Plan will be binding on, and will inure to the benefit of, the heirs, executors, administrators, successors, and/or assigns of such Entity.

10. Time In computing any period of time prescribed or allowed by the Plan, unless otherwise set forth herein or determined by the Bankruptcy Court, the provisions of Bankruptcy Rule 9006 will apply.

11. Dissolution of the Committee The Committee will be dissolved at such time as the Bankruptcy Cases are closed or when there are less than three creditors willing to serve on the Committee.

12. Notices to the Liquidating Debtors and the Committee After the Effective Date, all notices, requests, and demands to or upon the Debtors, the Liquidating Debtors, or the Committee will be in writing and will be deemed to have been duly given or made when actually

delivered to the following address (or to such other person or address as may hereafter be designated in writing by a notice party to the other notice parties:

As to the Debtors or Liquidating Debtors:

John Palmer, Liquidation Officer
Norstan Apparel Shops, Inc.
c/o NachmanHaysBrownstein, Inc.
822 Montgomery Avenue
Narberth, Pennsylvania 19072
Facsimile: (610) 664-7298

With a copy to:

Jeff J. Friedman, Esq.
Merritt A. Pardini, Esq.
c/o Katten Muchin Rosenman LLP
575 Madison Avenue
New York, New York 10022
Facsimile: (212) 940-8776

As to the Committee:

Lawrence Gottlieb, Esq.
Jeffrey L. Cohen, Esq.
c/o Cooley Godward Kronish LLP
The Grace Building
1114 Avenue of the Americas
New York, NY 10036-7798
Facsimile: (212) 479-6275

IV. ALTERNATIVE TO THE PLAN

The Plan reflects discussions held among the Debtor, the Committee, Regions Financial Corporation (as successor-in-interest to AmSouth Bank as lender and agent under the DIP Loan Agreement), Allied and Gleacher. Each has determined that the Plan is the most practical means for providing maximum recoveries to the holders of Allowed Claims. .

If the Plan cannot be confirmed, the Debtors will be forced to convert the Bankruptcy Case to a case under chapter 7 of the Bankruptcy Code, in which event a trustee would be appointed to liquidate any remaining assets of the Debtor for distribution to creditors. If so, the Debtors believe that holders of General Unsecured Claims will receive distributions of a lesser value and likely would have to wait a longer period of time to receive such distributions than they would under the Plan. This is because a chapter 7 trustee, who would lack the Debtors' and Committee's knowledge of the Debtors' affairs, would be required to invest substantial time and resources to become familiar with what has happened in the Bankruptcy Cases to date, and to investigate the facts underlying the multitude of Claims filed against the Debtors as well as the Avoidance Actions. In addition, the chapter 7 trustee would be entitled to statutory commissions on all amounts distributed to creditors. Such action will cause the Debtor to incur substantial expenses and otherwise serve only to prolong the case unnecessarily and negatively affect the payment of General Unsecured Creditors.

V. CERTAIN INCOME TAX CONSEQUENCES OF THE PLAN FOR HOLDERS OF ALLOWED GENERAL UNSECURED CLAIMS

The following summary of certain U.S. federal income tax consequences is for informational purposes only and is not a substitute for careful tax planning and advice based upon the particular circumstances pertaining to each holder of a General Unsecured Claim. Each

holder of a General Unsecured Claim is urged to consult his own tax advisors. This summary does not cover all potential U.S. federal income tax consequences that could possibly arise under the Plan and does not address the Plan's U.S. federal income tax consequences to any holder of a General Unsecured Claim that is a partnership (or other pass-through entity) or otherwise subject to special tax rules.

This summary is based on the laws in effect on the date of this Disclosure Statement and existing judicial and administrative interpretations thereof, all of which are subject to change, possibly with retroactive effect. Holders of General Unsecured Claims should consult their own tax advisors as to the Plan's specific federal, state, local, and foreign income and other tax consequences.

In accordance with the Plan, each holder of an Allowed General Unsecured Claim (a "Holder") shall be entitled to receive his, her or its Pro Rata share of the General Unsecured Claims Recovery Pool. Each Holder will recognize gain or loss upon receipt of such Pro Rata share equal to the difference between the "amount realized" by such Holder and such Holder's adjusted tax basis in his, her or Allowed General Unsecured Claim. The "amount realized" is equal to the value of such Holder's Pro Rata share of the General Unsecured Claims Recovery Pool. Any gain or loss realized by a Holder should constitute ordinary income or loss to unless the General Unsecured Claim is a capital asset. If a General Unsecured Claim is a capital asset, and it has been held for more than one year, such Holder will realize long term capital gain or loss.

The tax consequences to Holders will differ and will depend on factors specific to each Holder, including but not limited to: (i) whether the Holder's General Unsecured Claim (or a portion thereof) constitutes a Claim for principal or interest; (ii) the origin of the Holder's Claim; (iii) the type of consideration received by the Holder in exchange for the General Unsecured Claim; (iv) whether the Holder is a United States person or a foreign person for tax purposes; (v) whether the Holder reports income on the accrual or cash basis method; and (vi) whether the Holder has taken a bad debt deduction or otherwise recognized a loss with respect to the Allowed General Unsecured Claim.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCE TO EACH HOLDER. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN SOME CASES, UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH HOLDER OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH HOLDER AS A RESULT OF THE PLAN.

THE DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY HOLDER FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED ON A TAXPAYER. THE DISCUSSION HEREIN WAS WRITTEN TO SUPPORT THE TRANSACTIONS DESCRIBED IN THIS DISCLOSURE STATEMENT. EACH HOLDER SHOULD SEEK ADVICE BASED UPON THE HOLDER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

VI. VOTING PROCEDURES AND REQUIREMENTS

It is important that the holders of General Unsecured Claims exercise their right to vote to accept or reject the Plan in a timely manner. Holders of General Unsecured Claims should read the ballot carefully and follow the instructions contained on the ballot.

IN ORDER FOR YOUR VOTE TO BE COUNTED, HOLDERS OF GENERAL UNSECURED CLAIMS MUST BE SUBMIT THEIR BALLOTS SO THAT THE BALLOTS ARE RECEIVED AT THE FOLLOWING ADDRESS BEFORE THE VOTING DEADLINE OF [REDACTED] 2008 AT 5:00 P.M. EASTERN TIME.

**Norstan Apparel Ballot Processing
c/o Epiq Bankruptcy Solutions, LLC
FDR Station, P.O. Box 5014
New York, New York 10150-5014**

A return envelope has been provided to holders of General Unsecured Claims for that purpose. Alternatively, holders of General Unsecured Claims who wish to deliver their Ballot in person or by a delivery service other than the U.S. Postal Service, may do so at the following address:

**Epiq Bankruptcy Solutions, LLC
757 Third Avenue, 3rd Floor,
New York, New York 10017
Attn: Norstan Apparel Balloting**

If a Ballot is damaged or lost, you may contact Katten Muchin Rosenman LLP at the address on the front of this Disclosure Statement. Any Ballot that is properly signed and returned but which does not indicate an acceptance or rejection of the Plan will be deemed to be an acceptance of the Plan.

VII. CONFIRMATION OF THE PLAN

The Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that the Plan is (i) accepted by all impaired classes of Claims entitled to vote or, if rejected by an impaired Class, that the Plan “does not discriminate unfairly” and is “fair and equitable” as to such Class and as to the impaired Classes of Claims that are deemed to reject the Plan; (ii) feasible; and (iii) in the “best interests” of the holders of Claims impaired under the Plan.

