IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	)	Chapter 11
	)	
DESA Holdings Corporation, *et al*.[1]	)	Case No. 02-11672 (WS)
	)	
Debtors.	)	(Jointly Administered)
	)	

SECOND AMENDED DISCLOSURE STATEMENT FOR THE SECOND AMENDED JOINT LIQUIDATING PLAN OF REORGANIZATION OF DESA HOLDINGS CORPORATION AND DESA INTERNATIONAL LLC PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE

IMPORTANT DATES

- Date by which Ballots must be received: March 7, 2005
- Date by which objections to Confirmation of the Plan must be filed and served: March 7, 2005
- Hearing on Confirmation of the Plan: March 29, 2005 at 2:00 p.m., prevailing eastern time

---

KIRKLAND & ELLIS LLP
James H.M. Sprayregen, P.C.
James W. Kapp III
Scott R. Zemnick
200 East Randolph Drive
Chicago, Illinois 60601
Telephone: (312) 861-2000
Facsimile: (312) 861-2200

PACHULSKI, STANG, ZIEHL, YOUNG, JONES & WEINTRAUB P.C.
Laura Davis Jones (Bar No. 2436)
Curtis A. Hehn (Bar No. 4264)
919 North Market Street, 16th Floor
P.O. Box 8705
Wilmington, Delaware 19899-8705 (Courier 19801)
Telephone: (302) 652-4100
Facsimile: (302) 652-4400

Co-Counsel for the Debtors and Debtors in Possession

January 26, 2005

[1] The Debtors consist of the following two entities: DESA Holdings Corporation and DESA International LLC (f/k/a DESA International, Inc.).

THIS DISCLOSURE STATEMENT SUMMARIZES CERTAIN PROVISIONS OF THE SECOND AMENDED JOINT LIQUIDATING PLAN OF REORGANIZATION OF DESA HOLDINGS CORPORATION AND DESA INTERNATIONAL LLC PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE (AS AMENDED FROM TIME TO TIME, THE "PLAN"), A COPY OF WHICH IS ATTACHED HERETO AS EXHIBIT A, AS WELL AS CERTAIN OTHER DOCUMENTS AND FINANCIAL INFORMATION. THE DEBTORS BELIEVE THAT THESE SUMMARIES ARE FAIR AND ACCURATE. THE FINANCIAL INFORMATION SUMMARIES AND OTHER DOCUMENTS ATTACHED HERETO OR INCORPORATED BY REFERENCE HEREIN ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THOSE DOCUMENTS. IN THE EVENT OF ANY INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN, OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION INCORPORATED HEREIN BY REFERENCE, THE PLAN OR THE OTHER DOCUMENTS AND FINANCIAL INFORMATION, AS THE CASE MAY BE, SHALL GOVERN FOR ALL PURPOSES.

MOREOVER, THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER BUT RATHER SHOULD BE CONSTRUED AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS RELATED TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS, AND OTHER PENDING OR THREATENED LITIGATION OR ACTIONS.

THE DEBTORS MAKE THE STATEMENTS AND PROVIDE THE FINANCIAL INFORMATION CONTAINED HEREIN AS OF THE DATE HEREOF UNLESS OTHERWISE SPECIFIED. HOLDERS OF CLAIMS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER AT THE TIME OF SUCH REVIEW THAT THE FACTS SET FORTH HEREIN HAVE NOT CHANGED SINCE THE DATE HEREOF UNLESS SO SPECIFIED. EACH HOLDER OF AN IMPAIRED CLAIM ENTITLED TO VOTE THEREFORE SHOULD CAREFULLY REVIEW THE PLAN, THIS DISCLOSURE STATEMENT AND THE EXHIBITS TO BOTH DOCUMENTS IN THEIR ENTIRETY BEFORE CASTING A BALLOT. THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. ANY PERSONS DESIRING ANY SUCH ADVICE OR ANY OTHER ADVICE SHOULD CONSULT WITH THEIR OWN ADVISORS.

NO PARTY IS AUTHORIZED TO PROVIDE TO ANY OTHER PARTY ANY INFORMATION CONCERNING THE PLAN OTHER THAN THE CONTENTS OF THIS DISCLOSURE STATEMENT. THE DEBTORS HAVE NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTORS OR THE VALUE OF THEIR PROPERTY OTHER THAN THOSE SET FORTH IN THIS DISCLOSURE STATEMENT. HOLDERS OF CLAIMS SHOULD NOT RELY ON ANY INFORMATION, REPRESENTATIONS OR INDUCEMENTS MADE TO OBTAIN YOUR ACCEPTANCE OF THE PLAN THAT ARE OTHER THAN, OR INCONSISTENT WITH, THE INFORMATION CONTAINED HEREIN AND IN THE PLAN.

THE DEBTORS HAVE REVIEWED THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT. ALTHOUGH THE DEBTORS HAVE USED THEIR BEST EFFORTS TO ENSURE THE ACCURACY OF THIS FINANCIAL INFORMATION, THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT, EXCEPT WHERE SPECIFICALLY NOTED, HAS NOT BEEN AUDITED.

THE DEBTORS BELIEVE THAT THE PLAN IS IN THE BEST INTERESTS OF ALL OF THEIR CREDITORS AND REPRESENTS THE BEST POSSIBLE OUTCOME FOR THEIR CREDITORS. THE DEBTORS THEREFORE RECOMMEND THAT ALL HOLDERS OF CLAIMS SUBMIT BALLOTS TO ACCEPT THE PLAN. WHEN EVALUATING THE PLAN, PLEASE SEE ARTICLE VIII OF THIS DISCLOSURE STATEMENT FOR A DISCUSSION OF DIFFERENT "RISK FACTORS" WHICH SHOULD BE CONSIDERED IN CONNECTION WITH A DECISION BY A HOLDER OF AN IMPAIRED CLAIM TO ACCEPT THE PLAN.

TABLE OF CONTENTS

Page

EXHIBITS

Exhibit A - Second Amended Joint Liquidating Plan of Reorganization of DESA Holdings Corporation and DESA International LLC Pursuant to Chapter 11 of the United States Bankruptcy Code
Exhibit B - Hypothetical Chapter 7 Recovery Analysis
Exhibit C - Preference Actions
Exhibit D - Post Confirmation Estate Agreement

I.
INTRODUCTION

On June 8, 2002, DESA Holdings Corporation and its domestic subsidiary, DESA International LLC (f/k/a DESA International, Inc.) (collectively, the "Debtors"), filed voluntary petitions under chapter 11 of title 11 of the United States Code (as amended, the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court").

Chapter 11 of the Bankruptcy Code allows a debtor to sponsor a plan of reorganization that proposes how to dispose of a debtor's assets and treat claims (i.e., debts) against, and interests in, such a debtor. A plan of reorganization typically may provide for a debtor-in-possession to reorganize by continuing to operate, to liquidate by selling assets of the estate or to implement a combination of both. The Plan is a liquidating plan of reorganization.

The Bankruptcy Code requires that the party proposing a chapter 11 plan of reorganization prepare and file with the Bankruptcy Court a document called a "disclosure statement." **THIS DOCUMENT IS THE DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") FOR THE PLAN. THE DISCLOSURE STATEMENT INCLUDES CERTAIN EXHIBITS, EACH OF WHICH ARE INCORPORATED HEREIN BY REFERENCE.**

Please note that any terms not specifically defined in this Disclosure Statement shall have the meanings ascribed to them in the Plan and any conflict arising therefrom shall be governed by the Plan.

This Disclosure Statement summarizes the Plan's content and provides information relating to the Plan and the process the Bankruptcy Court will follow in determining whether to confirm the Plan. The Disclosure Statement also discusses the events leading to the Debtors' filing of their chapter 11 cases (the "Chapter 11 Cases"), describes certain events that occurred in the Chapter 11 Cases, and summarizes and analyzes the Plan. The Disclosure Statement also describes certain potential federal income tax consequences of Holders of Claims and Equity Interests, voting procedures and the confirmation process.

The Bankruptcy Code requires a disclosure statement to contain "adequate information" concerning the Plan. In other words, a disclosure statement must contain sufficient information to enable parties who are affected by the Plan to vote intelligently for or against the Plan or object to the Plan, as the case may be. The Bankruptcy Court has reviewed this Disclosure Statement, and has determined that it contains adequate information and may be sent to you to solicit your vote on the Plan.

All Holders of Claims (as defined in the Plan) should carefully review both the Disclosure Statement and the Plan before voting to accept or reject the Plan. Indeed, Holders of Claims should not rely solely on the Disclosure Statement but should also read the Plan. Moreover, the Plan provisions will govern if there are any inconsistencies between the Plan and the Disclosure Statement.

THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS 4:00 P.M. (PREVAILING EASTERN TIME) ON MARCH 7, 2005, UNLESS THE BANKRUPTCY COURT OR THE DEBTORS EXTEND THE PERIOD DURING WHICH VOTES WILL BE ACCEPTED BY THE DEBTORS, IN WHICH CASE THE VOTING DEADLINE FOR SUCH SOLICITATION SHALL MEAN THE LAST TIME AND DATE TO WHICH SUCH SOLICITATION IS EXTENDED.

A. PLAN OVERVIEW/ EXECUTIVE SUMMARY

THE FOLLOWING SUMMARIZES CERTAIN KEY INFORMATION CONTAINED ELSEWHERE IN THIS DISCLOSURE STATEMENT. REFERENCE IS MADE TO, AND THIS SUMMARY IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO, THE MORE DETAILED INFORMATION CONTAINED ELSEWHERE IN THIS DISCLOSURE STATEMENT AND IN THE PLAN. THE PLAN WILL CONTROL IN THE EVENT OF ANY INCONSISTENCY BETWEEN THIS

SUMMARY AND THE PLAN. FOR A MORE DETAILED SUMMARY OF THE PLAN, PLEASE SEE ARTICLE IV OF THIS DISCLOSURE STATEMENT.

1. Solicitation

Solicitation materials, including this Disclosure Statement and a Ballot to be used for voting on the Plan, are being distributed to all known Holders of Claims entitled to vote on the Plan. The Classes of Claims entitled to vote on the Plan are Classes 1, 2, 4 and 5. The purpose of this solicitation, among other things, is to obtain the requisite number of acceptances of the Plan under the Bankruptcy Code from the Classes of Claims entitled to vote (the statutory requirements for Confirmation of the Plan are described in Article IV.I herein - "Conditions Precedent to Plan Confirmation and Consummation" and Article V herein). Assuming the requisite acceptances are obtained, the Debtors intend to seek Confirmation of the Plan at the Confirmation Hearing commencing on March 29, 2005.

2. Purpose of the Liquidating Plan of Reorganization

The Plan provides for the orderly liquidation of substantially all of the Debtors' Estates. The Plan shall be funded by the Post Confirmation Estate Assets, including, without limitation, (i) Cash on hand on the Effective Date and (ii) funds available after the Effective Date from, among other things, the prosecution and enforcement of the Causes of Action.

3. Substantive Consolidation for Plan Purposes Only

The Plan contemplates and shall effect the substantive consolidation of the Debtors into a single Entity solely for the purposes of all actions associated with Confirmation and Consummation of the Plan. On the Effective Date: (a) no Distributions will be made under the Plan on account of the Intercompany Claims; (b) the guarantees of certain Debtors of obligations of other Debtors, including, but not limited to, those obligations arising under the Credit Agreement and the Subordinated Notes, will be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint and several liability of any Debtor with another Debtor will be deemed to be one obligation of the deemed consolidated Debtors; and (c) each and every Claim against a Debtor will be deemed asserted against the consolidated Estates of all of the Debtors, will be deemed one Claim against and obligation of the deemed consolidated Debtors and their Estates and will be treated in the same Class regardless of the Debtor. Notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every Debtor under 28 U.S.C. § 1930(a)(6) until a particular case is closed, converted or dismissed.

4. Establishment of the Post Confirmation Estate

On the Effective Date, the Debtors, on their own behalf and on behalf of Holders of Allowed Claims, shall take all steps necessary to establish the Post Confirmation Estate. On the Effective Date, and in accordance with and pursuant to the terms of the Plan, the Debtors shall assign and transfer to the Post Confirmation Estate all of their right, title, and interest in and to all of the Post Confirmation Estate Assets, notwithstanding any prohibition of assignability under applicable non-bankruptcy law. In connection with the transfer of the Post Confirmation Estate Assets, any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the Post Confirmation Estate shall vest in the Post Confirmation Estate and its representatives, including the Plan Administrator(s). The Debtors, the Post Confirmation Estate and the Plan Administrator(s) are authorized to take all necessary actions to effectuate the transfer of such privileges.

5. Summary of Classification, Treatment and Projected Recovery of Claims and Equity Interests under the Plan

The Plan provides for the classification and treatment of Claims against and Equity Interests in the Debtors. The following table summarizes the classification, treatment and projected recovery of Allowed Claims and Equity Interests under the Plan. This table is only a summary of the classification, treatment and projected

recovery of Allowed Claims and Equity Interests under the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of Claims and Equity Interests.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
Unclassified	Administrative Claims	$1,962,819	Each Allowed Administrative Claim shall be paid by the Plan Administrator(s), at their election, (i) in full, in Cash, in such amounts as are (1) incurred in the ordinary course of business by the Debtors or (2) in such amounts as such Administrative Claim is Allowed by the Bankruptcy Court, upon the later of the Effective Date or the date upon which such Administrative Claim is Allowed, or as soon as reasonably practicable thereafter, (ii) upon such other terms as may exist in the ordinary course of the Debtors' business or (iii) upon such other terms as may be agreed upon between the Holder of such Administrative Claim and the applicable Debtor; provided, however, Administrative Claims for professional fees and expenses Allowed pursuant to section 330 of the Bankruptcy Code shall be paid in accordance with the applicable Bankruptcy Court order allowing such fees and expenses.	100%
Unclassified	Priority Tax Claims	$270,349	Each Holder of an Allowed Priority Tax Claim due and payable on or prior to the Effective Date shall receive, at the sole option and discretion of the Debtors or the Plan Administrator(s), as the case may be, (i) Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date or the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon as reasonably practicable thereafter, (ii) Cash in an amount equal to such Allowed Priority Tax Claim plus interest (at an interest rate, at such times and in such amounts, to be agreed upon between the Debtors and the Holder of such Allowed Priority Tax Claim, or in the absence of such agreement, as determined by the Bankruptcy Court) over a period not exceeding six (6) years after the date of assessment of such Allowed Priority Tax Claim, as provided in section 1129(a)(9)(C) of the Bankruptcy Code, or (iii) such other treatment as to which	100%

[1] Projected amounts of Allowed Claims are approximates based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Allowed Claims at the projected amounts of Allowed Claims set forth in this table. The actual amounts of Allowed Claims could be materially different than the amounts of Allowed Claims estimated in this table.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			the Debtors and the Holder of such Allowed Priority Tax Claim have agreed upon in writing.	
1	Prepetition Lenders Claim	$154,886	***Impaired***. On, or as soon as reasonably practicable after, the Effective Date, Bank of America, N.A., as administrative agent for the Prepetition Lenders, shall receive, in full satisfaction, settlement, release and discharge of and in exchange for the Prepetition Lenders Claim, the Prepetition Lenders Distribution.	16%[2]
2	Other Secured Claims	$922,524	***Impaired***. On, or as soon as reasonably practicable after, the later of the sixtieth (60^{th}) day after the Effective Date or the date such Claim becomes an Allowed Other Secured Claim, each Holder of an Allowed Other Secured Claim shall receive, on account of such Allowed Other Secured Claim, one of the following distributions: (a) the payment of such Holder's Allowed Other Secured Claim in full in Cash, (b) the sale or disposition proceeds of the property securing such Allowed Other Secured Claim to the extent of the value of the Debtors' interest in such property, (c) the surrender to the Holder of any Allowed Other Secured Claim of the property securing such Claim or (d) such other distributions as shall be necessary to satisfy the requirements of the Bankruptcy Code; provided, however, no Holder of an Other Secured Claim shall be entitled to interest accruing on or after the Petition Date on account of such Claim. The manner and treatment of each Allowed Other Secured Claim shall be determined by the Debtors or the Plan Administrator(s), as applicable, in their sole and absolute discretion.	100%
3	Other Priority Claims	$11,192	***Unimpaired***. On, or as soon as reasonably practicable after, the later of the Effective Date or the date such Claim becomes an Allowed Other Priority Claim, each Holder of an Allowed Other Priority Claim shall receive, on account of such Allowed Other Priority Claim, (i) Cash equal to the unpaid portion of such Allowed Other Priority Claim or (ii) such other	100%

[2] As discussed in further detail in Article II.C.1(b) herein, (i) the Debtors have previously made certain payments to the Prepetition Lenders during the Chapter 11 Cases on behalf of the Prepetition Lenders Claim pursuant to certain orders entered by the Bankruptcy Court and (ii) $154,886.01 constitutes the remaining unpaid amount of the Prepetition Lenders Claim. As discussed in further detail in Article II.C.1(c) herein, the Prepetition Lenders shall receive $25,000 on behalf of the remaining unpaid amount of the Prepetition Lenders Claim.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			treatment as to which the Debtors and such Holder have agreed upon in writing.	
4	General Unsecured Claims	$31.6 million[3]	***Impaired***. Each Holder of an Allowed General Unsecured Claim shall receive, on account of such Allowed General Unsecured Claim, the following treatment: 1. each Holder of an Allowed General Unsecured Claim and an Allowed Subordinated Note Claim (pursuant to Article III.B.5(b) of the Plan) shall receive a Pro Rata share of the Residual Proceeds, if any, at such time when all General Unsecured Claims and Subordinated Note Claims have been Allowed or otherwise resolved. The Plan Administrator(s), however, in their sole discretion, may distribute a percentage of the Residual Proceeds, Pro Rata, to Holders of Allowed General Unsecured Claims (along with Holders of Allowed Subordinated Note Claims as described in Article III.B.5(b) of the Plan) prior to such time as all General Unsecured Claims and Subordinated Note Claims have been Allowed or otherwise resolved; provided, however, the Plan Administrator(s) shall continue to hold back an appropriate amount of the Residual Proceeds that the Plan Administrator(s), in their sole discretion, deem necessary to make Pro Rata Distributions to Holders of Disputed General Unsecured Claims and Disputed Subordinated Note Claims which subsequently become Allowed General Unsecured Claims	5%

[3] The projected amount of Allowed General Unsecured Claims set forth in this table represents a preliminary estimate only and is subject to change. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Allowed General Unsecured Claims at the projected amount set forth in this table. The projected amount of Allowed General Unsecured Claims is based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records. Certain parties have filed General Unsecured Claims in the Chapter 11 Cases that do not reconcile with scheduled claims and the Debtors' books and records. The Debtors intend to dispute such claims; however, to the extent any such claims are ultimately Allowed in amounts which differ from the Debtors' analysis, the aggregate amount of Allowed General Unsecured Claims would be increased, and, as a result, the estimated pro rata distributions to Holders of General Unsecured Claims would be diminished. The projected amount of Allowed General Unsecured Claims excludes the Deng Claim (as defined and discussed in further detail in Article VIII.C herein) for $75 million, which the Debtors dispute in its entirety. See Article VIII herein for a discussion of the risks which may potentially impact the recoveries that will ultimately be available to creditors.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			and Allowed Subordinated Note Claims; 2. pursuant to Article V.C of the Plan, the Forfeited Unsecured Distributions, if any, and the Other Forfeited Distributions, if any, shall be added to the Residual Proceeds to be distributed on a Pro Rata basis to the remaining Holders of Allowed General Unsecured Claims and Allowed Subordinated Note Claims by the Plan Administrator(s) in accordance with Articles III.B.4(b)(1) and III.B.5(b) of the Plan, respectively; and 3. if and only to the extent Allowed Administrative Claims, Allowed Priority Tax Claims, the Prepetition Lenders Claim, Allowed Other Secured Claims and Allowed Other Priority Claims have been paid in accordance with the terms of the Plan, recoveries, including, without limitation, the Preference Action Recoveries, if any, received on account of any Cause of Action pursued by the Debtors or the Plan Administrator(s), as applicable, shall be added to the Residual Proceeds to be distributed on a Pro Rata basis to the Holders of Allowed General Unsecured Claims and Allowed Subordinated Note Claims by the Plan Administrator(s) in accordance with Articles III.B.4(b)(1) and III.B.5(b) of the Plan, respectively; provided, however, nothing in the Plan is intended or shall be construed to entitle the Prepetition Lenders to any of the Preference Action Recoveries.	

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			Tort Claims: At the option of the Debtors or the Plan Administrator(s), any unliquidated Tort Claim as to which a proof of Claim was timely filed in the Chapter 11 Cases may be determined and liquidated in (i) the Bankruptcy Court, to the extent permitted by applicable law; or (ii) the administrative or judicial tribunal(s) in which it is pending on the Effective Date or, if no action was pending on the Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction. To the extent permitted by applicable law, at all times prior to and after the Effective Date, the Bankruptcy Court shall retain jurisdiction relating to the Tort Claims, including the Debtors' rights to have such Claims (i) determined and liquidated in the Bankruptcy Court and/or (ii) estimated pursuant to section 502(c) of the Bankruptcy Code and Article IV.B of the Plan. Any Tort Claim determined and liquidated pursuant to a judgment obtained in accordance with Article III.B.4(c) of the Plan, which is no longer appealable or subject to review, shall be deemed an Allowed General Unsecured Claim in Class 4 against the Debtors in such liquidated amount; provided, however, such amount shall be subject to, and shall not exceed, the amount, if any, not recovered by the Holder of a Tort Claim from the Debtors' applicable insurance carriers, including, without limitation, any applicable deductible or self-insured retention amount.[4] Nothing contained	

[4] For example, assume a creditor timely filed a proof of Claim on behalf of a Tort Claim against the Debtors, and such Tort Claim is determined and liquidated pursuant to a judgment in the amount of $700,000. In addition, assume that the Debtors' applicable insurance policy with respect to such Tort Claim contains a $200,000 deductible or self-insured retention amount. Under these circumstances, such creditor would be entitled to attempt to recover $500,000 (the amount in excess of the applicable deductible or self-insured retention amount) from the Debtors' applicable insurance carrier. To the extent any portion of such $500,000 is not recovered by such creditor from the Debtors' applicable insurance carrier (the "Unrecovered Amount"), such creditor would be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $200,000 (the amount of the applicable deductible or self-insured retention) plus the Unrecovered Amount. Therefore, if such creditor were to recover $400,000 from the Debtors' applicable insurance carrier, (i) the Tort Claim would be reduced by $400,000; (ii) such creditor would be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $300,000 (the deductible or self-insured retention amount of $200,000 plus the Unrecovered Amount of $100,000), which would be entitled to the same treatment under the Plan as all other Allowed General Unsecured Claims in Class 4; and (iii) the Debtors and the Plan Administrator(s) would have no obligation whatsoever to make any Distribution to such creditor on account of the $400,000 recovered from the Debtors' applicable insurance carrier. Similarly, if such creditor were to recover $0 from the Debtors' applicable insurance carrier, such creditor would then be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $700,000 (the deductible or self-insured retention amount of $200,000 plus the Unrecovered Amount of $500,000), which would be entitled to the same treatment under the Plan as all other Allowed General Unsecured Claims in Class 4.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			in Article III.B.4(c) of the Plan shall constitute or be deemed a waiver of any claim, defense, right or cause of action that the Debtors may have against any Person in connection with or arising out of any Tort Claim, including, without limitation, any rights under section 157(b)(5) of title 28 of the United States Code. The entire Article III.B.4(c) of the Plan is subject to the Debtors' rights set forth in Article IV.A of the Plan.	
5	Subordinated Note Claims	$136.2 million	***Impaired***. Each Holder of an Allowed Subordinated Note Claim shall receive, on account of such Allowed Subordinated Note Claim, the following treatment: 1. Each Holder of an Allowed Subordinated Note Claim (along with Holders of Allowed General Unsecured Claims as described in Article III.B.4(b) of the Plan) shall be entitled to a Pro Rata share (the "Subordinated Note Share") of the Residual Proceeds, if any, including, without limitation, the Forfeited Unsecured Distributions, if any, and Other Forfeited Distributions, if any, in accordance with Article III.B.4(b)(2) of the Plan, and the Preference Action Recoveries, if any, in accordance with Article III.B.4(b)(3) of the Plan; provided, however, (a) as a result of the HSBC Bank Lien, HSBC Bank shall first be entitled to be paid the Indenture Trustee Fees and Expenses from the Subordinated Note Share and (b) the remaining portion of the Subordinated Note Share after payment of the Indenture Trustee Fees and Expenses in full satisfaction of the HSBC Bank Lien shall be distributed to the Holders of the Guaranteed Line of Credit	0%[5]

[5] As discussed in further detail in Articles II.C.2 and II.C.3 herein, pursuant to the Indenture, (i) all obligations on the Subordinated Notes are subordinated in right of payment to the prior payment in full in cash of all senior indebtedness under the Indenture, including, without limitation, the Guaranteed Line of Credit, and (ii) until all obligations with respect to senior indebtedness under the Indenture are paid in full in cash, any distribution to which the holders of the Subordinated Notes would be entitled shall be made to the holders of senior indebtedness, including, without limitation, the holders of Guaranteed Line of Credit Claims. Therefore, the Subordinated Note Share shall be distributed directly to the Holders of the Guaranteed Line of Credit Claims, until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture. As a result, the Holders of Subordinated Notes are expected to receive no Distributions under the Plan.

