IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

| | | |
|---|---|---|
| In re: | : | Chapter 11 |
| | : | |
| AMERICAN BANKNOTE CORPORATION, | : | Case No.: 05-10174 (PJW) |
| | : | |
| Debtor. | : | |

**AMENDED DISCLOSURE STATEMENT WITH RESPECT TO DEBTOR'S AMENDED PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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Dated: Wilmington, Delaware
February 22, 2005

**THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT FOR USE IN THE SOLICITATION OF ACCEPTANCES OF THE PLAN PURSUANT TO SECTION 1125(b) OF THE BANKRUPTCY CODE. ACCORDINGLY, THE FILING AND DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS NOT INTENDED, NOR SHOULD IT BE CONSTRUED, AS A SOLICITATION, NOR SHOULD THE INFORMATION CONTAINED HEREIN BE RELIED UPON FOR ANY PURPOSE PRIOR TO A DETERMINATION BY THE BANKRUPTCY COURT THAT THE PROPOSED DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION. DISSEMINATION OF THIS PROPOSED DISCLOSURE STATEMENT IS CONTROLLED BY BANKRUPTCY RULE 3017.**

## DISCLAIMER

**ALL CREDITORS AND EQUITY INTEREST HOLDERS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT, INCLUDING THE FOLLOWING SUMMARY, ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND OTHER EXHIBITS ANNEXED TO THE PLAN AND THE DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.**

**THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016 OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER APPLICABLE LAW. THIS DISCLOSURE STATEMENT HAS NEITHER BEEN APPROVED NOR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") NOR HAS THE SEC PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. PERSONS OR ENTITIES TRADING IN OR OTHERWISE PURCHASING, SELLING, OR TRANSFERRING SECURITIES OF THE DEBTOR SHOULD EVALUATE THIS DISCLOSURE STATEMENT AND THE PLAN IN LIGHT OF THE PURPOSES FOR WHICH THEY WERE PREPARED.**

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

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

**THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NONBANKRUPTCY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES, OR OTHER LEGAL EFFECTS OF THE REORGANIZATION AS TO HOLDERS OF CLAIMS AGAINST OR EQUITY INTERESTS IN THE DEBTOR.**

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## EXECUTIVE SUMMARY

American Banknote Corporation ("ABN" or the "Debtor") filed a petition for relief under Chapter 11 of the United States Bankruptcy Code ("Bankruptcy Code") on January 19, 2005. On February 22, 2005, the Debtor filed its amended plan of reorganization (the "Plan"), which sets forth the manner in which Claims against and Equity Interests in the Debtor will be treated following the Debtor's emergence from Chapter 11. This Disclosure Statement describes certain aspects of the Plan, the Debtor's business operations, significant events occurring in its Chapter 11 case, and related matters.

This Executive Summary is intended solely as a summary of the distribution provisions of the Plan and certain matters related to the Debtor's business. FOR A COMPLETE UNDERSTANDING OF THE PLAN, YOU SHOULD READ THE DISCLOSURE STATEMENT, THE PLAN, AND THE EXHIBITS THERETO IN THEIR ENTIRETY. Capitalized terms used in the Disclosure Statement and not otherwise defined herein have the meanings ascribed to them in the Disclosure Statement and the Plan.

### A. Plan Overview.

A Claim or Equity Interest is placed in a particular class for the purposes of voting on the Plan and for receiving distributions pursuant to the Plan only to the extent that such Claim or Equity Interest is an Allowed Claim or an Allowed Equity Interest in that Class and such Claim or Equity Interest has not been paid, released or otherwise settled prior to the Distribution Date. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims of the kinds specified in sections 507(a)(1) and 507(a)(8) of the Bankruptcy Code, respectively, have not been classified. Under the Plan, all other Claims against and Equity Interests in the Debtor have been placed into nine (9) Classes and will receive the distributions and recoveries (if any) described in the table below. The estimated recoveries assume that 10,000,000 shares of New Issued Common Stock, having an approximate initial aggregate value of $114,000,000.00 (after receipt of the Exit Financing and deducting long term indebtedness of the Reorganized Debtor and Cash payments to be made under the Plan), will be issued under the Plan. The estimated recoveries set forth below give effect to any dilution resulting from all of the New Issued Common Stock issuances contemplated in the Plan. As indicated above, there can be no assurance that such estimated values and recoveries for the New Issued Common Stock is accurate or reliable. *See* Section X, "Applicability Of Federal And Other Securities Laws To The New Issued Common Stock And New Notes To Be Distributed Under The Plan."

Summary Of Anticipated Distributions Under The Plan

| *Class Description* | *Treatment Under The Plan* |
|---|---|
| Administrative Claims<br>*Estimated Amount: $3,500,000* | *Unimpaired* – On the Distribution Date, except as otherwise provided in the Plan, each holder of an Allowed Administrative Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Administrative Claim (a) Cash equal to the unpaid portion of such Allowed Administrative Claim or (b) such other treatment as to which the Debtor and such holder have agreed upon in writing; *provided, however*, that Allowed Administrative Claims with respect to liabilities incurred by the Debtor in the ordinary course of business during the Chapter 11 Case will be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto.<br><br>*Estimated Recovery* – 100% |
| Priority Tax Claims<br>*Estimated Amount: None* | *Unimpaired* – Each holder of an Allowed Priority Tax Claim will receive, at the sole discretion of the Debtor and in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Priority Tax Claim, in the sole discretion of the Debtor (a) Cash equal to the unpaid portion of such Allowed Priority Tax Claim on the Distribution Date, (b) deferred Cash payments over a period not exceeding six (6) years after the date of assessment of such Allowed Priority Tax Claim in an aggregate principal amount equal to the amount of such Allowed Priority Tax Claim, plus interest on the unpaid portion thereof, as provided in section 1129(a)(9)(C) of the Bankruptcy Code, or (c) such other treatment as to which the Debtor and such holder have agreed upon in writing.<br><br>*Estimated Recovery* – 100% |
| Class 1 – Other Priority Claims<br>*Estimated Amount: None* | *Unimpaired* – On the Distribution Date, each holder of an Allowed Class 1 Other Priority Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Class 1 Other Priority Claim, in the sole discretion of the Debtor, either (a) Cash equal to the unpaid portion of such Allowed Class 1 Other Priority Claim or (b) such other treatment as to which Debtor and such holder will have agreed upon in writing.<br><br>*Estimated Recovery* – 100% |

| *Class Description* | *Treatment Under The Plan* |
|---|---|
| Class 2 – Miscellaneous Secured Claims<br>*Estimated Amount: De Minimis* | *Unimpaired* – On the Distribution Date, or as soon thereafter as is practicable, with respect to each Allowed Class 2 Miscellaneous Secured Claim, (i) the Debtor or Reorganized Debtor shall Cure any default with respect to such Claim that occurred before or after the Petition Date, (ii) the maturity of such Claim shall be Reinstated as such maturity existed before any such default, (iii) the holder of such Claim shall be compensated for any damages incurred as a result of any reasonable reliance by the holder on any right to accelerate its Claim, and (iv) the legal, equitable and contractual rights of such holder will not otherwise be altered.<br><br>*Estimated Recovery* – 100% |
| Class 3 – Note Claims<br>*Estimated Amount (principal and interest as of December 31, 2004): $95,477,500* | *Impaired* – On the Distribution Date, each holder of an Allowed Class 3 Note Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange of such Allowed Note Claim its Ratable Portion of 7,920,884 shares of the New Issued Common Stock.<br><br>*Estimated Recovery* – Approximately 95% |
| Class 4 – Note Convenience Claims<br>*Estimated Amount (principal and interest as of December 31, 2004): $10,022,500* | *Impaired* – On the Distribution Date, each holder of an Allowed Class 4 Note Convenience Claim will receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Note Convenience Claim, at such holders' election: (a) Cash in an amount equal to sixty percent (60%) of such holder's Allowed Class 4 Note Convenience Claim, or (b) New Notes equal to one hundred percent (100%) of the holder's Claim.<br><br>If a holder of an Allowed Class 4 Note Convenience Claim fails to make an election in accordance with the foregoing sentence, such holder shall be deemed to have elected to receive the treatment set forth in section 4.4(a) of the Plan.<br><br>*Estimated Recovery – 60% under Cash Election or 100% under the Note Election* |
| Class 5 – Miscellaneous Unsecured Claims<br>*Estimated Amount: None* | *Unimpaired* – On the Distribution Date, each holder of an Allowed Miscellaneous Class 5 Unsecured Claim will be paid in full in Cash; *provided however*, that Allowed Miscellaneous Class 5 Unsecured Claims with respect to liabilities incurred by the Debtor in the ordinary course of business will be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto.<br>*Estimated Recovery – 100%* |

| *Class Description* | *Treatment Under The Plan* |
|---|---|
| Class 6 – SERP Claims<br>*Estimated Amount: Unknown* | *Impaired* – On the Distribution Date, each holder of an Allowed Class 6 SERP Claim will receive in full satisfaction, settlement, release and discharge of and in exchange for such Allowed SERP Claim the Class 6 Distribution.<br><br>*Estimated Recovery – Undetermined* |
| Class 7 – Equity Interests | *Impaired* – All Equity Interests will be cancelled on the Effective Date, and on the Distribution Date, each holder of Allowed Class 7 Equity Interests, other than *De Minimis* Equity Holders, will receive, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed Class 7 Equity Interests, its Ratable Portion of the Class 7 Distribution.<br><br>*Estimated Recovery – 207,402 shares of New Issued Common Stock and approximately $4 million in Cash* |
| Class 8 – *De Minimis* Equity Holders | *Impaired* – All Equity Interests held by *De Minimis* Equity Holders will be cancelled on the Effective Date, and on the Distribution Date, each *De Minimis* Equity Holder will receive, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed Equity Interests to its Ratable Portion of the Class 8 Distribution.<br><br>THE DISTRIBUTIONS TO HOLDERS OF CLASS 8 INTERESTS (*DE MINIMIS* EQUITY HOLDERS) WILL BE OF AN EQUIVALENT VALUE TO THE DISTRIBUTIONS RECEIVED BY HOLDERS OF CLASS 7 INTERESTS (EQUITY INTEREST), EXCEPT THAT SUCH DISTRIBUTIONS WILL BE SOLELY IN CASH.<br><br>*Estimated Recovery – Approximately $1 million in Cash* |
| Class 9 – Other Equity Interests | *Impaired* – Other Equity Interests will be cancelled on the Effective Date and holders of Other Equity Interests will receive no distribution under the Plan.<br><br>*Estimated Recovery – 0%* |

After careful review of the Debtor's current business operations, estimated recoveries in a liquidation scenario, and prospects as an ongoing business, the Debtor has concluded that the recovery to creditors and Equity Interest holders will be maximized by the Debtor's continued operation as a going concern. The Debtor believes that its business and assets have significant value that would not be realized in the liquidation of the Debtor, either in whole or in substantial part. According to the liquidation analysis prepared by the Debtor, the Debtor is worth considerably more to its creditors in general as a going concern.

## B. Plan Negotiation and Implementation.

### 1. Negotiations.

The terms of the Plan were negotiated between the Debtor and the largest holders of the Notes and Old Common Stock (i.e. the *Ad Hoc* Committee). All of the members of the *Ad Hoc* Committee are affiliated with certain of the Debtor's Directors. These negotiations with the A*d Hoc* Committee took place over several months prior to the Petition Date.

The following table lists the *Ad Hoc* Committee members (grouped by affiliated entities), their respective holdings of the Debtor's Notes and Old Common Stock, which director they are affiliated with and the amount of money each is contributing under the Exit Financing Agreement.

| ***Ad Hoc* Committee Member** | **Amount of Notes and Old Common Stock Owned** | **Affiliated Director** | **Exit Financing Contribution** |
|---|---|---|---|
| Bay Harbour 90-1 Ltd.<br>Bay Harbour Partners, Ltd.<br>Trophy Hunter Investments, Ltd.<br>D Quant Fund LLC<br>Ann Van Dyke<br>Steven Van Dyke | Notes: $40.4 million<br><br>Old Common Stock: 5,187,253 (42.2%) | Steven Van Dyke | $2,000,000 |
| Lloyd I. Miller<br>Lloyd I. Miller Pension Plan<br>Lloyd I. Miller IRA<br>Dail E. Miller IRA<br>Milfam II, L.P.<br>Milfam LLC<br>Dorothy Miller<br>Kimberley S. Miller Trust | Notes: $21.8 million<br><br>Old Common Stock: 837,205 (6.8%) | Lloyd I. Miller, III | $2,000,000 |
| Remus Holdings LLC<br>Castor Investments L.L.C.<br>Pollux Investments LLC<br>Singer Children's Management Trust | Notes: $12.1 million<br><br>Old Common Stock: 2,263,690 (18.4%) | Steven Singer | $2,000,000 |
| Highland Capital Management | Notes: $2.5 million<br><br>Old Common Stock: 2,012,576 (16.4%) | James Dondero | $10,000,000 |

## 2. Plan Terms.

The purpose of the Plan is to restructure the existing debt obligations of the Debtor by converting the majority of the Notes to New Issued Common Stock in the Reorganized Debtor. After such conversion, it is anticipated that the Reorganized Debtor will have less than 300 holders of the New Issued Common Stock, thereby allowing the Reorganized Debtor to elect to become a private company. As a result, the Reorganized Debtor will have no public financial reporting requirements.

Pursuant to the Plan, the following entities are contributing additional capital ($16 million) under the Exit Financing Agreement to the Debtor to facilitate its reorganization: Bay Harbour Partners, Ltd. ($2 million), Lloyd I. Miller, III ($2 million), Pollux Investments LLC ($2 million) and Highland Capital Management L.P. ($10 million). This infusion of capital will give the Debtor the liquidity it needs to accomplish its reorganization.

## 3. Anticipated Ownership of Reorganized Debtor.

On the Effective Date, the Reorganized Debtor will have up to approximately $10 million of New Notes outstanding[1] and 10 million shares of New Issued Common Stock outstanding. The following amounts of New Issued Common Stock will be held by members of the *Ad Hoc* Committee after the Effective Date:[2]

| ***Ad Hoc* Committee Member** | **Amount of New Issued Common Stock** |
|---|---|
| Bay Harbour Partners, Ltd. (and affiliates) | 3,688,735 (36.8%) |
| Lloyd I. Miller (and affiliates) | 2,058,859 (20.6%) |
| Remus Holdings LLC (and affiliates) | 1,282,913 (12.8%) |
| Highland Capital Management | 1,417,503 (14.2%) |

1 This is based on the assumption that 9.55% of the Notes are held by entities who will fall into Class 4 (Note Convenience Claims). The amount of New Notes will be reduced to the extent that Class 4 Note Convenience Claim holders make the Cash election under section 4.4(a) of the Plan.

2 The amount of New Issued Common Stock reflected in the table is from distributions the parties will receive under the Plan (including distributions resulting from participation in the Exit Financing Agreement). The amounts set forth in the table are based upon a number of assumptions including (i) 9.55% of the holders of the Notes fall into Class 4 (Note Convenience Claims) and (ii) 87.5% of the holders of Old Common Stock fall into Class 7 (Equity Interests). These assumptions were estimated by the Debtor and actual numbers may vary significantly.

## C. Hypothetical Distributions

Assuming that (i) 87.5% of the holders of Old Common Stock fall into Class 7 (Equity Interests) and (ii) 9.55% of the holders of the Notes fall into Class 4 (Note Convenience Claims), the following distributions will be made under the Plan:

a. Class 3 - Note Claims: For every $1,000 of Allowed Claim, Claimants in this Class will receive approximately 83 shares of New Issued Common Stock;

b. Class 4 - Note Convenience Claims: Holders of Notes in this Class will receive either (at their election): (i) a New Note for the full amount of their Claim or (ii) Cash equal to 60% of their Allowed Claim;

c. Class 5 - Miscellaneous Unsecured Claims: Claimants in this Class will receive Cash equal to 100% of their Allowed Claim;

d. Class 6 - SERP Claims: Each Claimant in this Class will receive Cash equal to the value of any amounts which such holder was entitled to receive in the calendar year prior to the Petition Date pursuant to any non-qualified supplemental executive retirement plan that was outstanding as of the Petition Date. The total entitlements under the Debtor's SERP in the year prior to the Petition Date was approximately $25,000;

e. Class 7 - Equity Interests: For every 1,000 shares, holders of Old Common Stock who are in Class 7 – Equity Interests, will receive approximately (i) 20 shares of New Issued Common Stock; plus (ii) $394.52 in Cash;

f. Class 8 - De Minimis Equity Holders: For every 1,000 shares, holders of Old Common Stock who are in Class 8 - *De Minimis* Equity Holders will receive approximately $622.43 in Cash;

g. Class 9 - Other Equity Interests: No distribution.

## D. Summary of Post-Confirmation Operations.

Attached hereto as Exhibit F are financial statements that project the financial performance of the Reorganized Debtor, on a consolidated basis with its subsidiaries, through December 31, 2007. These projections are based on the current business plan for the Reorganized Debtor. These projections were based upon information available as of December 31, 2004, and reflect the subsequent operating performance of the subsidiaries. For context, copies of the Form 10-K for the Debtor for Fiscal Year Ended December 31, 2003 and the Form 10-Q for the Debtor for Fiscal Quarter Ended September 30, 2004 are annexed hereto as Exhibit C and Exhibit D, respectively.

## I. INTRODUCTION

ABN submits this Disclosure Statement, dated February 22, 2005 (the "Disclosure Statement") pursuant to section 1125 of title 11 of the United States Code (the "Bankruptcy Code") to holders of Claims against and Equity Interest in the Debtor in connection with (i) the solicitation of acceptances by ABN of its Amended Plan of Reorganization under Chapter 11 of the Bankruptcy Code dated February 22, 2005 (the "Plan"), and (ii) the hearing to consider confirmation of the Plan (the "Confirmation Hearing") scheduled for April 8, 2005 at 10:30 a.m. Delaware time before the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). Unless otherwise defined herein, all capitalized terms contained herein have the meanings ascribed to them in the Plan.

A BALLOT IS ENCLOSED, FOR THE ACCEPTANCE OR REJECTION OF THE PLAN, WITH THE DISCLOSURE STATEMENT SUBMITTED TO HOLDERS OF CLAIMS AND EQUITY INTERESTS IN CLASS 3 (NOTE CLAIMS), CLASS 4 (NOTE CONVENIENCE CLAIMS), CLASS 6 (SERP CLAIMS), CLASS 7 (EQUITY INTERESTS), AND CLASS 8 (*DE MINIMIS* EQUITY HOLDERS) WHO ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN.

THE BALLOT CONTAINS PROVISIONS:

(1) ENABLING HOLDERS OF CLAIMS AND EQUITY INTERESTS IN CLASS 3 (NOTE CLAIMS), CLASS 4 (NOTE CONVENIENCE CLAIMS), CLASS 6 (SERP CLAIMS), CLASS 7 (EQUITY INTERESTS), AND CLASS 8 (*DE MINIMIS* EQUITY HOLDERS) TO VOTE ON ACCEPTANCE OR REJECTION OF THE PLAN; AND

(2) ENABLING HOLDERS OF CLASS 4 (NOTE CONVENIENCE CLAIMS) TO ELECT TO RECEIVE (A) CASH IN AN AMOUNT EQUAL TO SIXTY PERCENT (60%) OF SUCH HOLDER'S ALLOWED CLASS 4 NOTE CONVENIENCE CLAIM, OR (B) NEW NOTES EQUAL TO ONE HUNDRED PERCENT (100%) OF THE HOLDER'S CLAIM.

IF A HOLDER OF AN ALLOWED CLASS 4 NOTE CONVENIENCE CLAIM FAILS TO MAKE AN ELECTION IN ACCORDANCE WITH THE FOREGOING SENTENCE, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO RECEIVE THE TREATMENT SET FORTH IN SECTION 4.4(a) OF THE PLAN.

HOLDERS OF OTHER PRIORITY CLAIMS, MISCELLANEOUS SECURED CLAIMS, AND MISCELLANEOUS UNSECURED CLAIMS ARE UNIMPAIRED BY THE PLAN, ARE CONCLUSIVELY PRESUMED TO HAVE ACCEPTED THE PLAN, ARE NOT ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN, AND ARE THUS NOT RECEIVING BALLOTS.

HOLDERS OF OTHER EQUITY INTERESTS IN THE DEBTOR ARE RECEIVING NO DISTRIBUTIONS UNDER THE PLAN, ARE DEEMED TO HAVE REJECTED THE PLAN, AND ARE THEREFORE NOT RECEIVING BALLOTS.

On February 24, 2005, after notice and a hearing, the Bankruptcy Court approved this Disclosure Statement as containing adequate information of a kind and in sufficient detail to

enable hypothetical, reasonable investors typical of the Debtor's creditors and Equity Interest holders to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The order approving the Disclosure Statement, a copy of which is annexed hereto as Exhibit B, sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes, and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each holder of a Claim or Equity Interest entitled to vote on the Plan should read the Disclosure Statement, the Plan, the order approving the Disclosure Statement and the instructions accompanying the Ballot in their entirety before voting on the Plan. These documents contain, among other things, important information concerning the classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code.

## A. Holders of Claims and Equity Interests Entitled to Vote.

Pursuant to the provisions of the Bankruptcy Code, only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired under the terms and provisions of a Chapter 11 plan and that will receive distributions under the Chapter 11 plan are entitled to vote to accept or reject the plan. Classes of claims or equity interests in which the holders of claims or interests will not receive or retain any property under a Chapter 11 plan are deemed to have rejected the plan and are not entitled to vote to accept or reject the plan. Classes of claims or equity interests in which the holders of claims or interests are unimpaired under a Chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan.

Each of Class 1 (Other Priority Claims), Class 2 (Miscellaneous Secured Claims) and Class 5 (Miscellaneous Unsecured Claims) are unimpaired by the Plan and the holders of Claims in each of such Classes are conclusively presumed to have accepted the Plan and are not entitled to vote to accept or reject the Plan.

Class 3 (Note Claims), Class 4 (Note Convenience Claims), Class 6 (SERP Claims), Class 7 (Equity Interests) and Class 8 (*De Minimis* Equity Holders) are entitled to vote to accept or reject the Plan.

Because holders of Claims in Class 9 (Other Equity Interests) are not entitled to receive or retain any property under the Plan, they are presumed to have rejected the Plan, and therefore, are not entitled to vote on the Plan.

The Bankruptcy Code defines "acceptance" of a plan (i) by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan, and (ii) by a class of interests as acceptance by interest holders in that class that hold at least two-thirds

in amount of interests in such class that cast ballots for acceptance or rejection of the Plan. For a complete description of the requirements for confirmation of the Plan, *see* Section V, "Confirmation and Consummation Procedure."

