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

-----X  
In re : Chapter 11 Case No.  
: :  
ADELPHIA BUSINESS SOLUTIONS, INC., et al., : 02-11389 (REG)  
: :  
: :  
Debtors. : (Jointly Administered)  
-----X

**SECOND AMENDED DISCLOSURE STATEMENT PURSUANT TO  
SECTION 1125 OF THE BANKRUPTCY CODE FOR  
DEBTORS' SECOND AMENDED JOINT PLAN OF REORGANIZATION**

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## I.

### Introduction

Adelphia Business Solutions, Inc. (“ABIZ”), a Delaware corporation, for itself and on behalf of certain of its direct and indirect subsidiaries, as debtors and debtors in possession (collectively, and together with ABIZ, the “Debtors”), the Creditors’ Committee and the Secured Noteholder Committee (collectively, the “Plan Proponents”), jointly submit this Second Amended Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) to holders of Claims against and Interests in the Debtors in connection with (i) the solicitation of acceptances of the Debtors’ Second Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated October \_\_, 2003, as the same may be amended (the “Plan”), filed by the Plan Proponents with the United States Bankruptcy Court for the Southern District of New York (the “Bankruptcy Court”) and (ii) the hearing to consider confirmation of the Plan (the “Confirmation Hearing”) scheduled for December 8, 2003, commencing at 9:45 a.m. Eastern Time. The names of the Debtors that are subject to the Plan are listed in footnote 1 of the Plan. Unless otherwise defined herein, all capitalized terms used herein have the meanings ascribed to them in the Plan.

The Debtors’ Reorganization Cases have been consolidated for procedural purposes and are being jointly administered pursuant to an order of the Bankruptcy Court. The Plan contemplates the substantive consolidation of the Debtors’ Reorganization Case into a single chapter 11 case solely for the purposes of distribution and voting under the Plan, and in furtherance of certain settlements and compromises detailed in the Plan. For all other purposes, the Debtors will continue to maintain their separate corporate existence, except as otherwise expressly provided for in the Plan. In addition any obligation of any Debtor and all guarantees thereof executed by one or more of the Debtors will be deemed to be one obligation of the deemed consolidated Debtors; any Claims filed or to be filed in connection with any such obligation and such guarantees will be deemed one Claim against the deemed consolidated Debtors and each and every Claim filed in the individual Reorganization Cases of any of the Debtors will be deemed filed against the deemed consolidated Debtors. For a more detailed description of the substantive consolidation of the Debtors pursuant to the Plan, see *Section V.G.*

#### A. Information Provided and Purpose of Disclosure Statement

A copy of the Plan is attached as Exhibit A to this Disclosure Statement. ABIZ and the entities listed in footnote 1 of the Plan are referred to as the “Debtors.”

The purpose of the Disclosure Statement is to provide sufficient information to enable the creditors of the Debtors who are entitled to vote on the Plan to make an informed decision on whether to accept or reject the Plan. The Disclosure Statement describes:

- ? the businesses of the Debtors and the reasons why they commenced their Reorganization Cases (*Section II*)
- ? significant events that have occurred in the Debtors’ Reorganization Cases (*Section III*)
- ? potential actions regarding the Debtors (*Section IV*)

- ? the new capital structure for Reorganized ABIZ, how creditors and stockholders of the Debtors are treated, and the terms of the securities to be issued under the Plan (*Section V*)
- ? how the Debtors will be governed when the Plan becomes effective (*Section VI*)
- ? how distributions under the Plan will be made and the manner in which Disputed Claims are resolved (*Section VII*)
- ? certain financial information about the Debtors, including their four (4)-year (2003-2006) cash flow projections, a range of potential equity values, and a liquidation analysis (*Section VIII*)
- ? certain factors creditors should consider before voting (*Section IX*)
- ? how to vote on the Plan and who is entitled to vote (*Section X*)
- ? the procedure for confirming the Plan (*Section XI*)
- ? alternatives to confirmation of the Plan (*Section XII*)
- ? and certain tax and securities laws issues (*Section XIII*)

Please note that if there is any inconsistency between the Plan and the descriptions in the Disclosure Statement, the terms of the Plan will govern.

The information contained herein regarding the Debtors' financial condition and businesses has been prepared solely by the Debtors, and not the other Plan Proponents. Neither the Creditors' Committee nor the Secured Noteholder Committee nor their respective counsel and advisors have made any investigation into the accuracy of the information regarding the Debtors' financial condition and businesses set forth in this Disclosure Statement. Neither the Creditors' Committee nor the Secured Noteholder Committee make any representations as to the validity or veracity of the financial information provided in this Disclosure Statement. In addition, the Debtors have not completed an external audit since December 31, 2002. On August 10, 2003, the Debtors retained Grant Thornton LLP as its new independent auditors. As a result, none of the financial information presented in this Disclosure Statement has been reviewed by independent auditors.

Additional copies of this Disclosure Statement are available upon request made to either of the Debtors' Voting Agents, at the following addresses:

Adelphia Business Solutions, Inc. c/o Innisfree M&A Incorporated 601 Madison Avenue, 20th Floor New York, New York 10022	Adelphia Business Solutions, Inc. c/o Bankruptcy Services LLC 757 Third Avenue, 3rd Floor New York, New York 10017
(877) 750-2689 (toll free) Banks and Brokers call: (212) 750-5833	(646) 282-2500



In addition, a Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims that are entitled to vote to accept or reject the Plan, as explained below.

After notice and a hearing, the Bankruptcy Court entered an order dated October \_\_, 2003 (“the Disclosure Statement Order”), approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical of the Debtors’ creditors 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 Disclosure Statement Order, a copy of which is attached as Exhibit B to this Disclosure Statement, 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 entitled to vote on the Plan should read the Disclosure Statement, the Plan, the Disclosure Statement Order, and the instructions accompanying the Ballot in its entirety before voting on the Plan. These documents contain, among other things, important information concerning the classification of Claims and 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.

FOR A DESCRIPTION OF THE PLAN AND VARIOUS RISKS AND OTHER FACTORS PERTAINING TO THE PLAN, PLEASE SEE SECTION V OF THE DISCLOSURE STATEMENT, ENTITLED “TREATMENT OF CREDITORS AND STOCKHOLDERS UNDER THE PLAN OF REORGANIZATION,” AND SECTION IX OF THE DISCLOSURE STATEMENT, ENTITLED “CERTAIN FACTORS TO BE CONSIDERED.”

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN DOCUMENTS RELATING TO THE PLAN, CERTAIN EVENTS EXPECTED TO OCCUR IN THE REORGANIZATION CASES AND CERTAIN FINANCIAL INFORMATION. ALTHOUGH THE DEBTORS BELIEVE THAT THE SUMMARIES OF THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTORS’ MANAGEMENT, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTORS DO NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

**THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED OR REVIEWED BY THE DEBTORS’ CERTIFIED PUBLIC ACCOUNTANTS AND, EXCEPT WHERE SPECIFICALLY NOTED, HAS NOT BEEN PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES.**

**THERE WILL BE FEWER THAN 300 HOLDERS OF NEW COMMON STOCK AND NEW WARRANTS AFTER THE ISSUANCE OF NEW COMMON STOCK**

**AND NEW WARRANTS PURSUANT TO THE PLAN. THE DEBTORS CANNOT ENSURE THAT A LIQUID MARKET WILL DEVELOP FOR THE NEW COMMON STOCK OR NEW WARRANTS OR THAT HOLDERS OF NEW COMMON STOCK AND NEW WARRANTS WILL BE ABLE TO SELL AT ANY PARTICULAR TIME AND RECEIVE A FAVORABLE PRICE PURSUANT TO SUCH SALE. THERE WILL BE NO PUBLIC MARKET FOR THE NEW COMMON STOCK OR NEW WARRANTS, AND THERE IS NO ASSURANCE AS TO WHEN OR IF REORGANIZED ABIZ WILL COMPLETE AN INITIAL PUBLIC OFFERING FOR THE NEW COMMON STOCK OR NEW WARRANTS.**