A. Acceptance of the Plan

The Bankruptcy Code defines acceptance of a chapter 11 plan by a class of creditors as acceptance by creditors holding two-thirds (2/3) in dollar amount and a majority in number of the claims in such class (other than any such creditor designated under section 1126(e) of the Bankruptcy Code), but for that purpose counts only those creditors that actually cast ballots. Holders of Claims that do not vote are not counted as either accepting or rejecting a plan.

B. No Unfair Discrimination/Fair Equitable Test

In the event that any impaired Class does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtor if the Plan “does not discriminate unfairly” and is “fair and equitable” as to the rejecting Class.

The “unfair discrimination” test applies to claims that are of equal priority and are receiving different treatment under the Plan. A chapter 11 plan does not discriminate unfairly, within the meaning of the Bankruptcy Code, if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class and if no class of claims receives more than it legally is

entitled to receive for its claims. The test does not require that the treatment be the same or equivalent, but that such treatment be “fair” in comparison to other similar classes.

The “fair and equitable” test applies to classes of different priority and status (e.g., secured versus unsecured, creditors versus equity holders) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. As to the rejecting class, the test sets different standards, depending on the type of claims or interests in such class.

The Debtor and the Committee believe that the Plan satisfies the “fair and equitable” requirement as to Class 5 (the only Class deemed to reject the Plan). Although the holders of Interests in Class 5 (Equity Interests of Norstan Delaware) are receiving no distribution under the Plan, because holders of claims in Class 4 (General Unsecured Claims) will not be paid in full on their Allowed Claims and there is no class junior in priority to Class 5, the Plan is fair and equitable as to Class 5. Although the holder of the Equity Interests of Norstan Apparel is not receiving a distribution under the Plan, since the holder is co-debtor Norstan Delaware and is a proponent of the Plan, it is deemed to have accepted the Plan.

C. Best Interest Test

The Bankruptcy Code requires that each holder of an impaired claim either (i) accept the Plan; or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtor was liquidated under chapter 7 of the Bankruptcy Code. The first step in determining whether this test has been satisfied is to determine the dollar amount that would be generated from the liquidation of the Debtor’s assets and properties in the context of a chapter 7 liquidation case. The gross amount of cash that would be available for satisfaction of Claims would be the sum consisting of the proceeds resulting from the disposition of the unencumbered assets and properties of the Debtor, augmented by the unencumbered cash held by the Debtor at the time of the commencement of the liquidation case. The next step is to reduce that gross amount by the costs and expenses of liquidation and by such additional administrative and priority claims that might result from the use of chapter 7 for the purposes of liquidation. Any remaining net cash would be allocated to creditors and shareholders in strict priority in accordance with section 726 of the Bankruptcy Code. Finally, the present value of such allocations (taking into account the time necessary to accomplish the liquidation) are compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

As described above, the Debtor’s costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such trustee might engage. Other liquidation costs include the expenses incurred during the chapter 11 case allowed in the chapter 7 cases, such as compensation for attorneys and accountants and the Committee’s counsel. Such claims would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay any unsecured Claims. The Proponents submit that each holder of a General Unsecured Claim will receive under the Plan a recovery at least equal in value to the recovery they would receive pursuant to a liquidation of the Debtors under chapter 7.

D. Feasibility

Section 1129(a)(11) of the Bankruptcy Code provides that a chapter 11 plan may be confirmed only if the Bankruptcy Court finds that the plan is feasible. A feasible plan is one which will not lead to a need for further reorganization or liquidation of the debtor. Since the Plan provides for the liquidation of the Debtor, the Bankruptcy Court will find that the Plan is feasible if it determines that the Debtor will be able to satisfy the conditions precedent to the

Effective Date and otherwise have sufficient funds to meet its post-Confirmation Date obligations to pay for the costs of administering and fully consummating the Plan. Accordingly, the Debtor and the Committee believe that the Plan satisfies the financial feasibility requirement imposed by the Bankruptcy Code.

E. Classification of Claims Under the Plan

The Debtor and the Committee believe that the Plan meets the classification requirements of the Bankruptcy Code which require that a chapter 11 plan place each claim into a class with other claims that are “substantially similar.” The Plan establishes Classes of Claims as required by the Bankruptcy Code and as summarized above.

F. Confirmation Hearing

1. The Confirmation Hearing The Confirmation Hearing is scheduled for [] (Eastern time) in the courtroom of the Honorable Carla E. Craig at the United States Bankruptcy Court for the Eastern District of New York, 271 Cadman Plaza East, Brooklyn, New York.

2. Objections to Confirmation Any objection to confirmation of the Plan must be filed with the Court, together with a copy to the chambers of Chief Judge Craig, and served upon (i) counsel for the Debtors, Katten Muchin Rosenman LLP, 575 Madison Avenue, New York, New York 10022 (Attn: Merritt A. Pardini, Esq.); (ii) counsel for the Committee, Cooley Godward Kronish LLP, 1114 Avenue of the Americas, New York, New York 10036 (Attn: Jeffrey Cohen, Esq.); and (iii) the Office of the United States Trustee, 271 Cadman Plaza East, Suite 4529, Brooklyn, New York, 11201 (Attn: Jackie Frome, Esq.), so as to be received no later than [].

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

Dated: April 23, 2008

Norstan Apparel Shops, Inc.

By: /s/ John L. Palmer
Name: John L. Palmer
Title: Chief Administrative Officer

Norstan Delaware Corp.

By: /s/ John L. Palmer
Name: John L. Palmer
Title: Chief Administrative Officer

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Attorneys for Debtors and Debtors-In-Possession

**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK**

----- X
In re: : Chapter 11

NORSTAN APPAREL SHOPS, INC. : Case No. 05 – 15265 (CEC)
d/b/a FASHION CENTS, et al. : 05 – 15268 (CEC)
: (Jointly Administered)

Debtors. :

----- X

**DEBTORS' PLAN OF LIQUIDATION UNDER
CHAPTER 11 OF THE BANKRUPTCY CODE**

**THIS IS NOT A SOLICITATION OR ACCEPTANCE OR REJECTION OF THE PLAN.
ACCEPTANCES OR REJECTIONS MAY NOT BE SOLICITED UNTIL A
DISCLOSURE STATEMENT HAS BEN APPROVED BY THE BANKRUPTCY COURT.
A DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS
NOT BEEN APPROVED BY THE COURT**

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**UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK**

----- X
In re: : Chapter 11

NORSTAN APPAREL SHOPS, INC. : Case No. 05 – 15265 (CEC)
d/b/a FASHION CENTS, et al. : 05 – 15268 (CEC)
: (Jointly Administered)

Debtors. :

----- X

**DEBTORS' PLAN OF LIQUIDATION UNDER
CHAPTER 11 OF THE BANKRUPTCY CODE**

The Debtors propose the following chapter 11 plan of liquidation pursuant to section 1121(a) of the Bankruptcy Code:

ARTICLE I. DEFINITIONS AND INTERPRETATION

The following terms used herein shall have the respective meanings defined below (such meanings to be equally applicable to both the singular and plural):

1.1 Administrative Claim means a request filed by an Entity constituting a cost or expense of administration of the Bankruptcy Cases allowed under sections 503(b) and 507(a)(1) of the Bankruptcy Code.