Class	Description	Projected Amount of Allowed Claims[1]	Plan Treatment	Projected Recovery under the Plan
			Claims, until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture; and 2. If and only to the extent that the Guaranteed Line of Credit Claims have been paid in full in cash in accordance with Article III.B.5(b)(1) of the Plan, the remaining portion of the Subordinated Note Share, if any, shall be distributed to the Holders of Allowed Subordinated Note Claims on a pro rata basis.	
6	Intercompany Claims	N/A	***Impaired***. On the Effective Date, all Intercompany Claims shall be cancelled and Holders of Intercompany Claims shall not receive or retain any Distribution or property on account of such Intercompany Claim under the Plan.	0%
7	Equity Interests	N/A	***Impaired***. On the Effective Date, all Equity Interests shall be cancelled and the Holders of Equity Interests shall not receive or retain any Distribution or property on account of such Equity Interests.	0%

The recoveries projected in the table above represent possible recoveries that the Debtors believe are reasonable based upon their review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records. See Article VIII herein for a discussion of the risks which may potentially impact the recoveries that will ultimately be available to creditors.

THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN DO NOT YET BIND ANYONE. HOWEVER, IF THE BANKRUPTCY COURT CONFIRMS THE PLAN, THEN THE PLAN WILL BIND ALL CLAIM AND EQUITY INTEREST HOLDERS.

6. Voting and Confirmation

Each Holder of a Claim in Classes 1, 2, 4 and 5 will be entitled to vote either to accept or reject the Plan. Classes 1, 2, 4 and 5 shall have accepted the Plan if: (i) the Holders of at least two-thirds in amount of the Allowed Claims actually voting in each such Class have voted to accept the Plan and (ii) the Holders of more than one-half in number of the Allowed Claims actually voting in each such Class have voted to accept the Plan. Class 3 is Unimpaired under the Plan and is deemed to accept the Plan. Classes 6 and 7 are deemed to reject the Plan and are not entitled to vote to accept or reject the Plan. Assuming the requisite acceptances are obtained, the Debtors intend to seek confirmation of the Plan at a hearing (the "Confirmation Hearing") scheduled to commence on March 29, 2005, at 2:00 p.m. (prevailing eastern time)**,** before the Bankruptcy Court. **Notwithstanding the foregoing,**

provided that at least one Impaired class accepts the Plan, the Debtors will seek Confirmation of the Plan under section 1129(b) of the Bankruptcy Code with respect to the Impaired Classes presumed to reject the Plan, and reserve the right to do so with respect to any other rejecting Class or to modify the Plan in accordance with Article XIII of the Plan.

Article VI of this Disclosure Statement specifies the deadlines, procedures and instructions for voting to accept or reject the Plan and the applicable standards for tabulating Ballots. The Bankruptcy Court has established January 28, 2005 (the "Voting Record Date"), as the date for determining which Holders of Claims are eligible to vote on the Plan. Ballots will be mailed to all registered Holders of Claims as of the Voting Record Date who are entitled to vote to accept or reject the Plan. An appropriate return envelope will be included with your Ballot, if necessary. Beneficial holders of Claims who receive a return envelope addressed to their bank, brokerage firm or other nominee, or any agent thereof, (each, a "Nominee") should allow sufficient time for the Nominee to receive their votes and process them on a Master Ballot before the Voting Deadline, as defined below.

The Debtors have engaged a solicitation agent to assist in the voting process. The solicitation agent will answer questions, provide additional copies of all materials and oversee the voting tabulation. The solicitation agent will also process and tabulate ballots for each Class entitled to vote to accept or reject the Plan. The solicitation agent is Bankruptcy Management Corporation, 1330 East Franklin Avenue, El Segundo, California 90245, (888) 909-0100.

TO BE COUNTED, THE SOLICITATION AGENT MUST RECEIVE YOUR BALLOT INDICATING AN ACCEPTANCE OR REJECTION OF THE PLAN NO LATER THAN 4:00 P.M. (PREVAILING EASTERN TIME) ON MARCH 7, 2005 (THE "VOTING DEADLINE") UNLESS THE BANKRUPTCY COURT OR THE DEBTORS EXTEND THE PERIOD DURING WHICH VOTES WILL BE ACCEPTED BY THE DEBTORS, IN WHICH CASE THE VOTING DEADLINE FOR SUCH SOLICITATION SHALL MEAN THE LAST TIME AND DATE TO WHICH SUCH SOLICITATION IS EXTENDED.

THE DEBTORS BELIEVE THAT THE PLAN IS IN THE BEST INTEREST OF ALL OF THEIR CREDITORS AS A WHOLE. THE DEBTORS THEREFORE RECOMMEND THAT ALL HOLDERS OF CLAIMS SUBMIT BALLOTS TO ACCEPT THE PLAN.

(a) Deadline for Voting For or Against the Plan

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

If by U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
P.O. Box 926
El Segundo, CA 90245-0926

If by hand or courier other than U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
1330 East Franklin Avenue
El Segundo, CA 90245

The Voting Deadline to accept or reject the Plan is 4:00 p.m. (prevailing eastern time) on March 7, 2005, unless the Bankruptcy Court or the Debtors extend the period during which votes will be accepted by the Debtors, in which case the Voting Deadline for such solicitation shall mean the last time and date to which such solicitation is extended. Your vote must be received prior to the Voting Deadline or it will not be counted. At the Debtors' request, the Bankruptcy Court has established certain procedures for the solicitation and tabulation of votes on the Plan, which are described in Article VI of this Disclosure Statement.

(b) Deadline for Objecting to the Confirmation of the Plan

Objections to confirmation of the Plan must be filed and served on or before 4:00 p.m., prevailing eastern time, on March 7, 2005, in accordance with the Confirmation Hearing Notice accompanying this Disclosure

Statement. **UNLESS OBJECTIONS TO CONFIRMATION ARE TIMELY SERVED AND FILED, THEY WILL NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

7. Liquidation Analysis

The Debtors believe that the Plan will provide each Holder of an Allowed Claim with as much or more than the amount it would receive in a chapter 7 liquidation because, among other things, the administrative costs and delays incurred in connection with a chapter 7 case would likely diminish the distributions to such Holders. The Debtors' financial advisors assisted the Debtors in the preparation of a hypothetical chapter 7 recovery analysis to assist Holders of Claims to reach their determination as to whether to accept or reject the Plan. This Hypothetical Chapter 7 Recovery Analysis, attached hereto as Exhibit B, estimates the proceeds to be realized if the Debtors were to be liquidated under chapter 7 of the Bankruptcy Code. The Hypothetical Chapter 7 Recovery Analysis is based upon projected assets and liabilities as of December 7, 2004, and incorporates estimates and assumptions developed by the Debtors, which are subject to potentially material changes, as well as uncertainty not within the Debtors' control.

8. Risk Factors

There are a variety of factors that each Holder of a Claim should consider prior to voting to accept or reject the Plan. Some of these factors, which are described in more detail in Article VIII of this Disclosure Statement, are as follows and may impact the recoveries under the Plan:

(a) The financial information disclosed in this Disclosure Statement has not been audited and is based on an analysis of data available at the time of the preparation of the Plan and Disclosure Statement.

(b) Article IX of this Disclosure Statement describes certain significant federal tax consequences of the transactions that are described herein and in the Plan that affect the Debtors and others. Such consequences may include: (1) the recognition of taxable gain or loss to the Debtors and (2) the recognition of taxable income by the Holders of Claims. Holders of Claims are urged to consult with their own tax advisors regarding the federal, state, local and other tax consequences of the Plan.

(c) Although the Debtors believe that the Plan complies with all applicable standards of the Bankruptcy Code, the Debtors can provide no assurance that the Bankruptcy Court will find that the Plan complies with section 1129 of the Bankruptcy Code or that the Bankruptcy Court will confirm the Plan.

(d) The Debtors may be required to request Confirmation of the Plan without the acceptance of all Impaired Classes entitled to vote in accordance with section 1129(b) of the Bankruptcy Code.

(e) Any delays of either Confirmation or the Effective Date of the Plan could result in, among other things, increased Claims of Professionals.

9. Injunction

Except as otherwise expressly provided in the Plan, all Entities that have held, hold or may hold Claims against or Equity Interests in the Debtors are permanently enjoined, from and after the Effective Date, from taking any of the following actions against any of the Debtors, their Estates, the Post Confirmation Estate, the Plan Administrator(s), the Professionals or any of their property on account of any Claims or causes of action arising from events prior to the Effective Date, including, without limitation: (i) commencing or continuing in any manner any action or other proceeding of any kind; (ii) enforcing, attaching, collecting or recovering by any manner or in any place or means any judgment, award, decree or order; (iii) creating, perfecting, or enforcing any Lien or encumbrance of any kind; and (iv) asserting any right of setoff against any obligation, debt or liability due to the Debtors. The Debtors expressly reserve all rights and defenses that the Debtors may have (including, without limitation, the rights of subrogation and recoupment) with respect to any obligation, debt or liability allegedly due to any Entity.

By accepting Distributions pursuant to the Plan, each Holder of an Allowed Claim receiving Distributions pursuant to the Plan will be deemed to have specifically consented to the injunctions set forth in the Plan.

B. RECOMMENDATION

The Debtors believe that the Plan provides the best and most feasible recovery for Holders of Allowed Claims against the Debtors and that accepting the Plan is in the best interests of the Holders of Allowed Claims against the Debtors. The Debtors therefore recommend that you vote to accept the Plan.

C. DISCLAIMER

In formulating the Plan, the Debtors relied on financial data derived from their books and records. The Debtors therefore represent that everything stated in the Disclosure Statement is true to the best of their knowledge. The Debtors nonetheless cannot, and do not, confirm the current accuracy of all statements appearing in this Disclosure Statement. Moreover, the Bankruptcy Court has not yet determined whether the Plan is confirmable and therefore does not recommend whether you should accept or reject the Plan.

The discussion in the Disclosure Statement regarding the Debtors may contain "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements consist of any statement other than a recitation of historical fact and can be identified by the use of forward-looking terminology such as "may," "expect," "anticipate," "estimate" or "continue" or the negative thereof or other variations thereon or comparable terminology. The reader is cautioned that all forward looking statements are necessarily speculative and there are certain risks and uncertainties that could cause actual events or results to differ materially from those referred to in such forward looking statements. The liquidation analyses, distribution projections, and other information are estimates only, and the timing and amount of actual distributions to Holders of Claims may be affected by many factors that cannot be predicted. Therefore, any analyses, estimates or recovery projections may or may not turn out to be accurate.

NOTHING CONTAINED IN THIS DISCLOSURE STATEMENT IS, OR SHALL BE DEEMED TO BE, AN ADMISSION OR STATEMENT AGAINST INTEREST BY THE DEBTORS FOR PURPOSES OF ANY PENDING OR FUTURE LITIGATION MATTER OR PROCEEDING.

ALTHOUGH THE ATTORNEYS, ADVISORS AND OTHER PROFESSIONALS EMPLOYED BY THE DEBTORS HAVE ASSISTED IN PREPARING THIS DISCLOSURE STATEMENT BASED UPON FACTUAL INFORMATION AND ASSUMPTIONS RESPECTING FINANCIAL, BUSINESS, AND ACCOUNTING DATA FOUND IN THE BOOKS AND RECORDS OF THE DEBTORS, THEY HAVE NOT INDEPENDENTLY VERIFIED SUCH INFORMATION AND MAKE NO REPRESENTATIONS AS TO THE ACCURACY THEREOF. THE ATTORNEYS, ADVISORS AND OTHER PROFESSIONALS EMPLOYED BY THE DEBTORS SHALL HAVE NO LIABILITY FOR THE INFORMATION IN THE DISCLOSURE STATEMENT.

THE DEBTORS AND THEIR PROFESSIONALS ALSO HAVE MADE A DILIGENT EFFORT TO IDENTIFY IN THIS DISCLOSURE STATEMENT PENDING LITIGATION CLAIMS AND PROJECTED OBJECTIONS TO CLAIMS. HOWEVER, NO RELIANCE SHOULD BE PLACED ON THE FACT THAT A PARTICULAR LITIGATION CLAIM OR PROJECTED OBJECTION TO CLAIM IS, OR IS NOT, IDENTIFIED IN THE DISCLOSURE STATEMENT. THE DEBTORS, POST CONFIRMATION ESTATE, PLAN ADMINISTRATOR(S), OR OTHER PARTIES-IN-INTEREST MAY SEEK TO INVESTIGATE, FILE AND PROSECUTE LITIGATION CLAIMS AND PROJECTED OBJECTIONS TO CLAIMS AFTER THE CONFIRMATION OR EFFECTIVE DATE OF THE PLAN IRRESPECTIVE OF WHETHER THE DISCLOSURE STATEMENT IDENTIFIES ANY SUCH CLAIMS OR OBJECTIONS TO CLAIMS.

II.
GENERAL INFORMATION

A. DESCRIPTION OF THE DEBTORS' BUSINESSES PRIOR TO THE SALE

Prior to the closing of the Sale (as defined herein),[6] the Debtors and their non-debtor subsidiaries and affiliates[7] (collectively, "DESA") were the leading manufacturer, distributor, and marketer of vent-free heating appliances, outdoor heaters, motion sensor lighting, wireless doorbells, lawn and garden electrical products, and consumer fastening systems in the United States. Through their ability to consistently offer consumers quality products with innovative features at competitive prices, DESA developed leading market positions in: (i) vent-free indoor heaters; (ii) vent-free hearth products; (iii) outdoor heaters; (iv) motion sensor lighting; (v) door chimes and switches; (vi) lawn and garden electrical products; and (vii) consumer fastening systems. DESA was headquartered in Bowling Green, Kentucky, and had both a domestic and international presence with manufacturing facilities in Kentucky, California, Tennessee and New York, as well as in China, Mexico, and Italy, and distribution facilities in Canada and Holland.

The Debtors' operations were divided into three divisions. In particular, the Debtors had a zone heating division and an international division that supported the zone heating division (together, the "Zone Heating Operation") and a specialty products division (the "Specialty Products Division"). The Zone Heating Operation included all of the Debtors' operations related to (i) indoor vent-free heating products, (ii) vent-free hearth products, (iii) vented hearth products, (iv) outdoor heating products, and (v) all of the international operations and non-debtor subsidiaries. Such zone heating products are used to heat limited areas, such as a room or a cluster of rooms, as distinguished from central heating systems that are used to heat entire buildings.

In addition, the Debtors participated in certain niche segments of the broader specialty products industry. In particular, the Specialty Products Division included all of the Debtors' operations related to, in part, (i) motion sensor lighting; (ii) door chimes and switches (wireless and wired); (iii) lawn and garden electrical products, such as chain saws, pole saws and garden tillers; and (iv) consumer fastening systems, including stapling/rivet tools, as well as tools and accessories used to fasten wood, concrete and steel. The majority of the Debtors' specialty products sold in the United States were manufactured by either divisions of large foreign corporations or small niche companies.

B. MANAGEMENT

1. Corporate Officers

As of the Petition Date, the Debtors' corporate officers were as follows:

Name	Position
W. Michael Clevy	President and Chief Executive Officer
Stephen L. Clanton	Senior Vice President and Chief Financial Officer
Adam L. Suttin	Vice President
Dana L. Schmaltz	Vice President
Scott M. Nehm	Vice President and Assistant Secretary
Edward G. Patrick	Vice President and Secretary

[6] As discussed further in Article II.E herein, on December 24, 2002, the Debtors closed the sale of substantially all of their assets to HIG DESA Acquisition LLC, pursuant to an asset purchase agreement, dated as of November 27, 2002. As a result thereof, the Debtors no longer operate any businesses.

[7] The Debtors had European, Asian, and Canadian subsidiaries that conducted their operations throughout the world. None of the Debtors' direct or indirect foreign subsidiaries were debtors in the Chapter 11 Cases or in any related bankruptcy, reorganization, or liquidation proceeding.

Name	Position
E. Richard Simpson	Vice President and Treasurer

2. Board of Directors

As of the Petition Date, the members of the Debtors' board of directors were (i) James E. Ashton, (ii) John W. Childs, (iii) W. Michael Clevy, (iv) Michael Greene, (v) Joseph J. Incandela, (vi) Raymond B. Rudy and (vii) Adam L. Suttin.

C. EXISTING CAPITAL STRUCTURE OF THE DEBTORS

1. Prepetition Credit Facility

(a) Credit Agreement

Prior to the Petition Date, the Debtors partially funded their operations, as well as the operations of their non-debtor subsidiaries, through a $195 million credit facility (the "Prepetition Credit Facility") established under that certain credit agreement, dated as of November 26, 1997 (as subsequently amended, restated, supplemented or otherwise modified, the "Credit Agreement"), by and among DESA International, Inc. (n/k/a DESA International LLC) ("DESA International"), as borrower, DESA Holdings Corporation ("Holdings"), as parent guarantor, and Bank of America, N.A. (formerly NationsBank, N.A.) ("Bank of America"), as administrative agent, initial issuing bank and swing line bank, and certain other lenders specified therein (collectively with Bank of America, the "Prepetition Lenders"). Pursuant to the Credit Agreement, the Prepetition Lenders agreed to loan DESA International up to $195 million on the terms and conditions set forth in the Credit Agreement. Holdings guaranteed all of the borrowings and other obligations of DESA International under the Credit Agreement.

DESA International's obligations under the Credit Agreement are secured by security interests in substantially all of DESA International's property pursuant to: (a) the Security Agreement, dated as of November 26, 1997, as amended and supplemented from time to time; and (b) the Intellectual Property Security Agreement, dated as of November 26, 1997, as amended and supplemented from time to time.

As of the Petition Date, the Debtors were in both payment and covenant default under the Credit Agreement. In particular, the payment defaults included the failure to make certain required payments on the revolver loan when advances to the Debtors exceeded permitted borrowings under the borrowing base. Covenant defaults included the failure of Holdings to maintain certain leverage, fixed charge, and interest coverage ratios respecting the Credit Agreement.

(b) Prepetition Lenders' Claim

On or about December 18, 2002, Bank of America, on behalf of the Prepetition Lenders, filed a proof of claim (the "Prepetition Lenders' Claim") against the Debtors' estates. The Prepetition Lenders' Claim asserted a claim of $168,123,039.00, secured by all of the Debtors' assets (the "Prepetition Secured Obligations"). In particular, Schedule A to the Prepetition Lenders' Claim provides the following breakdown of the claim: (i) $17,500,000 in respect of Acquisition Advances, (ii) $44,722,986 in respect of Acquisition B Advances, (iii) $8,750,000 in respect of Term A Advances, (iv) $13,125,000 in respect of Term B Advances, (v) $4,600,000 in respect of Term C Advances, (vi) $75,099,077 in respect of Working Capital Advances, (vii) accrued and unpaid interest, fees, costs and charges accrued and owing as of the Petition Date in the aggregate amount of $3,621,636, and (viii) $704,341 in connection with outstanding letters of credit (the "Prepetition L/Cs"). The Prepetition L/Cs were cash-collateralized by the Debtors subsequent to the Petition Date. The Prepetition L/Cs later expired on their own terms and such cash collateral was returned to the Debtors' estates. Accordingly, the principal amount of the Prepetition Lenders' Claim was subsequently reduced to $167,418,698.

In addition, the Prepetition Lenders' Claim included an unspecified amount of interest, fees, costs and charges accrued and accruing on and after the Petition Date to and including the date on which a plan of

reorganization is confirmed. In particular, the Prepetition Lenders asserted they were entitled to payment of approximately $2 million in default rate interest and $1,394,529.93 for reimbursement of professional fees and expenses for legal and consulting services incurred by Bank of America, on behalf of the Prepetition Lenders, during the Chapter 11 Cases.

Pursuant to the Order Resolving Debtors' Motion for an Order Authorizing the Use of Cash Collateral and Granting Adequate Protection Pursuant to Bankruptcy Code Sections 105, 361, 362(d) and 363 [Docket No. 678] (the "Cash Collateral Order"), the Debtors deposited in an interest bearing account, separate and apart from all other accounts of the Debtors (the "Segregated Account"), cash in the amount of $181,435,626. $179,435,626 of such amount constituted funds reserved to pay the Prepetition Secured Obligations together with the Prepetition Lenders' claim for post-petition interest calculated at the default rate set forth in the Credit Agreement (the "Default Rate Interest"). In addition, the Court required that an additional $2,000,000 be deposited in the Segregated Account to cover (i) the fees and expenses incurred by the Prepetition Lenders in connection with the Prepetition Lenders' claim for Default Rate Interest and (ii) the fees and expenses otherwise incurred by the Prepetition Lenders pursuant to the Credit Agreement (collectively, the "Prepetition Lenders' Fees and Expenses").

On or about March 12, 2003, pursuant to Bankruptcy Court order, the Debtors made a cash payment of $140 million from the Segregated Account to Bank of America in respect of the Prepetition Secured Obligations. On or about June 6, 2003, pursuant to Bankruptcy Court order, the Debtors made an additional cash payment to Bank of America in the amount of $27,418,698 from the Segregated Account in respect of the Prepetition Secured Obligations. These two payments in the aggregate amount of $167,418,698 fully satisfied the principal amount, with accrued prepetition interest, of the Prepetition Lenders' Claim.

On March 8, 2004, the Bankruptcy Court entered the Order Authorizing (I) Immediate Release of Funds from Segregated Account Sufficient to Pay Lenders' Post-Petition Interest Claim, (II) Release of Funds from Segregated Account Sufficient to Pay Lenders' Fees and Expenses, and (III) Release and Return of Remaining Funds from Segregated Account to Debtors' Estates (the "Release Order"). Pursuant to the Release Order, (i) on March 19, 2004, the Debtors made a cash payment of $10,166,992.38 from the Segregated Account to Bank of America in full satisfaction of all accrued post-petition interest at the standard, non-default rate, and (ii) all remaining funds were released from the Segregated Account and returned to the Debtors' estates, except for $2,000,000 reserved to cover the Prepetition Lenders' Fees and Expenses. Accordingly, as of March 19, 2004, the principal amount, with accrued prepetition interest and accrued post-petition interest at the standard, non-default rate, of the Prepetition Lenders' Claim in the aggregate amount of $177,585,690.38 had been paid in full.

In addition, the Release Order authorized the Debtors (after consulting with and receiving the consent of the Official Committee of Unsecured Creditors (the "Committee")) to determine the amount of the Prepetition Lenders' Fees and Expenses with the Prepetition Lenders and to make a cash payment to the Prepetition Lenders upon the final determination of such amount without further Bankruptcy Court order. Pursuant to the Release Order, after the payment of the Prepetition Lenders' Fees and Expenses, the Segregated Account shall be dissolved, and all remaining funds in the Segregated Account shall be returned to the Debtors' estates.

On April 29, 2004, the Prepetition Lenders submitted a request to the Debtors for reimbursement of the Prepetition Lenders' Fees and Expenses in the aggregate amount of $1,394,529.93. Pursuant to the Release Order, the Debtors consulted with the Committee with respect to such request and, with the consent of the Committee, remitted payment to Bank of America in the amount of $764,643.92. As discussed in further detail below, pursuant to the Appeal Settlement (as defined below), on or about November 2, 2004, the Debtors made an additional cash payment of $475,000 to the Prepetition Lenders. Therefore, $154,886.01 of the Prepetition Lenders' Fees and Expenses currently remains unpaid.

(c) Prepetition Lenders' Claim for Default Rate Interest

On April 1, 2003, the Committee filed and served its Objection of the Official Committee of Unsecured Creditors to Claim Filed by Bank of America N.A., as Administrative Agent and Certain Other Lenders (Claim Number 538) (the "Committee Objection"). Therein, the Committee asserted that the Prepetition Lenders' claim was not oversecured throughout the Chapter 11 Cases, and, therefore, the Prepetition Lenders were not entitled to post-petition interest for the entire post-petition period, but only for such period as the Prepetition

Lenders could demonstrate they were oversecured. Additionally, the Committee objected to the Prepetition Lenders' asserted entitlement to be paid post-petition interest at the default rate in an amount of approximately $2 million greater than the amount of post-petition interest calculated at the standard, non-default rate.