**THE SHARES OF NEW COMMON STOCK AND NEW WARRANTS ISSUED PURSUANT TO THE PLAN WILL BE SUBJECT TO CERTAIN TRANSFER AND OTHER RESTRICTIONS SET FORTH IN THE SHAREHOLDERS' AGREEMENT. SUCH TRANSFER RESTRICTIONS IN THE SHAREHOLDERS' AGREEMENT WILL PROHIBIT A HOLDER OF NEW COMMON STOCK AND NEW WARRANTS, AS APPLICABLE, FROM TRANSFERRING ANY SHARES TO ANY PERSON NOT ALREADY HOLDING SHARES OF THE SAME CLASS AS THOSE PROPOSED TO BE TRANSFERRED AFTER SUCH CLASS HAS RECORD HOLDERS OF 450 OR MORE PERSONS.**

**THE DEBTORS, THE CREDITORS' COMMITTEE AND THE SECURED NOTEHOLDER COMMITTEE BELIEVE THAT THE PLAN WILL ENABLE THE DEBTORS TO SUCCESSFULLY REORGANIZE AND ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS AND THE HOLDERS OF ALL CLAIMS, AND URGE HOLDERS OF CLASS 1A, 6, 7A, 7B, 7C AND 7D CLAIMS TO VOTE TO ACCEPT THE PLAN.**

The summaries of the Plan and other documents related to the restructuring of the Debtors are qualified in their entirety by the Plan, its exhibits, and the documents and exhibits contained in the Plan Supplement. The Plan Supplement will be filed with the Bankruptcy Court no later than ten (10) days prior to the Confirmation Hearing. Documents to be included in the Plan Supplement will also be available on the official website of the Bankruptcy Court at <http://www.nysb.uscourts.gov> as they become available, but no later than ten (10) days prior to the Confirmation Hearing. The financial and other information included in this Disclosure Statement are for purposes of soliciting acceptances of the Plan and are being communicated for settlement purposes only.

**B. Summary of the Treatment of Creditors and Stockholders Under the Plan of Reorganization**

The following table summarizes the treatment of creditors and stockholders under the Plan. This table identifies the Claims against and Interests in the Debtors in their respective Classes and summarizes the treatment for each Class under the Plan. The table also identifies which Classes are entitled to vote on the Plan, based on rules set forth in the Bankruptcy Code. Finally, the table provides an estimated recovery for each Class. For a complete explanation, please refer to the discussion in *Section V* below, entitled, "Treatment of Creditors and Stockholders Under the Plan of Reorganization," and to the Plan itself.

As provided below, holders of Allowed Class 6 and 7 Claims (and Allowed Class 8 Claims, if any) may elect to receive either (i) with respect to holders of Allowed Class 6

Claims, a proportionate share of the 12¼% Secured Notes Percentage, and with respect to holders of Allowed Class 7 Claims (and Allowed Class 8 Claims, if any), a Stock and/or Warrant Recovery or (ii) a Cash Recovery. **HOLDERS OF ALLOWED CLASS 6 AND 7 CLAIMS (AND ALLOWED CLASS 8 CLAIMS, IF ANY) SHOULD BE AWARE THAT (i) THE PROPORTIONATE SHARE OF THE 12¼% SECURED NOTES PERCENTAGE AND THE STOCK AND/OR WARRANT RECOVERY, AS APPLICABLE, ARE ILLIQUID SECURITIES, (ii) THE AMOUNT OF CASH TO BE RECEIVED PURSUANT TO THE CASH RECOVERY HAS BEEN ESTIMATED BASED ON ABIZ' CURRENT PROJECTIONS AT APPROXIMATELY 50% OF THE ESTIMATED VALUE OF THE NEW COMMON STOCK TO BE RECEIVED AND (iii) TO THE EXTENT THAT A HOLDER DOES NOT MAKE ANY ELECTION ON ITS BALLOT, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO RECEIVE A CASH RECOVERY.**

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
1	Secured Claims	Except to the extent a holder agrees to a different treatment, on the Effective Date, each holder of an Allowed Secured Claim shall receive either (1) collateral securing such Claim, (2) Cash or a note in an amount equal to the value of the collateral, (3) the net proceeds from the sale of such collateral or (4) treatment under 1124(2) of the Bankruptcy Code.	No	100%
1A	CIT Secured Claim	<p>Except to the extent a holder agrees to a different treatment, on the Effective Date, each holder of an Allowed CIT Secured Claim shall receive a note secured by the existing collateral in an amount equal to the value of such collateral, with a term of three (3) years and bearing interest at a rate per annum no greater than LIBOR plus 300 basis points . To the extent that an Allowed CIT Secured Claim exceeds the value of the existing collateral securing such Claim, the excess portion of such Claim shall be treated as an unsecured Deficiency Claim in Class 7B.</p> <p>To the extent that the Debtors seek to provide a different term and interest rate under a note to the holder of an Allowed CIT Secured Claim in the event that the holder of such claim makes a section 1111(b) election, then the Debtors shall disclose the term and interest rate for such note to the holder of an Allowed CIT Secured Claim on or before November 15, 2003, <u>provided however</u>, that the face amount of such note shall be not less than the full amount of the outstanding indebtedness arising under the CIT Agreement, with a value on the Effective Date equal to the value of the collateral as may be agreed to by the parties or as determined by the Bankruptcy Court.</p>	Yes	100%

<b>Class</b>	<b>Description</b>	<b>Treatment</b>	<b>Entitled to Vote</b>	<b>Estimated Recovery</b>
2	Secured Tax Claims	Except to the extent a holder agrees to a different treatment, on the Effective Date, each holder of an Allowed Secured Tax Claim shall receive collateral securing such Claim or payment in full of the Allowed amount of such Claim or equal annual payments over six years from the date of assessment of the tax, with interest at a fixed annual rate of 5%.	No	100%
3	Priority Non-Tax Claims	Except to the extent a holder agrees to a different treatment, each holder of an Allowed Priority Non-Tax Claim shall receive payment in full of the Allowed amount of such Claim.	No	100%
4	Beal DIP Claims	Except to the extent the holder agrees to a different treatment, on the Effective Date, the holder's Allowed Beal DIP Claim shall be paid in Cash in full.	No	100%
5	ACC DIP Claims	No distribution.	No (deemed to reject)	0%
6	12¼% Secured Notes Claims	<p><b><u>Secured Claims:</u></b></p> <p>Each holder of a 12¼% Secured Note shall elect on its Ballot to receive either (a) New Common Stock or (b) a Cash Recovery, in satisfaction of such holder's 12¼% Secured Notes Claim.</p> <p><i>New Common Stock:</i> On the Effective Date, a holder of a 12¼% Secured Notes Claim that elects New Common Stock will receive its proportionate share of the 12¼% Secured Notes Percentage (i.e., 60% of the New Common Stock prior to the implementation of Cash Recovery elections) in respect of its 12¼% Secured Notes Claim.</p> <p><i>Cash Recovery:</i> On the Effective Date, a holder of a 12¼% Secured Notes Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a 12¼% Secured Notes Claim that elects to receive New Common Stock. To the extent there is insufficient cash to satisfy all holders of Class 6 and 7C Claims who elect the Cash Recovery option, each holder of a 12¼% Secured Notes Claim that elects a Cash Recovery shall receive its Cash distribution on a ratable basis with the holders of Allowed Claims in Class 7C who elect a Cash Recovery.</p>	Yes	See <i>Section I.C.</i> below

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		<p>The aggregate amount of Cash available under the Plan to satisfy holders of Class 6 and 7C Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any), less the amount of Cash used to satisfy Class 7A, 7B and 7D Claims. The holders of Allowed Claims in Class 6 that elect the Cash Recovery shall be entitled to receive Cash on a ratable basis with the holders of Claims in Class 7C.</p> <p>In the event that the Cash available to holders of Allowed Claims in Classes 6 and 7C that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder will receive its proportionate share of the Cash available for Classes 6, and 7C, if any. The holder will receive a distribution equal to the proportionate share of the shares of New Common Stock otherwise distributable to such holder (if such holder had elected to receive a stock distribution rather than a Cash distribution) less the number of shares of New Common Stock equal to the quotient obtained by dividing the amount of Cash received by such holder by \$8.94 with respect to the remainder of such holder's Claim.</p> <p><u>Unsecured Claims:</u></p> <p>Each holder of a 12¼% Secured Notes Claim will also (as a result of owning a 12¼% Secured Note) receive its Ratable Proportion of the 12¼% Deficiency Claim (i.e., the unsecured portion of the Claims arising from the 12¼% Secured Notes) and its Ratable Proportion of the 12¼% Buffalo Claim. These Claims are Funded Debt Claims and are treated in Class 7C below.</p>		
7	General Unsecured Claims			
7A	Convenience Claims	<p>Each holder of a Convenience Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Convenience Claim.</p> <p><i>Stock and/or Warrant Recovery: On the</i></p>	Yes	See <i>Section I.C.</i> below