1.2 Allied means Allied Capital Corporation.

1.3 Allowed means, with reference to any Claim:

(i) any Claim against either of the Debtors which has been listed in the Schedules as liquidated in amount and not disputed or contingent and for which no contrary Proof of Claim or objection to allowance has been filed; (ii) any timely filed Proof of Claim as to which no objection to allowance has been filed, or as to which any objection has been determined by a

Final Order in favor of the respective holder; or (iii) any Claim or Proof of Claim expressly allowed by a Final Order. Nothing herein shall prejudice the ability of the Debtors or the Liquidating Debtors to object to any Proof of Claim within the time period otherwise provided in the Plan or in the Bankruptcy Code. Unless otherwise specified herein, in the Bankruptcy Code, or by Final Order “Allowed Claim” shall not, for purposes of computing distributions under the Plan, include interest on such Claim from and after the Petition Date or any penalty on such Claim. Where interest is so Allowed, any interest in excess of 7.5% per annum shall be considered a penalty to the extent of such excess and therefore disallowed.

1.4 Avoidance Actions means any actions commenced, or that may be commenced, by or on behalf of any of the Debtors or the Liquidating Debtors before or after the Effective Date, pursuant to sections 502(d), 544, 545, 547, 548, 549, 550 and/or 551 of the Bankruptcy Code.

1.5 Avoidance Assets means gross proceeds of the Avoidance Actions.

1.6 Bankruptcy Cases means the cases filed by the Debtors in the Bankruptcy Court under chapter 11 of the Bankruptcy Code and which are jointly administered in the Bankruptcy Court under Case No. 05 – 15265.

1.7 Bankruptcy Code means title 11 of the United States Code, as amended from time to time and as applicable to the Bankruptcy Cases.¹

1.8 Bankruptcy Court means the United States Bankruptcy Court for the Eastern District of New York or, with respect to any proceeding for which the reference has been withdrawn pursuant to 28 U.S.C. § 157, the United States District Court for the Eastern District of New York.

1.9 Bankruptcy Rules means the Federal Rules of Bankruptcy Procedure as promulgated by the United States Supreme Court under section 2075 of title 28 of the United States Code, as amended from time to time, and as applicable to the Bankruptcy Cases.

1.10 Cash means legal tender of the United States of America.

1.11 Causes of Action means any and all actions, causes of action, liabilities, obligations, rights, suits, damages, judgments, claims, and demands whatsoever, whether known or unknown, existing or hereafter arising, in law, equity, or otherwise, commenced, or that may be commenced, by or on behalf of any of the Debtors or the Liquidating Debtors before or after the Effective Date, based in whole or in part upon any act or omission or other event occurring prior to, or at any time after, the Petition Date, but not including the Avoidance Actions.

1.12 Claim has the meaning set forth in section 101(5) of the Bankruptcy Code.

¹ Because the Petition Date occurred prior to enactment of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (“BAPCPA”), the Bankruptcy Code references in this Plan are to the Bankruptcy Code prior to the effective date of BAPCPA.

1.13 Claims Reserve means the discrete allocation of funds from the Liquidation Assets solely for the purpose of paying Disputed Claims that may become Allowed, but not including the GOB Expense Fund.

1.14 Class means any group of Claims or Equity Interests classified by the Plan pursuant to section 1122(a) of the Bankruptcy Code.

1.15 Collateral means any property or interest in property of the estate of any of the Debtors subject to a Lien, charge, or other encumbrance to secure the payment or performance of a Claim, which Lien, charge, or other encumbrance is not subject to avoidance under the Bankruptcy Code.

1.16 Committee means the statutory committee of unsecured creditors appointed by the United States Trustee on April 14, 2005 in the Bankruptcy Cases.

1.17 Confirmation Date means the date on which the Bankruptcy Court enters the Confirmation Order.

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

1.19 Debtors means, collectively, Norstan Apparel and Norstan Delaware prior to the Effective Date.

1.20 DIP Financing Order means that certain Final Order (I) Authorizing Debtors (A) to Obtain Post-Petition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, 363(c)(2), 364(c)(1), 364(c)(2), 364(c)(3), 364(d)(1) and 364(e) and (B) to Utilize Cash Collateral Pursuant to 11 U.S.C. § 363 and (II) Granting Adequate Protection to Pre-Petition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363 and 364, entered by the Bankruptcy Court on July 7, 2005.

1.21 DIP Lender means Regions Financial Corporation, as successor-in-interest to AmSouth Bank as lender and agent under the DIP Loan Agreement.

1.22 DIP Lender Claims means the Claims of the DIP Lender under the DIP Loan Agreement.

1.23 DIP Loan Agreement means the Amended and Restated Secured, Superpriority Debtor-in-Possession Loan and Security Agreement dated as of July 7, 2005 which was approved by the Bankruptcy Court pursuant to the DIP Financing Order.

1.24 Disclosure Statement means the disclosure statement relating to the Plan, including, without limitation, all exhibits thereto, as approved by the Bankruptcy Court pursuant to section 1125 of the Bankruptcy Code.

1.25 Disputed means, with respect to any Claim which has not been Allowed prior to the Effective Date: (i) if no Proof of Claim has been filed (a) a Claim that is listed on the Schedules as disputed, contingent or unliquidated; or (b) a Claim that is listed on the Schedules as other than disputed, contingent or unliquidated, but as to which the Debtors or the Liquidating

Debtors has interposed an objection which has not been withdrawn or determined by a Final Order or, (ii) if a Proof of Claim has been filed, such Proof of Claim shall have been objected to by the Debtors or the Liquidating Debtors within the deadlines established in section 7.1 of the Plan.

1.26 Effective Date means a day subsequent to the Confirmation Date, which shall be jointly determined by the Debtors and the Committee, on which (i) no stay of the Confirmation Order is in effect; and (ii) the conditions specified in section 9.1 of the Plan have been satisfied.

1.27 Entity has the meaning set forth in section 101(15) of the Bankruptcy Code.

1.28 Equity Interest means the interest of any holder of an equity security of either of the Debtors represented by any issued and outstanding shares or other instrument evidencing a present ownership interest therein or any option, warrant, or right, contractual or otherwise, to acquire any such interest.

1.29 Expense Reserve means the discrete allocation of funds from the Liquidation Assets solely for the purpose of satisfying the costs and expenses of implementing the Plan including, but not limited to (i) compensation of the Liquidation Officer and other professionals for management of the Liquidating Debtors and the pursuit of Avoidance Actions, Causes of Action; (ii) bank fees and printing and mailing costs for making of payments under the Plan; (iii) post-Effective Date tax obligations; (iv) storage costs for the Debtors' books and records; and (v) the costs and expenses of closing the Bankruptcy Cases, and which discrete allocation of funds shall be subject to periodic adjustment (upwards or downwards) by mutual agreement of the Liquidating Debtors and the Committee.

1.30 Final Order means an order or judgment of the Bankruptcy Court which has not been reversed, vacated, or stayed and as to which (i) the time to appeal, petition for certiorari, or move for a new trial, reargument, or rehearing has expired and as to which no appeal, petition for certiorari, or other proceeding for a new trial, reargument, or rehearing shall then be pending; or (ii) if an appeal, writ of certiorari, new trial, reargument, or rehearing thereof has been sought, such order or judgment of the Bankruptcy Court shall have been affirmed by the highest court to which such order was appealed, or certiorari shall have been denied, or a new trial, reargument, or rehearing shall have been denied or resulted in no modification of such order, and the time to take any further appeal, petition for certiorari, or move for a new trial, reargument, or rehearing shall have expired.