Following additional briefing by the parties, the Bankruptcy Court convened a hearing on May 21, 2003 on the Committee Objection. At the conclusion of the May 21, 2003 hearing, the Bankruptcy Court ordered payment of the remaining principal due to the Prepetition Lenders under the Credit Agreement and allowed the Prepetition Lenders' claim for post-petition interest calculated at the standard, non-default rate from and after November 8, 2002. The Bankruptcy Court reserved ruling on whether the Prepetition Lenders were entitled to be paid post-petition interest accrued from the Petition Date to November 8, 2002, and whether the Prepetition Lenders were entitled to be paid post-petition interest at the default rate. On September 26, 2003, the Committee filed with the Bankruptcy Court its notice of intent to pursue the Committee Objection solely with respect to the issue of the Prepetition Lenders' claim for post-petition interest calculated at the default rate. On October 3, 2003, the Debtors filed their Joinder in Support of Committee Objection to Pre-Petition Lenders' Claim for Postpetition Interest at the Default Rate, asserting that the Prepetition Lenders were not entitled to post-petition interest calculated at the default rate.

On October 17, 2003, the Bankruptcy Court convened a hearing with respect to the Prepetition Lenders' claim for payment of Default Rate Interest. After hearing argument, the Bankruptcy Court denied the Prepetition Lenders' claim for default rate interest. On November 3, 2003, the Bankruptcy Court entered its Order Granting, in part, Objection of the Official Committee of Unsecured Creditors to Claim Filed by Bank of America, N.A. as Administrative Agent and Certain Other Lenders, which memorialized the Bankruptcy Court's October 17, 2003 ruling (the "November 3rd Order"). On November 7, 2003, Bank of America, on behalf of the Prepetition Lenders, filed its Notice of Appeal to the United States District Court for the District of Delaware (the "District Court") with respect to the November 3rd Order. On February 9, 2004, the District Court denied the Prepetition Lenders' appeal and affirmed the Bankruptcy Court's November 3rd Order. Subsequently, on March 2, 2004, Bank of America, on behalf of the Prepetition Lenders, filed its Notice of Appeal with respect to the District Court's ruling to the United States Court of Appeals for the Third Circuit (the "Appeal").

The Debtors, the Committee and Bank of America resolved the Appeal, pursuant to a stipulation that was approved by the Bankruptcy Court on October 19, 2004 (the "Appeal Settlement"). Pursuant to the Appeal Settlement, (i) on or about November 2, 2004, the Debtors made a cash payment to the Prepetition Lenders in the amount of $475,000 (the "Settlement Amount") from the Segregated Account, (ii) all remaining funds in the Segregated Account, except for $25,000, were released to the Debtors' estates, and (iii) on or about November 9, 2004, Bank of America dismissed the Appeal with prejudice. In addition, the Appeal Settlement provides for the Prepetition Lenders' remaining claims arising from or in connection with the Credit Agreement, including, without limitation, the remaining unpaid portion of the Prepetition Lenders' Fees and Expenses in the amount of $154,886.01, to be settled and resolved pursuant to the Plan.

2. Guaranteed Line of Credit

On May 25, 1999, the Credit Agreement was amended at the request of the Debtors and the agreement of the Prepetition Lenders to permit the establishment of an unsecured line of credit in the aggregate principal amount of up to $15 million (the "Guaranteed Line of Credit"). The Guaranteed Line of Credit was issued by Bank of America to DESA International, pursuant to a credit agreement dated as of May 26, 1999, as amended from time to time. Based upon information and belief, in connection with the May 26, 1999 credit agreement, Bank of America, J.W. Childs Equity Partners, L.P. and UBS Capital LLC entered into a guaranty agreement, pursuant to which J.W. Childs Equity Partners, L.P. and UBS Capital LLC guaranteed DESA International's obligations with respect to the Guaranteed Line of Credit. The Guaranteed Line of Credit constitutes senior indebtedness under the Indenture (as defined below). In particular, pursuant to the terms of the Indenture, including, without limitation, Section 10.03 of the Indenture, (i) all obligations on the Subordinated Notes (as defined below) are subordinated in right of payment to the prior payment in full in cash of all senior indebtedness under the Indenture, including, without limitation, the Guaranteed Line of Credit, and (ii) until all obligations with respect to senior indebtedness under the Indenture are paid in full in cash, any distribution to which the holders of the Subordinated Notes would be entitled shall be made to the holders of senior indebtedness, including, without limitation, the holders of

Guaranteed Line of Credit Claims. As of the Petition Date, the Guaranteed Line of Credit had an outstanding principal amount of $15 million, which matured on November 26, 2003.

3. Subordinated Notes

In December 1997, DESA International issued $130 million of 9-7/8% unsecured senior subordinated notes due December 15, 2007 (the "Subordinated Notes"), pursuant to an indenture dated as of November 26, 1997 (the "Indenture"), with Holdings, as guarantor, and HSBC Bank USA (formerly Marine Midland Bank) ("HSBC Bank"), as indenture trustee. Pursuant to the terms of the Indenture, including, without limitation, Section 10.03 of the Indenture, (i) all obligations on the Subordinated Notes are subordinated in right of payment to the prior payment in full in cash of all senior indebtedness under the Indenture, including, without limitation, the Guaranteed Line of Credit, and (ii) until all obligations with respect to senior indebtedness under the Indenture are paid in full in cash, any distribution to which the holders of the Subordinated Notes would be entitled shall be made to the holders of senior indebtedness, including, without limitation, the holders of Guaranteed Line of Credit Claims. As of the Petition Date, the Subordinated Notes had an aggregate outstanding principal in the amount equal to $130 million. Interest on the Subordinated Notes is payable in cash on June 15 and December 15 of each year.

In addition, pursuant to Section 7.07 of the Indenture, HSBC Bank, as indenture trustee for the Subordinated Notes, is entitled to (i) reasonable compensation for its services provided under the Indenture as indenture trustee and (ii) reimbursement of reasonable disbursements, advances and expenses incurred or made by it, including the reasonable compensation, disbursements and expenses of its agents and counsel (collectively, the "Indenture Trustee Fees and Expenses"). Pursuant to Section 7.07 of the Indenture, to secure the Debtors' payment of the Indenture Trustee Fees and Expenses, HSBC Bank shall have a lien prior to the Subordinated Notes on all money or property held or collected by HSBC Bank, including the Subordinated Note Share, and such lien shall survive the resignation and removal of HSBC Bank as indenture trustee and the satisfaction and discharge of the Indenture. The amount of the Indenture Trustee Fees and Expenses through the Confirmation Date is anticipated to be approximately $180,000; provided, however, (a) HSBC Bank shall be required to provide the Debtors with a statement detailing the amount and nature of the Indenture Trustee Fees and Expenses within ten (10) days after the Confirmation Date and (b) the rights of the Debtors and the Plan Administrator(s), as the case may be, to object, in accordance with Article IV.A of the Plan, to the amount of the Indenture Trustee Fees and Expenses ultimately claimed by HSBC Bank shall be reserved. Pursuant to the Plan, the Debtors or the Plan Administrator(s), as the case may be, will pay HSBC Bank the amount of the Indenture Trustee Fees and Expenses from the Subordinated Note Share. The Debtors or the Plan Administrator(s), as the case may be, will then distribute the remaining portion of the Subordinated Note Share directly to the Holders of the Guaranteed Line of Credit Claims until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture.

On December 15, 2001, the Debtors were required to make an interest payment due on the Subordinated Notes. The Prepetition Lenders, however, issued a payment blockage notice as permitted in the Credit Agreement, prohibiting the Debtors from making such interest payment. Thereafter, the Debtors retained counsel and financial advisors on behalf of certain holders of the Subordinated Notes (the "Ad Hoc Noteholder Committee") to represent the Ad Hoc Noteholder Committee in negotiations with the Debtors and the Prepetition Lenders.

As a result of negotiations with the Prepetition Lenders and the Ad Hoc Noteholder Committee, the Debtors entered that certain Forbearance Agreement and Amendment and Waiver No. 8 to the Credit Agreement, dated as of March 5, 2002 (the "Forbearance Agreement") in which, among other things, the Prepetition Lenders consented to increased borrowings under the Prepetition Credit Facility in the amount of $6,582,494.99 and rescinded the payment blockage notice to allow the Debtors to make the sub-debt interest payment to holders of the Subordinated Notes. In connection with the Forbearance Agreement, JWC Bridgeco, Inc. ("JWC") and UBS Capital LLC ("UBS") entered into a Last Out Participation Agreement with Bank of America, dated as of March 4, 2002 (the "Last Out Participation Agreement"). Pursuant to the Last Out Participation Agreement, JWC and UBS purchased an undivided interest to the extent of $6,582,494.99 in such working capital advances made by the Prepetition Lenders under the Prepetition Credit Facility.

As a condition to the effectiveness of the Forbearance Agreement, members of the Ad Hoc Noteholder Committee executed a letter agreement on or about February 21, 2002, in which holders of the

Subordinated Notes representing at least seventy-five percent of the outstanding principal amount of such notes agreed to, among other things, (i) waive the right to declare a default under the trust indenture based upon the Debtors' failure to pay timely the December 15, 2001 interest payment; (ii) that the obligations under the Last Out Participation Agreement constitute senior indebtedness under the Indenture; and (iii) that any payment to the holders of the Subordinated Notes is prohibited so long as there are outstanding amounts owed under the Last Out Participation Agreement. On March 5, 2002, the Debtors transferred $6,582,494.99 to the indenture trustee of the Subordinated Notes in payment of the December 15, 2001 interest. Since such payment, no further payments have been made by the Debtors on behalf of the Subordinated Notes.

4. Equity

As of the Petition Date, J.W. Childs Equity Partners, L.P. and UBS were the principal shareholders of Holdings, respectively holding approximately 62% and 18% of the outstanding shares of voting common stock. As of the Petition Date, no other person or entity held more than 4% of Holding's outstanding voting common stock.

In addition, Holdings issued 90,603 shares of non-voting common stock, all of which were held by BT Investment Partners as of April 17, 2002. Furthermore, Holdings authorized 40,000 shares of Series C 12% Senior Redeemable Exchangeable Pay-In-Kind Preferred Stock, of which 28,365 shares were outstanding as of April 17, 2002.

D. FACTORS LEADING TO THE CHAPTER 11 CASES

The Debtors' business in fiscal year 2002 was adversely impacted by a combination of the weakened U.S. economy, one of the warmest winters of the last century, and certain one-time, non-recurring costs, including costs related to the first extensive new product introduction in the heating segment in 12 years.

Approximately half of the Debtors' net sales were from the sales of zone heating products. Demand for zone heating is heavily affected by weather. In particular, sales of outdoor heating products are dependent on the weather, as warm fall or winter weather generally reduces demand for such products, resulting in lower sales. The warm winter weather, as in the winter of 2001-2002, accompanied by the absence of "cold-snaps," had a negative impact upon the zone heating market in general and, thus, the Debtors' net sales declined. This decline in sales caused a corresponding decline in revenue and, thus, had a negative impact upon the Debtors' liquidity.

In fiscal year 2002, the Debtors experienced massive increased costs in connection with the re-design of their residential heating products. Unexpected problems with design specifications, such as the late arrival of new tooling for the product, and other unanticipated delays all contributed to quality, delivery and warranty problems. The net effect was that the Debtors incurred substantial cost overruns that contributed to their liquidity crisis.

Beginning in March 2002, the Debtors, with the assistance of the investment banking firm of Berenson Minella & Company (n/k/a Berenson & Company) ("Berenson"), initiated a formal auction process to identify and solicit potential buyers who could have provided the necessary capital to purchase the company and/or invest to facilitate an out-of-court restructuring. With the assistance of Berenson, the Debtors engaged in discussions with twenty-two investor groups, twelve of which executed confidentiality agreements, six received presentations from management and three of which pursued due diligence.

Near the end of the second calendar quarter of 2002, the Debtors faced severe financial troubles, and the solicitation efforts, while positive, had not resulted in a consummated sale transaction. After considering all reasonable alternatives, and in light of the Debtors' liquidity crisis, the Debtors determined that it was necessary to restructure their financial affairs and reorganize their businesses for the benefit of all of their creditors through the commencement of the Chapter 11 Cases. Accordingly, on June 8, 2002, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As of the Petition Date, the Debtors, together with their non-debtor subsidiaries and affiliates, had consolidated assets with a net-book value of approximately $235 million and consolidated liabilities with a net-book value of approximately $370 million.

E. SALE OF THE DEBTORS' ASSETS

1. The Auction and Sale Process

On June 14, 2002, the Debtors sought to establish procedures for the sale of substantially all of the Debtors' assets (the "DESA Assets") by filing the Motion for Order (a) Authorizing and Scheduling a Public Auction for the Sale of Any and All of the Debtors' Assets Free and Clear of All Liens, Claims and Encumbrances (the "Auction"), (b) Approving Procedures for the Submission of Qualifying Bids (the "Bidding Procedures"), and (c) Approving the Form and Manner of Notice Pursuant to Fed. R. Bankr. P. 2002 [Docket No. 56] (the "Bidding Procedures Motion"). On August 7, 2002, the Court entered an order approving the Bidding Procedure Motion and the Bidding Procedures (the "Bidding Procedures Order"). Thereafter, on September 30, 2002, the Debtors filed the Motion for an Order Under Sections 105(a), 363, 365 and 1146(c) of the Bankruptcy Code (a) Authorizing the Sale of Substantially All of the Debtors' Assets or Each of the Debtors' Divisions, Free and Clear of Liens, Claims and Encumbrances, (b) Approving an Asset Purchase Agreement, and (c) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases in Connection with Such Sale (the "Sale Motion").

In accordance with the Bidding Procedures Order, the Debtors worked diligently to maximize the value of the DESA Assets in order to achieve the highest return for the creditors of the Debtors' estates through the Auction. In particular, the Debtors' management and professionals (i) worked diligently to identify and solicit prospective buyers to consummate the purchase of the DESA Assets, (ii) assisted such prospective buyers in conducting diligence and (iii) provided management presentations in connection therewith.

On November 13, 2002, pursuant to the Bidding Procedures Order, the Debtors commenced the Auction of the DESA Assets. As a result thereof, HIG DESA Acquisition LLC ("HIG") was determined to be the highest and best offer received by the Debtors for the DESA Assets. Subsequently, the Debtors proceeded to negotiate terms of a proposed asset purchase agreement with HIG and on December 5, 2002, filed that certain Asset Purchase Agreement, by and among the Debtors and HIG, dated November 27, 2002 (as amended from time to time, the "Asset Purchase Agreement").

On December 13, 2002, the Bankruptcy Court entered an order (the "Sale Order") approving the Sale Motion and authorizing the sale (the "Sale") of the DESA Assets to HIG for the purchase price of approximately $198 million – consisting of $185 million in cash *plus* subordinated notes in the original aggregate principal amount of $13 million, bearing interest, payable in kind, at the annual rate of 10%, due and payable on December 24, 2007 (the "HIG Notes"). The Debtors and HIG executed the HIG Notes and closed the Sale on December 24, 2002 (the "HIG Note Execution Date").

2. The Final Working Capital Dispute

Pursuant to the Asset Purchase Agreement, the Debtors and HIG were required to calculate the actual value of the Final Working Capital (as defined in the Asset Purchase Agreement). If the Final Working Capital was less than $77.7 million, then the Debtors would be required to pay HIG an amount equal to such shortfall. If the Final Working Capital exceeded $77.7 million, then HIG would be required to pay the Debtors such excess.

On or about February 18, 2003, HIG submitted a Final Working Capital calculation of $70.6 million. This amount would warrant a refund of $7.1 million to HIG. Thereafter, the Debtors generated their own Final Working Capital calculation that justified a payment to the Debtors of more than $8 million. Because the Debtors and HIG were unable to consensually resolve their dispute over the correct amount of the Final Working Capital, the matter proceeded to arbitration, as provided under the Asset Purchase Agreement.

After numerous proceedings in front of the arbitration panel, the Debtors and HIG consensually resolved the Final Working Capital dispute pursuant to a settlement and release agreement (the "Settlement and Release Agreement"), which was approved by the Bankruptcy Court on March 8, 2004. The material terms of the Settlement and Release Agreement (i) modify the terms of the HIG Notes, (ii) grants mutual global releases and (iii) provides for the final resolution of all claims between the Debtors and HIG.

In particular, section 3.7 of the HIG Notes originally provided that HIG may prepay all or part of the principal of the HIG Notes at any time in cash at a redemption price equal to the fair market value of the HIG Notes, which is calculated as the present value of the Note Final Payment[8] as of the date of redemption. The present value of the Note Final Payment is calculated by applying, on an annual basis, the applicable discount rate to the Note Final Payment as follows:

Date of Redemption	Applicable Discount Rate
Any time prior to the last day of the 18th month after the HIG Notes Execution Date (the "Initial Discount Period")	25% + $1,075,000
From and including the last day of the Initial Discount Period to the third anniversary of the HIG Notes Execution Date	20%
From and including the third anniversary and prior to the fourth anniversary of the HIG Notes Execution Date	15%
Thereafter	10%

The Settlement and Release Agreement extends the Initial Discount Period from the last day of the eighteenth (18th) month after the HIG Notes Execution Date to the last day of the twenty-fourth (24th) month after the HIG Notes Execution Date (the "Extended Initial Discount Period"). The Extended Initial Discount Period, therefore, expires on December 31, 2004. Pursuant to the Settlement and Release Agreement, if HIG elects to redeem all amounts due under the HIG Notes within the Extended Initial Discount Period, HIG receives a discount equal to the sum of (i) 25% of the Note Final Payment and (ii) $1,075,000. Accordingly, on December 6, 2004, pursuant to the Settlement and Release Agreement and the terms and conditions of the HIG Notes, HIG redeemed the HIG Notes from the Debtors for $9,722,226.

III.
THE CHAPTER 11 CASES

On the Petition Date, the Debtors filed voluntary petitions for relief under chapter 11 of the Bankruptcy Code. The Chapter 11 Cases have been procedurally consolidated for administrative purposes only.

A. DEBTOR-IN-POSSESSION FINANCING

On August 7, 2002, the Bankruptcy Court entered an order authorizing the Debtors to incur post-petition senior secured financing in an amount up to $35 million (the "DIP Credit Facility") in accordance with that certain Debtor-in-Possession Credit Agreement, dated as of June 11, 2002, among DESA International, Inc. (n/k/a DESA International LLC), as borrower, DESA Holdings Corporation, as guarantor, Bank of America, as collateral agent and administrative agent, and certain other lenders specified therein. After the closing of the Sale, the Debtors paid the outstanding amount of $8,125,254 due under the DIP Credit Facility to Bank of America.

[8] Section 3.7 of the HIG Notes defines "Note Final Payment" as "the sum of (x) the full original principal amount of the [HIG Notes] and (y) the total of interest that would have accrued on the [HIG Notes] at the end of five (5) year term of the [HIG Notes]."

B. SALE OF THE DEBTORS' ASSETS

1. Bidding Procedures Motion

As discussed in Article II.E herein, on June 14, 2002, the Debtors sought to establish procedures for the sale of the DESA Assets by filing the Motion for Order (a) Authorizing and Scheduling a Public Auction for the Sale of Any and All of the Debtors' Assets Free and Clear of All Liens, Claims and Encumbrances, (b) Approving Procedures for the Submission of Qualifying Bids, and (c) Approving the Form and Manner of Notice Pursuant to Fed. R. Bankr. P. 2002. On August 7, 2002, the Bankruptcy Court entered an order approving the Bidding Procedures Motion.

2. Sale Motion

As discussed in Article II.E herein, on September 30, 2002, the Debtors filed the Motion for an Order Under Sections 105(a), 363, 365 and 1146(c) of the Bankruptcy Code (a) Authorizing the Sale of Substantially All of the Debtors' Assets or Each of the Debtors' Divisions, Free and Clear of Liens, Claims and Encumbrances, (b) Approving an Asset Purchase Agreement, and (c) Authorizing the Assumption and Assignment of Certain Executory Contracts and Unexpired Leases in Connection with Such Sale. On December 13, 2002, the Bankruptcy Court entered an order approving the Sale Motion and authorizing the Sale of the DESA Assets to HIG.

C. SUMMARY OF OTHER SIGNIFICANT MOTIONS

The following summarizes other significant motions that the Debtors have filed during the Chapter 11 Cases. You may view each of these motions, and many more, by (i) accessing the Bankruptcy Court's website at http://www.deb.uscourts.gov or (ii) making a written request to the Debtors' notice, claims and balloting agent, Bankruptcy Management Corporation, 1330 East Franklin Avenue, El Segundo, California 90245.

1. Applications for Retention of Debtors' Professionals

During the Chapter 11 Cases, the Bankruptcy Court approved the retention of certain professionals to represent and assist the Debtors in connection with the Chapter 11 Cases. These professionals include, among others: (a) Kirkland & Ellis LLP, as co-counsel to the Debtors, (b) Pachulski, Stang, Ziehl, Young, Jones & Weintraub P.C., as co-counsel to the Debtors, (c) Berenson & Company (f/k/a Berenson Minella & Company), as financial advisor and investment banker to the Debtors, (d) Huron Consulting Group, as consultants to the Debtors, (e) Bankruptcy Management Corporation, as notice, claims and balloting agent to the Debtors, and (f) Ernst & Young LLP, as auditor and tax advisor to the Debtors.

2. Motion for Joint Administration of the Chapter 11 Cases

On June 12, 2002, the Bankruptcy Court entered an order consolidating the Chapter 11 Cases for administrative purposes only. The Chapter 11 Cases are currently administered under a single case name and number: In re DESA Holdings Corporation, et al., Case No. 02-11672 (WS), Jointly Administered.

3. Motion to Pay Employee Wages and Associated Benefits

On June 12, 2002, the Bankruptcy Court entered an order granting the Debtors the authority to pay all compensation and benefits to their employees. The order allows the Debtors to compensate their employees for obligations payable as of the Petition Date, as well as obligations that come due after the Petition Date.

4. Motion to Pay Certain Essential Domestic Trade Vendors

On June 12, 2002, the Bankruptcy Court entered an order pursuant to sections 105 and 363 of the Bankruptcy Code (a) authorizing the Debtors to pay prepetition claims of certain essential domestic trade vendors (the "Critical Vendors") and (b) authorizing financial institutions to honor and process checks and transfers related

to claims of the Critical Vendors. The Debtors were authorized to pay prepetition claims to Critical Vendors, in their sole discretion, in an amount not to exceed $6,600,000.

5. Motion to Pay Certain Foreign Vendors

On June 12, 2002, the Bankruptcy Court entered an order (a) authorizing the Debtors to pay prepetition claims of foreign trade creditors and (b) authorizing financial institutions to honor and process checks and transfers related to such claims.

6. Motion to Employ Ordinary Course Professionals

On July 17, 2002, the Bankruptcy Court entered an order pursuant to sections 105(a) and 327 of the Bankruptcy Code authorizing the Debtors to employ and compensate certain professionals utilized in the ordinary course of the Debtors' business to assist and advise the Debtors in the operation of their businesses and to defend the Debtors. Pursuant to this order, the Debtors are allowed to compensate such professionals up to $50,000 per month and up to $300,000 during the pendency of the Chapter 11 Cases. Any payments above such amounts must be approved by the Bankruptcy Court.

7. Contract and Lease Rejection Procedures

On June 12, 2002, the Bankruptcy Court entered an order establishing certain procedures for the rejection of executory contracts and unexpired leases in the Chapter 11 Cases (the "Rejection Procedures"). Pursuant to the Rejection Procedures, the Debtors may reject any executory contract or unexpired lease upon a ten (10) day negative notice to all counterparties thereto.

8. Cash Management

On June 12, 2002, the Bankruptcy Court entered an order authorizing the Debtors to maintain their existing cash management system, business forms, and bank accounts, and, if necessary, to open new accounts and close existing accounts in the normal course of business operations, without further application to the Bankruptcy Court.

9. Customer Programs

On June 12, 2002, the Bankruptcy Court entered an order authorizing, but not directing, the Debtors, in their business judgment, to (a) perform their prepetition obligations related to their customer programs and (b) continue, renew, replace, implement new and/or terminate their customer programs, in the ordinary course of business, without further application to the Bankruptcy Court.

10. Schedules and Statement of Financial Affairs

On August 18, 2002, the Debtors filed their schedules of claims, assets, liabilities, executory contracts and other information (the "Schedules") and a Statement of Financial Affairs (the "SOFAs") to provide creditors and other interested parties with material information to enable each creditor to evaluate its proposed treatment under the Plan.

11. Key Employee Retention Program

On August 7, 2002, the Bankruptcy Court entered an order authorizing the Debtors to implement a stay and retention bonus plan for certain key employees, excluding the Debtors' chief executive officer. Subsequently, on October 11, 2002, the Bankruptcy Court entered an order authorizing the Debtors to implement a severance and benefits plan for certain key employees and a stay and retention bonus plan for the Debtors' chief executive officer.

12. General Claims Bar Date

On October 15, 2002, the Court entered an order establishing December 18, 2002, as the date by which all persons and entities, including, without limitation, individuals, partnerships, corporations, governmental units, estates and trusts, holding or wishing to assert prepetition claims (as defined in 11 U.S.C. § 101(5)), whether secured or unsecured, priority or nonpriority, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, legal or equitable, arising on and before the Petition Date against the Debtors, must file a proof of claim on account of such claims. The order also provides that any prepetition claim of a creditor filed after December 18, 2002, shall be subject to (i) objection by the Debtors and (ii) subordination pursuant to the Bankruptcy Code. As of the date of this Disclosure Statement, approximately 640 proofs of claim have been filed against the Debtors. Pursuant to the Plan, the Debtors and the Plan Administrator(s), as the case may be, reserve the right to object to the allowance of such claims.