UNDER SECTION 1129 OF THE BANKRUPTCY CODE, A PLAN CAN BE CONFIRMED ONLY IF AT LEAST ONE IMPAIRED CLASS ACCEPTS THE PLAN. THEREFORE, THE PLAN CAN BE CONFIRMED ONLY IF CLASS 3 (NOTE CLAIMS), CLASS 4 (NOTE CONVENIENCE CLAIMS), CLASS 6 (SERP CLAIMS), CLASS 7 (EQUITY INTERESTS) OR CLASS 8 (*DE MINIMIS* EQUITY HOLDERS) ACCEPTS THE PLAN AND IF THE OTHER REQUIREMENTS FOR CONFIRMATION ARE MET AS DESCRIBED BELOW. IF AT LEAST ONE IMPAIRED CLASS ACCEPTS THE PLAN, BUT ONE OR MORE OTHER CLASSES OF CLAIMS REJECT THE PLAN OR ARE DEEMED TO HAVE REJECTED THE PLAN, THE DEBTOR HAS THE RIGHT TO REQUEST CONFIRMATION OF THE PLAN PURSUANT TO SECTION 1129(b) OF THE BANKRUPTCY CODE. SECTION 1129(b) PERMITS THE CONFIRMATION OF A PLAN NOTWITHSTANDING THE NON-ACCEPTANCE OF SUCH PLAN BY ONE OR MORE IMPAIRED CLASSES OF CLAIMS OR EQUITY INTERESTS. UNDER THAT SECTION, A PLAN MAY BE CONFIRMED BY A BANKRUPTCY COURT IF IT DOES NOT "DISCRIMINATE UNFAIRLY" AND IS "FAIR AND EQUITABLE" WITH RESPECT TO EACH NON-ACCEPTING CLASS. FOR A MORE DETAILED DESCRIPTION OF THE REQUIREMENTS FOR CONFIRMATION OF A NONCONSENSUAL PLAN, *SEE* SECTION V, "CONFIRMATION AND CONSUMMATION PROCEDURE."

If Class 3, Class 4, Class 6, Class 7, and Class 8, the only Classes entitled to vote on the Plan, vote to accept the Plan, the Debtor will request confirmation of the Plan over the deemed rejection of the Plan by Class 9. If Class 3, Class 4, Class 6, Class 7, or Class 8 votes to reject the Plan, the determination as to whether to seek confirmation of the Plan under such circumstances will be announced before or at the Confirmation Hearing.

**B. Voting Procedures.**

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. Please vote and return your Ballot(s) to—

MacKenzie Partners, Inc.
105 Madison Avenue, 14th Floor
New York, New York 10016
Att'n: Jeanne M. Carr
Telephone: (212) 929-5500
Telephone: (800) 322-2885
American Banknote Corporation

DO NOT RETURN ANY NOTE, STOCK CERTIFICATE OR OTHER SECURITY INSTRUMENT WITH YOUR BALLOT.

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED NO LATER THAN _:00 _.M., DELAWARE TIME, ON _____, 2005.

Any Claim in an impaired Class as to which an objection or request for estimation is pending or which is scheduled by the Debtor as unliquidated, disputed or contingent is not entitled to vote unless the holder of such Claim has obtained an order of the Bankruptcy Court temporarily allowing such Claim for the purpose of voting on the Plan.

Pursuant to the order approving the Disclosure Statement, the Bankruptcy Court set _____, 2005 as the record date for voting on the Plan. Accordingly, only holders of record as of _____, 2005 that are otherwise entitled to vote under the Plan will receive a Ballot and may vote on the Plan.

If you are a holder of a Claim or Equity Interest entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan, or the procedures for voting on the Plan, please contact:

MacKenzie Partners, Inc.
105 Madison Avenue, 14th Floor
New York, New York 10016
Attn: Jeanne M. Carr
Telephone: (212) 929-5500
Telephone: (800) 322-2885
American Banknote Corporation

**C. Special Note for Holders of Notes or Equity Interests Entitled to Vote on the Plan.**

The date for determining which holders of the Debtor's publicly traded Notes or Equity Interests (the "Securities") are entitled to vote on the Plan is _____, 2005. The Notes Indenture Trustee, agents, or servicers, as the case may be, for the Securities will NOT vote on behalf of the holders of such Securities. Such holders must submit their own Ballots.

**1. Beneficial Owners.**

a. Any beneficial owner holding Securities as record holder in its own name that is entitled to vote on the Plan should vote on the Plan by completing the enclosed Ballot and returning it directly to the Balloting Agent on or before the voting deadline using the enclosed self-addressed, stamped envelope.

b. Any beneficial owner holding Securities in "street name" through a brokerage firm, bank, trust company, or other nominee that is entitled to vote on the Plan should vote on the Plan through such nominee by following these instructions:

(i) Complete and sign the Ballot.

(ii) Return the Ballot to your nominee as promptly as possible and in sufficient time to allow such nominee to process the Ballot and return it to the Balloting Agent by the voting deadline. If no self-addressed, stamped envelope was enclosed for this purpose, contact your nominee for instructions.

Any Ballot returned to a nominee by a beneficial owner will not be counted for purposes of acceptance or rejection of the Plan until such nominee properly completes and delivers to the Balloting Agent a master ballot (the "Master Ballot") that reflects the vote of such beneficial owner.

If any beneficial owner owns Securities through more than one broker, bank, or other nominee, such beneficial owner may receive multiple mailings containing a Ballot. Each such beneficial owner should execute a separate Ballot for each block of Securities that it holds through any particular nominee and return each Ballot to the respective nominee in the return envelope provided therewith.

Beneficial owners who execute multiple Ballots with respect to Securities held through more than one nominee must indicate on each Ballot the names of ALL such other nominees and the additional amounts of such Securities so held and voted.

If a beneficial owner holds a portion of the Securities through a nominee and another portion as a record holder, such owner should follow the procedures described in (a) above to vote the portion held of record and the procedures described in (b) above to vote the portion held through a nominee or nominees

BALLOTS MUST BE RETURNED TO THE BALLOTING AGENT PRIOR TO THE VOTING DEADLINE TOGETHER WITH ANY OTHER DOCUMENTS REQUIRED BY SUCH BALLOT. THE BALLOTING AGENT WILL NOT ACCEPT BALLOTS THAT HAVE BEEN DELIVERED BY FACSIMILE TRANSMISSION OR OTHER ELECTRONIC MEANS, INCLUDING E-MAIL.

**2. Brokerage Firms, Banks, and Other Nominees.**

An entity (other than a beneficial owner) which is the registered holder of Securities should vote on behalf of the beneficial owners of such Securities by (i) immediately distributing a copy of this Disclosure Statement and accompanying materials including, all appropriate Ballots, and self-addressed return envelopes to all beneficial owners for whom it holds such Securities, (ii) collecting all such Ballots, and (iii) completing a Master Ballot compiling the votes and other information from the Ballots collected, and transmitting such Master Ballot to the Balloting Agent on or before the voting deadline. A proxy intermediary acting on behalf of a brokerage firm or bank may follow the procedures outlined in the preceding sentence to vote on behalf of such party.

UNLESS THE MASTER BALLOT BEING FURNISHED IS SUBMITTED TO THE BALLOTING AGENT ON OR PRIOR TO THE VOTING DEADLINE TOGETHER WITH ANY OTHER DOCUMENTS REQUIRED BY SUCH BALLOT, THE DEBTOR MAY, IN ITS SOLE DISCRETION, REJECT SUCH BALLOT AS INVALID AND, THEREFORE, DECLINE TO COUNT IT AS AN ACCEPTANCE OR REJECTION OF THE PLAN.

MASTER BALLOTS MAY BE RETURNED TO THE BALLOTING AGENT VIA FACSIMILE TO (212) 929-0308, BUT MUST IMMEDIATELY BE FOLLOWED BY A HARD COPY MAILED TO THE BALLOTING AGENT. THE BALLOTING AGENT WILL NOT ACCEPT MASTER BALLOTS DELIVERED BY ELECTRONIC MEANS, INCLUDING E-MAIL.

**3. Fiduciary and Other Representatives.**

If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation, or another acting in a fiduciary or representative capacity, such person should indicate such capacity when signing and, unless otherwise determined by the Debtor, must submit proper evidence satisfactory to the Debtor of authority to so act. Authorized signatories should submit separate Ballots for each beneficial owner for whom they are voting.

**D. Procedures for Holders of Class 4 (Note Convenience Claim) Distribution Election.**

Holders of Allowed Class 4 Note Convenience Claims will receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Note Convenience Claim, at such holders' election: (a) Cash in an amount equal to sixty percent (60%) of such holder's Allowed Class 4 Note Convenience Claim ("Cash Option"), or (b) New Notes equal to one hundred percent (100%) of the holder's Claim.

**TO MAKE THE DISTRIBUTION ELECTION, HOLDERS OF CLAIMS IN CLASS 4 (NOTE CONVENIENCE CLAIMS) ARE REQUIRED TO CHECK THE BOX WHERE INDICATED ON THE BALLOT. IF NO ELECTION IS MADE, THE NOTE CONVENIENCE CLAIM HOLDER IS DEEMED TO HAVE ELECTED THE CASH OPTION.**

**E. Confirmation Hearing.**

Pursuant to section 1128 of the Bankruptcy Code, the Confirmation Hearing will be held on April 8, 2005 at 10:30 a.m. Delaware time, before the Honorable Peter J. Walsh, United States Bankruptcy Judge, at the United States Bankruptcy Court, 824 Market Street, 5th Floor, Wilmington, Delaware 19801. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed so that they are received on or before _____, 2005 at _:00 _.m. Delaware time, in the manner described below in Section V, "Confirmation and Consummation Procedure." The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE PLAN ITSELF QUALIFIES ALL SUMMARIES. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THE DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE

ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTOR, OR HOLDERS OF CLAIMS OR EQUITY INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. ALL HOLDERS OF CLAIMS OR EQUITY INTEREST ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN SHOULD CAREFULLY READ AND CONSIDER FULLY SECTION XI OF THIS DISCLOSURE STATEMENT, "RISK FACTORS TO BE CONSIDERED," BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT OF THE APPLICABLE AGREEMENT, INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

THE DEBTOR BELIEVES THAT THE PLAN WILL ENABLE IT TO SUCCESSFULLY REORGANIZE AND ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTOR AND ITS CREDITORS AND EQUITY INTEREST HOLDERS. THE DEBTOR URGES THAT CREDITORS ENTITLED TO VOTE ACCEPT THE PLAN.

**AFTER CAREFULLY REVIEWING THIS DISCLOSURE STATEMENT, INCLUDING THE EXHIBITS, EACH HOLDER OF AN ALLOWED CLAIM OR EQUITY INTEREST IN CLASS 3 (NOTE CLAIMS), CLASS 4 (NOTE CONVENIENCE CLAIMS), CLASS 6 (SERP CLAIMS), CLASS 7 (EQUITY INTERESTS), AND CLASS 8 (*DE MINIMIS* EQUITY HOLDERS) SHOULD VOTE TO ACCEPT THE PLAN.**

## II. THE DEBTOR'S HISTORY AND REASONS FOR ITS CHAPTER 11 FILING

### A. Introduction.

Over the past two years since the consummation of its first plan of reorganization (as discussed in further detail below), the Debtor's financial position continues to be adversely affected by a combination of: (i) the high degree of dependence on its Brazilian subsidiary, which operates in a highly volatile economic environment that has caused significant foreign currency exchange rate variations which directly impact the dividends available to be repatriated to the Debtor, (ii) declining markets and competitive pricing in the United States and France, and (iii) the political and economic instability that has occurred in Argentina, which has directly impacted the Debtor's Argentine operations. As a result, the Debtor has been unable to generate sufficient excess cash flow to satisfy the Notes when they mature on January 31, 2005. These factors combined with the Debtor's inability to access capital and financial markets for the purpose of obtaining new financing or raising new equity to refinance the Notes has required the Debtor to seek this further restructuring.

Confirmation of the Plan would significantly reduce the principal amount of the Debtor's outstanding indebtedness and leave only a relatively small amount of debt in place, which the Reorganized Debtor will be able to service from operational cash flow. By offering the holders of the Note Claims a substantial portion of the New Issued Common Stock of the Debtor on a post-restructuring basis, these holders will participate in the long term growth and appreciation of the Debtor's business, which is expected to be enhanced by the significant reduction of its debt service obligations and the business plan described in more detail below.

## B. The Debtor's Business and Organizational Structure.

### 1. Holding Company Structure.

The Debtor is a holding company which, through its subsidiaries in the United States, Brazil, France, and Argentina, is a trusted provider of secure printed documents, printed and personalized secure and non-secure transaction and identification cards and systems, and a wide array of document management and transaction services and solutions. The Debtor provides its customers in the private and public sectors with products and services that incorporate anti-fraud and counterfeit resistant facilities, processes and technologies. The Debtor operates and manages its business based on geographic location in a single industry along three principal product lines: Transaction Cards and Systems; Printing Services and Document Management; and Security Printing Solutions.

The Debtor's principal subsidiaries are: American Bank Note Company ("ABNCO") a New York Corporation (and the Debtor's domestic operating subsidiary), American Bank Note Ltd. ("ABNB"), a 77.5% owned Brazilian company, CPS Technologies, S.A. ("CPS"), a French company, and Transtex S.A. ("Transtex"), an Argentine company.

The Debtor was incorporated in 1993 in Delaware as United States Banknote Corporation and changed its name on July 1, 1995 to American Banknote Corporation. ABNCo, the Debtor's wholly-owned domestic subsidiary, and ABNCo's predecessors have been in the business of providing security documents for more than 200 years.

ONLY THE DEBTOR IS THE SUBJECT OF THIS CHAPTER 11 CASE. NONE OF THE DEBTOR'S SUBSIDIARIES IS A DEBTOR UNDER THE BANKRUPTCY CODE. THE FINANCIAL VIABILITY AND BUSINESS OF THE DEBTOR IS WHOLLY DEPENDENT UPON THE BUSINESSES OF ITS SUBSIDIARIES. THE FOLLOWING DISCUSSION OF THE DEBTOR'S OPERATIONS REFERS TO THE OPERATIONS OF ITS NON-DEBTOR SUBSIDIARIES.

### 2. Realignment of Operations.

During the past several years, the Debtor has undergone several major restructurings of its operations and has made strategic decisions to (i) restructure, consolidate, and reduce its manufacturing costs, (ii) diversify and expand its products and services in the major geographic regions where it conducts business, (iii) package complete "end-to-end" transaction, printing fulfillment and distribution solutions, products and services to retain and grow market share, and (iv) create strategic joint ventures and alliances with partners who provide strong technology and/or value added products that are complementary to its business. These restructurings and

strategic decisions were directed at reducing the Debtor's reliance on maturing product lines which have been declining, in favor of new products and services with growth potential albeit at significantly lower gross margins.

**3. Regional Operations.**

a. United States.

A provider of secure documents and transaction services of value, ABNCo operates principally within the Debtor's security printing solutions product line. ABNCo offers a full range of security printing solutions to a wide array of government, corporate, and commercial accounts. In addition to secure base printing, ABNCo offers its customers a wide variety of core competencies, including but not limited to secure storage, direct fulfillment, distribution, personalization, accountability, and inventory and database management. ABNCo principally sells its products in the U.S. markets, but from time to time sells into foreign markets particularly in parts of Latin America, Eastern Europe, and certain developing countries. Over the past several years ABNCo has restructured and streamlined its operations in an attempt to discontinue negative margin product lines and to reduce its cost structure to a level more appropriate to its remaining business. Over the past three years, however, ABNCo has experienced a significant decline in demand for its mature high margin product lines (particularly stock and bond certificates and food coupons) and has been unable, thus far, to find a sufficient number of opportunities in lower margin product lines to fully offset the significant decline.

b. Brazil.

In 1993, the Debtor acquired ABNB, currently the largest private-sector security printer and manufacturer of transaction cards in Brazil. ABNB is also one of the main providers of stored-value telephone cards to many telephone companies in Brazil. ABNB provides a wide variety of document management systems and solutions, and related services, to many of the largest corporate, financial, and government institutions in Brazil. Over 95% of ABNB's sales are in Brazil. The Debtor owns 77.5% of ABNB, with the balance owned by a subsidiary of the Bradesco Group, Brazil's largest privately owned commercial bank. ABNB is the Debtor's largest subsidiary, contributing more than half of the revenues, operating profit and cash flow of the consolidated group. Currency devaluation has severely impacted ABNB's cash flow in U.S. Dollar terms, and has therefore threatened and continues to be a threat to its ability to send dividends to the Debtor at the same levels as in the past. ABNB produces products in all three of the Debtor's product lines.

c. France.

In March 1998, the Debtor acquired CPS, a secure card personalization facility. CPS operates within the Debtor's Transaction Cards and Systems product line. All sales are generated locally in France. CPS is one of the largest personalizers of prepaid telephone, bank and other financial cards.

Through 2003, CPS had supplied prepaid phone cards under a supply agreement with a local telephone company which was completed in 2003. In 2003, the local telephone company requested a tender for a global supply agreement from qualified bidders. CPS was not one of the

awarded bidders in this tender. Simultaneous with the phone company's decision, CPS determined to suspend its activities in prepaid phone cards, due to exceptionally low margins in that product line. While sales and gross margins on these phone cards are not material on a consolidated basis, they represent a significant component of the operating income of CPS.

In April 2003, CPS entered into a joint venture with a local partner in Morocco to establish a card personalization bureau. CPS has a fifty percent controlling interest in the joint venture and is providing technical expertise with a small capital contribution. There have been no significant operating activities from the joint venture in 2003.

d. Argentina.

In April 1999, the Debtor acquired Transtex, Argentina's leading manufacturer of transaction cards including debit, credit, telephone and smart cards for a total cash purchase price of approximately $15.5 million. Transtex maintains a sales office in Chile, where the Debtor is also the leading supplier of secure transaction cards. It also maintains a representative sales office in Peru. Transtex operates within the Debtor's Transaction Card and Systems product line. Transtex principally sells its products within the three countries mentioned above but also services several other countries in South America.

**4. Product Lines.**

Through its subsidiaries, the Debtor serves its customers in the regions where it does business through three principal product lines: Transaction Cards and Systems, Printing Services and Document Management, and Security Printing Solutions. The Debtor manages and oversees these product lines on a country-by-country basis.

a. Transaction Cards and Systems.

The Debtor is a leading supplier of a wide range of transaction cards, products, and systems in the Brazilian and Argentine markets. In France, CPS is one of the largest personalizers of bank and other financial cards. The Debtor continues to expand and improve its production and service capabilities to capitalize on the trend toward cashless financial transactions. These products primarily include: (i) stored-value and prepaid cards, (ii) transaction cards and personalization services, (iii) licenses and issuance systems, and (iv) micro-chip imbedded "smart-card" applications.

b. Printing Services and Document Management.

In Brazil, the Debtor's Printing Services and Document Management business allows public and private sector institutions to outsource their printing, personalization and document processing operations. Utilizing advanced inventory control systems, e-commerce solutions and "just-in-time" distribution capabilities, the Debtor helps businesses and governmental institutions effectively lower costs by supplying all of their printing, storage, processing, system, and distribution needs.

The Debtor is a full service provider of electronic printing applications to a number of its corporate and government customers. Electronic printing applications encompass the secure data

handling, electronic printing, personalization and mailing of documents for large-scale essential mail document cycles. This process involves the computerized printing of an array of variable data onto pre-printed base stock. Some of the primary applications are billing and fund collection systems, check and credit card statements, letter checks and invoices. In Brazil, the Debtor provides electronic printing application services for institutions in the banking, insurance, utilities and telecommunication industries, as well as for a number of state and federal government agencies.

The Debtor prints products such as business forms and checks and provides storage and distribution services to the end user on behalf of its customers. In Brazil, ABNB performs print and document management and distribution services for leading financial institutions.

In December 2005, ABNB became a member of a consortium (which includes eight other companies) which was contracted by Empresa Brasilera de Correios e Telegrafos (the Brazilian Post Office) initially to develop, and later to provide products and services related to an integrated solution for the decentralized production, processing and delivery of documents. This project, commonly known as the Hybrid Mail, is intended to change the way time-sensitive documents (such as invoices and statements) are printed and distributed throughout Brazil. Through the creation of a network of multiple printing sites across the country, the Hybrid Mail is meant to permit banks, utilities, and credit card companies to print documents close to their final destination in order to reduce delivery times and postal fees.

c. Security Printing Solutions.

The Debtor supplies counterfeit-resistant documents of value in the United States and Brazil. Such documents include checks, money orders, passports, stock and bond certificates, and other commercial documents of value such as gift certificates. The Debtor utilizes a variety of anti-counterfeiting features such as special inks and papers, computer generated bar and micro encoding, elaborate steel-engraved designs, and distinctive lithographic printing techniques, all of which enable the Debtor to manufacture products containing state-of-the-art security features. As an additional security feature, many of the Debtor's manufacturing, storage and distribution facilities employ high levels of plant security, including guards, alarms, video monitoring, and extensive accountability controls.

Government products manufacturing by the Debtor include a variety of security documents printed for federal, state and local governments throughout the world. The Debtor manufactures food coupons, passports, visas, tax revenue stamps, property tax vouchers, postal panels, gas coupons, and similar products for federal governments. The Debtor also supplies secure documents such as motor vehicle registrations, title certificates and licenses, birth certificates, identity cards, and transportation passes for its government customers. The Debtor, through ABNCo, also acts as the secure distribution and accountability agent for the United States Postal Service ("USPS") for its Stamps on Consignment Program, delivering stamps to private retailers throughout the United States. In 2002, the USPS replaced the United States Department of Agriculture ("USDA") as the Debtor's and ABNCo's largest single domestic customer, pursuant to a three-year requirements contract with two additional option years.

Until 2002, the USDA was the Debtor's and ABNCo's largest single domestic customer, for which ABNCo has printed, stored and distributed food coupon requirements for more than twenty years. Food coupons are engraved printed documents accepted by grocery stores in lieu of cash. ABNCo was orally notified by the USDA, during the third quarter of 2002, that it did not anticipate the need to place any further purchase orders for the production of food coupons for the remainder of the term of its requirements contract with ABNCo, which expired on September 30, 2003. In the third quarter of 2003, the USDA gave ABNCo final notification and delivery instructions for the remaining food coupons held in secure storage by ABNCo pursuant to its distribution contract with the USDA which expired on September 30, 2003. The reduction in operating margins from the loss of food coupon sales has had a direct and significant effect on the cash flow of ABNCo as well as the level of dividends that are available to the Debtor.

**5. Major Customers.**

The Debtor derived $18.2 million for 2003, $17.6 million for 2002 (both successor and predecessor companies combined) and $24.5 million for 2001, or approximately 8.2%, 8.7% and 11.1%, respectively, of total consolidated revenue from the Bradesco Group under a supply contract, which was recently renewed. Bradesco Vida e Previdencia S.A. ("Bradesco"), a subsidiary of the Bradesco Group, owns a 22.5% minority shareholder interest in ABNB. The Debtor has supplied products to Bradesco under multi-year supply arrangements since 1995.

**6. Patents.**

The Debtor may presently hold, or is licensed under, United States and foreign patents, trademarks and copyrights and continues to pursue protection when available in strategic markets. However, the Debtor believes that no one patent, license, trademark, or copyright is critical to its business, and that if one expired or became unavailable there would be no material adverse effect to the Debtor's financial position, results of operation, or cash flow.