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		<p>Effective Date, a holder of a Convenience Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share).</p> <p><i>Cash Recovery:</i> On the Effective Date, a holder of a Convenience Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Convenience Claim that elects to receive New Common Stock.</p> <p>The aggregate amount of Cash available under the Plan to satisfy holders of Convenience Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any).</p> <p>Any Cash not necessary to satisfy Cash Recovery elections in Class 7A (including such elections by holders of Disputed Claims in Class 7A) shall be used for funding Cash Recovery elections first by holders of Claims in Class 7B, second by holders of Claims in Class 7D and third by holders of Claims in Classes 6 and 7C, as described below.</p>		
7B	Trade Claims	<p>Each holder of a Trade Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Trade Claim.</p> <p><i>Stock and/or Warrant Recovery:</i> On the Effective Date, a holder of a Trade Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share).</p> <p><i>Cash Recovery:</i> On the Effective Date, a holder of a Trade Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Trade Claim that elects to receive New</p>	Yes	See <i>Section I.C.</i> below

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		<p>Common Stock.</p> <p>The aggregate amount of Cash available under the Plan to satisfy holders of Trade Claims that elect a Cash Recovery will equal \$4 million, plus Excess cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A.</p> <p>In the event that the Cash available to holders of Allowed Claims in Class 7B that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder will receive its proportionate share of the Cash available for Class 7B, and the remainder of such holder's Claim shall be satisfied through a Remaining Stock Distribution and a Remaining Warrant Distribution.</p> <p>Any Cash not necessary to satisfy Cash Recovery elections in Class 7B (including such elections by holders of Disputed Claims in Class 7B) shall be used for funding Cash Recovery elections first by holders of Claims in Class 7D and second by holders of Claims in Classes 6 and 7C, as described below.</p>		
7C	Funded Debt Claims	<p>Each holder of a Funded Debt Claim (consisting of the (i) 12¼% Deficiency Claim, (ii) 12¼% Buffalo Claim and (iii) 13% Notes Claims) shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Funded Debt Claim.</p> <p><i>Stock and/or Warrant Recovery:</i> On the Effective Date, a holder of a Funded Debt Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share), in each case taking into consideration the contractual subordination of the 12% Notes (Class 7D) to the 12¼% Secured Notes and the 13% Notes, which the holders of the 12¼% Secured Notes and the 13% Notes have agreed will be on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal</p>	Yes	See Section I.C. below

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		<p>amount of the 13% Notes.</p> <p><i>Cash Recovery:</i> On the Effective Date, a holder of a Funded Debt Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Funded Debt Claim that elects to receive New Common Stock.</p> <p>The aggregate amount of Cash available under the Plan to satisfy holders of Funded Debt Claims that elect a Cash Recovery will equal \$4 million, plus Excess cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A, 7B and 7D. The holders of Allowed Claims in Class 7C that elect the Cash Recovery shall be entitled to receive Cash on a ratable basis with the holders of Claims in Class 6.</p> <p>In the event that the Cash available to holders of Allowed Claims in Classes 6 and 7C that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder of Claims in Class 7C will receive its proportionate share of the Cash available for Classes 6 and 7C, and the remainder of such holder's Claim shall be satisfied through a Remaining Stock Distribution and a Remaining Warrant Distribution.</p>		
7D	12% Notes Claims	<p>Each holder of a 12% Notes Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Funded Debt Claim.</p> <p>The 12% Notes are contractually subordinated to the 12¼% Secured Notes and the 13% Notes. Accordingly, holders of the 12% Notes will not be entitled to receive any distribution under the Plan. However, the holders of the 12¼% Secured Notes and the 13% Notes have agreed to contribute to the non-Rigas Family holders of the 12% Notes Claims from their respective Stock and/or Warrant Recovery a number of shares of New Common Stock equal to 0.25% of the aggregate number of shares of</p>	Yes	See <i>Section I.C.</i> below

<sup>1</sup> See *Section V.E.13.* below.



Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		<p>New Common Stock outstanding on the Effective Date. The holders of the 12¼% Secured Notes and the 13% Notes have agreed that this contribution will be made on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes. The New Warrants allocable in respect of such New Common Stock will be extinguished.</p> <p><i>Stock Recovery:</i> On the Effective Date, a non-Rigas Family<sup>1</sup> holder of a 12% Note Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion of 0.25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date contributed by the holders of the 12¼% Secured Notes (Classes 6 and 7C) and the 13% Notes (Class 7C), which the holders of the 12¼% Secured Notes and the 13% Notes have agreed will be on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes.</p> <p><i>Cash Recovery:</i> On the Effective Date, a holder of a 12% Notes Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a 12% Notes Claim that elects to receive New Common Stock.</p> <p>The aggregate amount of Cash available under the Plan to satisfy holders of 12% Notes Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A and 7B.</p> <p>In the event that the Cash available to holders of Allowed Claims in Class 7D that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder of Claims in Class 7D will receive its proportionate share of the Cash available for Class 7D, and the remainder of such holder's Claim shall be satisfied through a Remaining Stock Distribution, provided, however, that the New Warrants related to such New Common Stock shall be extinguished.</p> <p>Any Cash not necessary to satisfy Cash</p>		

Class	Description	Treatment	Entitled to Vote	Estimated Recovery
		Recovery elections in Class 7D shall be used for funding Cash Recovery elections by holders in Classes 6 and 7C.		
8	Century Facility Claims	The Century Facility Claims are Disputed Claims. Although the Plan Proponents believe the Century Facility Claims will be disallowed in their entirety, in the event the Century Facility Claims are Allowed, such Claims shall receive the same treatment as Claims in Class 7C.	No <sup>2</sup>	0% <sup>3</sup>
9	Securities Claims	No distribution.	No (deemed to reject)	0%
10	Intercompany Claims	Extinguished by either offset, contribution or distribution of such Claim.	No (deemed to reject)	0%
11	Equity Interests	No distribution.	No (deemed to reject)	0%
12	Subsidiary Equity Interests	Retain rights in respective Subsidiary Equity Interest.	No	100%
13	Subordinated Claims	No distribution. <sup>4</sup>	No (deemed to reject)	0%

### C. Estimated Recoveries for Classes 6,7A, 7B, 7C and 7D

The following analysis outlines the estimated recoveries for Classes 6, 7A, 7B, 7C and 7D. All estimates are subject to significant uncertainties including:

- 1) Total Allowed Claims within a given Class;
- 2) Timing and resolution of Disputed Claims which may affect the timing and magnitude of distributions;
- 3) Number of holders of Claims electing a Cash Recovery;
- 4) Availability of Excess Cash, if any; and

<sup>2</sup> The Century Facility Claims are Disputed Claims. Under the Plan, Disputed Claims are not entitled to vote, subject to further order of the Bankruptcy Court.

<sup>3</sup> For the purposes of this Disclosure Statement, it is assumed that all Century Facility Claims will be disallowed and that no distributions will be made with respect to such Claims. For illustrative purposes only, to the extent that the Century Facility Claims are Allowed, the estimated recovery would be the same as for Claims in Class 7C. See *Section I.D.* below.

<sup>4</sup> If and to the extent, however, that the Rigas Family Claims are Allowed and are not equitably subordinated, such Claims shall receive the same treatment as Claims in Class 7D.

- 5) Value of New Common Stock and New Warrants, which will have no public trading market upon emergence.