1.31 General Unsecured Claim means any Claim against either or both of the Debtors that is not an Administrative Claim, Professional Compensation Claim, Priority Tax Claim, DIP Lender Claim, Subordinated Lenders Claim, Other Secured Claim, Priority Non-Tax Claim, Equity Interest, or is not otherwise classified in the Plan.

1.32 General Unsecured Claims Recovery Pool means all Liquidation Assets comprising Cash remaining after the payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; (vi) Priority Non-Tax Claims, and the funding of the Expense Reserve, and exclusive of all Unencumbered Proceeds payable in

satisfaction of the DIP Lender Claims and the Subordinated Lenders Claims in accordance with the Wind-Down Stipulation, the DIP Financing Order and the Plan.

1.33 Gleacher means, collectively, Gleacher Mezzanine Fund I, L.P.; Gleacher Mezzanine Fund P, L.P.

1.34 GOB Expense Fund means Cash collateral currently held by the Debtors and which will be paid to the DIP Lender in satisfaction of the DIP Lender Claims (subject to the sharing requirements of the Wind-Down Stipulation) after deducting and paying therefrom unpaid Allowed Administrative Claims arising from, relating to, or incurred during the previous sale of substantially all of the assets of Norstan Apparel.

1.35 GOB Expense Fund Surplus means the GOB Expense Fund after payment by the Debtors of all Allowed Administrative Claims arising from, relating to, or incurred during the previous sale of substantially all of the assets of Norstan Apparel and which surplus which shall be paid to the DIP Lender in satisfaction of the DIP Lender Claims.

1.36 Lien shall have the meaning set forth in section 101(37) of the Bankruptcy Code.

1.37 Liquidation Assets means any and all assets, including Cash, in the Liquidating Debtors' estates on the Effective Date or to which either of the Debtors or the Liquidating Debtors are entitled, including without limitation, the proceeds of Causes of Action and any Avoidance Assets which the Liquidating Debtors are entitled to receive pursuant to the Wind-Down Stipulation and the Plan, but exclusive of the GOB Expense Fund.

1.38 Liquidation Officer means Mr. John L. Palmer of NachmanHaysBrownstein, Inc. or such other person as may, pursuant to the provisions of section 6.1 of the Plan, succeed Mr. Palmer.

1.39 Liquidating Debtors means, collectively, the Debtors as of, and subsequent to, the Effective Date.

1.40 Local Rules means the local rules promulgated by the Bankruptcy Court as applicable to the Bankruptcy Cases.

1.41 Norstan Apparel means Norstan Apparel Shops, Inc., a Pennsylvania Corporation.

1.42 Norstan Delaware means Norstan Delaware Corp, a Delaware corporation and the sole owner of Norstan Apparel.

1.43 Other Secured Claim means a Claim against either or both of the Debtors (i) secured by Collateral, to the extent of the value of such Collateral (a) as set forth in the Plan, or (b) as determined by a Final Order in accordance with section 506 of the Bankruptcy Code; or (ii) secured by the amount of any rights of setoff of the holder thereof under section 553 of the Bankruptcy Code. For the avoidance of doubt, "Other Secured Claim" shall not include either the DIP Lender Claims or Subordinated Lender Claims.

1.44 Petition Date means April 6, 2005.

1.45 Plan means this chapter 11 plan of liquidation, as may be amended or modified from time to time in accordance with the provisions of the Bankruptcy Code, the Bankruptcy Rules and/or the Local Rules.

1.46 Priority Non-Tax Claim means any Claim which is entitled to priority in payment as specified in sections 507(a)(2), (3), (4), (5), (6), (7), or (9) of the Bankruptcy Code.

1.47 Priority Tax Claim means any Claim of a governmental unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

1.48 Pro Rata Share means, with respect to the distributions to be made in respect of a Class of Allowed Claims, a proportionate share equal to the ratio of the amount of an Allowed Claim in such Class to the amount of all Allowed Claims in such Class.

1.49 Professional Compensation Claims means the Claims of all Entities whose retention and employment has been specifically approved by the Bankruptcy Court and which seek an allowance of compensation for professional services rendered and/or reimbursement of expenses incurred from the Petition Date through and including the Confirmation Date under sections 327, 328, 330, 331, or 503 of the Bankruptcy Code.

1.50 Proof of Claim means a filing by any Entity with the Bankruptcy Court evidencing a Claim against one or more of the Debtors.

1.51 Schedules means the schedules of assets and liabilities and the statements of financial affairs filed by the Debtors in the Bankruptcy Cases under section 521 of the Bankruptcy Code and Bankruptcy Rule 1007, as such schedules and statements have been or may be supplemented or amended.

1.52 Subordinated Lenders means, collectively, Allied and Gleacher.

1.53 Subordinated Lenders Claims means the Claims of the Subordinated Lenders pursuant to the Wind-Down Stipulation and the DIP Financing Order. In addition, each of the Subordinated Lenders will receive one share of newly-issued stock of Norstan Delaware.

1.54 Unencumbered Proceeds means, collectively, the Avoidance Assets and assets of the Debtors which are to be distributed among the DIP Lender, the Subordinated Lenders and the Debtor pursuant to paragraph 9 of the Wind-Down Stipulation.

1.55 Wind-Down Stipulation means that certain Stipulation and Agreed Order Among Official Committee of Unsecured Creditors, AmSouth (as DIP Lender and Senior Secured Lender) Subordinated lenders and Debtors Regarding Sale of Substantially all Assets of Debtors Pursuant to section 363 of the Bankruptcy Code, Funding of Certain Wind-Down Costs and Related Matters, which was so-ordered by the Bankruptcy Court on July 7, 2005.

1.56 Interpretation; Application of Definitions and Rules of Construction The words “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to this

Plan as a whole and not to any particular section, subsection, or clause contained therein. A term used herein that is not defined herein shall have the meaning assigned to that term in the Bankruptcy Code. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the Plan. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions hereof.

ARTICLE II. FILING OF PROFESSIONAL COMPENSATION CLAIMS

2.1 Professional Compensation Claims All entities seeking payment of Professional Compensation Claims, and required by prior order of the Bankruptcy Court to file fee applications in the Bankruptcy Cases, shall file their applications for final allowance of compensation for professional services rendered and expenses incurred from the Petition Date through and including the Confirmation Date with the Bankruptcy Court no later than 45 days after the Confirmation Date.

ARTICLE III. CLASSIFICATION OF CLAIMS AND EQUITY INTERESTS

The following table designates the Classes of Claims against, and Equity Interests in, the Debtors and specifies which of those Classes are (i) impaired or unimpaired by the Plan; and (ii) entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code.

<u>Class</u>	<u>Designation</u>	<u>Impaired</u>	<u>Entitled to Vote</u>
N/A	Administrative Claims	N/A	N/A
N/A	Priority Tax Claims	N/A	N/A
N/A	Professional Compensation Claims	N/A	N/A
N/A	DIP Lender Claims	N/A	N/A
1	Subordinated Lenders Claims	No	No
2	Other Secured Claims	No	No
3	Priority Non-Tax Claims	No	No
4	General Unsecured Claims	Yes	Yes
5	Equity Interests of Norstan Delaware	Yes	No
6	Equity Interests of Norstan Apparel	Yes	No

ARTICLE IV. TREATMENT OF CLAIMS AND EQUITY INTERESTS

4.1 Administrative Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall pay to each holder of an Allowed Administrative Claim Cash equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.

4.2 Priority Tax Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall pay to each holder of an Allowed Priority Tax Claim Cash equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.