**7. Employees.**

As of December 31, 2003, the Debtor and its subsidiaries had approximately 2,950 employees consisting of 2,590 manufacturing employees, 220 plant administration and sales personnel and 140 executive, corporate and administrative personnel. Approximately 59% of Transtex's employees and all of ABNB's employees are represented by labor unions. None of the Debtor's or CPS' employees are represented by labor unions. The Debtor's future profitability will depend, in part, on its ability to maintain satisfactory relationships with labor unions and employees and in avoiding strikes and work stoppages. The Debtor considers its employee relations to be good.

The Debtor employs 8 people directly. None of the Debtor's employees are represented by labor unions.

**8. Management.**

The following is a list of the Debtor's executive officers who are expected to continue in their positions with the Reorganized Debtor:

| Name | Position |
|---|---|
| Steven G. Singer | Chairman of the Board and Chief Executive Officer |
| Patrick J. Gentile | Executive Vice President and Chief Financial Officer |
| David M. Kober | Vice President and General Counsel |
| Craig Weiner | Acting Treasurer |
| Elaine Lazaridis | Corporate Secretary and Chief Administrative Officer |

As of the Petition Date, the Debtor's Board of Directors was composed of:

| Name | Position |
|---|---|
| Steven G. Singer | Chairman of the Board of Directors |
| C. Gerald Goldsmith | Chairman Emeritus and Director |
| Sidney Levy | Director |
| Raymond L. Steele | Director |
| Lloyd I. Miller, III | Director |
| James Dondero | Director |
| Steven Van Dyke | Director |

**9. Environmental Matters.**

The Debtor uses and disposes of substances that may be toxic or hazardous substances under applicable environmental laws. Management believes that its compliance with such laws has not had, and will not have, a material effect on its capital expenditures, earnings, financial, or competitive position. The Debtor and its subsidiaries were involved in several civil and Environmental Protection Agency claims as one of many co-defendants arising in the ordinary course of business. Each of these disputes has been settled.

**C. The Prior Chapter 11 Case.**

On December 8, 1999, the Debtor filed its first Chapter 11 petition (the "First Bankruptcy"), case number 99-11577-pcb, in the Bankruptcy Court for Southern District of New York (the "NY Bankruptcy Court"). The reason given by the Debtor for its First Bankruptcy filing was that its "funds [were] insufficient to meet all of its debt servicing requirements." On December 8, 1999, the Debtor filed a plan of reorganization and disclosure statement in the First Bankruptcy. None of the Debtor's affiliates or subsidiaries filed

bankruptcy petitions in the First Bankruptcy. On April 12, 2002, an Official Committee of Equity Security Holders was appointed in the Debtor's First Bankruptcy.

On September 12, 2000, the Debtor's amended disclosure statement with respect to its fourth amended plan of reorganization was approved by the NY Bankruptcy Court. On August 22, 2002, the NY Bankruptcy Court entered an order confirming ABN's Fourth Amended Plan of Reorganization (the "2002 Plan"). The New York Bankruptcy Court entered an order closing the Debtor's First Bankruptcy on January 12, 2005.

**D. Outstanding Securities.**

**1. 10 3/8% Senior Notes.**

The Debtor presently has approximately $108 million outstanding under the Notes,[3] which mature on January 31, 2005. These Notes are secured by a pledge of the equity in certain of the Debtor's subsidiaries. These Notes were restructured pursuant to the Debtor's 2002 Plan, under which $56.5 million principal amount of Notes due June 1, 2002 were reinstated at par value, with accrued interest and a two percent consent fee paid in the form of additional Notes, which in total aggregated approximately $79.0 million of such Notes. Under the 2002 Plan, the Debtor also agreed to exchange approximately $8.0 million principal amount of its 11 5/8% Notes due August 1, 2002, which with accrued interest and consent fees aggregated approximately $12.6 million. As a result, on the effective date of the 2002 Plan, the total amount of Notes was $91.6 million. Interest payments on the Notes after the effective date of the 2002 Plan, which occurred semi-annually on December 1, 2002, June 1, 2003, December 1, 2003, June 1, 2004 and December 1, 2004 have been paid in kind at the Debtor's option in accordance with its rights under the Notes Indenture.

Pursuant to the Debtor's announcement in its 8-K filed October 16, 2002, the Debtor's Board of Directors authorized the Debtor to repurchase up to $15 million face amount of the Notes from time to time at a discount to par value following the effective date of the 2002 Plan. The Notes were repurchased at management's discretion, either in the open market or in privately negotiated block transactions. The decision to buy back any Notes was dependent upon the availability of cash at the Debtor and other corporate developments. On June 26, 2003, management made a determination to terminate the repurchase program as a result of its current cash flow concerns.

On July 15, 2004, the Debtor's Board of Directors approved a resolution to authorize the Debtor to repurchase from time to time, at the discretion of management, directly or through one or more of its subsidiaries up to $5 million face amount of its outstanding Notes at a discount to par value in either open market or privately negotiated transactions.

In 2003, the Debtor in total purchased through privately negotiated transactions, approximately $6.3 million face amount of Notes for an aggregate purchase price of approximately $2.9 million. The Debtor recorded a gain of approximately $3.4 million on the

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[3] The actual amount outstanding is approximately $118 million, but of that amount $10.1 million is held by ABN. Accordingly, the amount held by third party creditors is approximately $108 million.

repurchase of the Notes reflecting the difference between the face amount and the purchase price.

In the third quarter of 2004, the Debtor in total purchased through privately negotiated transactions, approximately $0.9 million face amount of Notes for an aggregate purchase price of approximately $0.6 million. The Debtor recorded a gain of approximately $0.3 million on the repurchase of these bonds reflecting the difference between the face amount and the purchase price.

### 2. Old Common Stock.

Pursuant to the 2002 Plan, 11,828,571 shares of Old Common Stock were issued, which included 1,428 shares of Old Common Stock issued pursuant to a rights offering. Each share of Common Stock represents one voting right and the Old Common Stock does not have any pre-emptive rights. Dividends on the Old Common Stock are payable solely at the discretion of the Board of Directors and are restricted pursuant to the terms of the Notes Indenture.

## E. Events Leading to the Filing of this Chapter 11 Case.

### 1. Pre-petition Developments.

Over the past two (2) years since the consummation of the 2002 Plan, the Debtor has been unable to generate sufficient cash flow from operations to either amortize or service its Notes due January 31, 2005. This factor combined with the Debtor's limited access to capital and financial markets for the purpose of obtaining new financing or raising equity to refinance these Notes has required the Debtor to seek this current restructuring. The Debtor has been plagued by several unfavorable economic factors most notable of which are: (i) the high degree of dependence on its Brazilian operations, which operates in a highly volatile economic environment that has caused significant foreign currency exchange rate variations and thereby directly impacted cash dividends available to be repatriated to the Debtor, (ii) declining markets at ABNCo in the United States as a result of diminishing overall demand for secure paper-based documents of value and ABNCo's inability to find sufficient new opportunities to completely offset this decline, (iii) competitive pricing and the loss of market share in France, and (iii) the political and economic instability that has occurred in Argentina which has resulted in tight credit markets and left uncertainty as to the ongoing stability of the Debtor's Argentine operations.

### 2. Negotiations with the *Ad Hoc* Committee.

Prior to the filing of the Chapter 11 Case, the Debtor concluded that a financial restructuring of its business through the Chapter 11 process was necessary. Over several months prior to the Petition's Date, the Debtor engaged in intensive discussions with an *ad hoc* prepetition committee of holders of the Notes. The members of the *Ad Hoc* Committee are Bay Harbour 90-1 Ltd., Highland Capital Management L.P., Bay Harbour Partners, Ltd., D Quant Fund LLC, Trophy Hunter Investments, Ltd., Steven Van Dyke, Ann Van Kyke, Lloyd I. Miller, Lloyd I. Miller Pension Plan, Lloyd I. Miller IRA, Milfam II, L.P., Milfam LLC, Dail E. Miller IRA, Dorothy Miller, Kimberley S. Miller Trust, Remus Holdings LLC, Castor Investment, LLC, Pollux Investments LLC and Singer Children's Management Trust. The *Ad Hoc*

Committee has advised the Debtor that such members collectively hold in excess of 70% of the Notes and substantial portion of the Old Common Stock of the Debtor. As a result of these discussions between the Debtor and the *Ad Hoc* Committee, the Debtor and the *Ad Hoc* Committee have agreed to the terms of a pre-arranged plan of reorganization for the Debtor attached hereto as Exhibit A.

Prior to the Petition Date, the *Ad Hoc* Committee worked with the Debtor in preparing the Plan and Disclosure Statement. The *Ad Hoc* Committee has indicated that it supports the Plan.

Affiliates of the members of the *Ad Hoc* Committee, are members of ABN's Board of Directors, including: Steven Singer, Lloyd Miller III, James Dondero and Steven Van Dyke.

### F. Purposes and Effects of the Plan.

The primary purposes of the Plan are to reduce the Debtor's debt service requirements and overall level of indebtedness, to realign its capital structure, and to provide it with the flexibility to amortize a portion of its new indebtedness while continuing to provide the necessary capital to reinvest and grow its business. If consummated, the Plan would exchange the principal amount of the Debtor's indebtedness for New Issued Common Stock. In addition, the Debtor would exchange a smaller amount of the Notes for New Notes. An ancillary purpose of the Plan is to reduce the number of holders of New Issued Common Stock below 300 so that the Reorganized Debtor can elect to become a private company. The Reorganized Debtor will benefit from being a private company as its costs will be significantly reduced. In particular, the Reorganized Debtor's will be able to reduce the costs associated with financial reporting, audits, directors' and officers' insurance, compliance with federal securities laws, etc.

As stated above, the Debtor does not have access to sufficient cash to repay the Notes on January 31, 2005. The current Plan addresses this problem, and, provides for adequate debt servicing of the New Notes. As a result, the Debtor will have adequate future liquidity and the long term relief it requires to reinvest back into its business.

## III. SIGNIFICANT EVENTS DURING THE CHAPTER 11 CASE

### A. Continuation of Business.

The Debtor filed its petitions for relief on January 19, 2005. Subsequent to the Petition Date, the Debtor has continued to operate as a debtor in possession subject to the supervisions of the Bankruptcy Court.

### B. First Day Orders.

On or about the Petition Date, the Debtor submitted to the Bankruptcy Court, a number of "first day orders," along with supporting applications and affidavits. On January 21, 2005, the Bankruptcy Court entered the following orders:

1. Debtor's Motion for an Order Pursuant to §§ 327 and 328 of the Bankruptcy Code and Federal Rule of Bankruptcy Procedure 2014 Appointing MacKenzie Partners,

Inc. as Balloting Agent to the Debtor and Debtor in Possession.

2. Debtor's Motion for an Order Pursuant to 28 U.S.C. § 156(c) Authorizing the Retention of BMC Group, Inc. as Claims and Noticing Agent of the Bankruptcy Court.

3. Debtor's Motion for an Order Pursuant to 11 U.S.C. §§ 105(a), 345, 363, 1007 and 1108 Authorizing Maintenance of Existing Bank Accounts, Business Forms and Cash Management System and Interim Order Waiving the Deposit and Investment Requirements Under 11 U.S.C. § 345.

4. Debtor's Motion for an Order Pursuant to 11 U.S.C. §§ 105(a), 363(b), 507(a)(3) and 507(a)(4), Authorizing the Debtor to Pay and Honor in the Ordinary Course of Business Pre-Petition Wages, Compensation and Employee Benefits and Deductions.

5. Debtor's Motion for an Order Pursuant to Federal Rule of Bankruptcy Procedure 3003(c)(3) Fixing a Deadline for the Filing of Proofs of Claim and Approving the Form and Manner of Notice Thereof.

**C. Retention of Professionals.**

The Debtor requested that the Bankruptcy Court enter, among others, the following: (i) Order Authorizing the Retention of Andrews Kurth LLP as Co-Counsel to Debtor-in-Possession, (ii) Order Authorizing the Retention of Cooch and Taylor as Co-Counsel to Debtor-in-Possession, and (iii) Order Authorizing the Retention of Friedman LLP as Auditors to the Debtor and Debtor-in-Possession. The Bankruptcy Court subsequently approved those requests.

**D. Claims Bar Date.**

On January 24, 2005, the Bankruptcy Court entered an order (the "Bar Date Order") requiring any person or entity, with certain limited exceptions, holding or asserting a claim against the Debtor to file a written proof of claim on or before 4:00 p.m. Delaware time on March 21, 2005 (the "Bar Date"). The Bar Date Order provides that any person or entity which fails to timely file a proof of claim will be forever barred, estopped and enjoined from voting on, or receiving a distribution under the Plan and will be forever barred, estopped and enjoined from asserting a claim against the Debtor or its estates.

**E. Statutory Committee.**

The United States Trustee has not appointed a Committee of Unsecured Creditors in this Chapter 11 Case.

## IV. THE PLAN OF REORGANIZATION

The Debtor believes that (i) through the Plan, holders of Claims and Equity Interests will obtain a greater recovery from the Debtor's estate than the recovery which would be available if

the Debtor's assets were liquidated under Chapter 7 of the Bankruptcy Code, and (ii) the Plan will afford the Debtor the opportunity and ability to continue in business as a viable going concern.

The Plan is annexed hereto as Exhibit A and forms a part of this Disclosure Statement. The summary of the Plan set forth below is qualified in its entirety by reference to the more detailed provisions set forth in the Plan.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT INCLUDE SUMMARIES OF THE PROVISIONS CONTAINED IN THE PLAN AND IN 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 REFERENCE IS MADE TO THE PLAN AND TO SUCH DOCUMENTS FOR THE FULL AND COMPLETE STATEMENTS OF SUCH TERMS AND PROVISIONS.

THE PLAN ITSELF AND THE DOCUMENTS REFERRED TO THEREIN CONTROL THE ACTUAL TREATMENT OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR UNDER THE PLAN AND WILL, UPON OCCURRENCE OF THE EFFECTIVE DATE, BE BINDING UPON ALL HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR, ITS ESTATE, THE REORGANIZED DEBTOR 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 WILL CONTROL.

## A. Classification and Treatment of Claims and Equity Interests.

Under the Plan, Claims against and Equity Interests in the Debtor are divided into different Classes. Only certain Allowed Claims and Allowed Equity Interests are entitled to receive distributions under the Plan. The following is a description of the Plan's treatment of Claims against and Equity Interests in the Debtor.

### 1. Unclassified Claims.

a. Administrative Expense Claims.

Administrative Expense Claims are Claims constituting any right to payment of a cost or expense of administration of the Chapter 11 Case allowed under sections 503(b) and 507(a)(1) of the Bankruptcy Code, including, without limitation, (a) any actual and necessary costs and expenses of preserving the Debtor's estate, (b) any actual and necessary costs and expenses of operating the Debtor's business during the Chapter 11 Case in the ordinary course of business, (c) any indebtedness or obligations incurred or assumed by the Debtor in Possession during the Chapter 11 Case in the ordinary course of business, (d) any allowances of compensation and reimbursement of expenses to the extent allowed by Final Order under section 330 or 503 of the Bankruptcy Code, and (e) any fees or charges assessed against the Debtor's estate under section 1930, title 28, United States Code.

On the Distribution Date, except as otherwise provided in the Plan, each holder of an Allowed Administrative Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Administrative Claim (a) Cash equal to the unpaid portion of such Allowed Administrative Claim or (b) such other treatment as to which the Debtor and such holder have agreed upon in writing; *provided, however*, that Allowed Administrative Claims with respect to liabilities incurred by the Debtor in the ordinary course of business during the Chapter 11 Case will be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto.

b. Priority Tax Claims.

Priority Tax Claims are those Claims of a governmental unit of the kind entitled to priority in payment as specified in sections 502(i) and 507(a)(8) of the Bankruptcy Code.

Each holder of an Allowed Priority Tax Claim will receive, at the sole discretion of the Debtor and in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Priority Tax Claim, in the sole discretion of the Debtor, (a) Cash equal to the unpaid portion of such Allowed Priority Tax Claim on the Distribution Date, (b) deferred Cash payments over a period not exceeding six (6) years after the date of assessment of such Allowed Priority Tax Claim in an aggregate principal amount equal to the amount of such Allowed Priority Tax Claim, plus interest on the unpaid portion thereof, as provided in section 1129(a)(9)(C) of the Bankruptcy Code, or (c) such other treatment as to which the Debtor and such holder have agreed upon in writing.

**2. Classes of Claims.**

a. Class 1 - Other Priority Claims.

The Other Priority Claims are those Claims other than an Administrative Claim or a Priority Tax Claim, entitled to priority in payment under section 507(a) of the Bankruptcy Code.

On the Distribution Date, each holder of an Allowed Class 1 Other Priority Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange for such Allowed Class 1 Other Priority Claim, in the sole discretion of the Debtor, either (a) Cash equal to the unpaid portion of such Allowed Class 1 Other Priority Claim or (b) such other treatment as to which Debtor and such holder will have agreed upon in writing.

b. Class 2 - Miscellaneous Secured Claims.

Class 2 consists of Claims, other than Class 3 (Note Claims) and Class 4 (Note Convenience Claims) secured by a Lien on Collateral but only to the extent of the value of such Collateral (a) as set forth in the Plan, (b) as agreed to by the holder of such Claim and the Debtor, or (c) as determined by a Final Order in accordance with section 506(a) of the Bankruptcy Code or, in the event that such Claim is subject to setoff under section 553 of the Bankruptcy Code, to the extent of such setoff.

On the Distribution Date, with respect to each Allowed Class 2 Miscellaneous Secured Claim, (i) the Debtor or Reorganized Debtor shall Cure any default with respect to such Claim

that occurred before or after the Petition Date, (ii) the maturity of such Claim shall be Reinstated as such maturity existed before any such default, (iii) the holder of such Claim shall be compensated for any damages incurred as a result of any reasonable reliance by the holder on any right to accelerate its Claim, and (iv) the legal, equitable and contractual rights of such holder will not otherwise be altered.

c. Class 3 - Note Claims.

Class 3 consists of Claims, other than Note Convenience Class Claims, by a holder of the Notes arising from or under the Notes.

On the Distribution Date, each holder of an Allowed Class 3 Note Claim will receive, in full satisfaction, settlement, release, and discharge of and in exchange of such Allowed Note Claim its Ratable Portion of the Class 3 Distribution.

d. Class 4 - Note Convenience Claim.

Class 4 consists Claims arising from or under the Notes equal to or less than $45,000.00.

On the Distribution Date, each holder of an Allowed Class 4 Note Convenience Claim will receive, in full satisfaction, settlement, release and discharge of and in exchange for such Allowed Note Convenience Claim, at such holders' election: (a) Cash in an amount equal to sixty percent (60%) of such holder's Allowed Class 4 Note Convenience Claim, or (b) New Notes equal to one hundred percent (100%) of the holder's Claim.

**IF A HOLDER OF AN ALLOWED CLASS 4 NOTE CONVENIENCE CLAIM FAILS TO MAKE AN ELECTION IN ACCORDANCE WITH THE FOREGOING SENTENCE, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO RECEIVE THE TREATMENT SET FORTH IN SECTION 4.4(a) OF THE PLAN.**

e. Class 5 - Miscellaneous Unsecured Claims.

Class 5 consists of each Claim against the Debtor that is not an Administrative Claim, Priority Tax Claim, Other Priority Claim, Miscellaneous Secured Claim, Note Claim, Note Convenience Claim, or SERP Claim.

On the Distribution Date, each holder of an Allowed Miscellaneous Class 5 Unsecured Claim will be paid in full in Cash; *provided however*, that Allowed Miscellaneous Class 5 Unsecured Claims with respect to liabilities incurred by the Debtor in the ordinary course of business will be paid in the ordinary course of business in accordance with the terms and conditions of any agreements relating thereto.

f. Class 6 - SERP Claims.

Class 6 consists of the obligations arising from any non-qualified supplemental executive retirement plan of the Debtor that remain outstanding as of the filing of the Plan.

On the Distribution Date, each holder of an Allowed Class 6 SERP Claim will receive in full satisfaction, settlement, release and discharge of and in exchange for such Allowed SERP Claim, the Class 6 Distribution.

g. Class 7 - Equity Interests.

Class 7 consists of the interests of any holder of equity securities of the Debtor represented by any issued and outstanding shares of Old Common Stock.

All Equity Interests will be cancelled on the Effective Date, and on the Distribution Date, each holder of an Allowed Class 7 Equity Equity, other than *De Minimis* Interest Holders, will receive, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed Class 7 Equity Interests, its Ratable Portion of the Class 7 Distribution.

h. Class 8 - *De Minimis* Equity Holders

Class 8 consists of the Equity Interests of any person holding between one and 500,000 shares of Old Common Stock.

All Equity Interests held by *De Minimis* Equity Holders will be cancelled on the Effective Date, and on the Distribution Date, each *De Minimis* Equity Holder will receive, in full satisfaction, settlement, release, and discharge of and in exchange for its Allowed Equity Interests, its Ratable Portion of the Class 8 Distribution.

THE DISTRIBUTIONS TO HOLDERS OF CLASS 8 INTERESTS (*DE MINIMIS* EQUITY HOLDERS) WILL BE OF AN EQUIVALENT VALUE TO THE DISTRIBUTIONS RECEIVED BY HOLDERS OF CLASS 7 (EQUITY INTERESTS), EXCEPT THAT SUCH DISTRIBUTIONS WILL BE SOLELY IN CASH.

i. Class 9 - Other Equity Interests.

Class 9 consists of any equity security (as defined in section 101(16) of the Bankruptcy Code) of the Debtor, except Equity Interests and includes, but is not limited to, warrants, options or any right, contractual or otherwise, to acquire any Equity Interest.

The Other Equity Interests will be cancelled on the Effective Date and holders of Other Equity Interests will receive no distribution under the Plan.

**B. Securities to be Issued Under the Plan.**

The issuance of the following securities by the Reorganized Debtor is authorized without further act or action under applicable law, regulation, order or rule: 10,000,000 shares of New Issued Common Stock, and the New Notes in the aggregate amount of up to $11,000,000.

## C. Means of Implementation.

### 1. Distributions.

On the Distribution Date the Reorganized Debtor shall make or cause to be made to the holders of Allowed Claims and Allowed Equity Interests the distributions provided in section 4 of the Plan. Disputed Claims shall be resolved in accordance with section 9 of the Plan and, if a Disputed Claim becomes an Allowed Claim by Final Order, distributions shall be made on account of such Claim in accordance with section 8 of the Plan.

### 2. Authorization to Issue New Securities.

The issuance of the following securities by the Reorganized Debtor is authorized without further act or action under applicable law, regulation, order or rule: 10,000,000 shares of New Issued Common Stock, and the New Notes in the aggregate amount of up to $11,000,000.