The following analysis is an estimate of recoveries assuming that all holders of Allowed Class 6, 7A, 7B, 7C and 7D Claims elect to receive their recovery in New Common Stock and New Warrants and does not take into account the value of New Warrants received:

<u>Class</u>	<u>Total Estimated Allowed Claims (A)</u>	<u># of Shares Issued to Class</u>	<u># Warrants Issued to Class</u>	<u>\$ Value of Shares (B)</u>	<u>% Recovery</u>
Class 6 – 12¼% Secured Notes Claims	\$ 107,280,000	6,000,000	--	\$ 107,280,000	100.0% (C)
Class 7A - Convenience Claims	10,021,193	39,652	14,870	708,985	7.1%
Class 7B – Trade Claims	129,233,808	511,359	191,760	9,143,103	7.1%
Class 7C – Funded Debt Claims	557,049,226	3,423,988	1,293,371	61,220,912	11.0% (C)
Class 7D – 12% Notes Claims	314,600,000	25,000	--	447,000	0.1% (C)
Total 12¼% Secured Notes Recovery (D)	267,524,306	7,337,765	504,780	131,199,243	49.0%

Note A – Total estimated Claims for each Class based on the Debtors’ current estimates of the Allowed Claims. There can be no assurances that actual Allowed Claims will not vary from the current estimates. A higher than expected level of Allowed Claims could adversely impact the ultimate recoveries for holders of Allowed Claims. The estimates of Claims set forth above do not reflect the Cash, shares of New Common Stock and New Warrants which will be held in reserve in order to satisfy Disputed Claims as if such Disputed Claims were Allowed Claims on the Effective Date or on any Subsequent Distribution Date. As a result, the Cash, shares of New Common Stock and New Warrants set forth in the estimates above will not be issued to holders of Claims in their entirety on the Effective Date.

Note B – Based on a point estimate within the valuation provided by the Debtors’ financial advisors. There will be substantial restrictions on the trading of the New Common Stock and there can be no assurances that a liquid trading market will emerge for the New Common Stock. Therefore, there can be no assurances that the values shown here could be achieved by liquidating the shares of New Common Stock after the Effective Date.

Note C – The Class 6, 7C and 7D recoveries reflect the effect of the contractual subordination of the 12% Notes Claims and the distribution of any recovery to the Senior Claims, as well as the contribution by the holders of the 12¼% Secured Notes and the 13% Notes of 0.25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date to the holders of the 12% Notes, which the holders of the 12¼% Secured Notes and the 13% Notes have agreed will be on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes. Pursuant to the Plan, Rigas Family Claims are to be subordinated. The Debtors believe that members of the Rigas Family own a substantial proportion of the 12% Notes. However, since the exact holdings are unknown by the Debtors, no adjustment has been made to the recoveries of Class 7D to reflect such subordination. If members of the Rigas Family hold Claims in Class 7D, the recoveries of all other holders of Allowed Claims in Class 7D would increase accordingly.

Note D – Pursuant to the Plan, each holder of 12¼% Secured Notes will have an Allowed 12¼% Secured Notes Claim, a Ratable Proportion of the Allowed 12¼% Deficiency Claim and a Ratable Proportion of the Allowed 12¼% Buffalo Claim. This analysis includes the total Class 6 and 7C recoveries for all three of these Claims, and the total estimated recovery

percentage is based on \$267.5 million representing the principal and accrued interest on the 12¼% Secured Notes as of March 27, 2002.

The following analysis shows the hypothetical estimated recoveries assuming that ALL holders elect the Cash Recovery option and that there is sufficient Excess Cash to meet all such elections. This is for illustrative purposes only. The Debtors anticipate that virtually all holders of Class 7A, 7B and 7D Claims will elect the Cash Recovery option, however, the Debtors anticipate that there will be significant holders of Class 6 and 7C Claims (including certain holders who have served on the Secured Noteholder Committee) who will elect a Stock and/or Warrant Recovery.

The Plan contemplates that there will be \$4 million plus Excess Cash, if any, to fund the Cash Recovery options. Accordingly, the following analysis is presented only for illustrative purposes, and no representation is being made or should be implied by any statement or statements contained within this Disclosure Statement with respect to the amount of Excess Cash that will be available to fund the Cash Recovery options. As a result, it is likely that there would be insufficient Excess Cash to satisfy all holders of claims who elect a Cash Recovery within a certain Class and holders within such Class would receive their recovery on a ratable basis partially in Cash (to the extent it is available) and the remainder in New Common Stock and/or New Warrants and no other Claims will be entitled to a Cash Recovery.

Class	Total Estimated Allowed Claims	Cash Recovery	% Recovery
Class 7A - Convenience Claims	\$ 10,021,193	\$ 354,492	3.5%
Class 7B - Trade Claims	129,233,808	4,571,552	3.5%
Class 6 - 12¼% Secured Notes Claims (E)	107,280,000	53,640,000	50.0%
Class 7C - Funded Debt Claims (E)	557,049,226	30,610,456	5.5%
Class 7D -12% Notes Claims (E)	314,600,000	223,500	0.1%
Total 12¼% Secured Notes Recovery	267,524,306	65,599,621	24.5%

Note E – As of the date of this Disclosure Statement, the Debtors believe that certain significant holders of Class 6, 7C and 7D Claims intend to elect their recovery in New Common Stock and/or New Warrants. The table above demonstrates the hypothetical recovery if all holders elect a Cash Recovery. Therefore, the Debtors anticipate that the Cash necessary to satisfy the holders of Class 6, 7C and 7D Claims electing a Cash Recovery will be significantly less than the amounts shown in this table.

The table below shows the estimated number of shares of New Common Stock and/or Warrants (for holders electing to receive their recovery in New Common Stock and/or New Warrants) OR Cash to holders electing a Cash Recovery based on a \$1,000 Claim. This analysis is based on \$1,000 Claims denominations and not dollar securities denominations, and is subject to the same uncertainties and is based on the same assumptions as the other recovery analyses in this section.

<u>Class</u>	<u># of Shares per \$1,000 Claim</u>	<u># of Warrants per \$1,000 Claim</u>	<u>Cash Recovery per \$1,000 Claim</u>	<u>% Recovery</u>
<b>12¼% Secured Notes Claims - Class 6</b>	55.9	-	\$500.00	50.0%
<b>General Unsecured Claims - Class 7</b>				
<i>Class 7A - Convenience Claims</i>	4.0	1.5	35.37	3.5%
<i>Class 7B - Trade Claims</i>	4.0	1.5	35.37	3.5%
<i>Class 7C - Funded Debt Claims</i>				
12¼% Deficiency Claim	6.5	2.5	58.01	5.8%
12¼% Buffalo Claim	4.0	1.5	35.37	3.5%
13% Notes Claim	6.5	2.5	58.01	5.8%
Class 7C Consolidated	6.1	2.3	54.95	5.5%
<i>Class 7D - 12% Notes Claim</i>	0.1	-	0.71	0.1%

#### **D. Potential Impact on Estimated Creditor Recovery**

Several creditors have filed proofs of Claim to which one or more of the Plan Proponents have objected or plan to object, including ACC and Bank of America ("BOA"). The analysis presented in *Section I.C.* above assumes that ABIZ prevails in such objections. If the Claims of BOA and/or ACC (or any other material Class 7 Disputed Claim) were to be Allowed, it would have a materially adverse impact on the recoveries for all other unsecured creditors. For example, if BOA's Class 8 Claim were Allowed at \$500 million, the Debtors' estimations of recoveries would be as follows:<sup>56</sup>

<u>Class</u>	<u>Total Estimated Allowed Claims</u> (A)	<u># of Shares Issued to Class</u>	<u># of Warrants Issued to Class</u>	<u>\$ Value of Shares</u> (B)	<u>% Recovery</u>
Class 6 - 12.25% Secured Notes Claims	\$107,280,000	6,000,000	-	\$107,280,000	100.0% (C)
Class 7A – Convenience Class	10,021,193	26,530	9,949	474,362	4.7%
Class 7B – Trade Claims	129,233,808	342,136	128,301	6,117,398	4.7%
Class 7C - Funded Debt Claims	557,049,226	2,282,623	865,359	40,813,294	7.3% (C)
Class 7D – Subordinated Note Claims	314,600,000	25,000	-	447,000	0.1% (C)
Class 8- Century Facility Claims	500,000,000	1,323,711	496,391	23,667,946	4.7%
Total 12.25% Notes Recovery (D)	267,524,306	6,892,310	337,735	123,234,499	46.1%

<sup>5</sup> References above in this *Section I.D.* to notes in the tables refer to the notes set forth previously in *Section I.C.*

<sup>6</sup> The treatment of BOA's Class 8 Claim would be consistent with that accorded Claims in Class 7C; provided, however, that the estimated recovery to BOA in respect of its Class 8 Claim is less than the recovery estimated for holders of Claims in Class 7C because such Class 8 Claim is not entitled to the benefit of the contractual subordination enjoyed by the holders of Claims in Class 7C.