13. Administrative Claims Bar Date

On April 23, 2004, the Bankruptcy Court entered an order establishing May 27, 2004 as the deadline by which all parties, including governmental units (as defined by 11 U.S.C. § 101(27)), must file an administrative claims request for certain administrative claims. Pursuant to the order, all entities required to file an administrative claims request, but which fail to do so on or before May 27, 2004, shall be forever barred, estopped and enjoined from asserting such administrative claim (or filing an administrative claims request with respect thereto); and the Debtors and the Debtors' estates shall not be liable for any indebtedness or liability with respect to such administrative claim; and any such holder shall be prohibited from voting on any plan of reorganization or participating in any distribution in the Chapter 11 Cases on account of such administrative claim. As of the date of this Disclosure Statement, approximately 20 administrative claims have been filed against the Debtors. Pursuant to the Plan, the Debtors and the Plan Administrator(s), as the case may be, reserve the right to object to the allowance of such Claims.

IV.
SUMMARY OF THE LIQUIDATING PLAN OF REORGANIZATION

A. OVERVIEW OF CHAPTER 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. It authorizes a debtor to reorganize its business for the benefit of itself, its creditors and its interest holders. Another chapter 11 goal is to promote equality of treatment for similarly situated creditors and similarly situated interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that comprises all of a debtor's legal and equitable interests as of the filing date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

The principal objective of a chapter 11 case is to consummate a plan of reorganization. The chapter 11 plan of reorganization sets forth the means for satisfying claims against, and interests in, a debtor. Confirmation of a plan of reorganization by the Bankruptcy Court makes the plan binding upon the debtor, any issuer of securities under the plan, any person or entity acquiring property under the plan and any creditor of or equity holder in the debtor, whether or not such creditor or equity holder (a) is impaired under or has accepted the plan or (b) receives or retains any property under the plan. Subject to certain limited exceptions and other than as provided in the plan itself or the confirmation order, the confirmation order discharges the debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefore the obligations specified under the confirmed plan.

A chapter 11 plan may specify that the legal, contractual and equitable right of the Holders of Claims or Equity Interests in classes are to remain unaltered by the reorganization to be effectuated by the plan. Such classes are referred to as "unimpaired" and, because of such favorable treatment, are deemed to accept the plan. Accordingly, it is not necessary to solicit votes from the Holders of Claims or Equity Interests in such Classes. A chapter 11 plan also may specify that certain classes will not receive any distribution of property or retain any claim

against a debtor. Such classes are deemed not to accept the plan and, therefore, need not be solicited to vote to accept or reject the Plan. Any Classes that are receiving a distribution of property under the Plan but are not "unimpaired" will be solicited to vote to accept or reject the Plan.

THE REMAINDER OF THIS SECTION SUMMARIZES THE STRUCTURE AND MEANS FOR IMPLEMENTING THE PLAN AND HOW THE PLAN CLASSIFIES AND TREATS CLAIMS AND EQUITY INTERESTS, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE PLAN (AS WELL AS THE EXHIBITS THERETO AND DEFINITIONS THEREIN).

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN THE DOCUMENTS REFERRED TO THEREIN. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE PRECISE OR COMPLETE STATEMENTS OF ALL THE TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN, AND HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD REFER TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENT OF SUCH TERMS AND PROVISIONS OF THE PLAN OR DOCUMENTS REFERRED TO THEREIN.

THE PLAN ITSELF AND THE DOCUMENTS THEREIN CONTROL THE ACTUAL TREATMENT OF CLAIMS AGAINST, AND EQUITY INTERESTS IN, THE DEBTORS UNDER THE PLAN AND WILL, UPON THE OCCURRENCE OF THE EFFECTIVE DATE, BIND ALL HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS, THE DEBTORS' ESTATES, ALL PARTIES RECEIVING PROPERTY UNDER THE PLAN, AND OTHER PARTIES–IN–INTEREST. IN THE EVENT OF ANY CONFLICT BETWEEN THIS DISCLOSURE STATEMENT, ON THE ONE HAND, AND THE PLAN OR ANY OTHER OPERATIVE DOCUMENT, ON THE OTHER HAND, THE TERMS OF THE PLAN AND/OR SUCH OTHER OPERATIVE DOCUMENT SHALL GOVERN.

HOLDERS OF CLAIMS OR EQUITY INTERESTS AND OTHER INTERESTED PARTIES ARE THEREFORE URGED TO READ THE PLAN AND THE EXHIBITS THERETO IN THEIR ENTIRETY SO THAT THEY MAY MAKE AN INFORMED JUDGMENT CONCERNING THE PLAN.

B. GENERALLY

1. Liquidating Plan of Reorganization

The Plan is a liquidating chapter 11 plan of reorganization that provides for the orderly liquidation of all of the Debtors' assets, the determination of all Claims and the distribution of the proceeds of the assets to creditors. On the Effective Date, the Debtors, on their own behalf and on behalf of Holders of Allowed Claims, shall take all steps necessary to establish the Post Confirmation Estate. On the Effective Date, and in accordance with and pursuant to the terms of the Plan, the Debtors shall assign and transfer to the Post Confirmation Estate all of their right, title, and interest in and to all of the Post Confirmation Estate Assets, notwithstanding any prohibition of assignability under applicable non-bankruptcy law. In connection with the transfer of the Post Confirmation Estate Assets, any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the Post Confirmation Estate shall vest in the Post Confirmation Estate and its representatives, including the Plan Administrator(s). The Debtors, the Post Confirmation Estate and the Plan Administrator(s) are authorized to take all necessary actions to effectuate the transfer of such privileges.

2. The Post Confirmation Estate

The Post Confirmation Estate shall be established for the primary purpose of liquidating its assets, in accordance with Treas. Reg. § 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. The Post Confirmation Estate shall not be deemed a successor-in-interest of the Debtors for any purpose other than as specifically set forth in the Plan. The Post Confirmation Estate is intended to qualify as a "grantor trust" for federal income tax purposes with the beneficiaries treated as grantors and owners of the trust.

C. CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

The categories of Claims and Equity Interests listed below classify Claims and Equity Interests for all purposes, including voting, Confirmation and Distribution pursuant to the Plan and pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code. A Claim or Equity Interest shall be deemed classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class and shall be deemed classified in a different Class to the extent that any remainder of such Claim or Equity Interest qualifies within the description of such different Class. A Claim or Equity Interest is in a particular Class only to the extent that such Claim or Equity Interest is Allowed in that Class and has not been paid or otherwise settled prior to the Effective Date. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims have not been classified, but the treatment for such unclassified claims are set forth in Article II of the Plan and Article IV.C.2 herein.

The Debtors believe that the Plan has classified all Claims and Equity Interests in compliance with the provisions of section 1122 of the Bankruptcy Code, but it is possible that a Holder of a Claim or Equity Interest may challenge the classification of Claims and Equity Interests and that the Bankruptcy Court may find that a different classification is required for the Plan to be confirmed.

As set forth in Article VI.A of the Plan, the Plan contemplates and shall effect the substantive consolidation of the Debtors into a single Entity solely for the purposes of all actions associated with Confirmation and Consummation of the Plan. On the Effective Date: (a) no Distributions will be made under the Plan on account of the Intercompany Claims; (b) the guarantees of certain Debtors of obligations of other Debtors, including, but not limited to, those obligations arising under the Credit Agreement and the Subordinated Notes, will be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint and several liability of any Debtor with another Debtor will be deemed to be one obligation of the deemed consolidated Debtors; and (c) each and every Claim against a Debtor will be deemed asserted against the consolidated Estates of all of the Debtors, will be deemed one Claim against and obligation of the deemed consolidated Debtors and their Estates and will be treated in the same Class regardless of the Debtor. Notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every Debtor under 28 U.S.C. § 1930(a)(6) until a particular case is closed, converted or dismissed.

The classification of Claims and Equity Interests and the nature of Distributions to members of each Class are summarized below. The Debtors believe that the consideration, if any, provided under the Plan to Holders of Claims and Equity Interests reflects an appropriate resolution of their Claims and Equity Interests, taking into account the differing nature and priority (including applicable contractual subordination) of Claims and Equity Interests. The Bankruptcy Court must find, however, that a number of statutory tests are met before it may confirm the Plan. Many of these tests are designed to protect the interests of Holders of Claims or Equity Interests who are not entitled to vote on the Plan, or do not vote to accept the Plan, but who will be bound by the provisions of the Plan if it is confirmed by the Bankruptcy Court. The "cramdown" provisions of section 1129(b) of the Bankruptcy Code, for example, permit confirmation of a chapter 11 plan in certain circumstances even if the Plan has not been accepted by all Impaired Classes of Claims and Equity Interests. The Debtors will seek confirmation of the Plan under section 1129(b) of the Bankruptcy Code, to the extent applicable, because of the deemed rejection of Classes 6 and 7. Although the Debtors believe that the Plan could be confirmed under section 1129(b) even if the Plan has not been accepted by all of the Impaired Classes, there can be no assurance that the requirements of such section would be satisfied.

1. Schedule of Treatment of Claims and Equity Interests

Class	Claim	Status	Voting Right
1	Prepetition Lenders Claim	Impaired	Entitled to vote
2	Other Secured Claims	Impaired	Entitled to vote
3	Other Priority Claims	Unimpaired	Not entitled to vote – deemed to accept
4	General Unsecured Claims	Impaired	Entitled to vote
5	Subordinated Note Claims	Impaired	Entitled to vote
6	Intercompany Claims	Impaired	Not entitled to vote – deemed to reject
7	Equity Interests	Impaired	Not entitled to vote – deemed to reject

2. Treatment of Unclassified Claims

(a) Administrative Claims

Each Allowed Administrative Claim shall be paid by the Plan Administrator(s), at their election, (i) in full, in Cash, in such amounts as are (1) incurred in the ordinary course of business by the Debtors or (2) in such amounts as such Administrative Claim is Allowed by the Bankruptcy Court, upon the later of the Effective Date or the date upon which such Administrative Claim is Allowed, or as soon as reasonably practicable thereafter, (ii) upon such other terms as may exist in the ordinary course of the Debtors' business or (iii) upon such other terms as may be agreed upon between the Holder of such Administrative Claim and the applicable Debtor; provided, however, Administrative Claims for professional fees and expenses Allowed pursuant to section 330 of the Bankruptcy Code shall be paid in accordance with the applicable Bankruptcy Court order allowing such fees and expenses.

(b) Priority Tax Claims

Each Holder of an Allowed Priority Tax Claim due and payable on or prior to the Effective Date shall receive, at the sole option and discretion of the Debtors or the Plan Administrator(s), as the case may be, (i) Cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date or the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon as reasonably practicable thereafter, (ii) Cash in an amount equal to such Allowed Priority Tax Claim plus interest (at an interest rate, at such times and in such amounts, to be agreed upon between the Debtors and the Holder of such Allowed Priority Tax Claim, or in the absence of such agreement, as determined by the Bankruptcy Court) over a period not exceeding six (6) years after the date of assessment of such Allowed Priority Tax Claim, as provided in section 1129(a)(9)(C) of the Bankruptcy Code, or (iii) such other treatment as to which the Debtors and the Holder of such Allowed Priority Tax Claim have agreed upon in writing.

3. Classification and Treatment of Classified Claims

(a) **Class 1 - Prepetition Lenders Claim**

(i) *Classification*: Class 1 consists of the Prepetition Lenders Claim.

(ii) *Treatment*: On, or as soon as reasonably practicable after, the Effective Date, Bank of America, N.A., as administrative agent for the Prepetition Lenders, shall receive, in full satisfaction, settlement, release and discharge of and in exchange for the Prepetition Lenders Claim, the Prepetition Lenders Distribution.

(iii) *Voting*: Class 1 is impaired. The Prepetition Lenders in Class 1 are entitled to vote to accept or reject the Plan.

(b) **Class 2 - Other Secured Claims**

(i) *Classification*: Class 2 consists of all Other Secured Claims.

(ii) *Treatment*: On, or as soon as reasonably practicable after, the later of the sixtieth (60^{th}) day after the Effective Date or the date such Claim becomes an Allowed Other Secured Claim, each Holder of an Allowed Other Secured Claim shall receive, on account of such Allowed Other Secured Claim, one of the following distributions: (a) the payment of such Holder's Allowed Other Secured Claim in full in Cash, (b) the sale or disposition proceeds of the property securing such Allowed Other Secured Claim to the extent of the value of the Debtors' interest in such property, (c) the surrender to the Holder of any Allowed Other Secured Claim of the property securing such Claim or (d) such other distributions as shall be necessary to satisfy the requirements of the Bankruptcy Code; provided, however, no Holder of an Other Secured Claim shall be entitled to interest accruing on or after the Petition Date on account of such Claim. The manner and treatment of each Allowed Other Secured Claim shall be determined by the Debtors or the Plan Administrator(s), as applicable, in their sole and absolute discretion.

(iii) *Voting*: Class 2 is impaired. Holders of Other Secured Claims in Class 2 are entitled to vote to accept or reject the Plan.

(c) **Class 3 - Other Priority Claims**

(i) *Classification*: Class 3 consists of all Other Priority Claims.

(ii) *Treatment*: On, or as soon as reasonably practicable after, the later of the Effective Date or the date such Claim becomes an Allowed Other Priority Claim, each Holder of an Allowed Other Priority Claim shall receive, on account of such Allowed Other Priority Claim, (i) Cash equal to the unpaid portion of such Allowed Other Priority Claim or (ii) such other treatment as to which the Debtors and such Holder have agreed upon in writing.

(iii) *Voting*: Class 3 is unimpaired. Holders of Other Priority Claims in Class 3 are deemed to accept the Plan and are not therefore entitled to vote to accept or reject the Plan.

(d) **Class 4 - General Unsecured Claims**

(i) *Classification*: Class 4 consists of all General Unsecured Claims.

(ii) *Treatment*: Each Holder of an Allowed General Unsecured Claim shall receive, on account of such Allowed General Unsecured Claim, the following treatment:

(1) each Holder of an Allowed General Unsecured Claim and an Allowed Subordinated Note Claim (pursuant to Article III.B.5(b) of the Plan) shall receive a Pro Rata share of the Residual Proceeds, if any, at such time when all General Unsecured Claims and Subordinated Note

Claims have been Allowed or otherwise resolved.[9] The Plan Administrator(s), however, in their sole discretion, may distribute a percentage of the Residual Proceeds, Pro Rata, to Holders of Allowed General Unsecured Claims (along with Holders of Allowed Subordinated Note Claims as described in Article III.B.5(b) of the Plan) prior to such time as all General Unsecured Claims and Subordinated Note Claims have been Allowed or otherwise resolved; provided, however, the Plan Administrator(s) shall continue to hold back an appropriate amount of the Residual Proceeds that the Plan Administrator(s), in their sole discretion, deem necessary to make Pro Rata Distributions to Holders of Disputed General Unsecured Claims and Disputed Subordinated Note Claims which subsequently become Allowed General Unsecured Claims and Allowed Subordinated Note Claims;

(2) pursuant to Article V.C of the Plan, the Forfeited Unsecured Distributions, if any, and the Other Forfeited Distributions, if any, shall be added to the Residual Proceeds to be distributed on a Pro Rata basis to the remaining Holders of Allowed General Unsecured Claims and Allowed Subordinated Note Claims by the Plan Administrator(s) in accordance with Articles III.B.4(b)(1) and III.B.5(b) of the Plan, respectively; and

(3) if and only to the extent Allowed Administrative Claims, Allowed Priority Tax Claims, the Prepetition Lenders Claim, Allowed Other Secured Claims and Allowed Other Priority Claims have been paid in accordance with the terms of the Plan, recoveries, including, without limitation, the Preference Action Recoveries, if any, received on account of any Cause of Action pursued by the Debtors or the Plan Administrator(s), as applicable, shall be added to the Residual Proceeds to be distributed on a Pro Rata basis to the Holders of Allowed General Unsecured Claims and Allowed Subordinated Note Claims by the Plan Administrator(s) in accordance with Articles III.B.4(b)(1) and III.B.5(b) of the Plan, respectively; provided, however, nothing in the Plan is intended or shall be construed to entitle the Prepetition Lenders to any of the Preference Action Recoveries.

(iii) Tort Claims: At the option of the Debtors or the Plan Administrator(s), any unliquidated Tort Claim as to which a proof of Claim was timely filed in the Chapter 11 Cases may be determined and liquidated in (i) the Bankruptcy Court, to the extent permitted by applicable law; or (ii) the administrative or judicial tribunal(s) in which it is pending on the Effective Date or, if no action was pending on the Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction. To the extent permitted by applicable law, at all times

[9] The projected amount of Allowed General Unsecured Claims set forth in this Disclosure Statement represents a preliminary estimate only and is subject to change. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Allowed General Unsecured Claims at the projected amount set forth in this Disclosure Statement. The projected amount of Allowed General Unsecured Claims is based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records. Certain parties have filed General Unsecured Claims in the Chapter 11 Cases that do not reconcile with scheduled claims and the Debtors' books and records. The Debtors intend to dispute such claims; however, to the extent any such claims are ultimately Allowed in amounts which differ from the Debtors' analysis, the aggregate amount of Allowed General Unsecured Claims would be increased, and, as a result, the estimated pro rata distributions to Holders of General Unsecured Claims would be diminished. The projected amount of Allowed General Unsecured Claims in this Disclosure Statement excludes the Deng Claim (as defined and discussed in further detail in Article VIII.C herein) for $75 million, which the Debtors dispute in its entirety. See Article VIII herein for a discussion of the risks which may potentially impact the recoveries that will ultimately be available to creditors.

prior to and after the Effective Date, the Bankruptcy Court shall retain jurisdiction relating to the Tort Claims, including the Debtors' rights to have such Claims (i) determined and liquidated in the Bankruptcy Court and/or (ii) estimated pursuant to section 502(c) of the Bankruptcy Code and Article IV.B of the Plan. Any Tort Claim determined and liquidated pursuant to a judgment obtained in accordance with Article III.B.4(c) of the Plan, which is no longer appealable or subject to review, shall be deemed an Allowed General Unsecured Claim in Class 4 against the Debtors in such liquidated amount; provided, however, such amount shall be subject to, and shall not exceed, the amount, if any, not recovered by the Holder of a Tort Claim from the Debtors' applicable insurance carriers, including, without limitation, any applicable deductible or self-insured retention amount.[10] Nothing contained in Article III.B.4(c) of the Plan shall constitute or be deemed a waiver of any claim, defense, right or cause of action that the Debtors may have against any Person in connection with or arising out of any Tort Claim, including, without limitation, any rights under section 157(b)(5) of title 28 of the United States Code. The entire Article III.B.4(c) of the Plan is subject to the Debtors' rights set forth in Article IV.A of the Plan.

(iv) *Voting*: Class 4 is impaired. Holders of General Unsecured Claims in Class 4 are entitled to vote to accept or reject the Plan.

(e) **Class 5 - Subordinated Note Claims**

(i) *Classification*: Class 5 consists of all Subordinated Note Claims.

(ii) *Treatment*: Each Holder of an Allowed Subordinated Note Claim shall receive, on account of such Allowed Subordinated Note Claim, the following treatment:

(1) Each Holder of an Allowed Subordinated Note Claim (along with Holders of Allowed General Unsecured Claims as described in Article III.B.4(b) of the Plan) shall be entitled to a Pro Rata share (the "Subordinated Note Share") of the Residual Proceeds, if any, including, without limitation, the Forfeited Unsecured Distributions, if any, and Other Forfeited Distributions, if any, in accordance with Article III.B.4(b)(2) of the Plan, and the Preference Action Recoveries, if any,

[10] For example, assume a creditor timely filed a proof of Claim on behalf of a Tort Claim against the Debtors, and such Tort Claim is determined and liquidated pursuant to a judgment in the amount of $700,000. In addition, assume that the Debtors' applicable insurance policy with respect to such Tort Claim contains a $200,000 deductible or self-insured retention amount. Under these circumstances, such creditor would be entitled to attempt to recover $500,000 (the amount in excess of the applicable deductible or self-insured retention amount) from the Debtors' applicable insurance carrier. To the extent any portion of such $500,000 is not recovered by such creditor from the Debtors' applicable insurance carrier (the "Unrecovered Amount"), such creditor would be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $200,000 (the amount of the applicable deductible or self-insured retention) plus the Unrecovered Amount. Therefore, if such creditor were to recover $400,000 from the Debtors' applicable insurance carrier, (i) the Tort Claim would be reduced by $400,000; (ii) such creditor would be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $300,000 (the deductible or self-insured retention amount of $200,000 plus the Unrecovered Amount of $100,000), which would be entitled to the same treatment under the Plan as all other Allowed General Unsecured Claims in Class 4; and (iii) the Debtors and the Plan Administrator(s) would have no obligation whatsoever to make any Distribution to such creditor on account of the $400,000 recovered from the Debtors' applicable insurance carrier. Similarly, if such creditor were to recover $0 from the Debtors' applicable insurance carrier, such creditor would then be entitled to an Allowed General Unsecured Claim in Class 4 in the amount of $700,000 (the deductible or self-insured retention amount of $200,000 plus the Unrecovered Amount of $500,000), which would be entitled to the same treatment under the Plan as all other Allowed General Unsecured Claims in Class 4.

in accordance with Article III.B.4(b)(3) of the Plan; provided, however, (a) as a result of the HSBC Bank Lien, HSBC Bank shall first be entitled to be paid the Indenture Trustee Fees and Expenses from the Subordinated Note Share and (b) the remaining portion of the Subordinated Note Share after payment of the Indenture Trustee Fees and Expenses in full satisfaction of the HSBC Bank Lien shall be distributed to the Holders of the Guaranteed Line of Credit Claims, until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture; and

(2) If and only to the extent that the Guaranteed Line of Credit Claims have been paid in full in cash in accordance with Article III.B.5(b)(1) of the Plan, the remaining portion of the Subordinated Note Share, if any, shall be distributed to the Holders of Allowed Subordinated Note Claims on a pro rata basis.

(iii) *Voting*: Class 5 is impaired. Holders of Subordinated Note Claims in Class 5 are entitled to vote to accept or reject the Plan.

(f) **Class 6 - Intercompany Claims**

(i) *Classification*: Class 6 consists of all Intercompany Claims.

(ii) *Treatment*: On the Effective Date, all Intercompany Claims shall be cancelled and Holders of Intercompany Claims shall not receive or retain any Distribution or property on account of such Intercompany Claim under the Plan.

(iii) *Voting*: Class 6 is impaired. Because Holders of Intercompany Claims will receive no Distributions under the Plan, Class 6 will be deemed to have voted to reject the Plan.

(g) **Class 7 - Equity Interests**

(i) *Classification*: Class 7 consists of all Equity Interests.

(ii) *Treatment*: On the Effective Date, all Equity Interests shall be cancelled and the Holders of Equity Interests shall not receive or retain any Distribution or property on account of such Equity Interests.

(iii) *Voting*: Class 7 is impaired. Because Holders of Equity Interests will receive no Distribution under the Plan, Class 7 will be deemed to have voted to reject the Plan.

D. TREATMENT OF DISPUTED CLAIMS

1. Objections to Claims; Prosecution of Disputed Claims

From and after the Effective Date, the Plan Administrator(s) shall object (and shall take over, and continue prosecuting, any outstanding objections by the Debtors) to the allowance of Disputed Claims filed with the Bankruptcy Court. All objections shall be litigated to Final Order; provided, however, that the Debtors (prior to the Effective Date) or the Plan Administrator(s) (on and after the Effective Date), as the case may be, shall have the authority and sole discretion to file, settle, compromise or withdraw any objections to Claims, without approval of the Bankruptcy Court.

The deadline to object to or investigate and review Claims shall be one hundred eighty (180) days after the Effective Date; provided, however, the Debtors and the Plan Administrator(s), as the case may be, reserve the right to seek further extensions of time within which to object to Claims from the Bankruptcy Court by filing a motion with the Bankruptcy Court with proper notice to parties in interest in accordance with relevant Local Rules of the Bankruptcy Court and Federal Rules of Bankruptcy Procedure, and all parties in interest reserve the right to object to such extensions of time in accordance with relevant Local Rules of the Bankruptcy Court and Federal Rules of Bankruptcy Procedure. To the extent the Debtors, the Plan Administrator(s) or any other party in interest Files an objection to a Claim on or before such deadline, such Claim shall be deemed and treated as a Disputed Claim under the Plan. Any objections to Claims and settlement thereof shall be dealt with as the Debtors or the Plan Administrator(s), as the case may be, in their sole discretion, deem to be appropriate. Further, the Debtors or the Plan Administrator(s), as the case may be, shall have the sole and complete discretion to decide not to review and/or object to proofs of Claim below a certain dollar amount to the extent such review and/or objection would be uneconomical.