### 3. Issuance of New Securities.

The Amended Certificate of Incorporation shall initially authorize the Reorganized Debtor to issue a total of up to 35,000,000 shares of New Issued Common Stock. Additionally, the Reorganized Debtor will issue the New Notes in the aggregate amount of up to $11,000,000.

### 4. Stockholders' Agreement.

The Reorganized Debtors and the Exit Financing Parties and certain of their affiliates shall enter into the Stockholders' Agreement on or prior to the Effective Date.

### 5. Cancellation of Existing Securities and Agreements.

On the Effective Date, the Notes, the Notes Indenture, the Equity Interests and Other Equity Interests shall be automatically cancelled and shall be of no further force and effect, without any further act or action under any applicable agreement, and the obligations of the Debtor and the Notes Indenture Trustee shall be discharged, provided, however, that the Notes Indenture shall continue in effect solely for the purposes of (i) allowing the holders of Allowed Note Claims and Allowed Note Convenience Claims to receive their distributions under the Plan, (ii) allowing the Notes Indenture Trustee to make the distributions to be made on account of the Notes, and (iii) permitting the Notes Indenture Trustee to assert its Charging Lien against such distributions for payment of the Indenture Trustee Fees. The holders of, or parties to, such canceled Notes, and other agreements and instruments shall have no rights arising from or relating to such Notes, and other agreements and instruments or the cancellation thereof, except the rights provided pursuant to the Plan. Notwithstanding any provision contained in the Plan to the contrary, the distribution provisions contained in the Notes Indenture shall continue in effect to the extent necessary to authorize the Notes Indenture Trustee to receive and distribute to the holders of Allowed Note Claims and Allowed Note Convenience Claims, as applicable, distributions pursuant to the Plan on account of Allowed Note Claims and Allowed Note Convenience Claims and shall terminate completely upon completion of all such distributions.

**6. Amended Certificate of Incorporation.**

On the Effective Date or as soon as practicable thereafter, the Reorganized Debtor shall file with the Secretary of State of Delaware, in accordance with the DGCL, the Amended Certificate of Incorporation. On the Effective Date, the Amended Certificate of Incorporation shall automatically become effective, and all other matters provided under this Plan involving the corporate structure of the Reorganized Debtor, or corporate action by it, shall be deemed to have occurred and shall be in effect from and after the Effective Date pursuant to section 303 of the DGCL without any requirement of further action by the stockholders or the directors of the Reorganized Debtor, including, without limitation, the approval of Stock Incentive Plan.

**7. Stock Incentive Plan.**

On the Effective Date, the Stock Incentive Plan shall be deemed approved by Reorganized Debtor pursuant to section 303 of the DGCL without any requirement of further action by the stockholders or the directors of the Reorganized Debtor.

**8. Corporate Action.**

a. Board of Directors of Reorganized Debtor. On the Effective Date, the operation of Reorganized Debtor shall become the general responsibility of the Board of Directors of Reorganized Debtor, subject to, and in accordance with, the Amended Certificate of Incorporation and the Amended By-laws. The term of the directors of the Debtor immediately prior to the Effective Date shall expire on the Effective Date and shall be replaced by the Board of Directors of Reorganized Debtor.

b. Officers of Reorganized Debtor. The initial officers of Reorganized Debtor are or shall be disclosed in the Disclosure Statement or an amendment or supplement to the Disclosure Statement or such other filing as may be made with the Bankruptcy Court. The selection of officers of Reorganized Debtor after the Effective Date shall be as provided in its Amended Certificate of Incorporation and Amended By-laws.

**9. Continued Corporate Existence.**

The Debtor shall continue to exist after the Effective Date as a corporate entity, in accordance with Delaware law and pursuant to the Amended Certificate of Incorporation and Amended By-laws. The Amended Certificate of Incorporation and Amended By-laws shall satisfy the requirements of the Plan and the Bankruptcy Code and shall include, among other things, pursuant to section 1123(a)(6) of the Bankruptcy Code, a provision prohibiting the issuance of non-voting equity securities.

**10. Exit Financing.**

On the Effective Date, in accordance with the terms of the Exit Financing Agreement, the Exit Financing Parties shall transfer $16,000,000 to the Debtor in return for the Exit Financing Securities in the following amounts:

| | Exit Financing Amount | New Issued Common Stock |
|---|---|---|
| Bay Harbour Partners, Ltd. | $2,000,000 | 233,964 |
| Lloyd I. Miller, III | $2,000,000 | 233,964 |
| Pollux Investments, LLC | $2,000,000 | 233,964 |
| Highland Capital Management L.P. | $10,000,000 | 1,169,822 |
| TOTAL | $16,000,000 | 1,871,714 |

**D. Provisions Governing Distributions.**

**1. Date of Distributions.**

Unless otherwise provided in the Plan, any distributions and deliveries to be made under the Plan shall be made on the Distribution Date. In the event that 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.

**2. Disbursing Agent.**

All distributions under the Plan shall be made by Reorganized Debtor as Disbursing Agent or such other entity designated by Reorganized Debtor as a Disbursing Agent, or the Notes Indenture Trustee on behalf of the holders of the Note Claims and the Note Convenience Claims, as applicable, on the Distribution Date. The Disbursing Agent and the Notes Indenture Trustee shall not be required to give any bond or surety or other security for the performance of its duties unless otherwise ordered by the Bankruptcy Court, and, in the event that a Disbursing Agent or Notes Indenture Trustee is so otherwise ordered, all costs and expenses of procuring any such bond or surety shall be borne by Reorganized Debtor.

**3. Compensation of Professionals.**

a. Each Professional retained or requesting compensation in the Chapter 11 Case pursuant to section 327, 328, 330, 331, 503(b), or 1103 of the Bankruptcy Code shall be required to file and serve an application for allowance of final compensation and reimbursement of expenses in the Chapter 11 Case on or before ten (10) days after the Effective Date. Objections to any application made under section 8.3 of the Plan shall be filed on or before twenty (20) days after the Effective Date and served on the Reorganized Debtor, the United States Trustee and the requesting Professional.

b. If no objection is filed and served with respect to a Professional's request for compensation and reimbursement of expenses, such Professional Fee Claim shall be paid by the Reorganized Debtor on the twenty-fourth (24th) day after the Effective Date. Otherwise, such Professional Fee Claim shall be paid by the Reorganized Debtor at such time as the objection is resolved or settled by Final Order of the Bankruptcy Court.

c. On or prior to the Confirmation Date, each Professional seeking compensation or reimbursement under section 327, 328, 330, 331, 503(b), or 1103 of the Bankruptcy Code shall provide the Debtor with a written estimate of the amount of its requested compensation and reimbursement through the Effective Date. On the Effective Date, the Debtor shall establish the Professional Claims Reserve in an amount equal to the aggregate amount of such estimated compensation or reimbursements, unless otherwise previously paid by the Debtor. The funds in the Professional Claims Reserve shall be used solely for the payment of Allowed Professional Fee Claims. If a Professional fails to submit an estimate of its fees in accordance with section 8.3(C) of the Plan, the Reorganized Debtor shall not pay such Professional's Allowed Professional Fee Claim from the Professional Claims Reserve but rather shall pay such claim from any other source available to the Reorganized Debtor.

**4. Surrender and Exchange of Notes Claims.**

a. All payments to holders of physical certificates (excluding Notes held by the Depository Trust Company) evidencing Note Claims or Note Convenience Claims shall only be made to such holders after (i) the surrender by each such holder of the physical certificate evidencing the Note Claim or the Note Convenience Claims, or in the event that such certificate is lost, stolen, mutilated or destroyed, upon the holder's compliance with the requirements set forth in Section 8.6 of the Plan. Upon surrender of the physical certificate evidencing the Notes, the Notes Indenture Trustee shall cancel and destroy the pertinent Notes. The Notes Indenture Trustee shall cause an exchange for the Notes held by the Depository Trust Company. Upon implementation of the exchange, the pertinent Notes shall be deemed cancelled. As soon as practicable after such surrender or exchange, as applicable, the Notes Indenture Trustee and/or the Disbursing Agent, as applicable, shall distribute to the holder thereof such holder's distribution which the holder is entitled to under the Plan, but subject to the rights of the Notes Indenture Trustee to assert its Charging Lien against such distribution. Upon full satisfaction of the Indenture Trustee Fees, the Charging Lien shall be released. Nothing herein shall be deemed to impair, waive or discharge the Charging Lien for any unpaid fees and expenses.

b. Except as provided in Section 8.6 of the Plan for lost, stolen, mutilated or destroyed Notes, each holder of an Allowed Notes Claim or Allowed Notes Convenience Claim evidenced by a physical certificate shall tender such certificate to the Notes Indenture Trustee in accordance with written instructions to be provided in a letter of transmittal to such holders by the Notes Indenture Trustee as promptly as practicable following the Effective Date. Such letter of transmittal shall specify that delivery of such certificate will be effected, and risk of loss and title thereto will pass, only upon the proper delivery of such certificate with the letter of transmittal in accordance with such instructions. Such letter of transmittal shall also include, among other provisions, customary provisions with respect to the authority of the holder of the applicable certificate to act and the authenticity of any signatures required on the letter of transmittal.

**5. Failure to Surrender.**

Any holder of a physical certificate (excluding Notes held by the Depository Trust Company) evidencing Note Claims or Note Convenience Claims that fails to surrender or be deemed to have surrendered such Note within 365 days of the Effective Date, shall have its claim

for a distribution on account of such Notes discharged and shall be forever barred from asserting any such claim against the Reorganized Debtor or its property or the Notes Indenture Trustee, and shall not participate in any distribution hereunder, and the distribution that would otherwise have been made to such holder shall be returned to the Reorganized Debtor.

**6. Lost, Stolen, Mutilated or Destroyed Notes.**

Any holder of a physical certificate (excluding Notes held by the Depository Trust Company) evidencing Note Claims or Note Convenience Claims that claims its physical certificate has been lost, stolen, mutilated or destroyed shall, in lieu of surrendering such Notes, deliver to the Notes Indenture Trustee: (i) evidence satisfactory to the Notes Indenture Trustee of the loss, theft, mutilation or destruction; and (ii) such reasonable indemnity as may be required by the Notes Indenture Trustee to hold the Notes Indenture Trustee harmless from any damages, liabilities or costs incurred in treating such individual as a holder of Notes that has been lost, stolen, mutilated or destroyed. Upon compliance with Section 8.6 of the Plan by a holder of a Notes Claim evidenced by a physical certificate, such holder shall, for all purposes under the Plan, be deemed to have surrendered its Notes.

**7. Delivery of Distributions.**

All distributions to any holder of an Allowed Claim or Equity Interest shall be made at the address of such holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtor or its agents, unless the Debtor or Reorganized Debtor, as applicable, have been notified in writing of a change of address, including, without limitation, by the filing of a proof of claim or interest by such holder that contains an address for such holder different from the address reflected on such Schedules for such holder. In the event that any distribution to any holder is returned as undeliverable, the Disbursing Agent and/or the Notes Indenture Trustee, as applicable, shall use reasonable efforts to determine the current address of such holder, but no distribution to such holder shall be made unless and until the Disbursing Agent or the Notes Indenture Trustee, as applicable, has determined the then current address of such holder, at which time such distribution shall be made to such holder without interest; *provided, however,* that such distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of ninety (90) days from the Effective Date. After such date, all unclaimed property or interest in property shall revert to Reorganized Debtor or the Notes Indenture Trustee, as applicable, and the Claim of any other holder to such property or interest in property shall be discharged and forever barred.

As of the close of business on the Distribution Record Date, (i) the transfer books and records of the Notes as maintained by the Notes Indenture Trustee or its agent shall be closed, and (ii) any transfer of any Note after the Distribution Record Date will not be recognized for purposes of distributions under the Plan. The Reorganized Debtor and the Notes Indenture Trustee shall have no obligation to recognize any transfer of any Note occurring after the close of business on the Distribution Record Date, and shall instead be entitled to recognize and deal for all purposes under this Plan with only those holders of record as of the close of business on the Distribution Record Date.

**8. Manner of Payment Under the Plan.**

At the option of the Disbursing Agent, any Cash payment to be made hereunder may be made by a check or wire transfer or as otherwise required or provided in applicable agreements.

**9. Fractional Shares.**

No fractional shares of New Issued Common Stock shall be distributed. For purposes of distribution, fractional shares of New Issued Common Stock shall be rounded down to the previous whole number.

**10. Setoffs and Recoupment.**

The Debtor may, but shall not be required to, setoff against, or recoup from, any Claim or Equity Interest and the distributions to be made pursuant to the Plan in respect of such Claim or Equity Interest, any claims of any nature whatsoever that the Debtor may have against the claimant, but neither the failure to do so nor the allowance of any Claim or Equity Interest hereunder shall constitute a waiver or release by the Debtor of any such claim they may have against such claimant.

**11. Distributions After Distribution Date.**

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

**12. Rights and Powers of Disbursing Agent.**

a. Powers of the Disbursing Agent. The Disbursing Agent shall be empowered to (i) effect all actions and execute all agreements, instruments, and other documents necessary to perform its duties under the Plan, (ii) make all distributions contemplated hereby, (iii) employ professionals to represent it with respect to its responsibilities, and (iv) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan, or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions hereof.

b. Expenses Incurred on or After the Effective Date. Except as otherwise ordered by the Bankruptcy Court, the amount of any reasonable fees and expenses incurred by the Disbursing Agent on or after the Effective Date (including, without limitation, taxes) and any reasonable compensation and expense reimbursement claims (including, without limitation, reasonable attorney fees and expenses) made by the Disbursing Agent shall be paid in Cash by the Reorganized Debtor in the ordinary course.

**13. Notes Indenture Trustee's Fees and Expenses.**

The Notes Indenture Trustee shall be paid in Cash directly from the Reorganized Debtor on the Distribution Date for the Indenture Trustee Fees without the need for application to, or approval of, any court. The Notes Indenture Trustee's Charging Lien will be discharged solely

upon payment in full of the Indenture Trustee Fees. Nothing herein shall be deemed to impair, waive or discharge the Charging Lien, for any fees and expenses not paid by the Reorganized Debtor. To the extent that the Notes Indenture Trustee provides services related to distributions pursuant to the Plan, the Notes Indenture Trustee will receive from the Reorganized Debtor, without further court approval, reasonable compensation for such services and reimbursement of reasonable expenses incurred (the "Disbursing Agent Fee") in connection with such services. These payments will be made on terms agreed to between the Notes Indenture Trustee and the Reorganized Debtor. The Disbursing Agent Fee will be paid directly to the Notes Indenture Trustee by the Debtor or Reorganized Debtor on the Distribution Date, or as soon as practicable thereafter, without the need for application to, or approval of, any court. The aggregate fees and expenses described in this paragraph and payable by the Reorganized Debtor shall not exceed $70,000.

**14. Record Date for Holders of Claims and Equity Interests.**

The record date for the initial distribution to holders of Claims and Equity Interests under the Plan will be the Distribution Record Date. The record date for all subsequent distributions, if any, to holders of Claims and Equity Interests under the Plan will be the Subsequent Record Distribution Date(s).

**15. Reserves.**

Before making any distributions under the Plan, the Reorganized Debtor shall hold in reserve the amount of Cash or New Issued Common Stock that would be required to be distributed under the Plan on account of any Claim but for the fact that such Claim is not Allowed, *provided, however*, that at the time as such Claim is disallowed in whole or in part by Final Order, settlement or otherwise, the reserve on account of such Claim for the disallowed amount thereof, shall be returned to the Reorganized Debtor. If a Claim as to which an objection has been filed becomes, in whole or in part, an Allowed Claim, the Reorganized Debtor shall distribute to the holder thereof the amount to which it is entitled from the Disputed Claims Reserve in accordance with the terms of the Plan. Any balance remaining in the Disputed Claims Reserve after all Claims have been satisfied in accordance with the terms of this Plan and the Chapter 11 Case is ready to be closed, shall be transferred to the Reorganized Debtor's operating account to be used by the Reorganized Debtor at its discretion in the ordinary course of business.

**16. Allocation Relating to Notes.**

All distributions to holders of Notes shall be allocated first to the portion of each such Claim representing the principal amount of the Notes and then, to the extent the consideration exceeds such amount, to the remainder of such Claim.

**17. Discharge of Notes Indenture Trustee.**

Immediately following the Effective Date, the Notes Indenture Trustee shall be discharged of all of its obligations under the terms of the Notes Indenture, except for the obligation to act as Disbursing Agent, as applicable. Following the Effective Date, the Notes

Indenture Trustee shall have no other duty or obligation to the holders of the Notes and, without limitation, shall have no duty with respect to the Claims resolution process. The Notes Indenture Trustee shall not be entitled to a fee for acting as indenture trustee after the Effective Date unless it is asked to make a distribution or perform other specific services.

## E. Procedures for Treating Disputed Claims Under the Plan.

### 1. Disputed Claims.

Except as to applications for allowances of compensation and reimbursement of expenses under sections 330 and 503 of the Bankruptcy Code, the Debtor or Reorganized Debtor shall have the exclusive right to make and file objections to Claims subsequent to the Confirmation Date. All objections shall be litigated to Final Order; *provided, however*, that Reorganized Debtor shall have the authority to compromise, settle, otherwise resolve, or withdraw any objections, without approval of the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, the Debtor or Reorganized Debtor shall file all objections to Claims (other than applications for allowances of compensation and reimbursement of expenses) and serve such objections upon the holders of such Claims as to which the objection is made as soon as practicable, but in no event later than the Objection Deadline.

### 2. No Distributions Pending Allowance.

Notwithstanding any other provision hereof, if any portion of a Claim is a Disputed Claim, no payment or distribution provided hereunder shall be made on account of such Claim unless and until such Disputed Claim becomes an Allowed Claim.

### 3. Distributions After Allowance.

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, a distribution shall be made to the holder of such Allowed Claim in accordance with the provisions of the Plan. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing any Disputed Claim becomes a Final Order, the Disbursing Agent shall provide to the holder of such Allowed Claim the distribution to which such holder is entitled under the Plan.

## F. Provisions Governing Executory Contracts And Unexpired Leases.

### 1. Assumed Contracts and Leases.

Except as otherwise provided in the Plan or in any contract, instrument, release, indenture, or other agreement or document entered into in connection with the Plan, as of the Effective Date, the Debtor shall be deemed to have rejected each executory contract and unexpired lease to which they were a party, unless such contract or lease (i) was previously assumed or rejected by the Debtor, (ii) previously expired or terminated pursuant to its own terms, (iii) is the subject of a motion to reject filed on or before the Effective Date, or (iv) is identified as an assumed executory contract or an assumed unexpired lease, as applicable, in Exhibit E of the Plan as same may be amended from time to time prior to the Confirmation Hearing. The Confirmation Order shall constitute an order of the Bankruptcy Court under section 365 of the Bankruptcy Code approving the contract and lease assumptions and rejections

described above, as of the Effective Date except for any contract or lease assumed or rejected prior thereto.

Each executory contract and unexpired lease that is assumed and relates to the use, ability to acquire, or occupancy of real property shall include (i) all modifications, amendments, supplements, restatements, or other agreements made directly or indirectly by any agreement, instrument, or other document that in any manner affects such executory contract or unexpired lease and (ii) all executory contracts or unexpired leases appurtenant to the premises, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement agreements, vaults, tunnel or bridge agreements or franchises, and any other interests in real estate or rights *in rem* related to such premises, unless any of the foregoing agreements has been rejected pursuant to an order of the Bankruptcy Court.

**2. Payments Related to Assumption of Contracts and Leases.**

Any monetary amounts by which each executory contract and unexpired lease to be assumed pursuant to the Plan is in default shall be satisfied, under section 365(b)(1) of the Bankruptcy Code, by Cure. If there is a dispute regarding (i) the nature or amount of any Cure, (ii) the ability of the Reorganized Debtor or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (iii) any other matter pertaining to assumption, Cure shall occur following the entry of a Final Order resolving the dispute and approving the assumption or assumption and assignment, as the case may be.

**3. Rejected Contracts and Leases.**

The Plan constitutes and incorporates a motion by the Debtor to reject, and the Confirmation Order shall be deemed to be an Order authorizing the rejection of those executory contracts and unexpired leases to which the Debtor is a party, except for those executory contracts and unexpired leases listed on Exhibit E to the Plan as the same may be amended from time to time prior to the Confirmation Hearing.

**4. Bar for Rejection Damages.**

If the rejection by the Debtor, pursuant to the Plan or otherwise, of an executory contract or unexpired lease results in a Claim that is not theretofore evidenced by a timely filed proof of Claim or a proof of Claim that is deemed to be timely filed under applicable law, then such Claim shall be forever barred and shall not be enforceable against the Debtor or Reorganized Debtor, or the properties of the Debtor or Reorganized Debtor, unless a proof of Claim is filed with the Claims Agent on or before the later to occur of the Bar Date or thirty (30) days after entry of an order (which may be the Confirmation Order) authorizing the rejection of the applicable unexpired lease or executory contract.

**5. Treatment Under Plan of Rejection Damages.**

Unless otherwise ordered by the Bankruptcy Court, all Allowed Claims arising from the rejection of executory contracts or unexpired leases shall be treated as Class 5 Miscellaneous Unsecured Claims.

### 6. Cantor Settlement Agreement.

On the Effective Date of the Plan, the Reorganized Debtor and Sheldon Cantor will enter into a consulting agreement (the "Cantor Consulting Agreement"). The Cantor Consulting Agreement is attached as Exhibit H to the Plan.

## G. Conditions Precedent to Effective Date.

### 1. Conditions Precedent to Effective Date of the Plan.

The occurrence of the Effective Date of the Plan is subject to satisfaction of the following conditions precedent:

a. A Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court which is in form and substance reasonably acceptable to the Debtor and there shall not be a stay or injunction in effect with respect thereto.

b. The Exit Financing Parties shall have paid the Debtor $16,000,000 under the Exit Financing Agreement in accordance with the terms of the Plan and the Exit Financing Agreement.

c. The Debtor shall have purchased directors and officers liability insurance for the Board of Directors of Reorganized Debtor in form, substance and amount reasonably acceptable to the Debtor.

d. All other actions and all agreements, instruments or other documents necessary to implement the terms and provisions hereof shall have been effected.

e. The Debtor shall have created the Professional Fee Reserve in accordance with section 8.3 of the Plan.

f. The Debtor and the Exit Financing Parties and certain of their affiliates shall have entered into the Stockholders' Agreement.

### 2. Waiver of Conditions Precedent.

Each of the conditions precedent in section 11.1, other than 11.1(A) and 11.1(E) of the Plan may be waived, in whole or in part, by the Debtor in writing. Any such waivers of a condition precedent in section 11.1 of the Plan may be effected at any time, without notice, without leave or order of the Bankruptcy Court and without any formal action.

## H. Effect of Confirmation.

### 1. Vesting of Assets.

On the Effective Date, the Debtor, its properties and interests in property and its operations shall be released from the custody and jurisdiction of the Bankruptcy Court, and the estate of the Debtor shall vest in Reorganized Debtor free and clear of any and all Liens, except

as otherwise provided in the Plan. From and after the Effective Date, Reorganized Debtor may operate its business and may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, subject to the terms and conditions of the Plan.