4.3 Professional Compensation Claims As soon as is reasonably practicable after the Bankruptcy Court enters an order approving the Professional Compensation Claims, the Liquidating Debtors shall pay to each holder of an Allowed Professional Compensation Claim Cash in an amount equal to the Allowed amount of such Claim to the extent such Claim has not been previously paid by the Debtors.

4.4 DIP Lender Claims The DIP Lender Claims shall be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order. Additionally, after payment in full of all Allowed Administrative Claims arising from, relating to or incurred during the previous sale of substantially all of the assets of Norstan Apparel from the GOB Expense Fund, the GOB Expense Fund Surplus shall be paid to the DIP Lender.

4.5 Class 1 - Subordinated Lenders Claims The Subordinated Lenders Claims shall be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order. In addition, each of the Subordinated Lenders will receive one share of newly-issued stock of Norstan Delaware. Subordinated Lenders Claims shall be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof shall be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

4.6 Class 2 - Other Secured Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall pay or transfer to each holder of an Allowed Other Secured Claim, at the option of the Liquidating Debtors, either (i) the proceeds of the sale or disposition of the Collateral securing such Claim to the extent of the value of the holder's secured interest in the Claim, net of the costs of disposition of such Collateral; (ii) the Collateral securing such Claim; or (iii) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code. Other Secured Claims shall be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof shall be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

4.7 Class 3 - Priority Non-Tax Claims On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall pay to each holder of an Allowed Priority Non-Tax Claim, Cash equal to the Allowed amount of such Claim. Allowed Claims of employees or employee benefit plans, in excess of the applicable statutory priority caps under sections 507(a)(3) and (a)(4) of the Bankruptcy Code, respectively, shall be treated as General Unsecured Claims. Priority Non-Tax Claims shall be unimpaired pursuant to section 1124 of the Bankruptcy Code and the holders thereof shall be deemed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

4.8 Class 4 - General Unsecured Claims As soon as reasonably practicable after payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; and (v) Priority Non-Tax Claims, and after all Unencumbered Proceeds are recovered, each holder of an Allowed General Unsecured Claim shall receive a Pro Rata Share of the General Unsecured Claims Recovery Pool. General Unsecured Claims are impaired and entitled to vote to accept or reject the Plan.

4.9 Class 5 - Equity Interests of Norstan Delaware On the Effective Date, all Equity Interests of Norstan Delaware shall be canceled. Each holder of an Equity Interest in Norstan Delaware shall neither receive nor retain any property or interest in property on account of such Equity Interest. Class 5 shall be deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code.

4.10 Class 6 - Equity Interests of Norstan Apparel All Equity Interests of Norstan Apparel will continue to be owned by Norstan Delaware but no distributions shall be made in respect of such Equity Interests. Class 6 is deemed to have accepted the Plan by virtue of Norstan Apparel being a proponent of the Plan.

4.11 Reservation of Cramdown Rights The Debtor expressly reserve all rights to seek confirmation of the Plan, pursuant to section 1129(b) of the Bankruptcy Code, over the objection of any rejecting Class of Claims or Equity Interests.

ARTICLE V. IMPLEMENTATION OF THE PLAN

5.1 Substantive Consolidation Entry of the Confirmation Order shall constitute the approval, pursuant to section 105(a) of the Bankruptcy Code, of the substantive consolidation of the Debtors' estates for all purposes related to Claims and distribution of assets under the Plan. On and after the Confirmation Date (i) all assets and liabilities of either of the Debtors shall be treated as though they were merged with and into Norstan Apparel; (ii) no distributions shall be made under the Plan on account of any Claim held by either of the Debtors against the other Debtor; (iii) all guarantees of either Debtor of the obligations of the other Debtor shall be eliminated; and (iv) each and every Claim and Proof of Claim against either of the Debtors shall be deemed one Claim or Proof of Claim against both of the Debtors and a single obligation of the consolidated Debtors on and after the Confirmation Date. The substantive consolidation effected pursuant hereto shall not effect defenses to any Avoidance Action or Cause of Action or requirements for any third party to establish mutuality in order to assert a right of setoff.

5.2 Vesting of Debtors' Assets in the Liquidating Debtors On the Effective Date, each and every assets of the Debtors including, but not limited to, Cash, Avoidance Actions, Causes of Action and the Debtors' books and records shall vest in the Liquidating Debtors and become part of the Liquidation Assets. As of the Effective Date, the Debtors, the Liquidating Debtors, the Committee and any other party in interest shall be authorized to execute any documents as may be desirable or necessary to cause such assets to vest in the Liquidating Debtors and become part of the Liquidation Assets.

5.3 Continuation of Committee Subsequent to the Confirmation Date, the Committee shall continue in existence and shall have all of the powers, duties and functions provided to it by the Plan, the Bankruptcy Code, Bankruptcy Rules, Local Rules and Final Orders of the Bankruptcy Court, including the right to commence and prosecute Avoidance Actions and other Causes of Action it has been authorized to commence and prosecute by the Bankruptcy Court.

5.4 Prosecution of Avoidance Actions and Causes of Action From and after the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) to the extent previously authorized by the Bankruptcy Court to commence and prosecute Avoidance Actions and Causes of Action on the Debtors' behalf and in circumstances where existing counsel for Debtors has a conflict, shall have the exclusive power, authority and standing to commence, prosecute and resolve all Avoidance Actions and Causes of Action. After the Effective Date, the costs of prosecution of all Avoidance Actions and Causes of Action shall be borne solely from the Expense Reserve. Except as provided in this section 5.4, from and after the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) shall have the authority to compromise and settle all Avoidance Actions and Causes of Action without further order of the Bankruptcy Court. With respect to the settlement of any Avoidance Action or Cause of Action which the Committee did not bring on behalf of the Debtors or the Liquidating Debtors, not less than five (5) business days prior to entry into such settlement, the Liquidating Debtors shall advise counsel to the Committee of the terms and appropriateness of such settlement. If no objection (written or otherwise) to such settlement is received by the Liquidating Debtors prior to the expiration of such five-day period, the Liquidating Debtors shall be free to enter into and consummate such settlement. Any disputes between the Liquidating Debtors and the Committee regarding the appropriateness of a settlement of an Avoidance Action or Cause of Action shall be resolved by the Bankruptcy Court on motion of either party.

5.5 Claims Reserve On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall establish and segregate the Claims Reserve from the Liquidation Assets.

5.6 Expense Reserve On the Effective Date, or as soon thereafter as is reasonably practicable, the Liquidating Debtors shall establish and segregate the Expense Reserve from the Liquidation Assets in such an amount as is jointly determined by the Liquidating Debtors and the Committee with any disagreement to be resolved by the Bankruptcy Court.

5.7 Cancellation of Equity Interests of Norstan Delaware On the Effective Date, all Equity Interests of Norstan Delaware shall be canceled and two shares of new common stock of Norstan Delaware shall be issued: one share to Allied and one share to Gleacher.

5.8 Payment of Claims The Liquidating Debtors shall make payments in respect of Allowed Claims as follows:

(i) **Administrative Claims, Priority Tax Claims, Other Secured Claims**
On the Effective Date, or as soon thereafter as is reasonably practical, the Liquidating Debtors shall (a) remit to the holders of Allowed Administrative Claims, Allowed Priority Tax Claims and Allowed Priority Non-Tax Claims an amount in Cash equal to the Allowed amount of such Claim to the extent not previously paid; and (b) take such steps as are necessary to satisfy Allowed Other Secured Claims in accordance with section 4.6 of the Plan.