<u>Class</u>	<u>Total Estimated Allowed Claims</u>	<u>Cash Recovery</u>	<u>% Recovery</u>
Class 7A – Convenience Class	\$10,021,193	\$237,181	2.4%
Class 7B - Trade Claims	129,233,808	3,058,699	2.4%
Class 6 - 12.25% Secured Notes Claims <sup>(E)</sup>	107,280,000	53,640,000	50.0%
Class 7C - Funded Debt Claims <sup>(E)</sup>	557,049,226	20,406,647	3.7%
Class 7D – Subordinated Note Claims <sup>(E)</sup>	314,600,000	223,500	0.1%
Class 8 – Century Facility Claims	500,000,000	11,833,973	2.4%
Total 12.25% Notes Recovery	267,524,306	61,617,250	23.0%

<u>Class</u>	<u># of Shares per \$1,000 Claim</u>	<u># of Warrants per \$1,000 Claim</u>	<u>Cash Recovery per \$1,000 Claim</u>	<u>% Recovery</u>
121/4 % Secured Note Claims - Class 6	55.9	-	\$500.00	50.0%
General Unsecured Claims - Class 7				
Class 7A – Convenience Class	2.6	1.0	23.67	2.4%
Class 7B - Trade Claims	2.6	1.0	23.67	2.4%
Class 7C - Funded Debt Claims				
12 1/4% Deficiency Claim	4.3	1.6	38.66	3.9%
12 1/4% Buffalo Claim	2.6	1.0	23.67	2.4%
13% Notes Claim	4.3	1.6	38.66	3.9%
Class 7C Consolidated	4.1	1.6	36.63	3.7%
Class 7D – 12% Note Claim	0.1	-	0.71	0.1%
Class 8 – Century Facility Claims	2.6	1.0	23.67	2.4%

## E. Summary of Voting Procedures

This Disclosure Statement and the Plan are the only materials creditors should use to determine whether to vote to accept or reject the Plan.

**The last day to vote to accept or reject the Plan is December 1, 2003. To be counted, your Ballot must be actually received by the appropriate Voting Agent by 12:00 p.m. Eastern time.**

**The record date for determining which creditors may vote on the Plan is October 16, 2003.**

The Bankruptcy Code provides that only creditors who vote on the Plan will be counted for purposes of determining whether the requisite acceptances have been attained. Failure to timely deliver a properly completed Ballot by the voting deadline will constitute an

abstention (will not be counted as either an acceptance or a rejection), and any improperly completed or late Ballot will not be counted.

**F. Recommendation**

The Plan was developed over several months and through extensive negotiations among the Plan Proponents. The Debtors, the Creditors' Committee and the Secured Noteholder Committee believe that approval of the Plan is the Debtors' best chance for emerging from chapter 11 and returning the Debtors to profitability and provides the best recoveries possible for holders of Claims against the Debtors. The Plan Proponents fully support the Plan.

<p><b>RECOMMENDATION:</b> Each of the Debtors, the Creditors' Committee, and the Secured Noteholder Committee urges creditors to vote to accept the Plan.</p>
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**THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. NOR HAS THE COMMISSION PASSED ON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREWITH. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**II.**

**Business Description and Reasons for Chapter 11**

**A. The Debtors' Businesses**

In their respective markets, the Debtors are leading facilities-based providers of integrated communications services that serve medium and large businesses, state and local governmental agencies, educational institutions, and other communications service providers. The Debtors offer local and long-distance voice, dedicated data, ATM, frame relay, and internet services and are focused on serving communications intensive end users. The Debtors operate in 35 medium-to-large sized markets throughout the Eastern United States and along the Gulf Coast.

**B. Pre-petition Capital Structure**

Prior to the commencement of the Reorganization Cases, ABIZ' capital structure consisted of 121,080,178 shares of Class A Common Stock outstanding, 13,437,106 shares of Class B Common Stock outstanding and 332,701.374 shares of 12% Preferred Stock outstanding.

As discussed herein, and as set forth in the Plan, no distributions under the Plan will be made on account of Equity Interests. In addition, ABIZ had the following long-term public debt inclusive of principal and interest accrued and unpaid through the Petition Date (as defined below):

March 27, 2002

12.25% Senior Secured Notes due 2004	\$267,524,306
13% Senior Discount Notes	\$321,504,920
12% Senior Subordinated Notes due 2007	\$314,600,000

These notes were issued by a predecessor in interest to ABIZ. None of the ABIZ public debt is guaranteed by any ABIZ subsidiary. The 12¼% Secured Notes are secured only by the stock of the following five (5) subsidiaries: Adelpia Business Solutions of Florida, Inc., Adelpia Business Solutions of Kentucky, Inc., Adelpia Business Solutions of New York, Inc., Adelpia Business Solutions of Tennessee, Inc. and Adelpia Business Solutions of Vermont, Inc. Certain creditors have alleged that the public debt holders are structurally subordinated to holders of debt of the ABIZ Operating Subsidiaries, as stated in the Risk Factors section of ABIZ' Registration Statement on Form S-4 relating to the 12¼% Secured Notes, filed with the Securities and Exchange Commission on September 26, 1997 (and as also stated in ABIZ' Registration Statements relating to the other notes issued by ABIZ, filed with the Securities and Exchange Commission). The Plan Proponents dispute this and believe that this is a legal issue and not consistent with how the Debtors operated. In addition, the Plan Proponents believe the substantive consolidation in the Plan moots these issues.

For a discussion of the proposed treatment under the Plan of Claims in respect of the 12¼% Secured Notes, the 13% Notes and the 12% Notes, see *Section V.E.*

### **C. Events Leading to the Commencement of the Reorganization Cases**

ABIZ was a subsidiary of ACC until ACC effected a spin-off of ABIZ from ACC on January 11, 2002. At the time of the spin-off, ACC owned approximately 79% of ABIZ' outstanding common stock. Both ACC and ABIZ were controlled by John Rigas, Tim Rigas, Michael Rigas and James Rigas (each a member of the Rigas Family), each of whom served as a senior officer and director of both companies.

For several years prior to the spin-off, the Debtors had incurred substantial losses, and throughout 2001, the Debtors had a high level of indebtedness, had substantial negative cash flow from operations, and needed substantial additional funding to meet its working capital, debt service and capital expenditure requirements. The indebtedness and negative cash flow from operations were in large part due to the aggressive expansion plan that the Debtors pursued from 1999 through 2001. Believing that their business strategy was fundamentally sound, and that telecommunications companies would continue to have access to the capital markets, the Debtors took steps to expand their operations horizontally from approximately 25 markets to more than 75, while also building and acquiring a national long-haul network for interconnection of the markets. This expansion explicitly called for both an increase in capital expenditures and ongoing cash burn, as each new market typically required a minimum of 18 months to obtain neutral cash flow performance after the initial deployment of capital. Beginning in 2001, the Debtors were unable to obtain commitments for additional funding due to their continuing operating losses and the dramatic decline in capital availability for telecommunications companies.

In late October, 2001, ACC completed the issuance and sale of \$500 million aggregate principal amount of 10.25% Senior Notes. The completion of this transaction was accompanied in early November 2001 by ACC's announcement that it intended to spin-off its interest in ABIZ. ACC noted in its announcement that the spin-off would occur by the end of



March, 2002 and that ACC might provide up to \$100 million in credit support to ABIZ. ACC consummated the spin-off of ABIZ on January 11, 2002, immediately prior to the date on which ABIZ was scheduled to make a payment-in-kind dividend in respect of its preferred stock. ABIZ did not have adequate statutory surplus to make this dividend payment and therefore it did not make the payment. By spinning off ABIZ prior to the date on which ABIZ was due to make this dividend payment, upon information and belief, ACC intended to preserve its ability to use the abbreviated disclosure permitted by Form S-3, under the Securities Act of 1933, as amended (the "Securities Act").