**2. Binding Effect.**

Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code and subject to the occurrence of the Effective Date, on and after the Effective Date, the provisions of the Plan shall bind any holder of a Claim against or Equity Interest in the Debtor and such holder's respective successors and assigns, whether or not the Claim or Equity Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

**3. Discharge of Debtor.**

Except to the extent otherwise provided herein, the treatment of all Claims against or Equity Interests in the Debtor hereunder shall be in exchange for and in complete satisfaction, discharge and release of all Claims against or Equity Interests in the Debtor of any nature whatsoever, known or unknown, including, without limitation, any interest accrued or expenses incurred thereon from and after the Petition Date, or against its estates or properties or interests in property. Except as otherwise provided herein, upon the Effective Date, all Claims against and Equity Interests in the Debtor will be satisfied, discharged, and released in full exchange for the consideration provided under the Plan. Except as otherwise provided in the Plan, all entities shall be precluded from asserting against the Debtor or Reorganized Debtor or its respective properties or interests in property, any other Claims based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

**4. Term of Injunctions or Stays.**

Unless otherwise provided in the Plan, all injunctions or stays arising under or entered during this Chapter 11 Case under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the 30th day following the Effective Date.

**5. Exculpation.**

**The Released Parties shall not have or incur, and are hereby released from, any claim, obligation, cause of action or liability to one another or to any holder of a Claim or an Equity Interest, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys or affiliates, or any of their successors and assigns, for any act or omission in connection with, relating to or arising out of this Chapter 11 Case, the solicitation of votes and pursuit of confirmation of the Plan, the consummation of the Plan, the administration of the Plan or the property to be distributed under the Plan, the solicitation and issuance of the New Issued Common Stock, and in all respects shall be entitled to rely reasonably upon the advice of counsel with respect to its duties and responsibilities under the Plan, *provided however*, that nothing in this section shall be deemed to release any such person from liability for acts or omissions that are the result of actual fraud, gross negligence, willful misconduct, or willful violation of the securities laws or the Internal Revenue Code.**

Section 12.5 of the Plan provides for the release of the Released Parties for any act or omission in connection with, relating to or arising out this Chapter 11 case, the solicitation of votes and pursuit of confirmation of the Plan, the administration of the Plan or the property to be distributed under the Plan, the solicitation and issuance of the New Issued Common Stock. The Debtor believes that a release of each of the Released Parties is necessary. Pursuant to standards set forth *In re Master Mortgage Investment Fund, Inc.*, 168 B.R. 930 (W.D. Mo. 1994), the Released Parties should be granted the releases described in section 12.5 of the Plan for the following reasons: (i) the release of the members of the *Ad Hoc* Committee is essential to the reorganization of the Debtor. As set forth herein, the *Ad Hoc* Committee negotiated the Plan with the Debtor. Without the support of the *Ad Hoc* Committee members, who are also the largest Note and Equity Interest holders, the Debtor would be unable to reorganize in the efficient and expeditious manner provided for by the Plan; (ii) the Exit Financing Parties are all contributing substantial assets to the reorganization; and (iii) the Notes Indenture Trustee, Claims Agent, Balloting Agent and Disbursing Agent are critical to the successful reorganization of the Debtor. Without their participation and cooperation, the Debtor's efficient and expeditious reorganization would not be possible.

### 6. Indemnification Obligations.

Subject to the occurrence of the Effective Date, the obligations of the Debtor, to indemnify, defend, reimburse, make advances to or limit the liability of directors or officers who were or are directors or officers of the Debtor prior to and after the Petition Date, in respect of any claims or causes of action, except for any claims or causes of action relating to acts or omissions that are the result of actual fraud, gross negligence, willful misconduct, or willful violation of the securities laws or the Internal Revenue Code, as provided in the Debtor's certificate of incorporation, by-laws, applicable state law or contract shall not be terminated and shall be in full force and effect in all respects. This section is in addition to, but in no way in derogation of, the exculpation provision set forth in section 12.5 of the Plan.

## I. Retention of Jurisdiction.

The Bankruptcy Court shall have exclusive jurisdiction of all matters arising out of, or related to, the Chapter 11 Case, the Plan and the Confirmation Order pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

a. To hear and determine pending applications for the assumption, assumption and assignment, or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom.

b. To enforce all agreements, assumed, if any, and to recover all property of the estate wherever located.

c. To determine any and all adversary proceedings, applications and contested matters, including, without limitation, under sections 544, 545, 548, 549, 550, 551, and 553 of the Bankruptcy Code.

d. To ensure that distributions to holders of Allowed Claims and Allowed Equity Interests are accomplished as provided herein.

e. To hear and determine any timely objections to Administrative Claims or to proofs of Claim, including, without limitation, any objections to the classification of any Claim, and to allow or disallow any Disputed Claim in whole or in part.

f. To determine the validity, extent and priority of all Liens, if any, against properties of the estates.

g. To determine all assertions of an ownership interest in, the value of, or title to, any property of the estates.

h. To determine any tax liability of the estates in connection with the Plan, actions taken, distributions or transfers made thereunder.

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

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

k. To consider any amendments to or modifications of the Plan, or to cure any defect or omission, or reconcile any inconsistency, in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order.

l. To hear and determine all applications under sections 330, 331, and 503(b) of the Bankruptcy Code for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date.

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

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

o. To hear and determine any other matter not inconsistent with the Bankruptcy Code.

p. To hear and determine all disputes involving the existence, scope, and nature of the discharges granted under the Plan and the Confirmation Order.

q. To issue injunctions and effect any other actions that may be necessary or desirable to restrain interference by any entity with the consummation or implementation of the Plan.

r. To determine such other matters as may be provided in the Confirmation Order.

s. To enter a final decree closing the Chapter 11 Case.

**J. Miscellaneous Provisions.**

**1. Payment of Statutory Fees.**

All fees payable under section 1930, chapter 123, title 28, United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, shall be paid on the Effective Date. Any such fees accrued after the Effective Date will be paid by the Reorganized Debtor in the ordinary course of business.

**2. Section 1125(e) of the Bankruptcy Code.**

As of the Confirmation Date, the Debtor shall be deemed to have solicited acceptances of the Plan in good faith and in compliance with the applicable provisions of the Bankruptcy Code. The Debtor (and each of their respective affiliates, agents, directors, officers, employees, investment bankers, financial advisors, attorneys and other professionals) have, and shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code in the offer and issuance of the securities under the Plan, and therefore are not, and on account of such offer, issuance and solicitation will not be, liable at any time for the violation of any applicable law, rule or regulation governing the solicitation of acceptances or rejections of the Plan or the offer and issuance of securities under the Plan.

**3. Indenture Trustee as Claim Holder.**

Consistent with Bankruptcy Rule 3003(c), the Reorganized Debtor shall recognize a Proof of Claim filed by the Notes Indenture Trustee with respect to any Claim arising from the Notes. Accordingly, any Claim, proof of which is filed by the registered or beneficial holder of a Note, may be disallowed as duplicative of the Claim of the Notes Indenture Trustee, without any further action of the Bankruptcy Court.

**4. Exemption from Certain Transfer Taxes.**

Pursuant to section 1146(c) of the Bankruptcy Code, any transfers from the Debtor to any other person or entity pursuant to the Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment, 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.

**5. Modifications and Amendments.**

The exhibits to both the Plan and Disclosure Statement can be amended at any time prior to the Confirmation Date by the Debtor. In addition, the Debtor may alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date. After the Effective Date the Reorganized Debtor may, under section 1127(b) of the Bankruptcy

Code, institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order, and to accomplish such matters as may be necessary to carry out the purposes and effects of the Plan so long as such proceedings do not materially adversely affect the treatment of holders of Claims under the Plan, *provided, however*, that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or Order of the Bankruptcy Court.

**6. Compliance with Tax Requirements.**

In connection with the consummation of the Plan, the Reorganized Debtor shall comply with all withholding and reporting requirements imposed by any taxing authority, and all distributions hereunder shall be subject to such withholding and reporting requirements.

**7. Preservation of Transferred Claims.**

All causes of action which are currently held by the Debtor will be transferred to and prosecuted by the Reorganized Debtor at its sole and absolute discretion. The failure of the Debtor specifically to list any claim, right of action, suit, or proceeding herein or in the Plan does not, and will not be deemed to, constitute a waiver or release by the Debtor of such claim, right of action, suit, or proceeding, and Reorganized Debtor will retain the right to pursue additional claims, rights of action, suits, or proceedings.

**8. Severability of Plan Provisions.**

Except as otherwise provided herein, in the event that, prior to the Effective Date, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void or unenforceable, then if requested by the Debtor or Reorganized Debtor the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions hereof shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable in accordance with its terms. Notwithstanding the foregoing or any other provision of the Plan, to the extent section 4 of the Plan or any part thereof is held by the Bankruptcy Court to be invalid, void or unenforceable, then the Plan shall be deemed null and void for all purposes.

**9. Filing or Execution of Additional Documents.**

On or before the Effective Date, the Debtor or the Reorganized Debtor will file with the Bankruptcy Court or execute, as appropriate, such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

### 10. Governing Law.

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit to the Plan provides otherwise, the rights, duties and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware without giving effect to the principles of conflict of laws thereof.

## V. CONFIRMATION AND CONSUMMATION PROCEDURE

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

### A. Solicitation of Votes.

In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims and Equity Interests in Class 3 (Note Claims), Class 4 (Note Convenience Claims), Class 6 (SERP Claims), Class 7 (Equity Interests) and Class 8 (*De Minimis* Equity Holders) are impaired and the holders of Allowed Claims and Equity Interests in Class 3, Class 4, Class 6, Class 7 and Class 8 are entitled to vote to accept or reject the Plan.

Claims in Class 1 (Other Priority Claims), Class 2 (Miscellaneous Secured Claims) and Class 5 (Miscellaneous Unsecured Claims) are unimpaired and the holders of Allowed Claims in each of such Classes are conclusively presumed to have accepted the Plan and the solicitation of acceptances with respect to such Classes is not required under section 1126(f) of the Bankruptcy Code.

Because holders of Class 9 (Other Equity Interests) are presumed to have rejected the Plan, they are not entitled to vote on the Plan.

As to classes of claims entitled to vote on a plan, the Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that have timely voted to accept or reject a plan. As to classes of equity interests entitled to vote on a plan, the Bankruptcy Code defines acceptance of a plan by a class of equity interests as acceptance by at least two-thirds of the allowed equity interests that have timely voted to accept or reject a plan. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

### B. The Confirmation Hearing.

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for April 8, 2005 at 10:30 a.m., Delaware time, before the Honorable Peter J. Walsh, United States Bankruptcy Court Judge, at the United States Bankruptcy Court, 824 Market Street, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing. Any objection to confirmation must be made in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the

Claim or number of shares of stock of the Debtor held by the objector. Any such objection must be filed with the Bankruptcy Court and served so that it is received by the Bankruptcy Court and the following parties on or before _____, 2005 at _:00 _.m., Delaware time:

Richard Baumfield, Esq.
Andrews Kurth LLP
450 Lexington Avenue, 15th Floor
New York, NY 10017
Tel: (212) 850-2800
Fax: (212) 850-2929

Adam Singer, Esq.
Cooch and Taylor
824 Market Street Mall, 10th Floor
Wilmington, DE 19801
Tel: (302) 652-3641
Fax: (302) 652-5379

David L. Buchbinder, Esq.
Office of the United States Trustee
844 King Street, Suite 2207
Lockbox 35
Wilmington, Delaware 19801

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

**C. Confirmation.**

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of a plan are that the plan is (i) accepted by all impaired classes of claims and equity interests or, if rejected by an impaired class, that the plan "does not discriminate unfairly" and is "fair and equitable" as to such class, (ii) feasible, and (iii) in the "best interests" of creditors and stockholders which are impaired under the plan.

**1. Acceptance.**

Claimants and holders of Equity Interests in Class 3 (Note Claims), Class 4 (Note Convenience Claims), Class 6 (SERP Claims), Class 7 (Equity Interests) and Class 8 (*De Minimis* Equity Holders) are impaired under the Plan and are entitled to vote to accept or reject the Plan. Since the Plan contemplates no distribution will be made to Class 9 (Other Equity Interests), holders of Equity Interests in this Class are conclusively deemed to have rejected the Plan and are not entitled to vote. The Debtor reserves the right to seek nonconsensual confirmation of the Plan with respect to any Class(es) of Claims or Equity Interests that is entitled to vote to accept or reject the Plan if such Class(es) rejects the Plan.

**2. Unfair Discrimination and Fair and Equitable Tests.**

To obtain nonconsensual confirmation of the Plan, 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, nonaccepting Class. The Bankruptcy Code provides a non-exclusive definition of the phrase "fair and equitable." The Bankruptcy Code establishes "cram down" tests for secured creditors, unsecured creditors, and equity holders, as follows:

a. Secured Creditors.

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 on proceeds is provided in clause (i) or (ii) of this subparagraph.

b. Unsecured Creditors.

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.

c. Equity Interests.

Either (i) each holder of an equity interest will receive or retain under the Plan property of a 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 nonaccepting class will not receive or retain any property under the Plan.

The Debtor believes that the Plan and the treatment of all Classes of Claims and Equity Interests under the Plan satisfy the foregoing requirements for nonconsensual confirmation of the Plan.

**3. Feasibility.**

The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtor has analyzed the Debtor's ability to meet its obligations under the Plan. As part of this analysis, the Debtor has prepared projections of financial performance for each of the three (3) fiscal years ending December 31, 2005 through 2007 (the "Projection Period"). These projections, and the assumptions on which they are based, are included in the Projected Financial Information annexed hereto as Exhibit F. Based upon such projections, the Debtor believes that it will be able to make all distribution and payments required pursuant to the Plan and, therefore, confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

### 4. Projected Financial Information.

The financial information appended to this Disclosure Statement as Exhibit F includes certain financial projections for the Projection Period.

THE FINANCIAL PROJECTIONS HAVE NOT BEEN EXAMINED OR COMPILED BY INDEPENDENT ACCOUNTANTS. ACTUAL FINANCIAL RESULTS COULD DIFFER SIGNIFICANTLY FROM THOSE INCLUDED IN THE PROJECTIONS. THE DEBTOR MAKES NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS OR THE DEBTOR'S ABILITY TO ACHIEVE THE PROJECTED RESULTS. MANY OF THE ASSUMPTIONS ON WHICH THE PROJECTED FINANCIAL INFORMATION IS BASED ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES. INEVITABLY, SOME ASSUMPTIONS WILL NOT MATERIALIZE AND UNANTICIPATED EVENTS AND CIRCUMSTANCES MAY AFFECT THE ACTUAL FINANCIAL RESULTS. THEREFORE, THE ACTUAL RESULTS ACHIEVED THROUGHOUT THE PROJECTION PERIOD MAY VARY SIGNIFICANTLY FROM THE PROJECTED RESULTS. ALL HOLDERS OF CLAIMS AND EQUITY INTERESTS THAT ARE ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN ARE URGED TO EXAMINE CAREFULLY ALL OF THE ASSUMPTIONS ON WHICH THE PROJECTED FINANCIAL INFORMATION IS BASED IN EVALUATING THE PLAN.

### 5. Best Interests Test and Liquidation Analysis.

With respect to each impaired Class of Claims and Equity Interests, confirmation of the Plan requires that each holder of a Claim or Equity Interest either (i) accept the Plan, or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code.

The Debtor believes that under the Plan all holders of impaired Claims and Equity Interests will receive property with a value not less than the value such holder would receive in a liquidation of the Debtor under Chapter 7 of the Bankruptcy Code. To estimate the likely returns to holders of Claims and Equity Interests in a Chapter 7 liquidation, the Debtor determined the amount of liquidation proceeds that would be available for distribution to, and the allocation of such proceeds among, the Classes of Claims and Equity Interests based on their relative priority.

The relative priority of distribution of liquidation proceeds with respect to any Claim or Equity Interest depends on (i) its status as secured, priority unsecured or nonpriority unsecured and (ii) its relative subordination (including contractual subordination, structural subordination and statutory subordination (*e.g.*, as is required by section 510(b) of the Bankruptcy Code)).

In general, liquidation proceeds would be allocated in the following priority: (i) first, to the Claims of secured creditors to the extent of the value of their Collateral; (ii) second, to the costs, fees and expenses of the liquidation, as well as other administrative expenses of the Debtor's Chapter 7 case, including tax liabilities incurred in the Chapter 7 case; (iii) third, to the unpaid Administrative Claims of the Debtor's Chapter 11 Case; (iv) fourth, to Priority Tax Claims and other Claims entitled to priority in payment under section 507 of the Bankruptcy

Code; (v) fifth, to unsecured Claims; (vi) sixth, to subordinated claims, if any, (vii) seventh, to Equity Interests. As described more fully below, the Debtor's management believes that in a Chapter 7 liquidation, based on the priorities outlined above, the proceeds remaining after satisfaction of all Administrative Claims, Priority Tax Claims, Other Priority Claims, and Miscellaneous Secured Claims will not be sufficient to pay one hundred percent (100%) of the Note Claims, including Note Convenience Claims, or make any distribution to Miscellaneous Unsecured Claims, SERP Claims, Equity Interests, *De Minimis* Equity Interests and Other Equity Interests.

In reaching this conclusion, the Debtor made a number of assumptions, which are set forth below, and estimates regarding anticipated differences in expenses, fees, asset recoveries, claims litigation and settlements, recoveries on rates, deposits and escrows, and total claims filed that could occur if the Debtor's Chapter 11 Case were converted to a Chapter 7 liquidation. The liquidation analysis is annexed hereto as Exhibit E.

These estimates and assumptions are inherently subject to significant uncertainties and contingencies, many of which are beyond the control of the Debtor. Accordingly, there can be no assurance as to values that would actually be realized in a Chapter 7 liquidation.

The Debtor has made a number of assumptions in connection with its liquidation analysis, which are set forth on Exhibit E.

Under a Chapter 7 liquidation, all secured claims are required to be satisfied from the proceeds of the collateral securing such claims before any such proceeds would be distributed to any other creditors. The Debtor's liquidation analysis assumes the application of the rule of absolute priority of distributions with respect to the remaining proceeds of the Debtor, as well as application of contractual and statutory subordination. Under that scenario, no junior creditor receives any distribution until all senior creditors are paid in full. To the extent that proceeds remain after satisfaction of all Miscellaneous Secured Claims, the proceeds would first be distributed to the holders of Administrative Claims, Priority Tax Claims and Other Priority Claims, with the balance being made available to satisfy, first, other nonpriority, unsecured Claims and, last, Equity Interests. Based on the liquidation assumptions of the Debtor's management, the Debtor believes that the liquidation and distribution of the Debtor's assets in a Chapter 7 case will not be sufficient to pay one hundred percent (100%) of the Note Claims, including Note Convenience Claims, or make any distribution to Miscellaneous Unsecured Claims, SERP Claims, Equity Interests, *De Minimis* Equity Interests and Other Equity Interests.

In summary, the Debtor believes that a Chapter 7 liquidation of the Debtor would result in a substantial diminution in the value to be realized by the holders of certain Claims and delay in making distributions to all Classes of Claims entitled to a distribution. Consequently, the Debtor believes that the Plan satisfies the requirements of section 1129(a)(7) of the Bankruptcy Code.

## D. Valuation of Reorganized Debtor.

THE ESTIMATES OF ENTERPRISE VALUE SET FORTH HEREIN REPRESENT HYPOTHETICAL REORGANIZATION ENTERPRISE VALUES THAT WERE

DEVELOPED SOLELY FOR THE PURPOSE OF THE PLAN. SUCH ESTIMATES REFLECT COMPUTATIONS OF THE ESTIMATED ENTERPRISE VALUE OF THE REORGANIZED DEBTOR THROUGH THE APPLICATION OF VARIOUS GENERALLY ACCEPTED VALUATION TECHNIQUES AND DO NOT REFLECT OR CONSTITUTE APPRAISALS OF THE ASSETS OF THE DEBTOR OR THE ACTUAL MARKET VALUE OF THE DEBTOR. BECAUSE SUCH ESTIMATES ARE INHERENTLY UNCERTAIN, NEITHER THE DEBTOR NOR AMPER, POLITZINER & MATTIA, P.C. ("AMPER"), THE DEBTOR'S VALUATION EXPERT, ASSUMES RESPONSIBILITY FOR THEIR ACCURACY. IN ADDITION, AMPER DID NOT INDEPENDENTLY VERIFY THE DEBTOR'S PROJECTIONS IN CONNECTION WITH THE VALUATION, AND NO INDEPENDENT EVALUATIONS OR APPRAISALS OF THE DEBTOR'S ASSETS WERE SOUGHT OR OBTAINED THEREWITH.

In assisting management in preparing the valuation, Amper, among other things: (i) reviewed certain financial statements of the Debtor for recent years and interim periods, (ii) reviewed certain internal financial and operating data prepared by the Debtor, (iii) discussed the current operations and prospects of the business with the management of the Debtor, (iv) reviewed certain financial and stock market information of certain publicly traded companies that Amper and management of the Debtor believe are in businesses reasonably comparable to the business of the Debtor, (v) considered the financial terms, to the extent publicly available, of certain historical acquisitions of companies and systems whose businesses are believed to be reasonably comparable to that of the Debtor, (vi) considered certain economic and industry information relevant to the business of the Debtor, (vii) reviewed various documents relating to the Plan, including, but not limited to, this Disclosure Statement, and (viii) made such other analyses and examinations as Amper deemed necessary or appropriate.

Amper has advised the Debtor that for purposes of assisting the Debtor in preparing the valuation expressed below, Amper assumed that, as of the Effective Date: (i) the proposed capitalization of the Debtor will be as set forth in the Plan and Disclosure Statement, (ii) market, business, and general economic conditions will be similar to conditions assumed, (iii) the financial and other information furnished to Amper by the Debtor and its professionals and the publicly available information are accurate and complete, and (iv) the Plan is confirmed without material changes. Based upon its analyses, the assumptions made, matters considered and limits of review as set forth above, the Debtor has concluded that an appropriate estimate for the post-confirmation going concern enterprise value of the Debtor would be approximately $129 million (after receipt of the funds from the Exit Financing). After deducting the estimated, net long-term indebtedness of the Reorganized Debtor at the Effective Date of approximately $10 million and cash payments to be made under the Plan, the estimated total equity value is approximately $114 million (after the Exit Financing). Therefore, assuming 10,000,000 shares of New Issued Common Stock will be issued on the Distribution Date, the value of New Issued Common Stock is estimated to be approximately $11.40 per share, before the impact, if any, on the value of the stock from the issuance of any securities under the Stock Incentive Plan.

THE ESTIMATED ENTERPRISE VALUE IS HIGHLY DEPENDENT UPON ACHIEVING THE FUTURE FINANCIAL RESULTS SET FORTH IN THE PROJECTIONS AS WELL AS THE REALIZATION OF CERTAIN OTHER ASSUMPTIONS WHICH ARE NOT GUARANTEED.