(ii) **Professional Compensation Claims** As soon as is reasonably practicable after the Bankruptcy Court enters an order approving the Professional Compensation

Claims, the Liquidating Debtors shall pay to each holder of an Allowed Professional Compensation Claim an amount in Cash equal to the Allowed amount of such Claim to the extent such Professional Compensation Claim has not been previously paid by the Debtors.

(iii) **DIP Lender Claims and Subordinated Lenders Claims** The DIP Lender Claims and the Subordinated Lenders Claims shall be satisfied in accordance with the provisions of the Wind-Down Stipulation and the DIP Financing Order. In addition, each of the Subordinated Lenders will receive one share of newly-issued stock of Norstan Delaware

(iv) **General Unsecured Claims** As soon as reasonably practicable after payment in full of (or deposit into the Claims Reserve of all sums necessary to pay) all Allowed (i) Administrative Claims; (ii) Professional Compensation Claims; (iii) Priority Tax Claims; (iv) Other Secured Claims; and (v) Priority Non-Tax Claims, and after all Unencumbered Proceeds are recovered, each holder of an Allowed General Unsecured Claim shall receive a Pro Rata Share of the General Unsecured Claims Recovery Pool.

(v) **Payment of U.S. Trustee Fees** The Liquidating Debtors will make statutorily-required payments to the Office of the United States Trustee until the Chapter 11 Cases are closed.

5.8 Administration of GOB Expense Fund The Liquidation Officer shall provide quarterly reports to the DIP Lender detailing the funds remaining in the GOB Expense Fund. After all Allowed Administrative Claims arising from, relating to, or incurred during the previous sale of substantially all of the assets of Norstan Apparel have been satisfied from the GOB Expense Fund, the GOB Expense Fund Surplus shall be paid to the DIP Lender.

5.9 Provisions Regarding Distributions Distributions in respect of Allowed Claims shall be conducted as follows:

(i) All payments by the Liquidating Debtors will be made by check or wire transfer, in each case, in the sole discretion of the Liquidating Debtors.

(ii) Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on the Schedules unless the holder of such Claim has advised the Debtors or the Liquidating Debtors of a change of that address by the filing of a Proof of Claim or otherwise in writing at the address in section 12.12 of the Plan.

(iii) The Liquidating Debtors may, but shall not be required to, setoff against any Claim or Proof of Claim (for purposes of determining the Allowed amount of such Claim on which distributions shall be made), any claims of any nature whatsoever that the Debtors or Liquidating Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors or the Liquidating Debtors of any such claim the Debtors or Liquidating Debtors may have against the holder of such Claim

(iv) Checks issued by the Liquidating Debtors shall be null and void if not negotiated within sixty (60) days after the date of issuance. Such checks shall be stopped and the funds thereof reallocated to other holders of Allowed Claims.

(v) The Liquidating Debtors shall comply with all applicable withholding and reporting requirements imposed by all federal and state taxing authorities with respect to distributions under the Plan, and all distributions under the Plan shall be subject to any such withholding and reporting requirements.

(vi) The Liquidating Debtors may, but are not required, to make one or more interim distributions to holders of Allowed General Unsecured Claims prior to any final distribution to the holders of such Claims. All such partial distributions shall be included in, and are a component of, the Pro Rata Share of the General Unsecured Claims Recovery Pool due to each holder of an Allowed General Unsecured Claim.

5.10 Closing of the Bankruptcy Cases When (i) all Disputed Claims have become Allowed Claims or have been disallowed by Final Order; (ii) all Avoidance Actions and Causes of Action are resolved to Final Order; (iii) all of the Liquidation Assets and Unencumbered Proceeds have been realized; and (iv) the Liquidating Debtors have distributed the Liquidation Assets (including all unused funds in the Claims Reserve and in the Expense Reserve that are not needed to close the Bankruptcy Cases) to holders of Allowed Claims in accordance with this Plan, the Liquidating Debtors shall seek authority from the Bankruptcy Court to close the Bankruptcy Cases in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Rules.

5.11 Closing of the Bankruptcy Cases by Charitable Gift After payment of Administrative Claims, Professional Compensation Claims and Priority Tax Claims, and after all Avoidance Assets and Causes of Action have been resolved to Final Order and the proceeds thereof distributed in accordance with the Plan, the Liquidating Debtors and the Committee jointly determine that the expense of administering the Plan is likely to exceed the Liquidation Assets (inclusive of the Expense Reserve and the Claims Reserve), the Liquidating Debtors shall apply to the Bankruptcy Court for authority to (i) reserve any amounts necessary to close the Bankruptcy Cases; (ii) donate any balance to a charitable organization selected by the Debtors and the Committee and which is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code; and (iii) close the Bankruptcy Cases in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Rules.

5.12 Tax Payments The Liquidating Debtors shall be responsible for payments, out of the Liquidation Assets, of any taxes imposed on the Debtors or the Liquidating Debtors.

ARTICLE VI. GOVERNANCE OF THE LIQUIDATING DEBTORS

6.1 Governance Two shares of new common stock of Norstan Delaware shall be issued – one share to Allied and one share to Gleacher. The Boards of Directors of Norstan Delaware and of Norstan Apparel shall each consist of one member appointed by Allied, one member appointed by Gleacher and the Liquidation Officer. The day-to-day affairs of the Liquidating Debtors shall be overseen and controlled by the Liquidation Officer in accordance

with the terms of the Plan. The Liquidation Officer shall have the power to implement the Plan, carry out its terms, and to take such other actions necessary and incidental thereto including, but not limited to the power to (i) open and operate bank accounts in the name of the Liquidating Debtors; (ii) deposit and distribute money from such bank accounts; (iii) execute any power of attorney, deed, or other instrument necessary to carry out the requirements of the Plan; (iv) insure any part of the Liquidating Debtors' property against risk of loss or damage; (v) engage attorneys and accountants and other professionals as appears to be appropriate; and (vi) apply to the Bankruptcy Court for such orders or other relief as may be necessary to implement the Plan.

6.2 Successor Liquidation Officer The Liquidation Officer may be removed for Cause upon (i) a determination by a majority of the Boards of Directors of the Liquidating Debtors; or (ii) a determination by the Committee; provided, however, if either the Boards of Directors or the Committee object to the removal of the Liquidation Officer, the Bankruptcy Court shall resolve the dispute upon motion of any party in interest, and shall determine whether Cause exists for removal of the Liquidation Officer. "Cause" for such purposes shall consist of proof, established by a preponderance of the evidence, that the Liquidation Officer has engaged in one or more acts of willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or ultra vires acts. In the event of the death, resignation or removal of the Liquidation Officer, the Committee and the Boards of Directors, subject to Bankruptcy Court approval, shall appoint a successor Liquidation Officer. If they are unable to agree on a successor, each may submit a nominee to the Bankruptcy Court and the Bankruptcy Court shall choose one of the nominees to act as Liquidation Officer. Each successor Liquidation Officer shall execute, acknowledge, and deliver to the Bankruptcy Court and to the Committee an instrument accepting the appointment under the Plan and agreeing to be bound thereto.