Unless otherwise provided by the Plan, no Bankruptcy Court approval shall be required in order for the Debtors or the Plan Administrator(s), as the case may be, to settle and/or compromise any Claim, objection to Claim, Cause of Action, or right to payment of or against the Debtors, their Estates or the Post Confirmation Estate.

2. Estimation of Claims

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

3. Payments and Distributions on Disputed Claims

No interest shall be paid on Disputed Claims that later become Allowed Claims or with respect to any Distribution to such Holder. No Distribution shall be made with respect to all or any portion of any Claim, a portion of which or all of which is a Disputed Claim, pending the entire resolution thereof. To the extent any property is distributed to an Entity on account of a Claim that is not an Allowed Claim, such property shall promptly be returned to the Post Confirmation Estate for distribution in accordance with the terms of the Plan.

4. Amendments to Claims

Unless otherwise provided in the Plan, a Holder of a Claim may not amend its proof of Claim after the Confirmation Date without the agreement of the Debtors or, on and after the Effective Date, the Plan Administrator(s). Unless otherwise provided in the Plan, an amended Claim Filed after the Confirmation Date shall be deemed disallowed in full without any action by the Debtors or the Plan Administrator(s) to the extent that such amended Claim modifies or supplements any prior Claims of the applicable Holder.

E. DISTRIBUTIONS

1. Means of Cash Payment

Cash payments, made pursuant to the Plan, shall be in U.S. dollars and, at the option and in the sole discretion of the Debtors or the Plan Administrator(s), be made by (a) checks drawn on or (b) wire transfers from a domestic bank selected by the Debtors or the Plan Administrator(s). Cash payments to foreign creditors may be made, at the option of the Debtors or the Plan Administrator(s), in such funds and by such means as are necessary or customary in a particular foreign jurisdiction.

2. Delivery of Distributions

Subject to the provisions of Rule 2002(g) of the Bankruptcy Rules, and except as otherwise provided in the Plan, distributions and deliveries to Holders of Allowed Claims shall be made at the address of each such Holder as set forth on the Schedules filed with the Bankruptcy Court, unless superseded by the address set forth on timely filed proof(s) of Claim or some other writing Filed with the Bankruptcy Court and served upon the Debtors or the Plan Administrator(s).

3. Undeliverable Distributions

(a) Holding of Undeliverable Distributions:

If any Distribution to any Holder is returned to the Plan Administrator(s) as undeliverable, no further Distributions shall be made to such Holder unless and until the Plan Administrator(s) are notified by such Holder, in writing, of such Holder's then-current address. Upon such an occurrence, the appropriate Distribution shall be made as soon as reasonably practicable after such Distribution has become deliverable. All Entities ultimately receiving previously undeliverable Cash shall not be entitled to any interest or other accruals of any kind. Nothing contained in the Plan shall require the Debtors or the Plan Administrator(s) to attempt to locate any Holder of an Allowed Claim or an Allowed Equity Interest.

(b) Failure to Claim Undeliverable Distributions:

Any Holder of an Allowed Claim entitled to an undeliverable or unclaimed Distribution that does not provide notice of such Holder's correct address to the Debtors and the Plan Administrator(s) within the later of six (6) months after (i) the Effective Date or (ii) the date of the initial Distribution made by the Debtors or the Plan Administrator(s) to such Holder, shall be deemed to have forfeited its claim for such undeliverable or unclaimed Distribution and shall be forever barred and enjoined from asserting any such claim for an undeliverable or unclaimed Distribution against any of the Debtors, their Estates or the Post Confirmation Estate. In such cases, the Forfeited Unsecured Distributions and the Other Forfeited Distributions shall be distributed in accordance with Article III.B.4(b)(2) of the Plan. Nothing contained in the Plan shall require the Debtors or the Plan Administrator(s) to attempt to locate any Holder of an Allowed Claim.

4. Withholding and Reporting Requirements

In connection with the Plan and all Distributions thereunder, the Debtors and the Plan Administrator(s) shall comply with all tax withholding and reporting requirements imposed by any U.S. federal, state or local or non-U.S. taxing authority, and all Distributions thereunder shall be subject to any such withholding and reporting requirements. The Debtors and the Plan Administrator(s) shall be authorized to take any and all actions that may be necessary or appropriate to comply with such withholding and reporting requirements. Notwithstanding any other provision of the Plan, (a) each Holder of an Allowed Claim that is to receive a Distribution pursuant to the Plan shall have sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding and other tax obligations, on account of such Distribution, and (b) the Debtors and the Plan Administrator(s) reserve the option, in their discretion, to not make a Distribution to or on behalf of such Holder pursuant to the Plan unless and until such Holder has made arrangements satisfactory to the Debtors or the Plan Administrator(s) for the payment and

satisfaction of such tax obligations or has, to the satisfaction of the Debtors or the Plan Administrator(s), established an exemption therefrom. Any Distributions to be made pursuant to the Plan shall, pending the implementation of such withholding and reporting requirements, be treated as undeliverable pursuant to Article V.C.2 of the Plan.

5. Time Bar to Cash Payments

Checks issued by the Debtors or the Plan Administrator(s) on account of Allowed Claims shall be null and void if not negotiated within ninety (90) days from and after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the Plan Administrator(s) by the Holder of the Allowed Claim. Any claim relating to such voided check shall be made on or before the later of: (i) one hundred and eighty (180) days after the Effective Date or (ii) one hundred and eighty (180) days after the Distribution Date of such Distribution. After such date, all claims relating to such voided checks shall be discharged and forever barred, and the Post Confirmation Estate shall treat all such moneys related to Allowed General Unsecured Claims and Allowed Subordinated Note Claims in the same manner as the Forfeited Unsecured Distributions, in accordance with Article III.B.4(b)(2) of the Plan, and all such moneys related to all other Allowed Claims in the same manner as the Other Forfeited Distributions, in accordance with Article III.B.4(b)(2) of the Plan.

6. Distributions after Effective Date

Distributions made after the Effective Date to Holders of Claims that are not Allowed Claims as of the Effective Date, but which later become Allowed Claims, shall be deemed to have been made on the Effective Date.

7. Interest

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

8. Fractional Dollars; De Minimis Distributions

Notwithstanding anything contained in the Plan to the contrary, payments of fractions of dollars will not be made. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, the actual payment made will reflect a rounding of such fraction to the nearest dollar (up or down), with half dollars being rounded down. The Plan Administrator(s) will not make any payment of less than twenty dollars ($20) on account of any Allowed Claim, unless a specific request therefor is made in writing to the Plan Administrator(s) on or before ninety (90) days after the Effective Date.

9. Setoffs

Consistent with applicable law, the Plan Administrator(s) may, but shall not be required to, set-off against any Allowed Claim and the Distributions to be made pursuant to the Plan on account thereof (before any Distribution is made on account of such Claim), the claims, rights and Causes of Action of any nature that the Debtors, their Estates, the Plan Administrator(s) or the Post Confirmation Estate may hold against the Holder of such Allowed Claim; provided, however, that neither the failure to effect such a set-off nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors, their Estates, the Plan Administrator(s) or the Post Confirmation Estate of any such claims, rights and Causes of Action that the Debtors, their Estates, the Plan Administrator(s) or the Post Confirmation Estate may possess against such Holder.

10. Settlement of Claims and Controversies

Pursuant to Bankruptcy Rule 9019 and in consideration for the Distributions and other benefits provided under the Plan, the provisions of the Plan shall constitute a good faith compromise of all Claims or controversies relating to the contractual, legal and subordination rights that a Holder of a Claim may have with respect to any Allowed Claim with respect thereto, or any Distribution to be made on account of such an Allowed

Claim. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims or controversies, and the Bankruptcy Court's finding that such compromise or settlement is in the best interests of the Debtors, their Estates and Holders of Claims and is fair, equitable and reasonable.

11. Professional Fees and Expenses

Each Professional retained with approval by order of the Bankruptcy Court or requesting compensation in the Chapter 11 Cases pursuant to sections 330 or 503(b) of the Bankruptcy Code shall be required to file an application for an allowance of final compensation and reimbursement of expenses in the Chapter 11 Cases incurred through the Confirmation Date on or before a date to be set by the Bankruptcy Court in the Confirmation Order. Objections to any such application shall be filed on or before a date to be set by the Bankruptcy Court in the Confirmation Order. All compensation and reimbursement of expenses Allowed by the Bankruptcy Court shall be paid no later than ten (10) Business Days after the entry of the order allowing such fees and expenses.

F. MEANS FOR IMPLEMENTATION OF THE PLAN

1. Substantive Consolidation

(a) Consolidation of the Chapter 11 Cases

The Plan contemplates and shall effect the substantive consolidation of the Debtors into a single Entity solely for the purposes of all actions associated with Confirmation and Consummation of the Plan. On the Effective Date: (a) no Distributions will be made under the Plan on account of the Intercompany Claims; (b) the guarantees of certain Debtors of obligations of other Debtors, including, but not limited to, those obligations arising under the Credit Agreement and the Subordinated Notes, will be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint and several liability of any Debtor with another Debtor will be deemed to be one obligation of the deemed consolidated Debtors; and (c) each and every Claim against a Debtor will be deemed asserted against the consolidated Estates of all of the Debtors, will be deemed one Claim against and obligation of the deemed consolidated Debtors and their Estates and will be treated in the same Class regardless of the Debtor. Notwithstanding the substantive consolidation herein, substantive consolidation shall not affect the obligation of each and every Debtor under 28 U.S.C. § 1930(a)(6) until a particular case is closed, converted or dismissed.

(b) Substantive Consolidation Order

The Plan shall serve as a motion seeking entry of an order substantively consolidating the Debtors' Chapter 11 Cases. Unless an objection to substantive consolidation is made in writing by any creditor affected by the Plan on or before the Plan Objection Deadline, an order substantively consolidating the Debtors' Chapter 11 Cases may be entered by the Bankruptcy Court. In the event any such objections are timely filed, a hearing with respect thereto shall be scheduled by the Bankruptcy Court, which hearing may, but need not, coincide with the Confirmation Hearing.

(c) Reservation of Rights

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

2. Corporate Action

Upon the entry of the Confirmation Order by the Bankruptcy Court, all matters provided under the Plan involving the corporate structure of the Debtors shall be deemed authorized and approved without any

requirement of further action by the Debtors, the Debtors' shareholders or the Debtors' boards of directors. The Debtors (and their board of directors) shall dissolve or otherwise terminate their existence upon the Effective Date.

3. Establishment of the Post Confirmation Estate

The Debtors shall have the sole authority to administer all Assets prior to their transfer to the Post Confirmation Estate on the Effective Date.

On or before the Effective Date, the Debtors, on their own behalf and on behalf of Holders of Allowed Claims, shall take all steps necessary to establish the Post Confirmation Estate, including, without limitation, execution of the Post Confirmation Estate Agreement, substantially in the form attached hereto as Exhibit D. On the Effective Date, and in accordance with and pursuant to the terms of the Plan and the Post Confirmation Estate Agreement, the Debtors shall assign and transfer to the Post Confirmation Estate all of their right, title, and interest in and to all of the Post Confirmation Estate Assets, notwithstanding any prohibition of assignability under applicable non-bankruptcy law. In connection with the transfer of the Post Confirmation Estate Assets, any attorney-client privilege, work-product privilege, or other privilege or immunity attaching to any documents or communications (whether written or oral) transferred to the Post Confirmation Estate shall vest in the Post Confirmation Estate and its representatives, including the Plan Administrator(s). The Debtors, the Post Confirmation Estate and the Plan Administrator(s) are authorized to take all necessary actions to effectuate the transfer of such privileges.

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

4. Funding for the Plan

The Plan shall be funded by the Post Confirmation Estate Assets, including, without limitation, (i) Cash on hand on the Effective Date and (ii) funds available after the Effective Date from, among other things, the prosecution and enforcement of Causes of Action of the Debtors.

5. Liquidation Reserve

The Debtors, after consultation with the Creditors Committee, shall reserve sufficient Cash to adequately fund the administration of the Plan and the respective Chapter 11 Cases on and after the Effective Date, including, without limitation, the reasonably anticipated fees and expenses of the Plan Administrator(s) and the professionals of the Plan Administrator(s) that are incurred after the Effective Date, as well as any other fees, costs and expenses payable in connection with the implementation of the Plan and the orderly winding up of the Debtors' affairs; provided, however, the Creditors Committee shall retain its rights to object to the amount of such reservation of Cash. The Debtors anticipate that the Liquidation Reserve will be established in an amount between $750,000 and $1,000,000. Such amount, however, is inherently subject to contingencies beyond the control of the Debtors, and, therefore, subject to change. The actual amount of the Liquidation Reserve could be materially different than the amount currently anticipated by the Debtors. Immediately prior to the dissolution of the Post Confirmation Estate, any remaining Cash in the Liquidation Reserve will be distributed in the same manner as would Forfeited Unsecured Distributions and Other Forfeited Distributions in accordance with Article III.B.4(b)(2) of the Plan.

6. Accounts

The Debtors and the Plan Administrator(s) may establish one or more interest-bearing accounts as they determine necessary or appropriate to effectuate the provisions of the Plan.

7. Closing of the Chapter 11 Cases

When all Disputed Claims filed against the Debtors have become Allowed Claims or have been disallowed by Final Order, and all remaining Post Confirmation Estate Assets have been liquidated and converted into Cash (other than those assets, if any, abandoned by the Post Confirmation Estate), and such Cash has been distributed in accordance with the Plan, or at such earlier time as the Plan Administrator(s) deem appropriate, the Plan Administrator(s) shall seek authority from the Bankruptcy Court to close the Chapter 11 Cases in accordance with the Bankruptcy Code and the Bankruptcy Rules. Prior to the closing of the Chapter 11 Cases, the Post Confirmation Estate shall have (i) paid all fees payable subsequent to the Effective Date under 28 U.S.C. § 1930(a)(6) and (ii) complied with all post-Confirmation bankruptcy reporting requirements, including the reporting of disbursement activity under the Plan, in accordance with applicable law.

8. Preservation of Causes of Action; Settlement of Causes of Action

The Debtors are currently investigating whether to pursue potential Causes of Action against other parties or Entities. Under the Plan, the Plan Administrator(s) retain all rights of and on behalf of the Debtors and the Post Confirmation Estate to commence and pursue any and all Causes of Action (under any theory of law, including, without limitation, the Bankruptcy Code, and in any court or other tribunal including, without limitation, in an adversary proceeding filed in the Debtors' Chapter 11 Cases) discovered in such investigation to the extent the Plan Administrator(s) deem appropriate.

Subject to the releases and exculpation provisions in the Plan, Causes of Action which may be pursued by the Debtors prior to the Effective Date and by the Post Confirmation Estate and the Plan Administrator(s) after the Effective Date, include, without limitation any Causes of Action, whether legal, equitable or statutory in nature, arising out of, or in connection with, the Debtors' businesses or operations, including, without limitation, the following: counterclaims arising out of or in connection with the Deng Arbitration (as defined and discussed in further detail in Article VIII.C herein); possible claims arising out of or in connection with the Rogers Action (as defined and discussed in further detail in Article VIII.C herein); possible claims against vendors, landlords, sublessees, assignees, customers or suppliers for warranty, indemnity, back charge/set-off issues, overpayment or duplicate payment issues and collections/accounts receivables matters; deposits or other amounts owed by any creditor, lessor, utility, supplier, vendor, landlord, sublessee, assignee, or other Entity; employee, management or operational matters; claims against landlords, sublessees and assignees arising from the various leases, subleases and assignment agreements relating thereto, including, without limitation, claims for overcharges relating to taxes, common area maintenance and other similar charges; financial reporting; environmental, and product liability matters; actions against insurance carriers relating to coverage, indemnity or other matters; counterclaims and defenses relating to any Claims or other obligations; contract or tort claims which may exist or subsequently arise; and any and all Avoidance Actions pursuant to any applicable section of the Bankruptcy Code arising from any transaction involving or concerning the Debtors, including, without limitation, the Preference Actions set forth in Exhibit C of this Disclosure Statement.

In addition, there may be numerous other Causes of Action which currently exist or may subsequently arise that are not set forth in the Plan or in the Disclosure Statement because the facts upon which such Causes of Action are based are not currently or fully known by the Debtors and, as a result, cannot be raised during the pendency of the Chapter 11 Cases. The failure to list any such unknown Cause of Action in the Disclosure Statement or the Plan is not intended to limit the right of the Plan Administrator(s) to pursue any unknown Cause of Action to the extent the facts underlying such unknown Cause of Action subsequently becomes fully known to the Debtors or the Plan Administrator(s).

The Debtors and the Plan Administrator(s) do not intend, and it should not be assumed that because any existing or potential Causes of Action have not yet been pursued by the Debtors or are not set forth herein or in the Plan, that any such Causes of Action have been waived.

Unless Causes of Action against an Entity are expressly waived, relinquished, released pursuant to Article X.F of the Plan, compromised or settled in the Plan, or any Final Order, the Debtors expressly reserve all Causes of Action, known or unknown, for later adjudication and therefore, no preclusion doctrine, including, without limitation, the doctrines of *res judicata*, collateral estoppel, issue preclusion, claim preclusion, estoppel

(judicial, equitable or otherwise) or laches shall apply to such Causes of Action upon or after the Confirmation or Consummation of the Plan.

Except as otherwise provided in the Plan or in any contract, instrument, release, indenture or other agreement entered into in connection with the Plan, in accordance with section 1123(b)(3) of the Bankruptcy Code, any claims, rights, and Causes of Action that the respective Debtors or the Post Confirmation Estate may hold against any Entity shall vest in the Post Confirmation Estate, and the Plan Administrator(s), on behalf of the Post Confirmation Estate, shall retain and may exclusively enforce, as the authorized representative of the Post Confirmation Estate, any and all such claims, rights, or Causes of Action, as appropriate, in accordance with the best interests of the Post Confirmation Estate and the Holders of Allowed Claims entitled to Distributions under the Plan. The Plan Administrator(s), on behalf of the Post Confirmation Estate, shall have the exclusive right, authority, and discretion to institute, prosecute, abandon, settle, or compromise any and all such claims, rights, and Causes of Action without the consent or approval of any third party and without any further order of the Bankruptcy Court or any other court.

9. Cancellation of Notes, Instruments, Debentures and Equity Securities

On the Effective Date, except to the extent provided otherwise in the Plan, all notes, instruments, debentures, certificates and other documents evidencing Claims and all Equity Interests in any of the Debtors shall be canceled and deemed terminated and surrendered (regardless of whether such notes, instruments, debentures, certificates or other documents are in fact surrendered for cancellation to the appropriate indenture trustee or other such Person). On the Effective Date, except to the extent provided otherwise in the next paragraph, any indentures to which any Debtor is a party shall be deemed canceled as permitted by section 1123(a)(5) of the Bankruptcy Code.

On the Effective Date, the Indenture shall be cancelled as permitted by section 1123(a)(5) of the Bankruptcy Code; provided, however, HSBC Bank, as indenture trustee for the Subordinated Notes, shall retain its rights to enforce the HSBC Bank Lien securing the Debtors' payment obligations with respect to the Indenture Trustee Fees and Expenses under Section 7.07 of the Indenture in accordance with the terms of the Indenture.

10. Dissolution of the Creditors Committee

On the Effective Date, the Creditors Committee shall dissolve and the members thereof and the professionals retained by the Creditors Committee in accordance with section 1103 of the Bankruptcy Code shall be released and discharged from their respective fiduciary obligations without need of any further Bankruptcy Court order.

11. Insurance Preservation; Directors and Officers Insurance; Indemnification

Nothing in the Plan, including any releases, shall diminish or impair the enforceability of any policies of insurance that may cover any Claims against the Debtors or any other Entity.

The Post Confirmation Estate shall assume the pre-Effective Date obligations to the Debtors' directors and officers solely to the extent that such obligations are covered by directors and officers insurance policies. Other than as set forth in the preceding sentence, the Post Confirmation Estate shall not be liable or responsible in any way for any pre-Effective Date obligations to the Debtors or the Debtors' directors and officers.

12. Accounting

Any and all reserves maintained by the Debtors or the Plan Administrator(s), as the case may be, in connection with the distribution of funds on account of the Allowed Claims, may be maintained by bookkeeping entries alone; the Debtors or the Plan Administrator(s), as the case may be, need not (but may) establish separate bank accounts for such purposes.

G. EXECUTORY CONTRACTS

1. Rejection of Executory Contracts and Unexpired Leases

Any executory contracts or unexpired leases which have not (i) expired by their own terms on or prior to the Effective Date, or (ii) been assumed, assumed and assigned, or rejected with the approval of the Bankruptcy Court, shall be deemed rejected by the Debtors as of the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the rejections of such executory contracts and unexpired leases pursuant to sections 365(a) and 1123 of the Bankruptcy Code. To the best of the Debtors' knowledge, the Debtors have rejected all executory contracts and unexpired leases that were not assumed and assigned to HIG in connection with the Sale. To the extent any executory contracts or unexpired leases have not been previously rejected by the Debtors, any resulting rejection damages are expected to be de minimis.

2. Rejection Damages Claim

Each Entity that is a party to an executory contract or unexpired lease that is rejected as of the Effective Date pursuant to the Plan and the Confirmation Order will be entitled to File, not later than thirty (30) days following the Effective Date, a proof of Claim for damages alleged to have been suffered due to such rejection; provided, however, that the opportunity afforded an Entity whose executory contract or unexpired lease is rejected as of the Effective Date pursuant to the Plan and the Confirmation Order to file a proof of Claim shall in no way apply to Entities that may assert a claim on account of an executory contract or unexpired lease that was previously rejected by the Debtors for which a prior bar date was established. Any Entity that has a Claim for damages as a result of the rejection of an executory contract or unexpired lease pursuant to the Plan that does not File a proof of Claim in accordance with the terms and provisions of the Plan with the Bankruptcy Court (and serve such proof of Claim upon the Plan Administrator(s)) will be forever barred from asserting that Claim against, and such Claim shall be unenforceable against, the Debtors, their Estates and the Post Confirmation Estate.

H. POST CONFIRMATION ESTATE; PLAN ADMINISTRATOR(S)

1. Post Confirmation Estate

(a) Purpose of the Post Confirmation Estate

The Post Confirmation Estate shall be established for the primary purpose of liquidating its assets, in accordance with Treas. Reg. § 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business. The Post Confirmation Estate shall not be deemed a successor-in-interest of the Debtors for any purpose other than as specifically set forth in the Plan. The Post Confirmation Estate is intended to qualify as a "grantor trust" for federal income tax purposes with the beneficiaries treated as grantors and owners of the trust.

(b) Termination of Post Confirmation Estate

The Post Confirmation Estate will dissolve when all Disputed Claims have been resolved, all Distributions have been made pursuant to the Plan and all other obligations under the Plan have been fulfilled.

2. Plan Administrator(s)

(a) Generally

On the Effective Date, James E. Ashton, Joseph J. Incandela and/or any other Person(s) designated by the Debtors, after consultation with the Creditors Committee, shall be appointed the Plan Administrator(s) and each shall serve in such capacity through the earlier of the date the Post Confirmation Estate is dissolved in accordance with Article VIII.A.2 of the Plan or the date such Plan Administrator resigns, is removed, terminated or otherwise unable to serve; provided, however, the Creditors Committee shall retain its rights to object to the designation of a Plan Administrator other than James E. Ashton or Joseph J. Incandela. In the event that a Plan Administrator resigns, is removed, terminated or otherwise unable to serve as a Plan Administrator, then the Plan

Administrator shall have the right to select a successor who may be appointed a Plan Administrator and shall serve in such capacity until the Post Confirmation Estate is dissolved in accordance with Article VIII.A.2 of the Plan. In the event the Plan Administrator(s) elects not to exercise his right to select a successor, such successor Plan Administrator shall be appointed by the Bankruptcy Court. Any successor Plan Administrator appointed shall be bound by and comply with the terms of the Plan, the Confirmation Order and the Post Confirmation Estate Agreement.

James E. Ashton has served as Chairman of the Debtors' board of directors since 2000. Dr. Ashton is currently Chairman of Poco Graphite, Inc., TransVision Technologies, One Neck, Inc. and ThermaSys, Inc. (all leveraged buy-outs acquired since 2000), and is co-owner and Chairman of ExacTech, Inc. and Marine TraveLift, Inc. Previously, Dr. Ashton served as Chief Executive Officer of Precision Partners, Inc. and Fiberite, Inc. (also leveraged buy-outs). Before becoming active in the private equity marketplace, he served in a succession of General Management positions with General Dynamics Corporation, Rockwell International, Schlumberger, and FMC Corporation. Dr. Ashton has prospered as an engineer, scholar, executive and entrepreneur. He received his B.S. from the University of Iowa, M.S. and Ph.D. from the Massachusetts Institute of Technology, and M.B.A. from Harvard Business School.