THE VALUATIONS SET FORTH HEREIN REPRESENT ESTIMATED REORGANIZATION VALUES AND DO NOT NECESSARILY REFLECT VALUES THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS. THE EQUITY VALUE ASCRIBED IN THE ANALYSIS DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET VALUE. SUCH TRADING VALUE, IF ANY, MAY BE AFFECTED BY SUCH THINGS AS THE CLOSELY HELD NATURE OF THE STOCK AFTER THE EFFECTIVE DATE, THE LACK OF IMMEDIATELY AVAILABLE AUDITED FINANCIAL STATEMENTS AND THE FACT THAT THE NEW ISSUED COMMON STOCK IS NOT TRADED ON A MAJOR EXCHANGE. DUE TO THESE REASONS AND OTHERS, THE TRADING VALUE MAY BE MATERIALLY DIFFERENT FROM THE REORGANIZATION EQUITY VALUE ASSOCIATED WITH THE VALUATION ANALYSIS.

### E. Consummation.

The Plan will be consummated on the Effective Date. The Effective Date of the Plan is the first Business Day following the date on which the conditions precedent to the effectiveness of the Plan, are satisfied or waived.

The Plan is to be implemented pursuant to the provisions of the Bankruptcy Code.

## VI. MISCELLANEOUS DISCLOSURE ITEMS

### A. Executive Health Benefit Plan Settlement.

In 1989, ABN established a post-retirement welfare benefit trust pursuant to that certain Trust Agreement dated December 29, 1989 between ABN (as successor) and The Chase Manhattan Bank, NA ("Chase"), as successor trustee (the "Trust") to pay the post-retirement medical benefits of certain of its former employees. During the First Bankruptcy the Trust participants settled all of their claims with ABN in connection with the Trust and the terms of that settlement is reflected in paragraph 56 of the Findings of Fact and Conclusions of Law Relating to, and Order under 11 U.S.C. § 1129(a) and (b) Confirming, the Fourth Amended Reorganization Plan of American Banknote Corporation under Chapter 11 of the Bankruptcy Code dated August 21, 2002 of the NY Bankruptcy Court (the "2002 Confirmation Order"). The participants are Sussane Jonas, Roslyn Weitzen, Gerhard Hennig, Tilling Henning, Marie Parente, Patricia Reddy and Patrick Reddy (collectively, the "Participants").

The settlement, as reflected in paragraph 56 of the 2002 Confirmation Order (the "Health Benefits Settlement"), provides for the following:

(i) That upon reaching the age of 65, each of the Participants, shall, to the extent they have not already, enroll in Medicare and Blue Cross/Blue Shield as a Medicare supplement. Additionally, each of the Participants shall, to the extent they have not already, enroll in health insurance plans offered by ABN through CIGNA and The First Rehabilitation Insurance Company of America (together with Blue Cross/Blue Shield and Medicare, and as may be replaced in accordance with the terms of the 2002 Confirmation Order, the "Medical

Plans"). Subject to paragraph (v.) below, such Medical Plans shall be continued without interruption for the benefit of the Participants throughout their lifetime.

(ii) Each of the Participants shall timely submit any medical claims which qualify as "medical care" under section 105(b) of the Internal Revenue Code of 1986, as amended, notwithstanding the percentage limitations on deductibility set forth therein (each, a "Covered Medical Claim") to each of the Medical Plans and shall further cooperate in the coordination of benefits among the Medical Plans and any other medical or benefit plans that each Participant may have so as to maximize the likelihood that the Medical Plans reimburse such claims.

(iii) If, after properly submitting a Covered Medical Claim to each of the Medical Plans and cooperating in the coordination of benefits, any portion of the Covered Medical Claims remains unreimbursed by each of the Medical Plans (a "Deficiency Amount"), the Participants shall submit a certification, with supporting documentation, as to the Deficiency Amount to ABN or its successors. As promptly as is practicable, but no later than 30 days thereafter, ABN shall reimburse or pay, as the case may be, each participant in full for the Deficiency Amount or shall advise the participant that it questions the Deficiency Amount.

(iv) Pursuant to the Findings of Fact and Conclusions of Law Relating to, and Order under 11 U.S.C. § 1129(a) and (b) Confirming, the Third Amended Reorganization Plan of American Banknote Corporation under Chapter 11 of the Bankruptcy Code of the NY Bankruptcy Court dated November 3, 2000 (the "November Confirmation Order") and in accordance with the order approving requests by professionals for compensation and reimbursement entered December 28, 2000, ABN paid the reasonable fees and expenses of the counsel (subject to the applicable cap set forth in the November Confirmation Order) to each of (i) the Participants other than Marie Parente, and (ii) Marie Parente, in accordance with section 1129(a)(4) of the Bankruptcy Code.

(v) In the event that ABN terminates any of the Medical Plans (other than Blue Cross/Blue Shield) or ABNCo (as defined below) terminates the CIGNA retiree plan described below, ABN shall replace any such terminated Medical Plan with a health insurance plan which provides comparable benefits.

(vi) As long as the retired employees of American Banknote Company, Inc. ("ABNCo") are covered by the CIGNA retiree plan maintained by ABNCo, ABN shall continue to cover the Participants under such CIGNA retiree plan. In the event that such CIGNA retiree plan is terminated by ABNCo, ABN shall provide the Participants with comparable coverage in accordance with paragraph (v.) above.

(vii) In the event that substantially all of the current executive level employees of ABN shall cease to be employed by ABN and shall be employed by an affiliate of ABN, ABN or its successor shall provide that the Participants shall be entitled to participate in any health insurance plans in which such executive level employees participate, and the current Medical Plans shall be terminated and replaced accordingly.

(viii) The corpus of the Trust was turned over to ABN net of all reasonable compensation, fees, and expenses Trustee allowed under the agreement governing the Trust upon the entry of the 2002 Confirmation Order or as soon thereafter as is reasonable practical (i) enjoining the Participants (and their beneficiaries) from commencing a suit, action, demand, or proceeding arising out of or in connection with the Trust against the Trustee and ABN and (ii) releasing the Trustee from any claim whatsoever of each of the Participants, ABN, or Reorganized ABN, relating to, connected with, or arising from the Trust.

(ix) Each Participant and each former participant of the Trust (and each of the respective heirs and successors of each of the foregoing) was enjoined and barred from commencing a suit, action, demand, or proceeding arising out of or in connection with the Trust of any kind whatsoever, arising at any point in time.

(x) ABN and Reorganized ABN (and any of their respective successors) must indemnify the Trustee solely for any and all costs and expenses incurred by the Trustee in connection with the defense of any action, suit, demand, or proceeding arising out of or in connection with or in violation of the releases and injunction described above for a period of 10 years from the date of entry of the 2002 Confirmation Order.

(xi) The Trust was terminated. Neither ABN, Reorganized ABN, or the Trustee has any further duty under Trust, to the Trust, ABN (or any successor), Reorganized ABN (or any successor), ABN's estate, the Trustee, the Participants, or any other party, except as otherwise expressly provided for the 2002 Confirmation Order. None of the Participants or ABN or any of their successors, heirs, or assigns, have any rights under the Trust, and any actions brought by Participants or ABN or any of their successors, heirs, or assigns in respect of the Trust would be an express violation of the releases and injunctions provided herein.

The Debtor believes it is beneficial to assume the terms of the settlement as set forth in the 2002 Confirmation Order. If ABN were to terminate or reject the Health Benefits Settlement, the Trust Participants may hold assert Class 5 Miscellaneous Unsecured Claims which could require the Debtor to make significant one time payments as opposed to smaller incremental payments under the terms of the 2002 Confirmation Order.

**B. Supplemental Executive Retirement Plan.**

The 2002 Plan assumed the Supplemental Executive Retirement Plan (the "SERP") between ABN and certain plan participants dated April 1, 1994 as amended. Pursuant to the SERP, ABN was required to pay retirement benefits to plan participants calculated according to the provisions of the SERP. The only SERP participant as of the Petition Date is Sheldon Cantor.

Mr. Cantor has been placed into Class 6 SERP Claims under the Plan and has agreed to treatment as set forth in section 4.6 of the Plan. Mr. Cantor has indicated that he will vote in favor of the Plan.

## C. Cantor Consulting Agreement.

On the Effective Date of the Plan, the Reorganized Debtor and Mr. Cantor will enter into a consulting agreement (the "Cantor Consulting Agreement"). The Cantor Consulting Agreement is attached as Exhibit H to the Plan.

## D. Assumption of Weissman Consulting, Non-Competition, and Termination Agreement.

The 2002 Plan assumed the Consulting, Non-Competition, and Termination Agreement between ABN and Morris Weissman ("Weissman") dated March 13, 2000 as amended by the Amendment to Consulting, Non-Competition and Termination Agreement dated June 26, 2000 (the "Agreement"). Pursuant to the Agreement, ABN was required to pay Weissman $300,000.00 per annum as a consulting fee for three years, payable in monthly installments of $25,000 per month. The Agreement further provides that Weissman will receive payments under ABN's SERP.

In May 2004, ABN and Weissman entered into the Second Amendment to Consulting, Non-Competition and Termination Agreement (the "Second Amendment"). The Second Amendment provides, *inter alia*, that commencing in January 2005, and continuing through 2011, the monthly payments to Weissman by ABN in connection with the SERP will be $16,412 per month. The Second Amendment further provides that commencing in July 2011, and continuing until Weissman's death (unless he is survived by his current spouse, in which case the payments will continue to her until her death), the monthly payments to be made by ABN to Wiessman in connection with the SERP shall be $12,000 per month.

The Debtor believes it is beneficial to assume the Agreement with amendments thereto. If ABN were to reject the Agreement, Weissman may assert a Class 5 Miscellaneous Unsecured Claim which could require the Debtor to make a significant one time payment under the Agreement as opposed to smaller incremental payments as called for by the Agreement.

## E. Assumption of Executives' Contracts.

The Debtor intends to assume employment agreements with Patrick J. Gentile, the Debtor's Executive Vice President and Chief Financial Officer, and Steven G. Singer, the Chairman of the Debtor's Board of Directors. Copies of these employment agreements are attached hereto as Exhibit G.

## F. USDA Claim.

In the third quarter of 2003, the USDA gave the Debtor final notification and delivery instructions for the remaining food coupons held in secure storage by the Debtor pursuant to its distribution contract with the USDA which expired on September 30, 2003. The Debtor fully performed and completed the remaining two months of service pursuant to the terms of this contract, and in the normal course billed the USDA approximately $1.5 million in accordance with the contract. The Debtor formally requested in writing that it be paid in full pursuant to the terms of the contract and the USDA formally denied approximately $1.4 million of the Debtor's claim. At a status conference on April 13, 2004, before the USDA Board of Contract Appeals,

the government acknowledged that approximately $0.2 million of the claim was approved for payment internally and should therefore be released to the Debtor. Payment was received by the Debtor in the second quarter of 2004 and was appropriately recognized as revenue in that period. On February 1, 2005, the case on the balance of the claim (with accrued interest thereon) was found in favor of USDA before the USDA Board of Contract Appeals. The Debtor is reviewing a possible appeal of the case based upon the merits.

**G. Brazilian Tax Claims.**

Through December 31, 2003, ABNB had been assessed approximately $23 million in prior years from the Brazilian tax authorities relating to taxes other than income taxes. The assessments are in various stages of administrative process or in lower courts of the judicial system and are expected to take years to resolve. It is the opinion of ABNB's Brazilian counsel that an unfavorable outcome on these assessments is not probable. To date, the Debtor has received favorable court decisions on matters similar to some of the ones included in the above amount for, approximately, $5.6 million. Thus the Debtor believes that the eventual outcomes of these assessments will not have a material impact on the Debtor's consolidated financial position or results of operations. As a result the Debtor has not made any significant provision for the assessments.

**H. Lithuania Claim.**

In October 2003, the Debtor notified the Bank of Lithuania, ("Lithuania"), that it would not make its scheduled installment settlement payment of $0.5 million due October 1, 2003 due to its cash flow constraints. The payment was part of a remaining $1.7 million settlement obligation between the Debtor and Lithuania that was entered into the New York Bankruptcy Court and became effective upon the October 1, 2002 consummation of the 2002 Plan. Both parties initially entered into a discussion in an attempt to restructure the balance of the obligation to avoid further litigation. Counsel for Lithuania indicated, however, that the Debtor's initial proposal was unacceptable and issued a notice of default. As a result of the default, the entire $1.7 million obligation was recorded as a current liability in accounts payable and accrued expenses at December 31, 2003 and continued to accrue default interest at the prevailing rate. On May 21, 2004, the New York Bankruptcy Court granted summary judgment in favor of Lithuania ordering the Debtor to pay $1.7 million, which was the outstanding principal, plus the related interest thereon. On August 31, 2004, the Debtor paid the $1.7 million principal plus accrued interest to Lithuania.

**I. Anatel Fine.**

On September 22, 2004, the Brazilian Telecommunications Commission ("Anatel"), levied a $0.8 million fine against ABNB, citing ABNB's failure to comply with new product material specifications in connection with inductive phone cards that are sold to the local telephone company. ABNB has reviewed the claim with legal counsel and believes that it has meritorious defenses against the assessment.

## VII. MANAGEMENT OF REORGANIZED DEBTOR

As of the Effective Date, the management, control and operation of the Reorganized Debtor will become the general responsibility of the Board of Directors of Reorganized Debtor.

### A. Board of Directors and Management.

#### 1. Composition of the Board of Directors.

The initial Board of Directors of Reorganized Debtor will consist of six (6) members. Each of the members of the initial Board of Directors of Reorganized Debtor shall serve until the first annual meeting of stockholders of Reorganized Debtor or their earlier resignation or removal in accordance with the Amended Certificate of Incorporation or Amended By-Laws, as the same may be amended from time to time. Set forth below is the name of each such director, together with a brief biography:

*STEVEN G. SINGER* has served as Chairman of the Board and Chief Executive Officer and as a Director of the Debtor since November 2000. From 1995 through 2000, Mr. Singer served as Executive Vice President and Chief Operating Officer of Romulus Holdings, Inc., a family owned investment fund. Mr. Singer also serves as Chairman and Chief Executive Officer of Pure 1 Systems, a manufacturer and distributor of water treatment products. Mr. Singer is a Director and the Non-Executive Chairman of the Board of Globix Corporation and of Motient Corporation, both publicly traded companies. Steven Singer is an affiliate of Castor Investments, LLC and certain other entities that hold Notes and Old Common Stock.

*SIDNEY LEVY* has served as Director of the Debtor since June 1998 and has served as President of ABNB since February 1994.

*RAYMOND L. STEELE* has served as a Director of the Debtor since March 2001. Mr. Steele has served as a director of Modernfold, Inc. since 1991, I.C.H. Corporation since 1998, DualStar Technologies Corporation since 1998 and Globix Corporation since 2003.

*STEVEN A. VAN DYKE* has served as a Director of the Debtor since July 2001. He has been a managing principal of Bay Harbour Management L.C. since 1987. Bay Harbour is an investment advisor and manages private equity and debt funds. He is a Chartered Financial Analyst and is a member of both the Financial Analysts Society of Central Florida and the Association for Investment Management and Research. Mr. Van Dyke has served on the board of directors of Barneys New York, Inc. since 1999 and Buckhead America Corporation since 1997. Steven Van Dyke is an affiliate of Bay Harbour Management L.C. and certain other entities that hold Notes and Old Common Stock.

*LLOYD I. MILLER* has served as Director of the Debtor since October 2002. Mr. Miller is an independent investor and currently serves as a director of Aldila, Inc., Stamps.com, Celeritek Inc., and Dynabazaar. He is a member of the Chicago Board of Trade and the Chicago Stock Exchange, and is a Registered Investment Advisor. Lloyd Miller is an affiliate of Milfam II, L.P. and certain other entities that hold Notes and Old Common Stock.

*JAMES DONDERO* has served as Director of the Debtor since October 2002. Mr. Dondero has served as President of Highland Capital Management, L.P., a registered investment advisor specializing in credit and special situation investing, since 1993. Mr. Dondero currently serves as a director of NeighborCare, Inc., Hedstrom, Audio Visual Corporation and Motient Corporation. James Dondero is an affiliate of Highland Capital Management, L.P. that holds Notes and Old Common Stock.

**2. Identity of Principal Officers.**

Set forth below is the name of each of the persons who have been proposed to serve as principal officers of the Reorganized Debtor as of the Effective Date and their proposed positions:

| Name | Position |
|---|---|
| Steven G. Singer | Chairman of the Board and Chief Executive Officer |
| Patrick J. Gentile | Executive Vice President and Chief Financial Officer |
| David M. Kober | Vice President and General Counsel |
| Craig Weiner | Acting Treasurer |
| Elaine Lazaridis | Corporate Secretary and Chief Administrative Officer |

**B. Stock Incentive Plan.**

In connection with the Plan, the Reorganized Debtor will adopt the Stock Incentive Plan that is intended to provide incentives to attract, retain and motivate highly competent persons as officers, non-employee directors and key employees of the Reorganized Debtor by providing such persons with incentive options to acquire shares of New Issued Common Stock of Reorganized Debtor. (A copy of the Stock Incentive Plan is annexed to the Plan as Exhibit C).

Additionally, the Stock Incentive Plan is intended to assist in further aligning the interests of Reorganized Debtor's directors, officers, key employees, and consultants to those of its stockholders.

Under the Stock Incentive Plan 700,000 shares of New Issued Common Stock of Reorganized Debtor will be reserved for issuance. Approval of the Plan will also constitute approval of the Stock Incentive Plan. The Stock Incentive Plan will be adopted as part of the Plan.

Pursuant to the Stock Incentive Plan, all options issued are required to have an exercise price no less than $85,483,125 divided by the total number of New Issued Common Stock as of

the Effective Date of the Plan (the "Bankruptcy Stock Value"). Similarly, any Restricted Shares to be issued under the Stock Incentive Plan are required to be issued at a price no less than the Bankruptcy Stock Value.

## VIII. THE EXIT FINANCING AGREEMENT

On the Effective Date, in accordance with the Exit Financing Agreement (attached to the Plan as Exhibit F), the Exit Financing Parties shall transfer $16,000,000 to the Debtor in return for the Exit Financing Securities in the following amounts:

| | Exit Financing Amount | New Issued Common Stock |
|---|---|---|
| Bay Harbour Partners, Ltd. | $2,000,000 | 233,964 |
| Lloyd I. Miller, III | $2,000,000 | 233,964 |
| Pollux Investments, LLC | $2,000,000 | 233,964 |
| Highland Capital Management L.P. | $10,000,000 | 1,169,822 |
| TOTAL | $16,000,000 | 1,871,714 |

The Exit Financing will be used to make certain of the Cash distributions provided for under the Plan, including the payments for certain Administrative Claims, Priority Claims, Other Priority Claims, Miscellaneous Secured Claims, Miscellaneous Unsecured Claims, SERP Claims, Equity Interests, and interests of *De Minimis* Equity Holders. Additionally, the Exit Financing will be used to meet the Debtor's working capital needs, including funding operations and paying employees during the months following the Effective Date of the Plan.

The Exit Financing Parties will receive New Issued Common Stock at 75 percent (75%) of the Debtor's equity value as of the Effective Date. The Debtor explored the possibility of obtaining Exit Financing in return for a note or other type of financial instrument, but was concerned about its ability to service that note or instrument in addition to the New Notes. The Debtor turned to certain insiders of the company to determine if they were willing to provide the Exit Financing in exchange for New Issued Common Stock. After negotiating with the Exit Financing Parties, the Exit Financing Agreement was agreed to. While the Exit Financing Parties are receiving the New Issued Common Stock at a discount, such funds are absolutely necessary for the Debtor's reorganization, and because of the company's financial condition, it is unlikely that the Debtor would be able to obtain financing on similar terms to that to be provided by the Exit Financing Parties. Outside lenders are generally unwilling to take the risk associated with lending cash in exchange for equity in a debtor and an exchange of equity for the Exit Financing was vital to the Debtor's ability to emerge from Chapter 11 with a serviceable debt load. Furthermore, the Exit Financing Parties are not seeking fees or expense reimbursement.

**THE EXIT FINANCING PARTIES OR THEIR AFFILIATES ARE INSIDERS OF THE DEBTOR AND PERSONS ASSOCIATED WITH THE EXIT FINANCING PARTIES SERVE ON THE BOARD OF DIRECTORS OF THE DEBTOR.**

## IX. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

The Debtor believes that the Plan affords holders of Claims and Equity Interests the potential for the greatest realization on Debtor's assets and, therefore, is in the best interest of such holders.

If the Plan is not confirmed, however, the theoretical alternatives include (a) continuation of this Chapter 11 Case, (b) an alternative reorganization plan or plans, or (c) liquidation of the Debtor under Chapter 7 or Chapter 11 of the Bankruptcy Code.

### A. Continuation of the Chapter 11 Case.

If the Debtor remains in Chapter 11, the Debtor could continue to operate its businesses and manage its properties as a debtor in possession, but it would remain subject to the restrictions imposed by the Bankruptcy Code. The Debtor could have difficulty retaining employees and maintaining vendor relations, and will likely incur high costs and the erosion of market confidence if the Debtor remains a Chapter 11 debtor in possession. Ultimately, the Debtor (or other parties in interest) could propose another plan or liquidate under Chapter 7.

### B. Liquidation.

If no Plan is confirmed, the Debtor's Chapter 11 Case may be converted to a case under Chapter 7 of the Bankruptcy Code. In a Chapter 7 case, a trustee or trustees would be appointed to liquidate the assets of the Debtor for distribution in accordance with priorities established by Chapter 7. Although it is impossible to predict precisely how the proceeds of the liquidation would be distributed to the respective holders of Claims and Equity Interests, a discussion of the effects that a Chapter 7 liquidation would have on the recoveries of holders of Claims and Equity Interests and the Debtor's liquidation analysis is set forth above.

The Debtor believes that in a liquidation under Chapter 7, before creditors receive any distribution, additional administrative expenses involved in the appointment of a trustee or trustee and attorneys, accountants and other professionals to assist such trustees would cause a substantial diminution in the value of the estate. The Debtor believes that liquidation under Chapter 7 would result in smaller distributions being made to creditors and holders of Equity Interests than those provided for in the Plan because (a) the Debtor's assets would have to be sold or otherwise disposed of in a forced sale situation over a comparatively short period of time, (b) additional administrative expenses would be involved in the appointment of a trustee, and (c) additional expenses and claims, some of which would be entitled to priority, would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtor's operations.

### C. Alternative Plan of Reorganization.

If the Plan is not confirmed, the Debtor (or if the Debtor's exclusive period in which to file a plan of reorganization has expired, any other party in interest) could attempt to formulate a different plan. Such a plan might involve an orderly liquidation of the Debtor's assets. The Debtor has explored various alternatives in connection with the formulation and development of

the Plan. The Debtor believes that the Plan, as described herein, enables creditors and holders of Equity Interests to realize the most value under the circumstances. In a liquidation under Chapter 11, the Debtor's assets would be sold in an orderly fashion over a more extended period of time than in a liquidation under Chapter 7, possibly resulting in a somewhat greater (but indeterminate) recovery than would be obtained in a Chapter 7 case, and the expenses for professional fees would most likely be lower than those incurred in a Chapter 7 case. Although preferable to a Chapter 7 liquidation, the Debtor believes that a liquidation under Chapter 11 is a much less attractive alternative to creditors and holders of Equity Interests than the Plan offers because of the greater returns provided by the Plan.