6.3 Compensation of the Liquidation Officer The Liquidation Officer shall be entitled to compensation in the amount of \$395 per hour (subject to periodic adjustment with the consent of the Committee), plus reimbursement of reasonable expenses. In carrying out his duties, the Liquidation Officer shall also be entitled to utilize other professionals employed by his firm at the same compensation rates that firm charges to non-bankruptcy clients. The Liquidating Officer shall submit reasonably detailed monthly invoices to the Committee and the Boards of Directors and shall be paid the full amount of such invoices from the Expense Reserve no later than 20 days after the receipt of such invoice unless, prior to the expiration of such 20-day period, the Committee or the Boards of Directors objects to the payment of such invoice. If the compensation dispute regarding the Liquidation Officer cannot be resolved consensually, the dispute shall be resolved by the Bankruptcy Court on motion of either party, subject to the standard of review provided in section 330 of the Bankruptcy Code.

6.4 Compensation of the Committee Members of the Committee shall serve without compensation; however, members of the Committee shall be entitled to be reimbursed for their reasonable out-of-pocket expenses.

6.5 Retention of Professionals The Liquidating Debtors and the Committee may retain and reasonably compensate counsel (including current counsel to the Debtors and the Committee) and other service providers to assist in administration of Liquidating Debtors, implementation of the Plan, and pursuit of Avoidance Actions and Causes of Action. Counsel and other service providers so retained shall submit reasonably detailed monthly invoices to the

Liquidation Officer and to the Committee and shall be paid the full amount of such invoices from the Expense Reserve no later than 20 days after the Liquidating Debtors' and Committee's receipt of such invoice unless, prior to the expiration of such 20-day period, the Liquidation Officer or the Committee objects to the payment of such invoice. If the Committee, the Liquidation Officer and the professional in question are unable to resolve the objection, the dispute shall be resolved by the Bankruptcy Court on motion of either party. Any other dispute regarding the retention of professionals by the Liquidating Debtors or the Committee shall be resolved by the Bankruptcy Court upon motion of a party in interest, subject to the standard of review provided in section 330 of the Bankruptcy Code.

6.6 Books and Records The Liquidating Debtors shall have the responsibility of storing and maintaining all books and records of the Debtors not already in the possession of professionals retained by the Debtors in the Bankruptcy Cases until the Bankruptcy Cases are closed after which time such books and records may be abandoned or destroyed without further order. Within thirty (30) days of the Confirmation Date, any third party in possession of the Debtors' books and records (other than counsel to the Liquidating Debtors and the Committee) shall turnover such documents to the Liquidating Debtors.

6.7 Investments The Liquidation Officer shall invest Cash comprising Liquidation Assets (including any earnings thereon or proceeds therefrom) as permitted by section 345 of the Bankruptcy Code and in accordance with guidelines of the Office of the United States Trustee.

6.8 Plan Disputes Any dispute relating to the interpretation and/or implementation of the Plan shall be resolved by the Bankruptcy Court on motion of a party in interest.

ARTICLE VII. PROCEDURES FOR DISPUTED CLAIMS

7.1 Objections to Claims After the Effective Date, the Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) shall have the exclusive power and authority to prosecute and resolve objections to Claims provided, however, the Committee shall not exercise that power unless the Liquidating Debtors have refused to object to a Claim the Committee has requested be objected to. No later than 90 days after the Effective Date, the Liquidating Debtors and the Committee shall file all objections to Claims, except that the Liquidating Debtors and the Committee may object to Proofs of Claim filed after the Effective Date no later than 90 days after the filing of such Proof of Claim. The Court may extend such objection periods for cause shown upon motion of the Liquidating Debtors and the Committee.

7.2 No Distribution Pending Allowance Notwithstanding any other provision hereof, if any portion of a Claim is a Disputed Claim, no payment or distribution shall be made to the holder on account of such portion of the Claim which constitutes a Disputed Claim unless and until such Disputed Claim becomes Allowed. Nothing contained herein, however, shall be construed to prohibit payment of distribution on account of any undisputed portion of a partially Disputed Claim.

7.3 Distributions Upon Disputed Claims that Become Allowed Claims Distributions to holders of Disputed Claims that subsequently become Allowed Claims will be paid by the Liquidating Debtors no later than the later to occur of (i) sixty (60) days after the

Disputed Claim becomes an Allowed Claim; and (ii) Liquidating Debtors' making of other distributions under the Plan to holders of Allowed Claim in the same Class.

7.4 Estimation The Liquidating Debtors and the Committee (on the Liquidating Debtors' behalf) may, at any time, request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors, the Committee or the Liquidating Debtors previously objected to such Claim, provided, however, the Committee shall not exercise that power unless the Liquidating Debtors have refused to seek to estimate a Claim the Committee has requested be estimated. The Bankruptcy Court shall retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Liquidating Debtors and the Committee may pursue supplementary proceedings to object to the allowance of such Claim. All of the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. On and after the Effective Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

7.5 Resolution of Objections to Claims Notwithstanding anything to the contrary in the Plan, from and after the Effective Date, the Liquidating Debtors and the Committee shall have the authority jointly to settle all objections to Claims without further order of the Bankruptcy Court. With respect to the settlement of any objection to claims which the Committee did not bring on behalf of the Debtors or the Liquidating Debtors, not less than 5 business days prior to entry into such settlement, the Liquidating Debtors shall advise the Committee of the terms and appropriateness of such settlement. If no objection (written or otherwise) to such settlement is received by the Liquidating Debtors prior to the expiration of such 5-day period, the Liquidating Debtors shall be free to enter into and consummate such settlement. Any disputes between the Liquidating Debtors and the Committee regarding the appropriateness of a settlement of an objection to a Claim shall be resolved by the Bankruptcy Court on motion of either party.

ARTICLE VIII. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

8.1 Executory Contracts and Unexpired Leases On the Confirmation Date, all executory contracts and unexpired leases to which either of the Debtors is a party as of the Petition Date shall be deemed rejected as of the Confirmation Date, except for executory contracts or unexpired leases that have been assumed, assumed and assigned, or rejected pursuant to Final Order of the Bankruptcy Court entered prior to the Confirmation Date.

8.2 Approval of Rejection of Executory Contracts and Unexpired Leases Entry of the Confirmation Order shall constitute the approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases as of the Confirmation Date pursuant to section 8.1 of the Plan.

8.3 Rejection Claims In the event that the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to the Plan results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a filed Proof of Claim, shall be forever barred and shall not be enforceable against the Debtors or their estates, the Liquidating Debtors or their estates, or any assets to be distributed under the Plan unless a Proof of Claim is filed with the Bankruptcy Court on or before thirty (30) days after the Confirmation Date. Nothing herein shall constitute an extension of time to file Proofs of Claim in respect of executory contracts or unexpired leases previously assumed, assumed and assigned, or rejected prior to the Confirmation Date.

ARTICLE IX. EFFECTIVENESS OF THE PLAN

9.1 Conditions Precedent to Confirmation of Plan The following is the only condition precedent to the confirmation of the Plan: The Bankruptcy Court shall have entered the Confirmation Order.

9.2 Conditions Precedent to Effective Date The following are the only conditions to the occurrence of the Effective Date: (i) no stay of the Confirmation Order shall then be in effect; and (ii) the Liquidating Debtors and the Committee shall jointly file a notice with the Bankruptcy Court announcing the occurrence of the Effective Date.

ARTICLE X. EFFECT OF CONFIRMATION

10.1 Binding Effect Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, on and after the Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against the Debtors and their respective successors and assigns, whether or not the Claim is impaired under the Plan and whether or not such holder has accepted the Plan.

10.2 Injunctions and Stays After the Confirmation Date, to the fullest extent permitted by law, all injunctions or stays arising under or entered during the Bankruptcy Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect.