Joseph J. Incandela has served as a member of the Debtors' board of directors since 2002. Mr. Incandela is currently Chairman of the Board of Advisors to Cross Country Group, the leading OEM provider of roadside services to America's automotive industry. In 2000, Mr. Incandela founded Overture Capital Partners. Prior to this, Mr. Incandela served as a Managing Director of the Thomas H. Lee Company, a Boston-based private equity investment company, from 1991 to 1999. From 1983 to 1991, he held successive positions as President and Chief Executive Officer of Conductron Corporation, Chairman and Chief Executive Officer of Amerace Corporation, and Interim Chief Executive Officer of Darling International. Mr. Incandela has also served on the board of directors of numerous corporations. Mr. Incandela has a B.A. in Economics from Wagner College in Staten Island, New York, and attended the Graduate School of Business at Loyola University in Chicago, Illinois.

The powers, authority, responsibilities and duties of the Plan Administrator(s) shall be governed by the Plan, the Confirmation Order and the Post Confirmation Estate Agreement. The Plan Administrator(s) shall be responsible for implementing the applicable provisions of the Plan, including without limitation, the matters described in Article IV and Article V of the Plan. The Plan Administrator(s) shall have all of the rights and powers necessary to effectuate the Plan. The Plan Administrator(s) may execute, deliver, file or record such documents, instruments, releases and other agreements, and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

(b) Compensation

The Plan Administrator(s) shall serve in their respective capacities on (i) the terms, conditions and rights set forth in the Plan and the Post Confirmation Estate Agreement (substantially in the form attached hereto as Exhibit D) or (ii) such terms, conditions and rights as otherwise agreed to by the Plan Administrator(s) and the Debtors, after consultation with the Creditors Committee; provided, however, the Creditors Committee shall retain the right to object to such terms and conditions. As of the date of this Disclosure Statement, (a) James E. Ashton is compensated at a monthly rate of $5,000 and (b) Joseph J. Incandela is compensated at a quarterly-annual rate of $2,500, for their respective services performed on behalf of the Debtors. As set forth in the Post Confirmation Estate Agreement, if James E. Ashton is appointed to serve as the Plan Administrator, he shall be paid a monthly fee of $5,000 as compensation for the services rendered pursuant to the Post Confirmation Estate Agreement. Any professionals retained by the Plan Administrator(s) shall be entitled to reasonable compensation for services rendered and reimbursement of expenses incurred. After the Effective Date, the fees and expenses of the Plan Administrator(s) and any professionals retained by the Plan Administrator(s) that are incurred after the Effective Date shall be paid in the ordinary course of business, and shall not be subject to the approval of the Bankruptcy Court.

Any professionals retained by the Plan Administrator(s) shall be entitled to reasonable compensation for services rendered and reimbursement of expenses incurred. After the Effective Date, the fees and expenses of the Plan Administrator(s) and any professionals retained by the Plan Administrator(s) that are incurred

after the Effective Date shall be paid in the ordinary course of business, and shall not be subject to the approval of the Bankruptcy Court.

3. Exculpation; Indemnification

No Holder of a Claim or any other party-in-interest will have, or otherwise pursue, any Claim or cause of action against the Plan Administrator(s), the Post Confirmation Estate or the employees or professionals thereof (solely in the performance of their duties thereas), for making payments in accordance with the Plan or for implementing the provisions of the Plan, except for any acts or omissions to act that are the result of willful misconduct or gross negligence.

I. CONDITIONS PRECEDENT TO PLAN CONFIRMATION AND CONSUMMATION

The Debtors have proposed the Plan, but such proposal is conditioned upon the occurrence or non-occurrence of certain events and conditions. Specifically, there are certain conditions precedent to the Debtors seeking confirmation of the Plan, and there are additional conditions precedent to the Debtors ultimately consummating the Plan. These conditions, and the circumstances under which such conditions may be waived, are discussed immediately below.

1. Acceptance or Rejection of the Plan

(a) Acceptance by Impaired Classes

An Impaired Class of Claims will have accepted the Plan if the Holders of at least two-thirds in amount and more than one-half in number of the Allowed Claims in the Class actually voting have voted to accept the Plan, in each case not counting the vote of any Holder designated under section 1126(e) of the Bankruptcy Code.

(b) Elimination of Classes

Any Class that does not contain any Allowed Claims or Equity Interests or any Claims or Equity Interests temporarily allowed for voting purposes under Federal Rule of Bankruptcy Procedure 3018, as of the date of the commencement of the Confirmation Hearing, will be deemed not included in the Plan for purposes of (i) voting to accept or reject the Plan and (ii) determining whether such Class has accepted or rejected the Plan under section 1129(a)(8) of the Bankruptcy Code.

(c) Nonconsensual Confirmation

The Bankruptcy Court may confirm the Plan over the dissent of any Impaired Class if all of the requirements for consensual confirmation under subsection 1129(a), other than subsection 1129(a)(8), of the Bankruptcy Code and for nonconsensual confirmation under subsection 1129(b) of the Bankruptcy Code have been satisfied. In the event that any Impaired Class of Claims or Equity Interests shall fail to accept the Plan in accordance with section 1129(a) of the Bankruptcy Code, the Debtors reserve the right to (i) request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code or (ii) amend the Plan.

2. Conditions Precedent to Confirmation

The occurrence of the Confirmation Date shall be subject to satisfaction of the following conditions precedent:

(a) The entry of the Confirmation Order in form and substance satisfactory to the Debtors, after consultation with the Creditors Committee.

(b) The Debtors are authorized to take all actions necessary or appropriate to enter into, implement and consummate the Plan and other agreements or documents created in connection with the Plan.

(c) The provisions of the Confirmation Order are nonseverable and mutually independent.

(d) All Entities shall be permanently enjoined from enforcing or attempting to enforce any contractual, legal and equitable subordination right satisfied, compromised or settled pursuant to Article X.B of the Plan.

3. Conditions Precedent to Effective Date of the Plan

The occurrence of the Effective Date and the Consummation of the Plan are subject to satisfaction of the following conditions precedent:

(a) Confirmation Order. The Confirmation Order as entered by the Bankruptcy Court shall be a Final Order in full force and effect, in form and substance reasonably satisfactory to the Debtors.

(b) Execution of Documents; Other Actions. All actions, documents and agreements necessary to implement the Plan, including, without limitation, the Post Confirmation Estate Agreement, in form and substance satisfactory to the Debtors, after consultation with the Creditors Committee, shall have been effected or executed. The Debtors shall have the authority to take all actions and execute such other documents as may be necessary to implement the Plan.

The Debtors anticipate that the Effective Date will occur between 30 and 60 days after the Confirmation Date. Such timeframe, however, is inherently subject to contingencies beyond the control of the Debtors, and, therefore, subject to change. The actual timeframe of the Effective Date could be materially different than the timeframe currently anticipated by the Debtors.

4. Waiver of Conditions Precedent

To the extent legally permissible, each of the conditions precedent in Article IX.B and Article IX.C of the Plan may be waived, in whole or in part, by the Debtors in their sole discretion, after consultation with the Creditors Committee. Any such waiver of a condition precedent may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action other than proceeding as if such condition did not exist. The failure of the Debtors to exercise any of the foregoing rights shall not be deemed a waiver of any other rights. Upon the waiver of any conditions to the Effective Date set forth in Article IX.C of the Plan, and subject to the satisfaction in full of each of the remaining conditions set forth in such Article, the Plan shall become effective in accordance with its terms without notice to third parties or any other formal action.

5. The Confirmation Order

If the Confirmation Order is vacated for whatever reason, the Plan shall be null and void in all respects and nothing contained in the Plan or the Disclosure Statement shall: (i) constitute a waiver or release of any Claims by or against, or any Equity Interests in, any of the Debtors; (ii) prejudice in any manner the rights of the Debtors; or (iii) constitute an admission, acknowledgment, offer or undertaking by the Debtors.

J. EFFECT OF PLAN CONFIRMATION

1. Termination of Equity Interests

Confirmation shall terminate all Equity Interests and other rights of equity security holders in the Debtors.

2. Termination of Subordination Rights and Settlement of Related Claims

The classification and manner of satisfying all Claims and Equity Interests and the respective Distributions and treatments under the Plan take into account and/or conform to the relative priority and rights of the Claims and Equity Interests in each Class in connection with any contractual, legal and equitable subordination

rights relating thereto whether arising under general principles of equitable subordination, section 510(b) of the Bankruptcy Code or otherwise, and any and all such rights are settled, compromised and released pursuant to the Plan. **The Confirmation Order shall permanently enjoin, effective as of the Effective Date, all Persons from enforcing or attempting to enforce any such contractual, legal and equitable subordination rights satisfied, compromised and settled in this manner.**

3. Injunction

Except as otherwise expressly provided in the Plan, all Entities that have held, hold or may hold Claims against or Equity Interests in the Debtors are permanently enjoined, from and after the Effective Date, from taking any of the following actions against any of the Debtors, their Estates, the Post Confirmation Estate, the Plan Administrator(s), the Professionals or any of their property on account of any Claims or causes of action arising from events prior to the Effective Date, including, without limitation: (i) commencing or continuing in any manner any action or other proceeding of any kind; (ii) enforcing, attaching, collecting or recovering by any manner or in any place or means any judgment, award, decree or order; (iii) creating, perfecting, or enforcing any Lien or encumbrance of any kind; and (iv) asserting any right of setoff against any obligation, debt or liability due to the Debtors. The Debtors expressly reserve all rights and defenses that the Debtors may have (including, without limitation, the rights of subrogation and recoupment) with respect to any obligation, debt or liability allegedly due to any Entity.

By accepting Distributions pursuant to the Plan, each Holder of an Allowed Claim receiving Distributions pursuant to the Plan will be deemed to have specifically consented to the injunctions set forth in the Plan.

4. Terms of Existing Injunctions and Stays

Unless otherwise provided, all injunctions or stays provided for in the Chapter 11 Cases pursuant to sections 105, 362 or 525 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date. The Confirmation Order will permanently enjoin the commencement or prosecution by any Entity, whether directly, derivatively or otherwise, of any Claims, Equity Interests, obligations, suits, judgments, damages, demands, debts, rights, causes of action or liabilities released pursuant to the Plan.

5. Exculpation

Neither the Debtors, their Estates, the Post Confirmation Estate, the Plan Administrator(s), the Professionals, the Creditors Committee nor any of their respective officers, directors, members, shareholders, employees, advisors, attorneys or agents acting in such capacity on or after the Petition Date or their respective affiliates, (I) shall have or incur any liability to, or be subject to any right of action by, the Debtors or any Holder of a Claim or an Equity Interest, or any other party in interest, or any of their respective agents, shareholders, employees, representatives, financial advisors, attorneys or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of, (a) any act taken or omitted to be taken on or after the Petition Date, (b) the Disclosure Statement, the Plan, and the documents necessary to effectuate the Plan, (c) the solicitation of acceptances and rejections of the Plan, (d) the Mutual Releases or the solicitation thereof, (e) the Chapter 11 Cases, (f) the administration of the Plan, (g) the distribution of property under the Plan, (h) any contract, instrument, release or other agreement or document created or entered into in connection with the Plan or the Chapter 11 Cases or (i) the Sale, except for any acts or omissions to act that are the result of willful misconduct or gross negligence; and (II) in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to their duties and responsibilities under the Plan.

6. Releases

(a) **Releases by the Debtors**

As of the Effective Date, for good and valuable consideration, the adequacy of which is hereby confirmed, the Debtors, in their individual capacities and as Debtors-in-Possession, and their Estates shall forever release, waive and discharge all claims, interests, obligations, suits, judgments, damages, losses, costs, expenses, demands, debts, liens, contracts, agreements, promises, rights, causes of action and liabilities (other than the rights of the Debtors to enforce the Plan and the contracts, instruments, releases, indentures and other agreements or documents delivered thereunder) whether direct or derivative, liquidated or unliquidated, concealed or hidden, latent or patent, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to (i) the Debtors, (ii) the parties released pursuant to Article X.F of the Plan, (iii) any act taken or omitted to be taken on or after the Petition Date, (iv) the Disclosure Statement, the Plan and the documents necessary to effectuate the Plan, (v) the solicitation of acceptances and rejections of the Plan, (vi) the solicitation of the Mutual Releases, (vii) the Chapter 11 Cases, (viii) the administration of the Plan, (ix) the property to be distributed under the Plan, (x) the Sale or (xi) any contract, instrument, release or other agreement or document created or entered into in connection with the Plan or the Chapter 11 Cases, and that could have been asserted by or on behalf of the Debtors or their Estates against each of (a) the directors, officers, employees and agents of the Debtors on or after the Petition Date (other than for money borrowed from or owed to the Debtors by any such directors, officers, employees or agents as set forth in the Debtors' books and records), (b) the Professionals, (c) the Prepetition Lenders other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballots, (d) the Holders of Other Secured Claims other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballot, (e) the Holders of General Unsecured Claims other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballots, (f) the Holders of Subordinated Note Claims other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballots, (g) HSBC Bank, and (h) the Creditors Committee and the individual members thereof; provided, however, nothing in this paragraph is intended or shall be construed to release, waive or discharge (A) any acts or omissions to act that are the result of willful misconduct or gross negligence or (B) any of the parties listed in this paragraph from any of and with respect to the Avoidance Actions, including, without limitation, the Preference Actions.

(b) **Mutual Releases by Holders of Claims and Interests**

As of the Effective Date, in exchange for accepting consideration pursuant to the Plan, (a) each Holder of a Prepetition Lenders Claim, an Other Secured Claim, a General Unsecured Claim and a Subordinated Note Claim that (i) votes to accept the Plan and (ii) has not affirmatively rejected the Mutual Releases on its Ballots, (b) HSBC Bank and (c) the Creditors Committee and the individual members thereof shall forever release, waive and discharge all claims, interests, obligations, suits, judgments, damages, losses, costs, expenses, demands, debts, liens, contracts, agreements, promises, rights, causes of action and liabilities whether direct or derivative, liquidated or unliquidated, concealed or hidden, latent or patent, fixed or contingent, matured or unmatured, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are based in whole or in part on any act, omission, transaction, event or other occurrence taking place on or prior to the Effective Date in any way relating to (i) the Debtors, (ii) the parties released pursuant to Article X.F of the Plan, (iii) any act taken or omitted to be taken on or after the Petition Date, (iv) the Disclosure Statement, the Plan, and the documents necessary to effectuate the Plan, (v) the solicitation of acceptances and rejections of the Plan, (vi) the solicitation of the Mutual Releases, (vii) the Chapter 11 Cases, (viii) the administration of the Plan, (ix) the property to be Distributed under the Plan, (x) the Sale or (xi) any contract, instrument, release or other agreement or document created or entered into in connection with the Plan or the Chapter 11 Cases, against each of (a) the Debtors and their Estates, (b) the directors, officers, employees and agents of the Debtors on or after the Petition Date (other than Claims or interests unrelated to the Debtors), (c) the Professionals, (d) the Prepetition Lenders other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballot, (e) the Holders of Other Secured Claims other than any such party that did not vote to accept the Plan or has

affirmatively rejected the Mutual Releases on its Ballot, (f) the Holders of General Unsecured Claims other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballot, (g) the Holders of Subordinated Note Claims other than any such party that did not vote to accept the Plan or has affirmatively rejected the Mutual Releases on its Ballots, (h) HSBC Bank, (i) the Creditors Committee and the individual members thereof, and (j) the respective affiliates and representatives, officers, directors, employees, agents, members, direct and indirect shareholders, advisors, and professionals of the foregoing on or after the Petition Date; provided, however, nothing in this paragraph is intended or shall be construed to release, waive or discharge (A) any acts or omissions to act that are the result of willful misconduct or gross negligence or (B) any defenses in connection with or related to the Avoidance Actions, including, without limitation, the Preference Actions.

(c) **Mutual Releases By and Among the Debtors, Creditors Committee and Lender Parties**

Notwithstanding anything contained in Articles IV.J.6(a) and IV.J.6(b) of this Disclosure Statement to the contrary, pursuant to the Appeal Settlement approved by the Bankruptcy Court on October 19, 2004, on the Effective Date, (i) Bank of America, N.A., individually and in its capacity as Agent for the Prepetition Lenders under the Credit Agreement, (ii) each of the Prepetition Lenders, (iii) JWC Bridgeco, Inc., as a party to the Last Out Participation Agreement, (iv) UBS Capital LLC, as a party to the Last Out Participation Agreement, and (v) the current and former directors, officers, agents, employees, attorneys, predecessors, professionals, representatives, subsidiaries, parents and affiliates of the foregoing and their successors and assigns (the entities set forth in (i) through (v) of this paragraph are collectively referred to as, the "Lender Parties") shall release and forever discharge the Debtors, the Debtors' Estates, the Creditors Committee and all of the Debtors' and Creditors Committee's current and former directors, officers, agents, employees, attorneys, predecessors, professionals, representatives, subsidiaries, parents and affiliates of the foregoing and their successors and assigns (collectively, the "Debtor/Committee Parties") of and from any and all manner of action or actions, cause or causes of action, in law or equity, suits, debts, liens, contracts, agreements, promises, liabilities, Claims (including, but not limited to, claims for attorneys' fees, costs and sanctions), damages, demands, losses, costs or expenses of any nature (including, without limitation, any costs or expenses incurred by the Lender Parties in connection with their efforts to dismiss the Appeal in accordance with the Appeal Settlement and to obtain Bankruptcy Court approval of the Appeal Settlement) currently existing or arising in the future, whether known or unknown, suspected or unsuspected, fixed or contingent, concealed or hidden, latent or patent, which the Lender Parties have or may have against the Debtor/Committee Parties; provided, however, nothing in this paragraph is intended or shall be construed to release, waive or discharge any rights expressly arising out of, provided for, or reserved in the Plan.

Notwithstanding anything in Articles IV.J.6(a) and IV.J.6(b) of this Disclosure Statement to the contrary, pursuant to the Appeal Settlement approved by the Bankruptcy Court on October 19, 2004, on the Effective Date, the Debtor/Committee Parties shall release and forever discharge the Lender Parties of and from any and all manner of action or actions, cause or causes of action, in law or equity, suits, debts, liens, contracts, agreements, promises, liabilities, Claims (including, but not limited to, claims for attorneys' fees, costs and sanctions), damages, demands, losses, costs or expenses of any nature, currently existing or arising in the future, whether known or unknown, suspected or unsuspected, fixed or contingent, concealed or hidden, latent or patent, which the Debtor/Committee Parties have or may have against the Lender Parties; provided, however, nothing in this paragraph is intended or shall be construed to release, waive or discharge any rights expressly arising out of, provided for, or reserved in the Plan.

K. MISCELLANEOUS PROVISIONS

Certain additional miscellaneous information regarding the Plan and the Chapter 11 Cases is set forth below.

1. Payment of Statutory Fees and Compliance with Reporting Obligations

All fees payable pursuant to 28 U.S.C. § 1930, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid by the Debtors on or before the Effective Date to the extent required by applicable law. All fees payable subsequent to the Effective Date under 28 U.S.C. § 1930(a)(6) shall be paid by the

Post Confirmation Estate until the Chapter 11 Cases are converted, dismissed or closed, whichever occurs first. The Post Confirmation Estate shall also comply with all post-Confirmation bankruptcy reporting requirements, including the reporting of disbursement activity under the Plan, in accordance with applicable law.

2. Post-Confirmation Date Fees and Expenses of Professionals

After the Confirmation Date, the Debtors or, on and after the Effective Date, the Plan Administrator(s), as the case may be, shall, in the ordinary course of business and without the necessity of any approval of the Bankruptcy Court, pay the reasonable fees and expenses of the professional persons employed by the Debtors in connection with the implementation and consummation of the Plan, the claims reconciliation process and any other matters as to which such professionals may be engaged. The fees and expenses of such professionals shall be paid within fifteen (15) Business Days after submission of a detailed invoice therefor to the Debtors. If the Debtors dispute the reasonableness of such invoice, the Debtors may submit such dispute to the Bankruptcy Court for determination of the reasonableness of such invoice, and the disputed portion of such invoice shall not be paid until the dispute is resolved. The undisputed portion of such fees and expenses shall be paid as provided for in the Plan.

3. Section 1146 Exemption

Pursuant to section 1146(c) of the Bankruptcy Code, (a) the creation, modification, consolidation or recording of any mortgage, deed of trust, lien, pledge or other security interest; (b) the making, recording or assignment of any lease or sublease; or (c) the making recording or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with, the Plan, including, without limitation, any merger agreements; agreements of consolidation, restructuring, disposition, liquidation or dissolution; deeds; bills of sale; and transfers of tangible property, will not be subject to any stamp tax, recording tax, personal property tax, real estate transfer tax, sales or use tax or other similar tax. Any transfers from the Debtors to the Post Confirmation Estate or otherwise pursuant to the Plan shall not be subject to any such taxes, and the Confirmation Order shall direct the appropriate state or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment. Unless the Bankruptcy Court orders otherwise, any of the foregoing transactions taken on or prior to the Effective Date shall be deemed to have been in furtherance of, or in connection with, the Plan.

4. Business Day

If any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

5. Severability

The provisions of the Plan shall not be severable unless such severance is agreed to by the Debtors and such severance would constitute a permissible modification of the Plan pursuant to section 1127 of the Bankruptcy Code.

6. Conflicts

Except as set forth below, to the extent that any provision of the Disclosure Statement or the Confirmation Order (or any exhibits, schedules, appendices, supplements or amendments to the foregoing) or any other order referenced in the Plan, conflict with or are in any way inconsistent with the terms of the Plan, the Plan shall govern and control.

7. Further Assurances

The Debtors, the Plan Administrator(s), all Holders of Claims receiving Distributions under the Plan, and all other parties in interest shall, from time to time, prepare, execute and deliver agreements or documents and take other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

8. Notices

All notices, requests, and demands required by the Plan or otherwise, to be effective, shall be in writing, including by facsimile transmission, and, unless otherwise expressly provided in the Plan, shall be deemed to have been duly given or made when actually delivered to all of the following, or in the case of notice by facsimile transmission, when received by all of the following, addressed as follows or to such other addresses as Filed with the Bankruptcy Court:

To Counsel for the Debtors:	**To Counsel for the Creditors Committee:**
Kirkland & Ellis LLP c/o James H.M. Sprayregen, P.C. and James W. Kapp III, Esq. 200 East Randolph Drive Chicago, Illinois 60601 Telephone: (312) 861-2000 Facsimile: (312) 861-2200 and Pachulski, Stang, Ziehl, Young, Jones & Weintraub P.C. c/o Laura Davis Jones, Esq. and Curtis A. Hehn, Esq. 919 North Market Street, 16th Floor P.O. Box 8705 Wilmington, Delaware 19899-8705 (Courier 19801) Telephone: (302) 652-4100 Facsimile: (302) 652-4400	Stroock & Stroock & Lavan LLP c/o Gerald C. Bender, Esq. and Karyn B. Zeldman, Esq. 180 Maiden Lane New York, New York 10038-4982 Telephone: (212) 806-5400 Facsimile: (212) 806-6006 and Ashby & Geddes c/o William P. Bowden, Esq. 222 Delaware Avenue P.O. Box 1150 Wilmington, Delaware 19899 Telephone: (302) 654-1888 Facsimile: (302) 654-2067
To Counsel for the Prepetition Lenders: Shearman & Sterling LLP c/o Fredric Sosnick, Esq. 599 Lexington Avenue New York, New York 10022-6069 Telephone: (212) 848-4000 Facsimile: (212) 848-7179	

9. Filing of Additional Documents

On or before the Effective Date, the Debtors may File with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

10. Successors and Assigns

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, any heir, executor, administrator, successor or assign of such Entity.

11. Closing of Case

The Plan Administrator(s) shall, promptly upon the full administration of the Chapter 11 Cases, file with the Bankruptcy Court all documents required by Bankruptcy Rule 3022 and any applicable order of the Bankruptcy Court to close the Chapter 11 Cases.

12. Section Headings

The section headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan.

13. Further Information

Requests for further information regarding the Debtors should be directed to the Information Agent.

L. RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain and have exclusive jurisdiction after the Effective Date over any matter arising under the Bankruptcy Code, arising in or related to the Chapter 11 Cases or the Plan, or that relates to the following, in each case to the greatest extent permitted by applicable law:

1. to enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan;

2. to determine any and all motions, adversary proceedings, applications and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by the Plan Administrator(s) or the Post Confirmation Estate after the Effective Date; provided, however, that the Plan Administrator(s) and the Post Confirmation Estate shall reserve the right to commence collection actions, actions to recover receivables and other similar actions in all appropriate jurisdictions;

3. to ensure that distributions to Holders of Allowed Claims are accomplished as provided in the Plan;

4. to hear and determine any timely objections to Administrative Claims and Priority Tax Claims or to proofs of Claim and Equity Interests filed, both before and after the Confirmation Date, including any objections to the classification of any Claim or Equity Interest, and to allow, disallow, determine, liquidate, classify, estimate or establish the priority of or secured or unsecured status of any Claim, in whole or in part;

5. to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, reversed or vacated;

6. to issue such orders in aid of execution of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code;

7. to consider any modifications of the Plan, to cure any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order;

8. to hear and determine all applications for awards of compensation for services rendered and reimbursement of expenses incurred on or before the Confirmation Date;

9. to hear and determine disputes arising in connection with or relating to the Plan or the interpretation, implementation, or enforcement of the Plan or the extent of any Entity's obligations incurred in connection with or released or exculpated under the Plan;

10. to issue injunctions, enter and implement other orders or take such other actions as may be necessary or appropriate to restrain interference by any Entity with consummation or enforcement of the Plan;

11. to determine any other matters that may arise in connection with or are related to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release or other agreement or document created in connection with the Plan or the Disclosure Statement to be executed in connection with the Plan;

12. to hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

13. to hear any other matter or for any purpose specified in the Confirmation Order that is not inconsistent with the Bankruptcy Code; and

14. to enter a Final Decree closing the Chapter 11 Cases.

M. MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

1. Modification of the Plan

The Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, after consultation with the Creditors Committee, to amend or modify the Plan at any time prior to the entry of the Confirmation Order; provided, however, the Creditors Committee shall retain its rights to object to such amendment or modification. Upon entry of the Confirmation Order, the Debtors may, upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan. A Holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim of such Holder and the votes of each Class for or against the Plan shall be counted and used in connection with the modified plan of reorganization.

2. Revocation, Withdrawal or Non-Consummation

The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date and to file subsequent plans of reorganization. If the Debtors revoke or withdraw the Plan, or if the Confirmation Order confirming the Plan shall not be entered or become a Final Order, then (a) the Plan shall be null and void in all respects, (b) any settlement or compromise embodied in the Plan (including the fixing or limiting to an amount certain any Claim or Equity Interest or Class of Claims or Equity Interests), assumption or rejection of executory contracts or leases affected by the Plan, and any document or agreement executed pursuant to the Plan, shall be deemed null and void, and (c) nothing contained in the Plan, and no acts taken in preparation for consummation of the Plan, shall (1) constitute a waiver or release of any Claims by or against, or any Equity Interests in, the Debtors or any other Entity, (2) prejudice in any manner the rights of the Debtors or any other Entity, (3) constitute an admission of any sort by the Debtors or any other Entity, or (4) constitute a release of any Causes of Action possessed or maintained by the Debtors.

V.
ACCEPTANCE OR REJECTION OF THE PLAN

A. CLASSES ENTITLED TO VOTE

Each Impaired Class of Claims that will receive or retain property or any interest in property under the Plan is entitled to vote to accept or reject the Plan. Classes 1, 2, 4 and 5 shall be entitled to vote to accept or reject the Plan.

B. ACCEPTANCE BY IMPAIRED CLASSES

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

C. PRESUMED ACCEPTANCE OF THE PLAN

By operation of law, each Class of Claims that is Unimpaired is deemed to have accepted the Plan and, therefore, is not entitled to vote. Class 3 is Unimpaired under the Plan, and, therefore, is presumed to have accepted the Plan pursuant to section 1126(f) of the Bankruptcy Code.

D. PRESUMED REJECTION OF THE PLAN

By operation of law, Holders of Impaired Claims and Impaired Equity Interests that are not entitled to receive or retain any property under the Plan are presumed to have rejected the Plan and, therefore, are not entitled to vote. Classes 6 and 7 are Impaired under the Plan and are not entitled to receive or retain any property under the Plan and, thus, are presumed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code.

VI.
PROCEDURES FOR VOTING ON THE PLAN

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

A. VOTING DEADLINE

The Voting Deadline to accept or reject the Plan is 4:00 p.m. (prevailing eastern time) on March 7, 2005, unless the Bankruptcy Court or the Debtors extend the period during which votes will be accepted by the Debtors, in which case the Voting Deadline for such solicitation shall mean the last time and date to which such solicitation is extended.

B. VOTING RECORD DATE

The Voting Record Date for purposes of determining which Holders of Claims are entitled to vote on the Plan is January 28, 2005.

C. VOTING INSTRUCTIONS

This Disclosure Statement, accompanied by a Ballot to be used for voting on the Plan, is being distributed to Holders of Claims in Classes 1, 2, 4 and 5. Only Holders in these Classes are entitled to vote to accept or reject the Plan and may do so by completing the Ballot and returning it in the envelope provided. ***In light of the benefits of the Plan for each Class of Claims, the Debtors recommend that Holders of Claims in each of the Impaired Classes vote to accept the Plan and return the Ballot.***

BALLOTS AND MASTER BALLOTS CAST BY HOLDERS IN CLASSES ENTITLED TO VOTE MUST BE RECEIVED BY THE SOLICITATION AGENT BY THE VOTING DEADLINE AT THE FOLLOWING ADDRESSES:

If by U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
P.O. Box 926
El Segundo, CA 90245-0926

If by hand or courier other than U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
1330 East Franklin Avenue
El Segundo, CA 90245

IF YOU HAVE ANY QUESTIONS ON VOTING PROCEDURES, PLEASE CALL THE SOLICITATION AGENT AT (888) 909-0100.

BALLOTS AND MASTER BALLOTS ARE ACCOMPANIED BY RETURN ENVELOPES WHENEVER POSSIBLE. ANY BALLOT OR MASTER BALLOT RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED.

ANY BALLOT WHICH IS EXECUTED BY THE HOLDER OF AN ALLOWED CLAIM BUT WHICH INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN SHALL BE DEEMED AN ACCEPTANCE OF THE PLAN.

The Debtors will publish the Confirmation Hearing Notice once within seven (7) business days after the entry of the order approving the Disclosure Statement in the national edition of The Wall Street Journal, which will contain the date for the Plan Objection Deadline and the Confirmation Hearing, in order to provide notification to persons who may not otherwise receive notice by mail.

For all Holders:

By signing and returning a Ballot, each Holder of Claims in Classes 1, 2, 4 and 5 will also be certifying to the Bankruptcy Court and the Debtors that, among other things:

- such Person or Entity is the Holder of the aggregate face amount of the Claims set forth in the Ballot and has full power and authority to vote to accept or reject the Plan;
- such Person or Entity has received and reviewed a copy of the Disclosure Statement, the Plan, the Ballot and other solicitation materials and documents related thereto, and acknowledges that the solicitation of votes to accept or reject the Plan is being made pursuant to the terms and conditions set forth therein;
- such Person or Entity either (a) has not submitted any other Ballots for such Class of Claims held in other accounts or other registered names or (b) has disclosed on each Ballot completed by it the existence of Claims in the same Class held in other accounts or registered names, and the submission of other Ballots for such Claims;
- such Person or Entity has cast the same vote on every Ballot completed by such Person or Entity with respect to holdings of such Class of Claims;
- no other Ballots with respect to such Class of Claims have been cast or, if any other Ballots have been cast with respect to such Class of Claims, such earlier Ballots are thereby revoked;
- such Person or Entity (or in the case of an authorized signatory, the beneficial interest holder) be treated as the record holder of such Class of Claims for purposes of voting on the Plan;
- (a) the Debtors have made available to such Person or Entity or its agents all documents and information relating to the Plan and related matters reasonably requested by or on behalf of such Person or Entity, and (b) except for information provided by the Debtors in writing, and by its own agents, such Person or Entity has not relied on any statements made or other information received from any Person with respect to the Plan; and

- all authority conferred or agreed to be conferred pursuant to the Ballot, and every obligation of the Holder thereunder shall be binding upon the transferees, successors, assigns, heirs, executors, administrators, trustees in bankruptcy and legal representatives of the Holder and shall not be affected by, and shall survive, the death or incapacity of the Holder.

D. VOTING TABULATION

In tabulating votes, the following rules shall be used to determine the Claim amount associated with a creditor's vote:

- If the Debtors do not object to a Claim, the Claim amount for voting purposes shall be the Claim amount contained on a timely filed proof of claim or, if no proof of claim was filed, the non-contingent, liquidated and undisputed Claim amount listed in the Debtors' Schedules;

- Ballots cast by creditors whose Claims are not listed on the Schedules, but who timely file proofs of Claim in unliquidated or unknown amounts that are not the subject of an objection filed before the commencement of the Confirmation Hearing, will count for satisfying the numerosity requirement of section 1126(c) of the Bankruptcy Code and will count as Ballots for Claims in the amount of $1.00 solely for the purpose of satisfying the dollar amount provisions of section 1126(c) of the Bankruptcy Code;

- If the Debtors object to a Claim, such creditor's Ballot shall not be counted in accordance with Bankruptcy Rule 3018(a), unless temporarily allowed by the Bankruptcy Court for voting purposes, after notice and a hearing;

- If a creditor casts a Ballot and (i) is listed on the Schedules as holding a Claim that is contingent, unliquidated or disputed and (ii) has not filed a proof of Claim, such creditor's Ballot shall not be counted in accordance with Bankruptcy Rule 3018(a), unless temporarily allowed by the Bankruptcy Court for voting purposes, after notice and a hearing;

- Creditors seeking temporary allowance of their Claims for voting purposes must serve on the Debtors and file with the Bankruptcy Court a motion for an order pursuant to Bankruptcy Rule 3018(a) (a "Rule 3018(a) Motion") seeking temporary allowance for voting purposes. Such Rule 3018(a) Motion, with evidence in support thereof, must be filed by the Plan Objection Deadline. It shall be the responsibility of each creditor filing a Rule 3018(a) Motion to schedule a hearing on such Rule 3018(a) Motion to occur not less than ten (10) days prior to the Confirmation Hearing;

- Unless otherwise provided herein, a Claim will be deemed temporarily allowed for voting purposes in an amount equal to (i) if no proof of Claim was filed, the amount of such Claim as set forth in the Debtors' Schedules as not contingent, unliquidated or disputed or (ii) if a proof of Claim was filed, the amount of such Claim as set forth in such filed proof of Claim; and

- In the case of publicly traded securities, the principal amount or number of shares according to the records of the transfer agent for the particular series of securities, including, in the case of The Depository Trust Company ("DTC"), a further breakdown of the individual Nominee holders which are DTC participants, as of the Voting Record Date, shall be the Claim or interest amount. In no event shall a Nominee holder be permitted to vote in excess of its position in DTC as of the Voting Record Date.

E. VOTING PROCEDURES AND STANDARD ASSUMPTIONS

The following general voting procedures and standard assumptions shall be used in tabulating Ballots:

- Except to the extent the Debtors otherwise determine, or as permitted by the Bankruptcy Court, Ballots and Master Ballots received after the Voting Deadline will not be accepted or counted by the Debtors in connection with the Debtors' request for confirmation of the Plan;

- Creditors shall not split their vote within a Claim; thus, each creditor shall be deemed to have voted the full amount of its Claims either to accept or reject the Plan;

- Creditors holding Claims in more than one Class under the Plan may receive more than one Ballot coded for each different Class; however, each Ballot votes only those Claims indicated on that Ballot;

- The method of delivery of Ballots and Master Ballots to be sent to the Solicitation Agent is at the election and risk of each Holder of a Claim, but, except as otherwise provided in this Disclosure Statement, such delivery will be deemed made only when the original, executed Ballot or Master Ballot is actually received by the Solicitation Agent;

- Delivery of the original, executed Ballot or Master Ballot to the Solicitation Agent on or before the Voting Deadline is required. Delivery of a Ballot or Master Ballot by facsimile, email or any other electronic means will not be accepted;

- No Ballot or Master Ballot sent to the Debtors, any indenture trustee or agent, or the Debtors' financial or legal advisors shall be accepted or counted;

- The Debtors expressly reserve the right to amend at any time and from time to time the terms of the Plan (subject to compliance with section 1127 of the Bankruptcy Code and the terms of the Plan regarding modification). If the Debtors make material changes in the terms of the Plan or the Debtors waive a material condition, the Debtors will disseminate additional solicitation materials and will extend the solicitation, in each case to the extent directed by the Bankruptcy Court;

- If multiple Ballots or Master Ballots are received from or on behalf of an individual Holder of a Claim with respect to the same Claims prior to the Voting Deadline, the last ballot timely received will be deemed to reflect the voter's intent and to supersede and revoke any prior Ballot or Master Ballot;

- If multiple Ballots or Master Ballots are received from or on behalf of an individual Holder of a Claim with respect to the same Claims prior to the Voting Deadline, the decision with respect to the mutual releases reflected on the last valid ballot timely received will be deemed to reflect the voter's intent and to supersede and revoke any prior ballot;

- If a Holder of a Claim who is entitled to vote on the Plan (i) does not return a Ballot or (ii) votes to reject the Plan on its Ballot, such Holder will be deemed to have rejected participation in the Mutual Releases;

- If a Ballot or Master Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, or other person acting in a fiduciary or representative capacity, such person shall be required to indicate such capacity when signing and, unless otherwise determined by the Debtors, must submit proper evidence satisfactory to the Debtors to so act on behalf of a beneficial interest Holder;

- The Debtors, in their sole discretion, subject to contrary order of the Bankruptcy Court, may waive any defect in any Ballot or Master Ballot at any time, either before or after the close of voting, and without notice. Except as otherwise provided herein, the Debtors may, in their sole discretion, reject such defective ballot as invalid and, therefore, not count it in connection with confirmation of the Plan;

- Unless otherwise ordered by the Bankruptcy Court, all questions as to the validity, eligibility (including time of receipt) and revocation or withdrawal of Ballots or Master Ballots will be determined by the Debtors in their sole discretion which determination shall be final and binding;

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

- Any Holder of Impaired Claims who has delivered a valid Ballot voting on the Plan may withdraw such vote solely in accordance with Bankruptcy Rule 3018(a);

- The Debtors' interpretation of the terms and conditions of the Plan and Disclosure Statement shall be final and binding on all parties, unless otherwise directed by the Bankruptcy Court;

- Subject to any contrary order of the Bankruptcy Court, the Debtors reserve the absolute right to reject any and all Ballots and Master Ballots not proper in form, the acceptance of which would, in the opinion of the Debtors or their counsel, not be in accordance with the provisions of the Bankruptcy Code;

- The Debtors further reserve the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot or Master Ballot, unless otherwise directed by the Bankruptcy Court;

- Unless waived or as otherwise ordered by the Bankruptcy Court, any defects or irregularities in connection with deliveries of Ballots or Master Ballots must be cured by the Voting Deadline, and unless otherwise ordered by the Bankruptcy Court, delivery of such Ballots or Master Ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots and Master Ballots previously furnished (and as to which any irregularities have not been cured or waived by the Voting Deadline) will not be counted;

- Neither the Debtors, nor any other Person or Entity, will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots or Master Ballots, nor will any of them incur any liabilities for failure to provide such notification;

- No fees or commissions or other remuneration will be payable to any broker, dealer or other person for soliciting Ballots to accept the Plan;

- The Ballot and Master Ballot is not a letter of transmittal and may not be used for any purpose other than to (i) vote to accept or reject the Plan and (ii) elect not to participate in the mutual releases pursuant to the Plan; and

- The Ballot or Master Ballot does not constitute, and shall not be deemed to be, a proof of Claim or an assertion or admission of a Claim.

The Debtors acknowledge the complexity and difficulty associated with reaching beneficial owners of publicly traded securities, many of which hold their securities in brokerage accounts and through several layers of ownership. As a result, the following procedures, as well as the aforementioned procedures, apply to holders of claims derived from or based on publicly traded securities (collectively, the "Beneficial Holder Claims"):

- The Debtors shall distribute a Ballot to each record Holder of a Beneficial Holder Claim as of the Voting Record Date;

- The Debtors shall also distribute an appropriate number of copies of Ballots to each bank or brokerage firm (or the agent or other Nominee therefor) identified by the Solicitation Agent as an entity through which beneficial owners hold the Beneficial Holder Claims. Each Nominee will be

requested to immediately distribute the Ballots to all beneficial holders for which it holds the Beneficial Holder Claims;

- Each Nominee must summarize on a Master Ballot the individual votes of its respective individual beneficial holders from the Ballots of such beneficial holders and return such Master Ballot to the Solicitation Agent;

- A Nominee may also pre-validate a Ballot for holders of the Beneficial Holder Claims by completing all the information to be entered on the Ballot (the "Pre-Validated Ballot") and forwarding the Pre-Validated Ballot to the beneficial holder for voting;

- Any beneficial holder of the Beneficial Holder Claims holding as a record holder in its own name, shall vote on the Plan by completing and signing the Ballot and returning it to the Solicitation Agent;

- Any beneficial holder of the Beneficial Holder Claims who holds in "street name" through a Nominee shall vote on the Plan either (i) if the Nominee has provided a Pre-Validated Ballot, by completing and signing the Pre-Validated Ballot and returning it directly to the Solicitation Agent on or before the Voting Deadline or (ii) by promptly completing and signing a Ballot and returning it to the Nominee in sufficient time to allow the Nominee to process the Ballot and return a Master Ballot to the Solicitation Agent on or before the Voting Deadline;

- Any Ballot returned to a Nominee by a beneficial holder will not be counted for purposes of accepting or rejecting the Plan until such Nominee properly completes and timely delivers to the Solicitation Agent a Master Ballot that reflects the vote of such beneficial holder;

- If a beneficial holder holds the Beneficial Holder Claims through more than one Nominee, such beneficial holder should execute a separate Ballot for each block of the Beneficial Holder Claims that it holds through any Nominee and (unless the ballot is a Pre-Validated Ballot) return the Ballot to the respective Nominee that holds the Beneficial Holder Claims; and

- If a beneficial holder holds a portion of its Beneficial Holder Claims through a Nominee and another portion directly or in its own name as the record holder, such beneficial holder should follow the procedures described herein with respect to voting each such portion separately.

To ensure that its vote is counted, each Holder of a Claim must (a) complete a Ballot; (b) indicate the Holder's decision either to accept or reject the Plan in the boxes provided in the respective Ballot; and (c) sign and return the Ballot or Master Ballot, as appropriate, so that it is received by the Solicitation Agent on or before the Voting Deadline at the following addresses:

If by U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
P.O. Box 926
El Segundo, CA 90245-0926

If by hand or courier other than U.S. Mail:
Bankruptcy Management Corporation
Attn. DESA Solicitation Agent
1330 East Franklin Avenue
El Segundo, CA 90245

Except to the extent the Debtors determine in their reasonable discretion, or as permitted by the Bankruptcy Court, Ballots and Master Ballots received after the Voting Deadline will not be accepted or counted by the Debtors in connection with the Debtors' request for confirmation of the Plan. **The method of delivery of Ballots and Master Ballots to be sent to the Solicitation Agent is at the election and risk of each Holder of a Claim,** *provided that,* except as otherwise provided herein, such delivery will be deemed made only when the *original*, executed Ballot or Master Ballot is *actually received* by the Solicitation Agent. In all cases, sufficient time should be allowed to assure timely delivery. **Original executed Ballots and Master Ballots are required. Delivery of a Ballot or Master Ballot by facsimile, e-mail or any other electronic means will not be accepted. No Ballot or Master Ballot should be sent to the Debtors, any indenture trustee, or the Debtors' Professionals.**

The Debtors expressly reserve the right to amend, at any time and from time to time, the terms of the Plan (subject to compliance with the requirements of section 1127 of the Bankruptcy Code and the terms of the Plan regarding modification set forth in Article XIII of the Plan). If the Debtors make material changes in the terms of the Plan or if the Debtors waive a material condition, the Debtors will disseminate additional solicitation materials and will extend the solicitation, in each case to the extent directed by the Bankruptcy Court.

F. THE CONFIRMATION HEARING

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan.

The Bankruptcy Court has scheduled the Confirmation Hearing for 2:00 p.m., prevailing eastern time, on March 29, 2005, before the Honorable Walter Shapero, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Delaware, located at 824 Market Street, Wilmington, Delaware. The Confirmation Hearing may be continued from time to time by announcing such continuance in open court or otherwise without further notice to parties in interest.

Objections to confirmation of the Plan must be filed and served on or before 4:00 p.m., prevailing eastern time, on March 7, 2005 (the "Plan Objection Deadline"). All objections to the Plan must be filed with the Bankruptcy Court on or before the Plan Objection Deadline and served in a manner so that they are actually received on or before 4:00 p.m., prevailing eastern time, on the Plan Objection Deadline by the following parties (the "Notice Parties"):

Counsel for the Debtors: Kirkland & Ellis LLP c/o James H.M. Sprayregen, P.C. and James W. Kapp III, Esq. 200 East Randolph Drive Chicago, Illinois 60601 Telephone: (312) 861-2000 Facsimile: (312) 861-2200 and Pachulski, Stang, Ziehl, Young, Jones & Weintraub P.C. c/o Laura Davis Jones, Esq. and Curtis A. Hehn, Esq. 919 North Market Street, 16th Floor P.O. Box 8705 Wilmington, Delaware 19899-8705 (Courier 19801) Telephone: (302) 652-4100 Facsimile: (302) 652-4400	**Counsel for the Creditors Committee:** Stroock & Stroock & Lavan LLP c/o Gerald C. Bender, Esq. and Karyn B. Zeldman, Esq. 180 Maiden Lane New York, New York 10038-4982 Telephone: (212) 806-5400 Facsimile: (212) 806-6006 and Ashby & Geddes c/o William P. Bowden, Esq. 222 Delaware Avenue P.O. Box 1150 Wilmington, Delaware 19899 Telephone: (302) 654-1888 Facsimile: (302) 654-2067
United States Trustee: Office of the United States Trustee c/o David L. Buchbinder, Esq. J. Caleb Boggs Federal Building 844 N. King Street Suite 2313 Lock Box 35 Wilmington, Delaware 19801	**Counsel for the Prepetition Lenders:** Shearman & Sterling LLP c/o Fredric Sosnick, Esq. 599 Lexington Avenue New York, New York 10022-6069 Telephone: (212) 848-4000 Facsimile: (212) 848-7179

The Bankruptcy Court shall only consider timely filed and served written objections. All objections must (a) state with particularity the legal and factual grounds for such objection, (b) provide, where applicable, the specific text that the objecting party believes to be appropriate to insert into the Plan, and (c) describe the nature and amount of the objector's claim. Objections not timely filed and served in accordance with these procedures shall be overruled. With regard to any timely-filed objection(s), the Debtors shall be allowed to file an omnibus reply on or before the date which is three (3) business days before the Confirmation Hearing.

VII.
STATUTORY REQUIREMENTS FOR CONFIRMATION OF THE PLAN

A. GENERALLY

At the Confirmation Hearing, the Bankruptcy Court shall determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied. If so, the Bankruptcy Court shall enter the Confirmation Order. The Debtors believe that the Plan satisfies or will satisfy the applicable requirements, as follows:

- The Plan complies with the applicable provisions of the Bankruptcy Code.
- The Debtors, as Plan proponents, will have complied with the applicable provisions of the Bankruptcy Code.
- The Plan has been proposed in good faith and not by any means forbidden by law.
- Any payment made or promised under the Plan for services or for costs and expenses in, or in connection with, the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any such payment made before the Confirmation of the Plan is reasonable, or if such payment is to be fixed after the Confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.
- With respect to each Class of Impaired Claims or Equity Interests, either each Holder of a Claim or Equity Interest of such Class has accepted the Plan, or will receive or retain under the Plan on account of such Claim or Equity Interest, property of a value, as of the Effective Date of the Plan, that is not less than the amount that such Holder would receive or retain if the Debtors were liquidated on such date under chapter 7 of the Bankruptcy Code.
- Except to the extent that the Holder of a particular Claim will agree to a different treatment of such Claim, the Plan provides that (i) Allowed Administrative Claims and Allowed Other Priority Claims will be paid in full on the Effective Date, or as soon as reasonably practicable thereafter, and (ii) Allowed Priority Tax Claims will be paid in full on the Effective Date, or as soon as reasonably practicable thereafter, or will receive deferred cash payments, over a period not exceeding six (6) years, after the date of assessment of such Claim, of a value, as of the Effective Date, equal to the allowed amount of such Claim.
- At least one Class of Impaired Claims will accept the Plan, determined without including any acceptance of the Plan by any insider holding a Claim of such Class.
- Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan.
- All fees of the type described in 28 U.S.C. § 1930, including the fees of the United States Trustee will be paid as of the Effective Date.

The Debtors believe that (a) the Plan satisfies or will satisfy all of the statutory requirements of chapter 11 of the Bankruptcy Code; (b) the Debtors have complied or will have complied with all of the requirements of chapter 11 of the Bankruptcy Code; and (c) the Plan has been proposed in good faith.

B. FEASIBILITY

The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by the liquidation or the need for further financial reorganization of a debtor. The Plan contemplates that all assets of the Debtors will ultimately be liquidated to Cash and all Cash proceeds will be distributed to the creditors pursuant to the terms of the Plan. Since no further financial reorganization of the Debtors will be possible, the Debtors believe that the Plan meets the feasibility requirement. In addition, based upon, among other things, (i) Cash on hand by the Debtors on the Effective Date and (ii) funds available after the Effective Date from, among other things, the prosecution and enforcement of the Causes of Action, the Debtors believe that sufficient funds will exist on the Effective Date to make all payments required by the Plan.