The likely form of any liquidation would be the sale of individual assets. Based on this analysis, it is likely that a liquidation of the Debtor's assets would produce less value for distribution to creditors than that recoverable in each instance under the Plan. In the opinion of the Debtor, the recoveries projected to be available in a liquidation are not likely to afford holders of Claims and Equity Interests as great a realization potential as does the Plan.

## X. APPLICABILITY OF FEDERAL AND OTHER SECURITIES LAWS TO THE NEW ISSUED COMMON STOCK AND NEW NOTES TO BE DISTRIBUTED UNDER THE PLAN

### A. New Issued Common Stock to be Issued to Holders of Claims and Equity Interests Under the Plan.

In reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended (the "1933 Act"), and state securities and "blue sky" laws afforded by section 1145 of the Bankruptcy Code, the New Issued Common Stock to be issued on the Distribution Date to holders of Class 3 Note Claims and Class 7 Equity Interests pursuant to the Plan, will not need to be registered under the 1933 Act or any state securities or "blue sky" laws. Accordingly, shares of New Issued Common Stock issued pursuant to the Plan may be resold by any holder without registration under the 1933 Act or other Federal securities laws pursuant to the exemption provided by section 4(l) of the 1933 Act, unless the holder is an "underwriter" with respect to such securities, as that term is defined in the Bankruptcy Code (a "Statutory Underwriter"). In addition, such securities generally may be resold by the recipients thereof without registration on the state level pursuant to various exemptions provided by the respective laws of the several states. Recipients of securities issued to holders of Allowed Claims and Equity Interests under the Plan, however, are advised to consult with their own counsel as to the availability of any such exemption from registration under Federal or state law in any given instance and as to any applicable requirements or conditions to the availability thereof.

Section 1145(b) of the Bankruptcy Code defines a Statutory Underwriter for purposes of the 1933 Act as one who (i) purchases a claim with a view to distribution of any security to be received in exchange for the claim, (ii) offers to sell securities issued under a plan for the holders of such securities, (iii) offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities or (iv) is a controlling person of the issuer of the securities, in this case, the Reorganized Debtor.

Pursuant to the Plan, certificates evidencing shares of New Issued Common Stock received by holders who may be "affiliates" or "underwriters" under the 1933 Act (as determined in the reasonable discretion of the Board of Directors of the Reorganized Debtor) will bear a legend substantially in the form below:

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS AMERICAN BANKNOTE CORPORATION RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

**B. New Issued Common Stock to be Distributed in Accordance with the Exit Financing Agreement.**

An aggregate of 1,871,714 shares of the New Issued Common Stock will be issued to the Exit Financing Parties on the Effective Date pursuant to section 7.10 of the Plan. These Exit Financing Parties have previously entered into an Exit Financing Agreement, which Exit Financing Agreement will remain in full force and effect after confirmation of the Plan. Unlike the New Issued Common Stock to be issued to holders of Claims and Equity Interests under the Plan, these shares of New Issued Common Stock being issued to the Exit Financing Parties are not subject to the exemption under section 1145 of the Bankruptcy Code. The offer and sale of these shares of New Issued Common Stock will not be registered under the 1933 Act or under any state securities laws.

THE OFFER AND ISSUANCE OF THE NEW ISSUED COMMON STOCK IS BEING MADE IN RELIANCE UPON EXEMPTIONS FROM REGISTRATION PROVIDED BY SECTION 4(2) OF THE SECURITIES ACT OF 1933 AND REGULATION D PROMULGATED THEREUNDER AND SIMILAR EXEMPTIONS FROM REGISTRATION PROVIDED BY CERTAIN STATE SECURITIES LAWS. THE NEW ISSUED COMMON STOCK IS BEING OFFERED ONLY TO "ACCREDITED INVESTORS" WHO HAVE THE QUALIFICATIONS NECESSARY TO PERMIT THE NEW ISSUED COMMON STOCK TO BE OFFERED AND SOLD IN RELIANCE UPON SUCH EXEMPTIONS AND WHO MEET THE SUITABILITY STANDARDS SET FORTH IN THE PLAN.

THIS OFFERING OF NEW ISSUED COMMON STOCK SHALL NOT CONSTITUTE AN OFFER TO SELL TO OR A SOLICITATION OF AN OFFER TO BUY FROM ANYONE IN ANY STATE OR OTHER JURISDICTIONS IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION.

AN INVESTMENT IN THE NEW ISSUED COMMON STOCK IS SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. SEE SECTION XI, "RISK FACTORS TO BE CONSIDERED." INVESTORS MUST BE PREPARED TO BEAR THE RISK OF THEIR

INVESTMENT FOR AN INDEFINITE PERIOD AND BE ABLE TO WITHSTAND A TOTAL LOSS OF THEIR INVESTMENT.

NEITHER THE SEC NOR ANY STATE REGULATORY AUTHORITY HAS APPROVED THE SECURITIES OFFERED HEREBY OR THE TERMS OF THIS OFFERING, PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT OR ENDORSED THE MERITS OF THE OFFERING.

The Debtor has made and will make available to the Exit Financing Parties purchasing the shares of New Issued Common Stock, prior to any closing of the sale of the New Issued Common Stock, the opportunity to ask questions of and to receive answers from representatives of the Debtor concerning the Debtor and the terms and conditions of the offering and to obtain any additional relevant information to the extent the Debtor possesses such information or can obtain it without unreasonable effort or expense.

THE EXIT FINANCING PARTIES MUST BE AWARE OF THE POTENTIALLY LONG-TERM NATURE OF THEIR INVESTMENT IN THE NEW ISSUED COMMON STOCK. THE EXIT FINANCING PARTIES WILL NOT BE ABLE TO TRANSFER THEIR NEW ISSUED COMMON STOCK (I) UNLESS SUCH EXIT FINANCING PARTY COMPLIES WITH THE REGISTRATION REQUIREMENTS UNDER THE 1933 ACT AND APPLICABLE STATE SECURITIES LAWS OR (II) SUCH EXIT FINANCING PARTY CAN DEMONSTRATE THAT THERE IS AN EXEMPTION AVAILABLE FROM SUCH REGISTRATION REQUIREMENTS. IN CONNECTION WITH ANY TRANSFER OF THE NEW ISSUED COMMON STOCK, THE REORGANIZED DEBTOR MAY REQUIRE THAT AN EXIT FINANCING PARTY PROVIDE IT WITH A LEGAL OPINION STATING THAT THE TRANSFER COMPLIES WITH APPLICABLE SECURITIES LAWS. THE REORGANIZED DEBTOR MAY REQUIRE AN EXIT FINANCING PARTY TO PAY ANY COSTS THEY INCUR AS A RESULT OF A TRANSFER AS A CONDITION TO SUCH TRANSFER. THERE IS NO PUBLIC TRADING MARKET FOR THE NEW ISSUED COMMON STOCK AND IT IS UNLIKELY THAT A TRADING MARKET WILL DEVELOP IN THE FUTURE. THE DEBTOR IS UNDER NO OBLIGATION TO FACILITATE ANY TRANSFER OF THE NEW ISSUED COMMON STOCK. THEREFORE, AN EXIT FINANCING PARTY MAY BE REQUIRED TO BEAR THE ECONOMIC RISKS OF ITS INVESTMENT IN THE NEW ISSUED COMMON STOCK FOR AN INDEFINITE PERIOD OF TIME.

Pursuant to the Plan, certificates evidencing the New Issued Common Stock issued to Exit Financing Parties for cash will bear a legend substantially in the form below:

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS AMERICAN BANKNOTE CORPORATION RECEIVES AN OPINION OF COUNSEL REASONABLY

SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

**C. Reorganized Debtor Will No Longer be a Public Company.**

The New Issued Common Stock issued to holders of certain Claims and Equity Interests under the Plan and sold to new the Exit Financings Parties for cash under the Plan will be issued to fewer than 300 holders of record. As a result, the Reorganized Debtor will deregister and will no longer be required to file periodic reports (such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q) with the SEC.

Class 4 (Note Convenience Claims) and Class 8 (*De Minimis* Equity Holders) are not receiving distributions of New Issued Common Stock so as to keep the number of holders of New Issued Common Stock below three hundred (300). Creditors in Class 4 (Note Convenience Claims) and holders of interests in Class 8 (*De Minimis* Equity Holders) will, however, receive a distribution at least equal in value to distributions to be made to creditors and holders of interests in Class 3 (Note Claims) and Class 7 (Equity Interests), respectively.

**D. New Notes to be Issued to Holders of Note Convenience Claims Under the Plan.**

In reliance upon an exemption from the registration requirements of the 1933 Act, and state securities and "blue sky" laws afforded by section 1145 of the Bankruptcy Code, the New Notes to be issued on the Effective Date to certain holders of Allowed Class 4 Note Convenience Claims pursuant to the Plan, will not need to be registered under the 1933 Act or any state securities or "blue sky" laws. Accordingly, the New Notes issued to holders of Allowed Class 4 Note Convenience Claims pursuant to the Plan may be resold by any holder without registration under the 1933 Act or other Federal securities laws pursuant to the exemption provided by section 4(l) of the 1933 Act, unless the holder is a Statutory Underwriter with respect to such securities. In addition, such securities generally may be resold by the recipients thereof without registration on the state level pursuant to various exemptions provided by the respective laws of the several states. However, recipients of securities issued to holders of Allowed Claims under the Plan are advised to consult with their own counsel as to the availability of any such exemption from registration under Federal or state law in any given instance and as to any applicable requirements or conditions to the availability thereof.

Section 1145(b) of the Bankruptcy Code defines a Statutory Underwriter for purposes of the 1933 Act as one who (i) purchases a claim with a view to distribution of any security to be received in exchange for the claim, (ii) offers to sell securities issued under a plan for the holders of such securities, (iii) offers to buy securities issued under a plan from persons receiving such securities, if the offer to buy is made with a view to distribution of such securities or (iv) is a controlling person of the issuer of the securities, in this case, the Reorganized Debtor.

Entities deemed to be Statutory Underwriters may be able to sell securities without registration pursuant to the provisions of Rule 144 under the 1933 Act which, in effect, permits the public sale of securities received pursuant to the Plan by Statutory Underwriters subject to the availability of public information concerning Reorganized Debtor's volume limitations, holding periods and certain other conditions. Entities who believe they may be Statutory

Underwriters under the definition contained in section 1145 of the Bankruptcy Code are advised to consult their own counsel with respect to the availability of the exemption provided by such Rule.

Pursuant to the Plan, certificates evidencing New Notes received by holders who may be "affiliates" or "underwriters" under the 1933 Act (as determined in the reasonable discretion of the Board of Directors of Reorganized Debtors) will bear a legend substantially in the form below:

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS AMERICAN BANKNOTE CORPORATION RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.

**E. Stockholders' Agreement.**

The Exit Financing Parties and certain of their affiliates and the Reorganized Debtor will enter into a Stockholders' Agreement with respect to the shares of New Issued Common Stock of the Reorganized Debtor acquired by or otherwise issued to the Exit Financing Parties and certain of their affiliates pursuant to the Plan. The Stockholders' Agreement will grant the Exit Financing Parties and certain of their affiliates contractual preemptive rights to maintain their percentage ownership of the Reorganized Debtor upon any new issuance of equity securities by the Reorganized Debtor, subject to exceptions for stock issued under the Stock Option Plan or in connection with acquisition transactions, by purchasing additional equity interests in the Reorganized Debtor on the same terms as those offered to third parties. In addition, the Exit Financing Parties and certain of their affiliates will agree not to transfer their equity interests in the Reorganized Debtor, other than to an affiliate of such Exit Financing Parties, without first offering to sell such equity interests to the other Exit Financing Parties. Finally, the Stockholders' Agreement will also contain customary "drag-along" and "tag-along" rights with respect to sales of equity interests in the Reorganized Debtor by the Exit Financing Parties and certain of their affiliates.

**F. Reorganization Values.**

THE ESTIMATED VALUE OF THE REORGANIZED DEBTOR AND, THUS, THE NEW ISSUED COMMON STOCK AND THE NEW NOTES TO BE ISSUED UNDER THE PLAN ARE PROVIDED IN SECTION V.D ("VALUATION OF REORGANIZED DEBTORS") TO THIS DISCLOSURE STATEMENT.

THE FOREGOING ESTIMATED VALUATIONS HAVE BEEN PREPARED BY AN INDEPENDENT VALUATION SOURCE. NEVERTHELESS, ACTUAL VALUATIONS COULD MATERIALLY AND SIGNIFICANTLY DIFFER FROM THOSE INCLUDED HEREIN. THE DEBTOR AND AMPER MAKE NO REPRESENTATION AS TO THE

ACCURACY OF THE VALUATIONS SET FORTH HEREIN. MANY OF THE ASSUMPTIONS ON WHICH THE VALUATIONS ARE BASED ARE SUBJECT TO SIGNIFICANT UNCERTAINTIES.

## XI. RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW AND THE FACTORS SET FORTH IN THE DEBTOR'S MOST RECENT 10K (ATTACHED HERETO AS EXHIBIT C) AND RECENT 10Q (ATTACHED HERETO AS EXHIBIT D) UNDER THE HEADING "RISK FACTORS" AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HEREWITH AND/OR INCORPORATED BY REFERENCE), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

The ultimate recoveries under the Plan to holders of Claims and Equity Interests depend upon the realizable value of the New Issued Common Stock. The securities to be issued pursuant to the Plan are subject to a number of material risks, including, but not limited to, those specified below. Prior to voting on the Plan, each holder of a Claim and Equity Interest should carefully consider the risk factors specified or referred to below.

### A. Significant Holders.

Upon the consummation of the Plan, certain holders of Claims and Equity Interests will receive distributions of shares of New Issued Common Stock. If holders of significant numbers of shares of New Issued Common Stock were to act as a group, such holders may be in a position to control the outcome of actions requiring stockholder approval, including the election of directors. This concentration of ownership could also facilitate or hinder a negotiated change of control of Reorganized Debtor and, consequently, impact upon the value of the New Issued Common Stock.

Further, the possibility that one or more of the holders of significant numbers of shares of the New Issued Common Stock may determine to sell all or a large portion of their shares of New Issued Common Stock in a short period of time may adversely affect the price of the New Issued Common Stock.

### B. Lack of Established Market for New Common Stock.

The Reorganized Debtor will not be a public reporting company, and so will not file periodic reports, such as annual reports on Form 10-K and quarterly reports on Form 10-Q, with the SEC, nor will it otherwise make any similar information publicly available. The majority of the shares of New Issued Common Stock of the Reorganized Debtor issued pursuant to the Plan will be restricted securities and therefore will not be freely tradable under applicable securities laws. The shares of New Issued Common Stock, including restricted securities as well as those shares that are freely tradable, will not be listed on any stock exchange or electronic stock market, and so it is unlikely that any market for the new common stock will develop. If any

market for such shares does develop, since the Reorganized Debtor will not provide any financial or other business information about itself to the public, such market will be uninformed and likely will not accurately reflect the value of the New Issued Common Stock. As a result, the shares of New Issued Common Stock of the Reorganized Debtor will be a highly illiquid investment.

## C. Dividend Policies.

The Reorganized Debtor does not anticipate paying any dividends on the New Issued Common Stock in the foreseeable future. In addition, the covenants in any future financing facility to which Reorganized Debtor may be a party may limit the ability of Reorganized Debtor to pay dividends. Certain institutional investors may only invest in dividend-paying equity securities or may operate under other restrictions which may prohibit or limit their ability to invest in the New Issued Common Stock.

## D. Projected Financial Information.

The Projected Financial Information included in this Disclosure Statement is dependent upon the successful implementation of the business plan and the validity of the other assumptions contained therein. These projections reflect numerous assumptions, including confirmation and consummation of the Plan in accordance with its terms, the anticipated future operations of Reorganized Debtor's business, and certain assumptions with respect to competitors of Reorganized Debtor, general business and economic conditions and other matters, many of which are beyond the control of the Reorganized Debtor. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the projections may affect the actual financial results of the Reorganized Debtor. Although the Debtor believes that the projections are attainable, some or all of the estimates will vary and variations between the actual financial results and those projected may be material.

THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS ("AICPA") OR THE FINANCIAL ACCOUNTING STANDARDS BOARD ("FASB"). FURTHERMORE, THE PROJECTIONS HAVE NOT BEEN AUDITED OR REVIEWED BY THE DEBTOR'S INDEPENDENT ACCOUNTANTS. WHILE PRESENTED WITH NUMERICAL SPECIFICITY, THE PROJECTIONS ARE BASED UPON A VARIETY OF ESTIMATES AND ASSUMPTIONS, WHICH, ALTHOUGH DEVELOPED AND CONSIDERED REASONABLE BY THE DEBTOR, MAY NOT BE REALIZED AND ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE REORGANIZED DEBTOR AND ITS MANAGEMENT. CONSEQUENTLY, THE PROJECTIONS SHOULD NOT BE REGARDED AS AND DO NOT CONSTITUTE A REPRESENTATION OR WARRANTY BY THE DEBTOR, OR ANY OTHER PERSON OR ENTITY, AS TO THE ACCURACY OF THE PROJECTIONS OR THAT THE PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE PRESENTED IN THE PROJECTIONS.

## E. Competitive Conditions and Technological Change.

Certain of the Debtor's competitors are larger and have substantially greater financial, research and development resources and more extensive marketing power than the Debtor. There can be no assurance that additional competitors will not enter markets that the Debtor plans to serve or that the Debtor will be able to withstand the competition. Moreover, changes in technology could lower the cost of competitive services to a level where the Debtor's services would become less competitive or where the Debtor would need to reduce its prices in order to remain competitive, which could have a material adverse effect on the Debtor's business plan.

## F. Maintenance of Operations and Post-Petition Financing.

Although the Debtor believes that it will have sufficient funds to meet its obligations under the Plan, the failure by the Debtor to obtain sufficient funds to meet its obligations under the Plan would pose serious risks to the Debtor's viability, and could preclude consummation of the Plan or any other recapitalization or reorganization.

## G. Reorganized Debtor will be a Private Company.

The New Issued Common Stock issued to holders of certain Claims and Equity Interests under the Plan and sold to new the Exit Financings Parties for Cash under the Plan will be issued to fewer than 300 holders of record. As a result, the Reorganized Debtor will deregister and will no longer be required to file periodic reports (such as Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q) with the SEC.

Class 4 (Note Convenience Claims) and Class 8 (*De Minimis* Equity Holders) are not receiving distributions of New Issued Common Stock so as to keep the number of holders of New Issued Common Stock below three hundred. Creditors in Class 4 (Note Convenience Claims) and holders of interests in Class 8 (*De Minimis* Equity Holders) will, however, receive a distribution at least equal in value to distributions to be made to creditors and holders of interests in Class 3 (Note Claims) and Class 7 (Equity Interests), respectively.

## H. Certain Bankruptcy Considerations.

### 1. Effect on Non-Filing Subsidiaries or Affiliates.

The filing of the Chapter 11 Case by the Debtor and the publicity attendant thereto might also adversely affect the businesses of the non-filing subsidiaries. The Debtor is a holding company that has no operations of its own. Because the financial viability and business of the Debtor is wholly dependent upon the businesses of its non-filing subsidiaries, any downturn in the businesses of the non-filing subsidiaries as a result of the Debtor's Chapter 11 Case would also affect the Debtor's prospects. Although the Debtor does not believe that the Chapter 11 Case has adversely affected the businesses of the non-filing subsidiaries in a material way, if the Chapter 11 Case becomes protracted, the possibility of adverse effects on such subsidiaries may increase.

### 2. Failure to Confirm the Plan.

Section 1129 of the Bankruptcy Code requires, among other things, a showing that confirmation of the Plan will not be followed by liquidation or the need for further financial reorganization of the Debtor (*See* Section V.C.3 and V.C.4, "Feasibility" and "Best Interests Test And Liquidation Analysis"), and that the value of distributions to dissenting holders of Claims and Equity Interests may not be less than the value such holders would receive if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code. *See* Section V.C.3 and V.C.4, "Feasibility" and "Best Interests Test And Liquidation Analysis." Although the Debtor believes that the Plan will meet such tests, there can be no assurance that the Bankruptcy Court will reach the same conclusion.

### 3. Failure to Consummate the Plan.

Consummation of the Plan is conditioned upon, among other things, entry of the Confirmation Order and an order (which may be the Confirmation Order) approving the assumption and assignment of all executory contracts and unexpired leases (other than those specifically rejected by the Debtor) to Reorganized Debtor or its assignees. As of the date of this Disclosure Statement, there can be no assurance that any or all of the foregoing conditions will be met (or waived) or that the other conditions to consummation, if any, will be satisfied. Accordingly, even if the Plan is confirmed by the Bankruptcy Court, there can be no assurance that the Plan will be consummated.

## XII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

THE FOLLOWING DISCUSSION SUMMARIZES CERTAIN ANTICIPATED U.S. FEDERAL INCOME TAX CONSEQUENCES OF THE TRANSACTIONS PROPOSED IN THE PLAN TO THE DEBTOR AND TO THE HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR WHO HOLD SUCH CLAIMS AND EQUITY INTERESTS AS CAPITAL ASSETS. THIS DISCUSSION ASSUMES THAT THE NOTES ARE PROPERLY TREATED AS INDEBTEDNESS FOR FEDERAL INCOME TAX PURPOSES. THE SUMMARY IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND IS BASED ON THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "TAX CODE"), THE TREASURY REGULATIONS PROMULGATED THEREUNDER, JUDICIAL AUTHORITY, AND CURRENT ADMINISTRATIVE RULINGS AND PRACTICE, ALL AS IN EFFECT AS OF THE DATE HEREOF AND ALL OF WHICH ARE SUBJECT TO CHANGE, POSSIBLY WITH RETROACTIVE EFFECT THAT COULD ADVERSELY AFFECT THE DEBTOR, ITS CREDITORS, AND EQUITY SECURITY HOLDERS.

THE SUMMARY DOES NOT ADDRESS ALL ASPECTS OF FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO A PARTICULAR HOLDER OF A CLAIM OR EQUITY INTEREST IN LIGHT OF ITS PARTICULAR FACTS AND CIRCUMSTANCES OR TO CERTAIN TYPES OF HOLDERS OF CLAIMS OR EQUITY INTERESTS SUBJECT TO SPECIAL TREATMENT UNDER THE TAX CODE (INCLUDING, FOR EXAMPLE, CURRENT AND FORMER EMPLOYEES, FOREIGNERS, FINANCIAL INSTITUTIONS, BROKER-DEALERS, LIFE INSURANCE COMPANIES, AND TAX-EXEMPT

ORGANIZATIONS) AND ALSO DOES NOT DISCUSS ANY ASPECTS OF STATE, LOCAL, OR FOREIGN TAXATION. THE FOLLOWING SUMMARY DOES NOT ADDRESS THE FEDERAL INCOME TAX CONSEQUENCES TO HOLDERS WHOSE CLAIMS ARE UNIMPAIRED UNDER THE PLAN OR WHOSE CLAIMS WILL BE PAID IN FULL IN CASH UPON CONSUMMATION OF THE PLAN.