Pursuant to the spin-off, holders of ACC Class A Common Stock and Class B Common Stock received shares of ABIZ Class A Common Stock and Class B Common Stock, respectively. Ultimate control of ABIZ continued to reside with members of the Rigas Family, by virtue of the fact that, as holders of substantially all of ACC's Class B Common stock, they held a majority of the voting power of ABIZ. Members of the Rigas Family continued to serve as officers and directors of both ACC and ABIZ.

Following the spin-off, the Debtors had neither adequate capital resources nor any definitive funding arrangement to support their ongoing business operations. In addition, the Debtors and ACC had not reached an agreement regarding the separation of assets, interests, liabilities and contractual rights and obligations. From January 11, 2002 until March 27, 2002, ACC made undocumented cash infusions into ABIZ totaling \$38.6 million. In March 2002, however, ABIZ recognized the urgent need to file for chapter 11.

### III.

#### Significant Events During the Chapter 11 Case

##### A. First Day Orders

On March 27, 2002 (the "Petition Date"), the Debtors obtained a series of orders from the Bankruptcy Court designed to minimize any disruption of their business operations and to facilitate their reorganization.

- *Case Administration Orders.* These orders: (i) authorized the joint administration of the Reorganization Cases, (ii) scheduled the initial case conference, (iii) established notice procedures, (iv) established procedures for interim compensation for professionals, (v) authorized the Debtors to employ professionals in the ordinary course of their business, (vi) granted an extension of the time to file the Debtors' schedules and statements, (vii) authorized the mailing of initial notices and all other mailings directly to parties in interest and the filing of a list of creditors without claim amounts in lieu of a matrix, (viii) authorized the Debtors to employ Weil, Gotshal & Manges LLP as attorneys for the Debtors, and (ix) authorized the Debtors to employ and retain Bankruptcy Services LLC as the Official Claims and Noticing Agent.
- *Payments on Account of Certain Prepetition Claims.* The Bankruptcy Court authorized the payment of prepetition: (i) wages, compensation, and employee benefits, (ii) sales and use taxes, and (iii) customer credit obligations and obligations under customer rebate programs.

- *Business Operations.* The Bankruptcy Court authorized the Debtors to: (i) continue prepetition premium obligations under workers' compensation insurance and all other insurance policies, (ii) maintain existing bank accounts and business forms, (iii) continue their centralized cash management system, and (iv) grant administrative expense status to undisputed obligations arising from the postpetition delivery of goods ordered in the prepetition period and make payment of such claims in the ordinary course of business, and (v) continue their prepetition investment policy.

**B. Appointment of the Creditors' Committee**

On April 5, 2002, the United States Trustee for the Southern District of New York, pursuant to its authority under section 1102 of the Bankruptcy Code, appointed an Official Committee of General Unsecured Creditors in the Reorganization Cases.

Since the appointment of the Creditors' Committee, the Debtors have consulted with the Creditors' Committee concerning the administration of the Reorganization Cases. The Debtors have informed the Creditors' Committee with respect to their operations and have sought the concurrence of the Creditors' Committee for actions and transactions outside of the ordinary course of business. The Creditors' Committee and its professionals have participated actively, together with the Debtors' management and professionals, regarding the Debtors' business operations, operating performance and business plan.

The Creditors' Committee currently consists of five (5) members. The current members of the Creditors' Committee, and the attorneys and financial advisors retained by the Creditors' Committee, are set forth below:

Bell South Corporation  
 1155 Peachtree Street, Suite 1929  
 Atlanta, GA 30309-3610  
 Attn.: Bradley O. Greene, Executive  
 Director – Corporate Development  
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The Creditors' Committee has retained the following professionals:

Attorneys

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919 Third Avenue  
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Financial Advisors

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Financial Advisors for the Official Creditors'  
Committee  
5 Times Square, 21st Floor  
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Attn: Samuel Star

### C. Secured Noteholder Committee

The Secured Noteholder Committee was formed in December, 2001. Since the Petition Date, the Debtors have informed the Secured Noteholder Committee with respect to their operations and have sought the concurrence of the Secured Noteholder Committee for actions and transactions outside of the ordinary course of business. The Secured Noteholder Committee, and its professionals, have participated actively, together with the Creditors' Committee and the Debtors' management and professionals, regarding the Debtors' business operations, operating performance and business plan.

The liens granted under the Beal DIP Credit Agreement encumbered, among other things, the assets of the Debtors whose stock secures the obligations owed to the holders of the 12¼% Secured Notes. In connection with the negotiations relating to the Beal DIP Credit Agreement, the holders of the 12¼% Secured Notes have contended that they were entitled to adequate protection, alleging that the grant of such liens — first to ACC and then to Beal Bank — may result in a diminution in value of their collateral. To avoid a dispute over such holders' contentions, the Debtors, the Creditors' Committee and the Secured Noteholder Committee reached an agreement regarding adequate protection, whereby (among other things) the Debtors agreed to pay on a monthly basis the reasonable fees and expenses of the legal and financial advisors retained by the Secured Noteholder Committee.

The Secured Noteholder Committee has retained the following professionals:

#### Attorneys

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590 Madison Avenue  
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#### Financial Advisors

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Attn: Christopher DiMauro

### D. ACC DIP Credit Agreement

In connection with the commencement of the Reorganization Cases, on March 27, 2002, ABIZ and certain of its direct subsidiaries entered into a post-filing credit facility (the "ACC DIP Credit Agreement") with ACC and Highland 2000, L.P. ("Highland"), an affiliate of the Rigas Family, as lenders pursuant to the ACC DIP Credit Agreement in the aggregate committed principal amount of \$135 million. On April 4, 2002, the Court held an interim hearing and approved interim financing under the ACC DIP Credit Agreement of \$27 million, all of which was to be funded by ACC. ACC only funded \$15 million of this interim financing.

Soon after the approval of the ACC DIP Credit Agreement, there was public disclosure of certain significant accounting irregularities and alleged improprieties involving ACC. Shortly thereafter, ABIZ was advised that it was unlikely that Highland or ACC would be funding its obligations under the ACC DIP Credit Agreement, and ABIZ was encouraged to seek alternative sources of funding. ABIZ began promptly seeking alternative financing.

Following these events, ACC repudiated its obligations to make any further fundings to ABIZ under the ACC DIP Credit Agreement.<sup>7</sup> As a result of ACC's default on its funding obligation, ABIZ was forced to downsize its business plan dramatically due to liquidity constraints. For a more detailed discussion of these events, see *Section III. M.* On August 9, 2002, ABIZ entered into a substantially reduced alternative post-petition financing with Beal Bank as lender pursuant to the Beal DIP Credit Agreement. For a more detailed discussion, see *Section III.F.* below. In connection with the Beal DIP Credit Agreement, ACC agreed to subordinate its security interests under the ACC DIP Credit Agreement to the Beal DIP Credit Agreement pursuant to a subordination agreement.

As of the date hereof, \$15 million has been drawn and such amount plus accrued and unpaid interest remains outstanding under the ACC DIP Credit Agreement.

#### **E. Retention of Jefferies & Company, Inc. as Financial Advisors to the Debtors**

On July 25, 2002, the Bankruptcy Court approved the Debtors' retention of Jefferies & Company, Inc. ("Jefferies") as their financial advisor, nunc pro tunc to May 1, 2002. As financial advisor to the Debtors, Jefferies was engaged to perform the following activities, among others: (i) advise and assist the Debtors in connection with the formulation of a business plan, (ii) review and analyze the Debtors' business, operations, and financial projections, (iii) assist the Debtors with identifying appropriate lenders and obtaining debtor in possession financing, and (iv) provide the Debtors with other general restructuring advice.

#### **F. Beal DIP Credit Agreement**

The Beal DIP Credit Agreement is the Priming Term Loan Agreement, dated as of August 9, 2002, among ABIZ and each of the Debtors named therein and Beal Bank as lender. The Debtors entered into the Beal DIP Credit Agreement in order to ensure that they had sufficient liquidity to fund expenses associated with the Reorganization Cases. On August 9, 2002, the Bankruptcy Court entered a final order authorizing the Debtors to enter into the Beal DIP Credit Agreement.