10.3 Preservation of Causes of Action All claims, rights and Causes of Action, as well as the Avoidance Actions, against any Entity, are expressly preserved and shall vest in the Liquidating Debtors on the Effective Date. The Liquidating Debtors (or the Committee on the Debtors' behalf to the extent previously authorized by order of the Bankruptcy Court or any other provision hereof) shall exclusively enforce all Avoidance Actions and Causes of Action, as the case may be, that the Debtors or the Liquidating Debtors may hold against any Entity, and shall pursue such Avoidance Actions and Causes of Action in accordance with the best interest of the Liquidating Debtors.

10.4 Preservation of Attorney-Client Privilege On the Effective Date, the Liquidating Debtors shall possess, control and retain any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) of the Debtors and Debtors-in-Possession.

10.5 Injunction On and after the Confirmation Date, all Entities are permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively, or otherwise) on account of or respecting any Claim, debt, right or Cause of Action against the Debtors or the Liquidating Debtors, or against a third party for which the Liquidating Debtors retains sole and exclusive authority to pursue in accordance with the Plan.

10.6 Injunction Against Interference with Plan Upon entry of the Confirmation Order, all holders of Claims and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

ARTICLE XI. RETENTION OF JURISDICTION

11.1 Jurisdiction of Bankruptcy Court The Bankruptcy Court shall retain jurisdiction over all matters arising under, out of, or related to the Bankruptcy Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

(i) To hear, adjudicate and resolve any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date, including, without limitation, any Avoidance Action or Cause of Action; provided, however, that nothing herein shall prevent the Liquidating Debtors from commencing and prosecuting any Avoidance Action or Cause of Action in another court of competent jurisdiction;

(ii) To ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

(iii) To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim;

(iv) To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

(v) To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any Entity with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

(vi) To hear and determine any application to modify the Plan in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

(vii) To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated hereby, or any agreement, instrument, or other document governing or relating to any of the foregoing;

(viii) To take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan or to maintain the integrity of the Plan following consummation;

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

(xi) To hear and determine matters concerning taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

(xii) To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code; and

(xiii) To enter a final decree closing the Bankruptcy Cases.

ARTICLE XII. MISCELLANEOUS PROVISIONS

12.1 Effectuating Documents and Further Transactions On the Effective Date, the Debtors, the Liquidating Debtors, the Liquidation Officer and the Committee, and any other party in interest shall be authorized and directed to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be reasonably necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

12.2 Exemption from Transfer Taxes Pursuant to section 1146(a) of the Bankruptcy Code, the delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any deeds, bills of sale, or assignments executed in connection with any disposition of assets contemplated by the Plan (including transfers of assets to and by the Liquidating Debtors) shall not be subject to any stamp, real estate transfer, mortgage recording, sales, use, or other similar tax.

12.3 Exculpation and Indemnification To the maximum extent permitted by the Bankruptcy Code and applicable law, neither the Debtors, the Liquidating Debtors, the Liquidation Officer, the Committee, nor any of their respective present or former members, officers, directors, employees, advisors, professionals, or agents, shall have or incur any liability to any holder of a Claim for any act or omission in connection with, related to, or arising out of the Bankruptcy Cases, including, without limitation, the settlement after the Petition Date of any Avoidance Action or Cause of Action, the formulation or negotiations regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, and the prosecution and administration of the Bankruptcy Cases, except for fraud, willful misconduct, gross negligence malpractice, criminal conduct, misuse of confidential information that caused damages, or ultra vires acts and, in all respects, the Debtors, the Liquidating Debtors, the

Liquidation Officer, and the Committee, and each of their respective members, officers, directors, employees, advisors, professionals, and agents shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. The Debtors, the Liquidating Debtors, the Liquidation Officer, the Committee, and each of their respective present or former members, officers, directors, employees, advisors, professionals, or agents shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its actions or omissions except for any actions or omissions involving fraud, willful misconduct, gross negligence malpractice, criminal conduct, misuse of confidential information that caused damages, or ultra vires acts. Nothing in this section 12.3 shall limit the liability of the professionals of the Debtors, the Liquidating Debtors, the Liquidation Officer and the Committee to their respective clients pursuant to Disciplinary Rule 6-102 of the New York Lawyer's Code of Professional Responsibility.

12.4 Modification of Plan The Plan may be amended, modified, or supplemented by the Debtors in the manner provided for by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise direct. In addition, after the Confirmation Date, so long as such action does not materially adversely affect the treatment of holders of Claims under the Plan, the Debtors (and as of the Effective Date, the Liquidating Debtors) may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan. Prior to the Effective Date, the Debtors may make appropriate technical adjustments and modifications to the Plan without further order or approval of the Bankruptcy Court.

12.5 Revocation or Withdrawal of Plan The Debtors reserve the right to revoke or withdraw the Plan at any time prior to the Confirmation Date. If the Debtors take such action, the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claim by or against the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any other Entity in any further proceedings involving the Debtors.

12.6 Courts of Competent Jurisdiction If the Bankruptcy Court abstains from exercising, or declines to exercise, jurisdiction or is otherwise without jurisdiction over any matter arising out of the Plan, such abstention, refusal, or failure of jurisdiction shall have no effect upon and shall not control, prohibit, or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

12.7 Severability If, prior to the entry of the Confirmation Order, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, at the request of the Debtors or the Committee, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order

shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

12.8 Governing Law Except to the extent the Bankruptcy Code or other federal or foreign law is applicable, the rights, duties, and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of New York, without giving effect to the principles of conflicts of law thereof.

12.9 Successors and Assigns All the rights, benefits, and obligations of any Entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of, the heirs, executors, administrators, successors, and/or assigns of such Entity.

12.10 Time In computing any period of time prescribed or allowed by the Plan, unless otherwise set forth herein or determined by the Bankruptcy Court, the provisions of Bankruptcy Rule 9006 shall apply.

12.11 Dissolution of the Committee The Committee shall be dissolved at such time as the Bankruptcy Cases are closed or when there are less than three creditors willing to serve on the Committee.

12.12 Notices to the Liquidating Debtors and the Committee After the Effective Date, all notices, requests, and demands to or upon the Debtors, the Liquidating Debtors, or the Committee shall be in writing and shall be deemed to have been duly given or made when actually delivered to the following address (or to such other person or address as may hereafter be designated in writing by a notice party to the other notice parties):

As to the Debtors or Liquidating Debtors:

John Palmer, Liquidation Officer
Norstan Apparel Shops, Inc.
c/o NachmanHaysBrownstein, Inc.
822 Montgomery Avenue
Narberth, Pennsylvania 19072
Facsimile: (610) 664-7298

With a copy to:

Jeff J. Friedman, Esq.
Merritt A. Pardini, Esq.
c/o Katten Muchin Rosenman LLP
575 Madison Avenue
New York, New York 10022
Facsimile: (212) 940-8776

As to the Committee:

Lawrence Gottlieb, Esq.
Jeffrey L. Cohen, Esq.
c/o Cooley Godward Kronish LLP
The Grace Building
1114 Avenue of the Americas
New York, NY 10036-7798
Facsimile: (212) 479-6275

Dated: April 23, 2008

Norstan Apparel Shops, Inc.

By: /s/ John L. Palmer
Name: John L. Palmer
Title: Chief Administrative Officer

Norstan Delaware Corp.

By: /s/ John L. Palmer
Name: John L. Palmer
Title: Chief Administrative Officer