IN ADDITION, A SUBSTANTIAL AMOUNT OF TIME MAY ELAPSE BETWEEN THE CONFIRMATION DATE AND THE RECEIPT OF A FINAL DISTRIBUTION UNDER THE PLAN. EVENTS SUBSEQUENT TO THE DATE OF THIS DISCLOSURE STATEMENT, SUCH AS ADDITIONAL TAX LEGISLATION, COURT DECISIONS, OR ADMINISTRATIVE CHANGES, COULD AFFECT THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREUNDER.

NO RULING WILL BE SOUGHT FROM THE INTERNAL REVENUE SERVICE (THE "SERVICE") WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN AND NO OPINION OF COUNSEL HAS BEEN OBTAINED BY THE DEBTOR WITH RESPECT THERETO. ACCORDINGLY, EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS STRONGLY URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PLAN.

## A. Federal Income Tax Consequences to the Debtor.

### 1. Cancellation of Indebtedness Income.

A taxpayer generally must include in gross income for federal income tax purposes the amount of any discharge of indebtedness income realized during the taxable year. The Debtor will realize discharge of indebtedness income to the extent (i) the sum of the adjusted issue prices, as determined for federal income tax purposes, of Claims discharged pursuant to the Plan exceeds (ii) the sum of the amount of Cash, the issue prices of the New Notes and any other debt issued under the Plan and the fair market value of any stock and other consideration issued under the Plan in full or partial satisfaction of such Claims. There is an exception, however, to the extent payment of the Claims would have given rise to a tax deduction. Another exception will apply because the discharge of indebtedness is being accomplished pursuant to a Plan approved by the Court in a proceeding under the Bankruptcy Code. However, to the extent the latter exclusion applies, the Debtor's discharge of indebtedness income will reduce its net operating losses and net operating loss carryforwards ("NOLs") and certain other tax assets on a dollar-for-dollar basis (except, in the case of credits which are reduced by one dollar for every three dollars of excluded discharge of indebtedness income) remaining after the determination of the Debtor's taxable income for the taxable year of the discharge or, if the Debtor so elects, the excluded discharge of indebtedness income will first reduce the basis of the Debtor's depreciable property (subject to certain limitations) and then its NOLs and certain other tax assets.

### 2. Limitations on NOLs and Other Tax Attributes.

If a corporation undergoes an "ownership change," within the meaning of Section 382 of the Tax Code, its NOLs and, if a threshold test is satisfied, its built-in losses (i.e., losses that are

economically accrued but not yet recognized for tax purposes) and certain other tax assets allocable to periods prior to the ownership change date ("Pre-Change Losses") that may be utilized to offset future taxable income or tax liability will be subject to an annual limitation (the "Annual Limitation") equal to the value of the stock of the corporation immediately before the ownership change multiplied by a rate published monthly by the Service. Furthermore, if the corporation does not continue its historic business or use a significant portion of its business assets in a new business for two years after the ownership change, this Annual Limitation will be zero. An exception applies if the ownership change occurs pursuant to a plan approved by the Court in a proceeding under the Bankruptcy Code, provided shareholders and creditors receive at least 50% of the vote and value of the corporation's stock in exchange for qualified claims and interests pursuant to the bankruptcy plan. Under this exception (the "First Bankruptcy Exception"), the corporation's Pre-Change Losses are not subject to an Annual Limitation, but instead are reduced by interest deducted during that and the three prior years on debt converted to stock pursuant to the bankruptcy plan. However, if this First Bankruptcy Exception applies and, during the following two years, the corporation has another ownership change, the Annual Limitation in the subsequent ownership change will be zero, effectively preventing the corporation from using any of the Pre-Change Losses it had at the time of the subsequent ownership change. If the requirements to apply this First Bankruptcy Exception are not satisfied or if the corporation elects not to apply it, another special rule allows a corporation that has an ownership change pursuant to a plan approved by the Court in a proceeding under the Bankruptcy Code to compute the Annual Limitation resulting from the ownership change by reference to the value of the corporation's stock after the discharge of indebtedness pursuant to the plan.

An ownership change of the Debtor occurred upon confirmation of the 2002 Plan. As a result of the 2002 ownership change, an Annual Limitation (the "2002 Limitation") applies to the Pre-Change Losses that the Debtor had at that time. It has not yet been determined whether a second ownership change will occur as a result of the issuance of New Issued Common Stock pursuant to the Plan or as a result of changes of ownership after the Effective Date of the Plan. If another ownership change results from the Plan or thereafter, another Annual Limitation will limit the Debtor's use of the Pre-Change Losses it has at the time of the second ownership change, including Pre-Change Losses that are also subject to the 2002 Limitation. The Debtor will continue to evaluate whether the Plan will cause an ownership change and, if so, whether the ownership change will qualify for, and if it does, whether the Debtor should elect out of, the First Bankruptcy Exception.

## B. Federal Income Tax Consequences to Holders of Claims and Equity Interests.

### 1. In General.

The federal income tax consequences of the Plan to a holder of a Claim or Equity Interest will depend, in part, on whether such Claim or Equity Interest constitutes a "security" for federal income tax purposes, the length of time the Claim or Equity Interest has been held, what type of consideration was received in exchange for the Claim or Equity Interest, whether the holder reports income on the accrual or cash basis, whether the holder has taken a bad debt deduction or worthless security deduction with respect to the Claim or Equity Interest and whether the holder receives distributions under the Plan in more than one taxable year. HOLDERS ARE URGED

TO CONSULT THEIR OWN TAX ADVISOR TO DETERMINE THE TAX EFFECT OF THE PLAN AS IT APPLIES TO THEIR PARTICULAR CIRCUMSTANCES.

**2. Treatment of Gain or Loss.**

Assuming a Claim or Equity Interest is held as a capital asset, gain or loss recognized on a deemed or actual exchange of the Claim or Equity Interest will be capital gain or loss, subject to various exceptions, some of which are discussed below.

a. Accrued Interest.

To the extent the amount of Cash and the value of property received by a holder of a Claim (whether such property is New Issued Common Stock, New Notes or any other property and whether or not such Cash or property is received in an exchange which qualifies as a tax-free recapitalization) is received in satisfaction of interest that accrued during the period that the holder held the Claim, such amount generally will be taxable to the holder as interest income to the extent the holder did not previously include the accrued interest in its gross income. The amount of accrued interest with respect to Note Claims will be determined in accordance with the original issue discount provisions of the Tax Code.

Pursuant to the Plan, distributions to a holder of Notes will be allocated first to the portion of the holder's Note Claims representing principal and then to the portion of the Claims representing accrued unpaid interest. There is no assurance, however, that this allocation will be respected by the Service for federal income tax purposes.

b. Market Discount.

The market discount bond provisions of the Tax Code may cause gain that is recognized by a holder of a Claim to be treated in whole or in part as ordinary income. Under these provisions, a Claim (other than one with a fixed maturity of one year or less) that is acquired by a holder in the secondary market (or, in limited circumstances, upon original issuance) is a "market discount bond" as to the holder if its stated redemption price at maturity (or, in the case of a Claim having original issue discount, its revised issue price) exceeds the holder's tax basis in the Claim immediately after it was acquired. A Claim will not be a market discount bond, however, if such excess is less than a statutory de minimis amount. Gain that is recognized with respect to a market discount bond generally will be treated as ordinary interest income to the extent of the market discount that accrued during the period that the holder held the Claim, unless the holder elected to include the market discount in income as it accrued.

c. Amortizable Bond Premium.

Generally, if a Claim is held as a capital asset and the holder's tax basis in the Claim exceeds the amount payable at maturity, the excess constitutes amortizable bond premium which the holder can elect to amortize and deduct over the period from acquisition to maturity of the Claim, generally as an offset to interest income, calculated under the constant interest rate method. In such case, the holder must reduce its tax basis in the Claim by the amount amortized and deducted as bond premium. If a Claim that was purchased at a premium is exchanged pursuant to the Plan and, as discussed below, the exchange is treated as a taxable exchange, a

holder of the Claim that has been amortizing and deducting bond premium may deduct any remaining unamortized bond premium at the time of the exchange.

### 3. Federal Income Tax Consequences to Holders of Claims and Equity Interests.

a. Federal Income Tax Consequences to Holders of Allowed Class 3 Note Claims.

Pursuant to the Plan, each holder of an Allowed Class 3 Note Claim will receive its Ratable Portion of 7,920,884 shares of New Issued Common Stock in exchange for its Claim. Whether this exchange will qualify as a tax-free "recapitalization" within the meaning of Section 368(a) of the Tax Code is discussed below. If the exchange qualifies as a tax-free recapitalization, a holder of Allowed Class 3 Note Claims will not recognize gain or loss on the exchange of the Claims for New Issued Common Stock (except to the extent the New Issued Common Stock is received on account of interest not previously included in income by the holder). The holder will have a tax basis in the New Issued Common Stock (other than New Issued Common Stock received on account of interest) equal to the holder's tax basis in the Note Claims (other than the portion of the Claims attributable to interest). The holder will include its holding period for the Note Claims in its holding period for the New Issued Common Stock (other than New Issued Common Stock received on account of interest). A holder will have ordinary interest income to the extent of the value of the New Issued Common Stock received on account of interest not previously included in income by the holder. A holder's tax basis in New Issued Common Stock received on account of interest will be equal to the value of such stock at the time of the exchange, and the holding period for such stock will begin on the day after the exchange. If the exchange of Allowed Class 3 Note Claims for New Issued Common Stock is a tax-free recapitalization and the holder of an Allowed Class 3 Note Claim has accrued market discount with respect to its Claim, the holder may be required to treat all or part of any gain recognized on a subsequent disposition of the New Issued Common Stock as ordinary income under the market discount rules (*See* section XII.B.2.b).

Whether the exchange of an Allowed Class 3 Note Claim for New Issued Common Stock will qualify as a tax-free recapitalization depends on whether the Claim is a "security" for federal income tax purposes. The term "security" is not defined in the Tax Code or the Treasury Regulations thereunder. The determination of whether a particular debt instrument is a "security" depends upon an evaluation of the overall nature of the debt instrument. One of the most significant factors is the original term of the debt instrument. Historically, debt instruments with a weighted average maturity at issuance of five years or less, such as trade debt and revolving credit obligations, have generally been thought not to constitute securities, while debt instruments with a weighted average maturity at issuance of ten years or more generally have been thought to constitute securities. The Service recently ruled that when a debt instrument that is a security is exchanged for another debt instrument with substantially the same terms, including the same maturity date, but at the time of the exchange, the remaining term of the debt instrument is only two years, the new debt instrument will be treated as a security even though its term at issuance was well under five years. Based on this ruling, an Allowed Class 3 Note Claim may be a security for federal income tax purposes, even though its term at issuance was under five years.

If Allowed Class 3 Note Claims are securities, the exchange of such Claims for New Issued Common Stock will be a tax-free recapitalization, as described above. If not, the exchange will be taxable and holders will recognize gain or loss (except that New Issued Common Stock received on account of interest not previously included in income by the holder will be treated as interest income). The amount of gain or loss recognized by a holder will be equal to the difference between the value of the New Issued Common Stock received for Allowed Class 3 Note Claims (other than New Issued Common Stock received on account of interest) and the holder's tax basis in the Allowed Class 3 Note Claims (other than the portion of the Claims attributable to interest). A holder will have ordinary interest income to the extent of the value of the New Issued Common Stock received on account of interest not previously included in income by the holder. The holder's tax basis in New Issued Common Stock received on account of interest will be the value of such Stock at the time of the exchange, and the holding period for such Stock will begin on the day after the exchange.

If a holder of an Allowed Class 3 Note Claim had previously claimed a bad debt or other ordinary loss deduction with respect to the Claim, gain on a subsequent disposition of the New Issued Common Stock received in exchange for the Claim (or any stock or property received in a tax-free exchange for the New Issued Common Stock) will be treated as ordinary income to the extent of the excess of the bad debt and ordinary loss deductions that were previously claimed by the holder over any gain recognized as ordinary income on the exchange of the Allowed Class 3 Note Claims for New Issued Common Stock.

b. Federal Tax Consequences to Holders of Allowed Class 4 Note Convenience Claims.

A holder of an Allowed Class 4 Note Convenience Claim will receive, at its election, either New Notes with a principal amount equal to the amount of the holder's Claim or Cash in an amount equal to 60% of the Claim.

If a holder elects to receive only Cash in exchange for its Allowed Class 4 Note Convenience Claim, the holder will recognize gain or loss equal to the difference between the amount of Cash received (other than Cash received on account of interest) and the holder's tax basis in the Claim (other than the portion of the Claim attributable to interest). A holder will have ordinary interest income to the extent Cash is received on account of interest not previously included in income by the holder.

If a holder elects to receive New Notes in exchange for Allowed Class 4 Note Convenience Claims and if both the Claims and the New Notes are "securities" (*See* section XII.B.3.a), the exchange will be a tax-free recapitalization in which the holder will not recognize gain or loss. The holder's tax basis in the New Notes received in a tax-free recapitalization (other than New Notes received on account of interest) will be equal to the holder's tax basis in the Claims exchanged for the New Notes (other than the portion of the Claims attributable to interest). The holding period of the New Notes (other than New Notes received on account of interest) will include the holding period of the Claims exchanged for the New Notes. A holder will have ordinary interest income to the extent New Notes are received on account of interest not previously included in income by the holder. A holder's tax basis in New Notes received on

account of interest will be equal to the amount of interest satisfied with New Notes. The holding period of New Notes received on account of interest will begin on the day after receipt.

If a holder elects to receive New Notes in exchange for Allowed Class 4 Note Convenience Claims and (i) either the Claims or the New Notes are not "securities" (*See* section XII.B.3.a) and (ii) the installment method does not apply, the holder will recognize gain or loss equal to the difference between the amount realized, which will be the issue price, determined as described below, of the New Notes received in the exchange (other than New Notes received on account of interest) and the holder's tax basis in the Claims exchanged for the New Notes (other than the portion of the Claims attributable to interest). If the installment method does not apply to a taxable exchange, the holder's tax basis in the New Notes (other than New Notes received on account of interest) will be equal to the issue price of the New Notes received in the exchange and the holding period for the New Notes will begin on the day after the exchange. A holder may report gain under the installment method, provided the holder is not a dealer with respect to the property underlying the Claim, the holder is not related to the Debtor within the meaning of the installment method rules, the Claim is not an item of inventory for the holder and neither the Claim nor the New Notes are publicly traded. If a holder is eligible to report gain on the installment method, the holder must elect out of the installment method in order for the installment method not to apply. In certain circumstances, a holder that reports gain on the installment method may be required to pay an interest charge on all or a portion of the tax liability that is deferred under the installment method and may be required to treat any proceeds of a loan secured by the New Notes as a payment on the New Notes. Regardless of whether the installment method applies, a holder will have ordinary interest income to the extent New Notes are received on account of interest not previously included in income by the holder, as described in the previous paragraph.

As discussed in the previous paragraph, the amount realized by a holder in respect of New Notes received in exchange for Claims will be the "issue price" of the New Notes. The "issue price" of the New Notes will depend on whether a substantial amount of the New Notes is traded on an "established securities market" during the sixty day period ending thirty days after the Effective Date, in which case the "issue price" of the New Notes will be their fair market value (which, in general, will be their trading price) or, if not, whether a substantial amount of the New Notes is received for Note Claims that are so traded, in which case the "issue price" of the New Notes will be the fair market value of the Note Claims (which, in general, will be the trading price of the Note Claims). Pursuant to Treasury regulations, an established securities market need not be a formal market. It is sufficient if there is a system of general circulation (including a computer listing disseminated to subscribing brokers, dealers or traders) that provides a reasonable basis to determine fair market value by recent price quotations or actual prices of recent sales transactions, or if price quotations are readily available from brokers, dealers or traders. If neither the Notes nor the New Notes are traded on an established securities market, as so defined, the "issue price" of the New Notes will be their stated principal amount, provided the stated interest rate on the New Notes is at least equal to the relevant applicable federal rate. Although the relevant applicable federal rate has not yet been published, it is likely that the stated interest rate of the New Notes will be at least equal to the relevant applicable federal rate.

A holder of New Notes will be required to include in income any future payments of interest on the New Notes in accordance with the holder's method of accounting for federal income tax purposes.

c. Federal Income Tax Consequences To Holders Of Allowed Class 6 SERP Claims.

Pursuant to the Plan, each holder of an Allowed Class 6 SERP Claim will receive its Class 6 Distribution (which will be an amount of Cash equal to the value of any amounts payable to the holder in the calendar year following the filing of the Plan pursuant to any non-qualified executive retirement plan that was outstanding when the Plan was filed). Such holders will have taxable income equal to the amount of their Class 6 Distribution of Cash and will be subject to applicable employment tax and withholding requirements.

d. Federal Income Tax Consequences to Holders of Allowed Class 7 Equity Interests.

Each holder of an Allowed Class 7 Equity Interest that does not hold an Allowed Class 8 De Minimis Equity Interest will receive New Issued Common Stock and Cash in exchange for its Allowed Class 7 Equity Interest. Each holder of an Allowed Class 8 De Minimis Equity Interest will receive only Cash in exchange for its Equity Interest. The tax treatment of a holder of an Allowed Class 7 Equity Interest that also holds an Allowed Class 8 De Minimis Equity Interest is discussed in section XII.B.1.e, below. The exchange of an Allowed Class 7 Equity Interest for New Issued Common Stock and Cash will be a tax-free recapitalization. Holders will not be entitled to recognize a loss on the tax-free recapitalization exchange, but will recognize gain equal to the amount of Cash received or, if less, the amount of gain realized in the exchange. The amount of gain, if any, realized in the exchange will be the excess of the amount of Cash plus the value of the New Issued Common Stock received in the exchange over the holder's tax basis in its Equity Interest. The holder's tax basis in the New Issued Common Stock received in the exchange will be equal to the holder's tax basis in its Equity Interest, decreased by the amount of Cash received in the exchange and increased by the amount of gain, if any, recognized in the exchange. The holder's holding period for New Issued Common Stock received in the exchange will include its holding period for the Equity Interest exchanged for the New Issued Common Stock.

e. Federal Income Tax Consequences to Holders of Allowed Class 8 De Minimis Equity Interests.

Holders of Allowed Class 8 De Minimis Equity Interests will receive only Cash in exchange for their Equity Interests and will recognize gain or loss in an amount equal to the difference between the amount of Cash they receive and their tax basis in the Equity Interests.

f. Federal Income Tax Consequences to Holders of Allowed Class 9 Other Equity Interests.

Holders of Allowed Class 9 Other Equity Interests whose Other Equity Interests are canceled pursuant to the Plan generally will incur a loss in an amount equal to the tax basis of their Other Equity Interests.

**4. New Issued Common Stock.**

Holders who receive New Issued Common Stock pursuant to the Plan will be required to include in income as ordinary dividend income any future distributions with respect to the New Issued Common Stock to the extent paid out of the Debtor's current or accumulated earnings and profits as determined for federal income tax purposes. Distributions in excess of earnings and profits will reduce a holder's tax basis in the New Issued Common Stock and, to the extent in excess of the holder's tax basis, will be treated as gain from a sale or exchange of the New Issued Common Stock. Subject to applicable requirements and limitations, corporate holders may be entitled to a dividends received deduction to the extent distributions with respect to New Issued Common Stock are paid out of the Debtor's current or accumulated earnings and profits.

**5. Disputed Claims Reserve.**

Amounts earned in an escrow, settlement fund or similar account or fund are subject to current federal income tax. Applicable Treasury Regulations do not say how this requirement applies to a disputed claims reserve in a bankruptcy proceeding. Furthermore, it is uncertain how property held in a disputed claims reserve will affect the computation of a holder's gain or loss with respect to a claim or equity interest or how subsequent distributions from the disputed claims reserve will be treated, giving rise to the possibility of taxable income without a corresponding receipt of cash or property with which to satisfy the tax liability. Unless precluded from doing so by the Service or unless future guidance indicates that a different treatment is required, the Debtor expects to treat the Disputed Claims Reserve as a grantor trust of the Debtor. Such treatment would not result in taxable to a holder of Claims or Equity Interests in respect of income or gain of the Disputed Claims Reserve. Rather, any such income or gain will be taxable income to the Debtor. If the Service does not respect such treatment, however, holders of Claims or Equity Interests might be subject to current tax with respect to property held in the Disputed Claims Reserve. Holders of Claims and Equity Interests are urged to consult their own tax advisor regarding the federal income tax treatment of the Disputed Claims Reserve and the consequences to them of such treatment

**6. Withholding and Information Reporting.**

A holder may be subject to backup withholding at applicable rates with respect to consideration received pursuant to the Plan, unless the holder (i) is a corporation or comes within another category of persons exempt from backup withholding and, when required, demonstrates this or (ii) provides a correct taxpayer identification number ("TIN") on Internal Revenue Service Form W-9 (or a suitable substitute form) and provides the other information and makes the representations required by such Form and complies with the other requirements of the backup withholding rules. An otherwise exempt holder may become subject to backup withholding if, among other things, the holder (i) fails to properly report interest and dividends for federal income tax purposes or (ii) in certain circumstances, fails to certify, under penalty of perjury, that it has furnished a correct TIN. A holder that does not provide a correct TIN also may be subject to penalties imposed by the Service.

Backup withholding is not an additional tax. The federal income tax liability of a person subject to backup withholding is reduced by the amount of tax withheld. If withholding results

in an overpayment of federal income tax, the holder may obtain a refund of the overpayment by properly and timely filing a claim for refund with the Service.

The Debtor and the Disbursing Agent may be subject to other withholding and information reporting obligations with respect to consideration distributed pursuant to the Plan and will comply with all such obligations and information reporting obligations.

THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR ARE URGED TO CONSULT THEIR OWN TAX ADVISOR CONCERNING THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES OF THE PLAN.

## XIII. CONCLUSION AND RECOMMENDATION

The Debtor believes that confirmation and implementation of the Plan is preferable to any of the alternatives described above because it will provide the greatest recoveries to holders of Claims and Equity Interests. In addition, other alternatives would involve delay, uncertainty and substantial additional administrative costs. The Debtor urges holders of impaired Claims and Equity Interests entitled to vote on the Plan to vote to accept the Plan and to evidence such acceptance by returning their ballots so that they will be received not later than _:00 _.m., Delaware time, on _____, 2005.

Dated: February 22, 2005

Respectfully submitted,

AMERICAN BANKNOTE CORPORATION

By:_____
Patrick J. Gentile
Executive Vice President and
Chief Financial Officer