Under the Beal DIP Credit Agreement, Beal Bank agreed to provide ABIZ a term loan in the principal amount of \$15 million. Borrowings under the Beal DIP Credit Agreement bear interest at the greater of (x) the prime rate plus 4% and (y) 12%. The Beal DIP Credit Agreement initially provided for its termination on the earliest of July 31, 2003 (the scheduled maturity date), the Effective Date of the Plan, and the date by which all amounts payable under the Beal DIP Credit Agreement become due and payable. By order entered July 31, 2003 (approving an amendment to the Beal DIP Credit Agreement), the Beal DIP Credit Agreement was subsequently amended to, among other things, extend the scheduled maturity from July 31, 2003 to April 30, 2004.

The Beal DIP Credit Agreement is secured by a senior priming lien on substantially all of the assets of the Debtors, subject to certain exceptions. The Beal DIP Credit Agreement is further secured by a first priority lien, subject and subordinate to certain liens that are valid and perfected on the Petition Date, in substantially all of the assets of the Debtors. Finally, the obligations under the Beal DIP Credit Agreement are entitled to superpriority

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<sup>7</sup> ACC does not acknowledge that it defaulted and/or repudiated its funding obligations under the ACC DIP Credit Agreement.

administrative claim status. That is, in the event that the collateral securing the obligations proved to be insufficient, the obligations arising under the Beal DIP Credit Agreement are to be paid before any other unsecured obligations of the Debtors, including all other administrative expenses and other Claims entitled to priority under the Bankruptcy Code.

In connection with the Beal DIP Credit Agreement, ACC entered into an amendment to the ACC DIP Credit Agreement to, among other things, terminate any further commitments of ACC to lend, and convert the outstanding \$15 million in principal amount in loans to a term loan, the security for which and rights of collateral and claims against the Debtors were subordinated to all rights of the lenders under the Beal DIP Credit Agreement pursuant to a Subordination and Intercreditor Agreement among Beal Bank, ACC and Debtors.

As of the date hereof, \$15 million has been drawn and remains outstanding in addition to interest, fees and other amounts owed under the Beal DIP Credit Agreement.

#### **G. Reconstitution of ABIZ' Board of Directors and Management**

On July 22, 2002, John J. Rigas, James P. Rigas, Michael J. Rigas and Timothy J. Rigas resigned as officers and directors of ABIZ. Following these resignations, Robert Guth was elected as director, President and Chief Executive Officer of ABIZ. On July 26, 2002, Peter Venetis also resigned as a director of ABIZ. Since Mr. Venetis' resignation, ABIZ' Board of Directors has consisted of three (3) members – Patrick Lynch, Edward Mancini and Mr. Guth.

#### **H. Pending Litigation and Other Settled Proceedings**

##### *1. D&O Insurance Litigation*

On July 12, 2002, ABIZ filed a declaratory judgment complaint against ACC and three insurance carriers, AEGIS, Federal Insurance Company, and Greenwich Insurance Company (collectively, the "Carriers") which issued directors and officers liability insurance policies (the "D&O Policies"), jointly insuring ACC and ABIZ. In its complaint, ABIZ seeks a declaration that the D&O Policies are property of the ABIZ estate, and that 18.6% of the policy proceeds be reserved and preserved for ABIZ.

On August 13, 2002, ACC moved to dismiss the declaratory judgment complaint on the grounds that it violated the automatic stay in ACC's chapter 11 cases. On September 10, 2002, ABIZ agreed to voluntarily dismiss the Carriers from the declaratory judgment action pursuant to a stipulation providing that the Carriers will abide by any final order adjudicating the declaratory judgment action. On September 23, 2002, the Bankruptcy Court denied ACC's motion to dismiss. On September 27, 2002, ACC filed its answer to the declaratory judgment complaint and a counterclaim seeking a declaration that the D&O Policies do not provide for an allocation of the policy proceeds between ACC and ABIZ. The parties have engaged in document discovery and the action remains pending before the Bankruptcy Court under the caption In re Adelpia Business Solutions, Inc., et al., Adelpia Business Solutions, Inc. v. Adelpia Communications Corp., Chapter 11 Case No. 02-11389 (REG), Adv. Proc. No. 02-2612.

On September 13, 2002, members of the Rigas Family filed motions in ACC's and ABIZ's chapter 11 cases, respectively, seeking to lift the automatic stay (in each case) in order to make claims for coverage against the Carriers which issued the D&O Policies to ABIZ and ACC. On September 26, 2002, the Carriers moved to lift the automatic stay in ACC and

ABIZ's chapter 11 cases in order to name ACC and ABIZ as defendants in a rescission action they filed on September 24, 2002, in the United States District Court for the Eastern District of Pennsylvania. In the rescission action, the Carriers seek, among other things, a declaration that the two excess policies are rescinded as to all insureds, and that the primary policy, issued by AEGIS, is rescinded as to members of the Rigas Family and certain former officers of ACC who were indicted.

On November 15, 2002, the Bankruptcy Court granted in part and denied in part members of the Rigas Family's application for relief from the automatic stay. The Bankruptcy Court also denied without prejudice the Carriers' motion seeking to lift the stay. Pursuant to the Bankruptcy Court's order, members of the Rigas Family and other insureds are permitted to seek payments of up to \$300,000 each from the Carriers. The order does not require the Carriers to make payments to members of the Rigas Family and the other insureds. On November 22, 2002, members of the Rigas Family filed a notice of appeal from the November 15, 2002 order denying in part their motion to lift the stay. ABIZ, ACC and the Carriers filed briefs in opposition to members of the Rigas Family's appeal. Oral argument on the appeal was held on July 9, 2003, in the United States District Court for the Southern District of New York. On August 20, 2003, the District Court vacated the Bankruptcy Court's order and remanded for further findings to determine whether the automatic stay under section 362 of the Bankruptcy Code should be extended pursuant to its power under section 105(a) of the Bankruptcy Code.

## 2. *PECO*

On March 28, 2003, a hearing was held before the Bankruptcy Court regarding the terms of a settlement resolving certain disputes arising out of a general partnership known as PECO Hyperion Telecommunications (the "PECO Partnership"), between a non-debtor subsidiary of ABIZ, Peco Energy Company ("PECO"), and PHT Holdings LLC ("PHT" and together with PECO, the "PHT Partners"). In connection with the resolution of these disputes, on April 25, 2003, the Bankruptcy Court entered an order approving a compromise and settlement by and among the non-debtor subsidiary, PECO, PHT, and the PECO Partnership relating to certain disproportionate distributions, and granting other related relief, including modifications to the ACC DIP Credit Agreement and the Beal DIP Credit Agreement and related loan documents, including the grant by the non-debtor subsidiary to Beal Bank of a lien on and security in certain additional collateral. As a result of this settlement, no further distributions will be received by the non-debtor subsidiary from the PECO Partnership, until the other partners receive a distribution equivalent to such disproportionate distributions. As of July 31, 2003, the obligation under this settlement is approximately \$13 million. ABIZ estimates that this amount will be fully repaid on or before March 2004 by distributing all of the next \$13 million of dividends generated by the PECO Partnership to the other partners. If it is subsequently determined that the disproportionate distributions were larger than originally agreed, this amount may be increased.

In an effort to resolve fully all remaining disputes, the parties have engaged in preliminary discussions with respect to a potential acquisition of the PHT Partners' interest in the PECO Partnership. There can be no assurance that an acquisition will be consummated. Any potential acquisition will be subject to the negotiation and execution of definitive transaction documentation containing terms mutually satisfactory to the Plan Proponents and the PHT Partners, and the Debtors obtaining sufficient exit financing to consummate such an acquisition.

### 3. *CIT Recharacterization Litigation*

ABIZ and CIT Communications Finance Corporation (“CIT”) are parties to an agreement dated December 31, 1997 (the “CIT Agreement”) relating to certain 5ESS switches which are critical to the Debtors’ business. CIT has maintained that the CIT Agreement is a “true” lease. On August 1, 2003, the Debtors sought to recharacterize the purported lease as a secured financing. In connection with this litigation, ABIZ has ceased making payments to CIT and instead has paid all amounts otherwise due to CIT to an escrow account established pursuant to Bankruptcy Court directive. On September 30, 2003, a hearing was held with respect to such matter and the Bankruptcy Court reserved decision. The matter is still pending.