C. "BEST INTERESTS" TEST

With respect to each Impaired Class of Claims and Equity Interests, confirmation of the Plan requires that each such Holder either (a) accepts the Plan or (b) receives or retains under the Plan property of a value, as of the Effective Date of the Plan, that is not less than the value that each such Holder would receive or retain if the Debtors were to be liquidated under chapter 7 of the Bankruptcy Code.

This analysis requires the Bankruptcy Court to determine what the Holders of Allowed Claims in each Impaired Class would receive from the liquidation of the Debtors' assets and properties in the context of chapter 7 liquidation cases. The cash amount available to satisfy unsecured claims of the Debtors would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtors, augmented by the unencumbered Cash held by the Debtors at the time of the commencement of the liquidation cases. Such cash amount would be reduced by the costs and expenses of the liquidation and by such additional administrative and priority claims that may result from the termination of the Debtors' businesses and the use of chapter 7 for the purposes of liquidation.

The Debtors' costs of liquidation under chapter 7 also would include the fees payable to a trustee in bankruptcy, as well as those payable to attorneys, investment bankers and other professionals that such trustee may engage, plus any unpaid expenses incurred by the Debtors during the Chapter 11 Cases, such as compensation for attorneys, advisors, accountants and costs and expenses of members of any official committees that are allowed in the chapter 7 cases.

The foregoing types of Claims and such other Claims which may arise in the liquidation cases or result from the pending Chapter 11 Cases would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition Claims.

To determine if the Plan is in the best interests of each Impaired Class, the value of the distributions from the proceeds of the liquidation of the Debtors' assets and properties (after subtracting the amounts attributable to the aforesaid claims) is then compared with the value offered to such classes of claims and equity interests under the Plan.

In applying the "best interests" test, it is possible that claims and equity interests in the chapter 7 cases may not be classified according to the seniority of such claims and equity interests. In the absence of a contrary determination by the Bankruptcy Court, all pre-chapter 11 unsecured claims that have the same rights upon liquidation would be treated as one class for the purposes of determining the potential distribution of the liquidation proceeds resulting from the chapter 7 cases of the Debtors. The distributions from the liquidation proceeds would be calculated on a pro rata basis according to the amount of the Claim held by each creditor. Therefore, creditors who claim to be third-party beneficiaries of any contractual subordination provisions might have to seek to enforce such contractual subordination provisions in the Bankruptcy Court or otherwise. The Debtors believe that the most likely outcome of liquidation proceedings under chapter 7 would be the application of the rule of absolute priority of

distributions. Under that rule, no junior creditor receives any distribution until all senior creditors are paid in full with interest and no stockholder receives any distribution until all creditors are paid in full with postpetition interest.

The Debtors, with the assistance of their financial advisors, have prepared a hypothetical chapter 7 recovery analysis, which is annexed to this Disclosure Statement as Exhibit B (the "Hypothetical Chapter 7 Recovery Analysis"). After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Cases, including: (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee and (b) the increases in claims which would be satisfied on a priority basis or on parity with creditors in the Chapter 11 Cases, the Debtors have determined, as summarized on the following chart, that Confirmation of the Plan will provide each Holder of an Allowed Claim with as much or more than the amount it would receive pursuant to liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

Class	Claim	Projected Recovery under the Plan	Projected Recovery under Chapter 7
Unclassified	Administrative Claims	100%	100%
Unclassified	Priority Tax Claims	100%	100%
1	Prepetition Lenders Claim	16%[11]	100%
2	Other Secured Claims	100%	100%
3	Other Priority Claims	100%	100%
4	General Unsecured Claims	5%	4%
5	Subordinated Note Claims	0%[12]	0%
6	Intercompany Claims	0%	0%
7	Equity Interests	0%	0%

Although the Debtors believe the Plan meets the "best interests" test of section 1129(a)(7) of the Bankruptcy Code, there can be no assurance that the Bankruptcy Court will determine that the Plan meets this test. **THESE ESTIMATES OF VALUE ARE SUBJECT TO A NUMBER OF ASSUMPTIONS AND SIGNIFICANT QUALIFYING CONDITIONS. ACTUAL VALUES AND RECOVERIES COULD VARY MATERIALLY FROM THE ESTIMATES SET FORTH HEREIN.**

D. ACCEPTANCE BY IMPAIRED CLASS

The Bankruptcy Code requires, as a condition to Confirmation, that each class of claims or equity interests that is impaired under a plan accept the plan, with the exception described in Article VII.E of the Disclosure Statement. A class that is not "impaired" under a plan of reorganization is deemed to have accepted the plan and, therefore, solicitation of acceptances with respect to such class is not required. A class is "impaired" unless the plan (a) leaves unaltered the legal, equitable and contractual rights to which the claim or equity interest entitles the holder

[11] As discussed in further detail in Article II.C.1(b) herein, (i) the Debtors have previously made certain payments to the Prepetition Lenders during the Chapter 11 Cases on behalf of the Prepetition Lenders Claim pursuant to certain orders entered by the Bankruptcy Court and (ii) $154,886.01 constitutes the remaining unpaid amount of the Prepetition Lenders Claim. Pursuant to the Appeal Settlement (as discussed in further detail in Article II.C.1(c) herein), the Prepetition Lenders have agreed to receive $25,000 on behalf of the remaining unpaid amount of the Prepetition Lenders Claim, pursuant to the terms of, and in accordance with, the Plan. However, if the Plan is not confirmed by the Bankruptcy Court, the Debtors would likely be required to liquidate their assets under chapter 7 of the Bankruptcy Code, and the Prepetition Lenders may assert entitlement to the full remaining unpaid amount of the Prepetition Lenders Claim in the amount of $154,886.01.

[12] As discussed in further detail in Articles II.C.2 and II.C.3 herein, pursuant to the Indenture, (i) all obligations on the Subordinated Notes are subordinated in right of payment to the prior payment in full in cash of all senior indebtedness under the Indenture, including, without limitation, the Guaranteed Line of Credit, and (ii) until all obligations with respect to senior indebtedness under the Indenture are paid in full in cash, any distribution to which the holders of the Subordinated Notes would be entitled shall be made to the holders of senior indebtedness, including, without limitation, the holders of Guaranteed Line of Credit Claims. Therefore, the Subordinated Note Share shall be distributed directly to the Holders of the Guaranteed Line of Credit Claims, until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture. As a result, the Holders of Subordinated Notes are expected to receive no Distributions under the Plan.

of such claim or equity interest; (b) cures any default and reinstates the original terms of the obligation; or (c) provides that on the consummation date, the holder of the claim or interest receives cash equal to the allowed amount of such claim or, with respect to any interest, any fixed liquidation preference to which the interest holder is entitled or any fixed price at which the debtor may redeem the security.

E. NON-CONSENSUAL CONFIRMATION

The Bankruptcy Court may confirm the Plan over the dissent of any Impaired Class if the Plan satisfies all of the requirements for (i) consensual confirmation under section 1129(a), other than section 1129(a)(8), of the Bankruptcy Code and (ii) nonconsensual confirmation under section 1129(b) of the Bankruptcy Code.

To obtain nonconsensual confirmation of the Plan under a procedure commonly known as "cramdown," it must be demonstrated to the Bankruptcy Court that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to each impaired, non-accepting class. A plan does not discriminate unfairly if the legal rights of a dissenting class are treated in a manner consistent with the treatment of other classes whose legal rights are substantially similar to those of the dissenting class and if no class receives more than it is entitled to for its claims or interests. The Debtors believe that the Plan satisfies this requirement.

The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." The Bankruptcy Code establishes tests for determining what is "fair and equitable" for secured creditors, unsecured creditors and equity holders, as follows:

1. Secured Claims

Either (i) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (ii) each impaired secured creditor realizes the "indubitable equivalent" of its allowed secured claim, or (iii) the property securing the claim is sold free and clear of liens, with such liens to attach to the proceeds of the sale and the treatment of such liens with respect to such proceeds as provided in clause (i) or (ii).

2. Unsecured Claims

Either (i) each impaired unsecured creditor receives or retains, under the plan, property of a value equal to the amount of its allowed claim or (ii) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

3. Equity Interests

Either (i) each holder of an equity interest will receive or retain, under the plan, property of value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled, or the value of the interest or (ii) the holder of an interest that is junior to the non-accepting class will not receive or retain any property under the plan.

The Debtors reserve the right to pursue confirmation of the Plan without having previously obtained sufficient acceptances of the Plan from all Classes of Impaired Claims and Equity Interests. In such case, the Debtors may request confirmation of the Plan under section 1129(b) of the Bankruptcy Code notwithstanding that such Class or Classes did not accept the Plan.

THE DEBTORS BELIEVE THAT THE PLAN MAY BE CONFIRMED ON A NONCONSENSUAL BASIS (PROVIDED AT LEAST ONE IMPAIRED CLASS OF CLAIMS VOTES TO ACCEPT THE PLAN). ACCORDINGLY, THE DEBTORS WILL DEMONSTRATE AT THE CONFIRMATION HEARING THAT THE PLAN SATISFIES THE REQUIREMENTS OF SECTION 1129(b) OF THE BANKRUPTCY CODE AS TO ANY NON-ACCEPTING CLASS.

VIII.
PLAN-RELATED RISK FACTORS AND ALTERNATIVES TO CONFIRMING AND CONSUMMATING THE PLAN

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

A. FINANCIAL INFORMATION; DISCLAIMER

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

B. CERTAIN BANKRUPTCY CONSIDERATIONS

1. Classification Risk

Under section 1123(a)(4) of the Bankruptcy Code, a plan of reorganization must provide the same treatment for each claim or interest of a particular class, unless the holder of the particular claim or interest agrees to a less favorable treatment of such particular claim or interest. The Debtors can provide no assurance that the Bankruptcy Code will not disapprove of the classifications of Claims and Equity Interests contained in the Plan.

2. The Debtors May Not be Able to Secure Confirmation of the Plan.

There can be no assurance that the Debtors will receive the requisite acceptances to confirm the Plan. Even if the requisite acceptances are received, there can be no assurance that the Bankruptcy Court will confirm the Plan. A non-accepting Holder of a Claim or Equity Interest of the Debtors might contend that the balloting procedures and results are not in compliance with the Bankruptcy Code or Bankruptcy Rules. Even if the Bankruptcy Court determined that the balloting procedures and results were appropriate, the Bankruptcy Court could still decline to confirm the Plan if it found that any of the statutory requirements for confirmation had not been met, including that the terms of the Plan are fair and equitable to non-accepting Classes. Section 1129 of the Bankruptcy Code sets forth the requirements for confirmation and requires, among other things, a finding by the Bankruptcy Court that the Plan "does not unfairly discriminate" and is "fair and equitable" with respect to any non-accepting Classes, confirmation of the Plan is not likely to be followed by a liquidation or a need for further financial reorganization, and the value of distributions to non-accepting Holders of claims and interests within a particular class under the Plan will not be less than the value of distributions such Holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. While there can be no assurance that these requirements will be met, the Debtors believe that the Plan will not be followed by a need for further liquidation and that non-accepting Holders within each Class under the Plan will receive distributions at least as great as they would receive following a liquidation under chapter 7 of the Bankruptcy Code when taking into consideration all administrative claims and costs associated with any such chapter 7 case.

3. The Confirmation and Consummation of the Plan Are Also Subject to Certain Conditions as Described Herein.

If the Plan is not confirmed, it is unclear whether another liquidating plan could be implemented and what distributions Holders of Claims or Equity Interests ultimately would receive with respect to their Claims or Equity Interests. If an alternative liquidating plan could not be agreed to, it is possible that the Debtors would have to liquidate their assets under chapter 7 of the Bankruptcy Code, in which case it is likely Holders of Claims would receive less favorable treatment than they would receive under the Plan.

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

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

5. Estimated Recovery by Individual Unsecured Creditors

The projected recovery values and recovery percentages for Holders of Allowed General Unsecured Claims summarized in this Disclosure Statement represent preliminary estimates only and are subject to change. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Allowed General Unsecured Claims at the projected amount set forth in this Disclosure Statement. The projected amount of Allowed General Unsecured Claims is based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records. Certain parties have filed General Unsecured Claims in the Chapter 11 Cases that do not reconcile with scheduled claims and the Debtors' books and records. The Debtors intend to dispute such claims; however, to the extent any such claims are ultimately Allowed in amounts which differ from the Debtors' analysis, the aggregate amount of Allowed General Unsecured Claims would be increased, and, as a result, the estimated pro rata distributions to Holders of General Unsecured Claims would be diminished.

6. Nonconsensual Confirmation

Pursuant to the "cramdown" provisions of section 1129(b) of the Bankruptcy Code, the Bankruptcy Court can confirm the Plan at the Debtors' request if at least one Impaired Class has accepted the Plan (with such acceptance being determined without including the acceptance of any "insider" in such Class) and, as to each Impaired Class which has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such Impaired Classes. See Article VII above. The Debtors believe that the Plan satisfies these requirements, and pursuant to the Plan, will request such nonconsensual confirmation in accordance with section 1129(b) of the Bankruptcy Code in the event Class 1, 2, 4 or 5 accepts the Plan.

7. Delays of Confirmation and/or the Effective Date

Any delays of either Confirmation or the Effective Date could result in, among other things, increased Claims of Professionals. These or any other negative effects of delays of either Confirmation or the Effective Date could endanger the ultimate approval of the Plan by the Bankruptcy Court.

C. PENDING LITIGATION

The Debtors are involved in routine litigation that was incidental to their business. The Debtors do not believe that the outcome of any such litigation will have a material adverse effect upon the Debtors. In particular, excluding the litigation proceedings discussed below, as a result of the Debtors' applicable insurance policies, as of the Petition Date, none of the Debtors were a party to any litigation in which claims may affect any of the Debtors in an amount exceeding $250,000.

David Deng, et al. v. DESA U.S. Inc. and DESA International, Inc. - On or about November 8, 2001, David Deng, et al. (collectively, "Deng") filed an action before the International Court of Arbitration ("ICA"), Arbitration No. 11845 (the "Deng Arbitration"). In particular, Deng alleges claims against the Debtors for breach of contract and fraud, and has filed a proof of Claim in the Chapter 11 Cases in the amount of $75 million (the "Deng Claim"). The Debtors have no insurance policy covering the Deng Claim. The Debtors, however, dispute the Deng Claim in its entirety and have filed three counterclaims against Deng in the Deng Arbitration. Specifically, the Debtors have alleged: (i) breach of contract, (ii) fraudulent inducement and (iii) failure to indemnify the Debtors against certain third party personal injury claims. To date, no discovery has taken place with respect to the Deng Arbitration. The Deng Arbitration has been stayed as a result of the filing of the Chapter 11 Cases. To the extent it

is ultimately determined that all or any portion of the Deng Claim is Allowed, such Claim would impact the actual recovery of Holders of General Unsecured Claims in Class 4 by diminishing the pro rata distributions to Holders of General Unsecured Claims.

Ronald Rogers v. DESA International, Inc., et al. - On or about September 8, 2000, Ronald Rogers ("Rogers") filed a complaint in the United States District Court, Eastern District of Michigan (the "Michigan District Court"), Civil Action No. 00-73986 (the "Rogers Action"). In particular, the Rogers Action alleges claims against the Debtors for patent infringement and trade misappropriation. The Debtors have no insurance policy covering the allegations or issues relating to the Rogers Action. The Debtors subsequently filed three motions for summary judgment: (i) a motion for summary judgment of patent invalidity, (ii) a motion for summary judgment of patent non-infringement and (iii) a motion for summary judgment on Rogers' trade secret misappropriation claim. On or about October 19, 2001, the Michigan District Court granted the Debtors' motion for summary judgment on patent invalidity and, consequently, determined that the issue of infringement was moot. On or about January 22, 2002, the Michigan District Court granted the Debtors' motion for summary judgment on Rogers' trade secret misappropriation claim.

On or about February 19, 2002, Rogers filed a Notice of Appeal in the United States Court of Appeals for the Federal Circuit, Appeal No. 02-1247, with respect to (i) the order finding Rogers' patent invalid and (ii) the order granting summary judgment on Rogers' trade secret misappropriation claim. Rogers subsequently filed an appellate brief on May 6, 2002 and a corrected brief on May 23, 2002. The Debtors have not completed, nor filed, their reply brief to the appeal. The Rogers Action has been stayed as a result of the filing of the Chapter 11 Cases.

D. LIQUIDATION UNDER CHAPTER 7

The Debtors believe that the Plan affords Holders of Claims and Equity Interests the potential for the greatest recovery and, therefore, is in the best interests of such Holders. If, however, the Plan is not confirmed in the Chapter 11 Cases, the Debtors may be forced to liquidate under chapter 7 of the Bankruptcy Code pursuant to which a trustee would be elected or appointed to liquidate the Debtors' assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. It is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective holders of claims against or interests in the Debtors.

As described herein, however, the Debtors believe that in a liquidation under chapter 7 of the Bankruptcy Code, before creditors receive any distribution, additional administrative expenses involved in the appointment of a trustee or trustees and attorneys, accountants and other professionals to assist such trustee(s) would cause a substantial diminution in the value of the Debtors' estates. The assets available for distribution to creditors would be reduced by such additional expenses and by claims, some of which would be entitled to priority, which would arise by reason of the liquidation.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors, including (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee and professional advisors to such trustee and (b) increases in claims which would be satisfied on a priority basis, **THE DEBTORS HAVE DETERMINED THAT CONFIRMATION OF THE PLAN WILL PROVIDE THE CREDITORS AND EQUITY INTEREST HOLDERS WITH A RECOVERY THAT IS EQUAL TO OR MORE THAN THEY WOULD RECEIVE PURSUANT TO A LIQUIDATION OF THE DEBTORS UNDER CHAPTER 7 OF THE BANKRUPTCY CODE**.

IX.
CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following discussion is a summary of certain U.S. federal income tax consequences of the Plan to the Debtors and to Holders of Allowed Claims. This discussion is based on the Internal Revenue Code of 1986, as amended, Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS") as in effect on the date hereof. Due to the complexity of certain aspects of the Plan, the lack of applicable legal precedent, the possibility of changes in the law, the differences in the nature of the Claims (including Claims within the same Class) and Equity Interests, the Holders' status and method of accounting (including Holders within the same Class) and the potential for

disputes as to legal and factual matters with the IRS, the federal income tax consequences described herein are subject to significant uncertainties. No legal opinions have been requested from counsel with respect to any of the tax aspects of the Plan and no rulings have been or will be requested from the IRS with respect to any of the issues discussed below. Furthermore, legislative, judicial or administrative changes may occur, perhaps with retroactive effect, which could affect the accuracy of the statements and conclusions set forth below as well as the federal income tax consequences to the Debtors and the Holders of Allowed Claims.

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

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

A. CONSEQUENCES TO THE DEBTORS

Under the Plan, on the Effective Date the Debtors will transfer to the Post Confirmation Estate all of the Post Confirmation Estate Assets, including, without limitation, (i) all Cash on hand and (ii) any other funds from the prosecution and enforcement by the Debtors of their Causes of Action. The funding of the Post Confirmation Estate in this manner will be treated by all parties as a transfer of assets by the Debtors to the Holders of Allowed Claims and the subsequent contribution of those assets by such Holders to the Post Confirmation Estate.

The Debtors' transfers of assets may result in the recognition of taxable gain or loss to the Debtors. The Debtors have not estimated the amount of tax liability, whether under the corporate income tax or the alternative minimum tax, if any, that will arise with respect to the Plan and the transactions contemplated thereunder.

B. FEDERAL INCOME TAX TREATMENT OF POST CONFIRMATION ESTATE

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

Although the Post Confirmation Estate has been structured with the intention of complying with guidelines established by the IRS in Rev. Proc. 94-45, 1994-2 C.B. 684, for the formation of liquidating trusts, it is possible that the IRS could require a different characterization of the Post Confirmation Estate, which could result in different and possibly greater tax liability to the Post Confirmation Estate and/or the Holders of Allowed Claims. No ruling has been or will be requested from the IRS concerning the tax status of the Post Confirmation Estate and there can be no assurance the IRS will not require an alternative characterization of the Post Confirmation Estate. If the Post Confirmation Estate were determined by the IRS to be taxable not as a liquidating trust, as described in Treasury Regulation Section 301.7701-4(d), the taxation of the Post Confirmation Estate and the transfer of assets

by the Debtors to the Post Confirmation Estate could be materially different than is described herein and could have a material adverse effect on the Holders of Allowed Claims.

C. CONSEQUENCES TO HOLDERS OF CLAIMS

The federal income tax consequences of the Plan to a Holder of a Claim will depend upon several factors, including, but not limited to: (1) the manner in which a Holder acquired a Claim; (2) the length of time the Claim has been held; (3) whether the Claim was acquired at a discount; (4) whether the Holder has taken a bad debt deduction with respect to the Claim (or any portion thereof) in the current or prior years; (5) whether the Holder has previously included accrued or unpaid interest with respect to the Claim; (6) the method of tax accounting of the Holder; and (7) whether the Holder receives distributions under the Plan in more than one taxable year. **HOLDERS ARE STRONGLY ADVISED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX TREATMENT UNDER THE PLAN OF THEIR PARTICULAR CLAIMS.**

1. Holders of Allowed Claims

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

The transfer of the Post Confirmation Estate Assets to the Post Confirmation Estate by the Debtors should be treated for federal income tax purposes as a transfer of such Post Confirmation Estate Assets to the Holders of Allowed Claims to the extent they are Beneficiaries of the Post Confirmation Estate, followed by a deemed transfer of such Post Confirmation Estate Assets by such Beneficiaries to the Post Confirmation Estate. As a result of such treatment, such Holders of Allowed Claims will have to take into account the fair market value of their Pro Rata share, if any, of the Post Confirmation Estate Assets transferred on their behalf to the Post Confirmation Estate in determining the amount of gain realized and required to be recognized upon consummation of the Plan on the Effective Date. In addition, since a Holder's share of the assets held in the Post Confirmation Estate may change depending upon the resolution of Disputed Claims, the Holder may be prevented from recognizing any loss in connection with consummation of the Plan until the time that all such Disputed Claims have been resolved. **HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE RECOGNITION OF GAIN OR LOSS, FOR FEDERAL INCOME TAX PURPOSES, ON THE SATISFACTION OF THEIR ALLOWED CLAIMS.**

2. Distributions in Discharge of Accrued but Unpaid Interest

Distributions received in respect of Allowed Claims will be allocated first to the principal amount of such Allowed Claims, with any excess allocated to accrued but unpaid interest. However, there is no assurance that the IRS will respect such allocation for federal income tax purposes. Holders of Allowed Claims not previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be treated as receiving taxable interest, to the extent any consideration they receive under the Plan is allocable to such accrued but unpaid interest. Holders previously required to include in their taxable income any accrued but unpaid interest on an Allowed Claim may be entitled to recognize a deductible loss, to the extent that such accrued but unpaid interest is not satisfied under the Plan. **HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE ALLOCATION OF CONSIDERATION RECEIVED IN SATISFACTION OF THEIR ALLOWED CLAIMS AND THE FEDERAL INCOME TAX TREATMENT OF ACCRUED BUT UNPAID INTEREST.**

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

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

D. CONSEQUENCES TO HOLDERS OF EQUITY INTERESTS

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

E. WITHHOLDING

All Distributions to Holders of Allowed Claims under the Plan are subject to any applicable withholding, including employment tax withholding. The Debtors and/or the Plan Administrator(s) will withhold appropriate employment taxes with respect to payments made to a Holder of an Allowed Claim that constitute payments for compensation. Payers of interest, dividends, and certain other reportable payments are generally required to backup withholding at a rate not in excess of 28% of such payments if the payee fails to furnish such payee's correct taxpayer identification number (social security number or employer identification number) to the payor. The Debtors and/or the Plan Administrator(s) may be required to withhold a portion of any payments made to a Holder of an Allowed Claim if the Holder (i) fails to furnish the correct social security number or other taxpayer identification number ("TIN") of such Holder, (ii) furnishes an incorrect TIN, (iii) has failed to properly report interest or dividends to the IRS in the past, or (iv) under certain circumstances, fails to provide a certified statement signed under penalty of perjury, that the TIN provided is the correct number and that such Holder is not subject to backup withholding. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a Holder of an Allowed Claim's United States federal income tax liability, and a Holder of an Allowed Claim may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

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

X.
RECOMMENDATION

In the opinion of the Debtors, the Plan is preferable to the alternatives described herein because it provides for a larger distribution to the Holders of Claims than would otherwise result in a liquidation under chapter 7 of the Bankruptcy Code. In addition, any alternative other than confirmation of the Plan could result in extensive delays and increased administrative expenses resulting in smaller distributions to the Holders of Claims. ***Accordingly, the Debtors recommend that Holders of Claims entitled to vote on the Plan support confirmation of the Plan and vote to accept the Plan***.

Dated: January 26, 2005

Respectfully submitted,

DESA HOLDINGS CORPORATION AND
DESA INTERNATIONAL LLC

By: /s/ James E. Ashton

James E. Ashton
Chairman of the Board of Directors