In the event that ABIZ is successful, the CIT Agreement will be recharacterized and CIT’s secured claim will be treated as set forth in Class 1A. In the event that the Bankruptcy Court finds that the CIT Agreement is a true lease, ABIZ intends to assume such agreement.

#### **I. Employee Severance and Retention Program**

On September 26, 2002, the Bankruptcy Court approved the Debtors’ key employee retention, bonus, and severance plan (the “Employee Severance and Retention Plan”). The Employee Severance and Retention Plan was designed to protect against attrition and improve morale among those employees whose continued performance was determined to be critical to the success of the Debtors’ reorganization. The Employee Severance and Retention Plan had three separate components: (i) the retention plan, (ii) the bonus plan, and (iii) the severance plan.

The retention plan component of the Employee Severance and Retention Plan provided for an aggregate of approximately \$900,000 to be paid to approximately 18 employees identified as key to the Debtors’ business and restructuring efforts. The timing and amount of the payments differed depending upon the employee’s seniority and rank, and all payments were contingent, in part, upon the confirmation of a plan of reorganization.

The bonus plan component of the Employee Severance and Retention Plan provided for the immediate payment of previously accrued and unpaid prepetition bonuses owed to approximately 64 active or current employees, including senior, corporate/regional, local-market general managers, and corporate and field operations personnel. The aggregate amount of bonuses to be paid under the bonus plan was \$1,181,000. In addition, the bonus plan provided for a new hire bonus of \$15,000 to those employees hired after October 1, 2002. The aggregate amount available for new hire bonuses was \$200,000.

The severance plan component of the Employee Severance and Retention Plan provided for the continuation of the Debtors’ prepetition policy of providing severance benefits to those employees terminated without cause. Approximately 807 employees were eligible to receive payment under the severance plan for a total aggregate amount of \$902,000. In addition, the severance plan provided for a stay bonus for those severed employees requested by the Debtors to stay on with the Debtors for a two to three month period to ensure the orderly shut-down of closed and mothballed markets. The aggregate amount available for stay bonuses was \$40,000.



## **J. Claims Process and Bar Date**

### *1. Schedules and Statements*

On October 2, 2002, the Debtors filed with the Bankruptcy Court their statements of financial affairs, schedules of assets and liabilities, and schedules of executory contracts and unexpired leases for each Debtor entity, and a schedule of equity security holders for the Debtors. The Debtors subsequently amended Schedule F for Adelphia Business Solutions Long Haul, L.P. (“Long Haul”) on October 24, 2002, and Schedule G for Adelphia Business Solutions Investment, LLC on June 4, 2003.

### *2. Bar Date*

By order dated February 21, 2003, the Bankruptcy Court fixed April 2, 2003 at 5:00 p.m. as the date and time by which proofs of Claim were required to be filed in the Reorganization Cases, except as otherwise provided for in the order fixing the bar date (the “Bar Date Order”). In accordance with the Bar Date Order, on or about February 27, 2003, notices informing creditors of the last date to timely file proofs of Claims, and a “customized” proof of Claim form, reflecting the nature, amount, and status of each creditor’s Claim as reflected in the schedules of assets and liabilities, were mailed to all creditors listed on the schedules of assets and liabilities. In addition, consistent with that order, the Debtors published notice of the last date to timely file proofs of Claim in the national editions of the *Wall Street Journal* and *New York Times*.

### *3. Claims Objection Motions*

Unsecured Claims of approximately \$8.4 billion have been asserted against the Debtors. In an effort to reduce or eliminate invalid Claims so as to ascertain the true nature and extent of the unsecured Claims, the Debtors have commenced the Claims objection and reconciliation process by objecting to certain categories of unsecured Claims as reflected in the Debtors’ Omnibus Objection to Proofs of Claims (Late Filed, Duplicate, Amended and Equity Claims), on July 30, 2003. The hearing on such motion is scheduled for September 16, 2003. The Debtors estimate that the Allowed amount of unsecured Claims will be approximately \$1 billion.

## **K. Re-branding Strategy**

On March 26, 2003, in part to provide further clarity regarding the Debtors’ separation from ACC, the Debtors introduced a new brand identity, TelCove. ABIZ management believes that current and prospective customers, as well as other business partners, reacted favorably to the Debtors’ rebranding. Moreover, ABIZ management believes that in addition to viewing the rebranding as a healthy and fresh start, such creditors viewed this new brand identity as a leading indicator of support by the Debtors’ creditors.

Currently, the Debtors employ this brand strictly under a “Doing Business As” framework. Upon Plan confirmation, Reorganized ABIZ will take the necessary steps to effect the formal change in name for all corporate entities.

## **L. May Operational Restructuring**

In late May 2002, when it seemed probable that ACC would default under the ACC DIP Credit Agreement, ABIZ began soliciting proposals from alternative post-petition

lenders and simultaneously implemented an operational restructuring plan (the “May Operational Restructuring”) in an effort to ensure its long-term viability.

The May Operational Restructuring was required to be executed in an effort to minimize the Debtors’ ongoing financing needs and to create a sustainable, cash flow positive enterprise around which to reorganize and ultimately emerge from chapter 11. The initiative called for the closure of 15 of the Debtors’ earlier stage and under-performing markets and the consolidation of the Debtors’ 25-plus customer care groups into four (4) regional teams responsible for supporting the Debtors’ remaining 35 core markets. In connection with the market closures and operational restructuring, the Debtors reduced headcount from 2,046 as of March 31, 2002 to 1,145 as of May 31, 2003.

#### **M. Miscellaneous Assets Sales**

In connection with the forced downsizing of the Debtors’ business operations, the Debtors and their financial advisors have actively marketed, solicited bids, and for certain assets, entered into sales agreements for the various telecommunications assets and related executory contracts and unexpired leases associated with the markets which the Debtors intend to close.

##### *1. Sales of Operations*

###### *a. Gateway Columbus, LLC*

As of November 15, 2002, certain of the Debtors entered into an asset purchase agreement with Gateway Columbus, LLC (“Gateway”), pursuant to which such Debtors agreed to sell to Gateway certain assets, and to assume and assign certain contracts and leases, in connection with eight (8) closed markets (Austin, Texas; Chicago, Illinois; Cincinnati, Ohio; Dallas, Texas; Indianapolis, Indiana; Phoenix, Arizona; San Antonio, Texas; Tri Cities, Tennessee) for a purchase price of \$10.7 million. The Bankruptcy Court entered an order approving the transaction on January 24, 2003 and the transaction closed on February 7, 2003.

###### *b. Global Visions Communications, LLC*

As of December 20, 2002, certain of the Debtors entered into an asset purchase agreement with Global Visions Communications, LLC (“GVC”), pursuant to which such Debtors agreed to sell to GVC certain assets, and to assume and assign certain contracts and leases, in connection with operations in Detroit for a purchase price of \$2.45 million plus a cash burn payment to cover interim operating expenses for the market prior to the consummation of the sale. The Bankruptcy Court entered an order approving the transaction on February 7, 2003. On April 10, 2003, the asset purchase agreement was terminated. To date, such Debtors have received payments totaling \$775,247 from GVC in connection with this transaction, consisting of an escrow amount of \$245,000 and cash burn payments of \$530,247, which payments were intended to compensate the applicable Debtors for commercially reasonable interim operating expenses related to the assets being sold in the transaction.

###### *c. W.L. Gore & Associates, Inc.,*

As of April 9, 2003, certain of the Debtors and Long Haul entered into an asset purchase and settlement agreement with W.L. Gore & Associates, Inc., (“Gore”), pursuant to which such Debtors and Long Haul agreed to sell to Gore a fiber optic system that Long Haul had previously granted use of to Gore through an indefeasible right of use agreement, and to assume

and assign to Gore certain contracts and leases, in connection with the ongoing operations of such fiber optic system, for a purchase price of \$210,000. On June 3, 2003, the Bankruptcy Court entered an order approving the transaction, and the parties anticipate consummating the transaction shortly.

2. *Sale of Resale Customer Accounts*

Subsequent to the Petition Date, certain Debtors sold to three incumbent local exchange carriers (each an "ILEC"), in separate transactions, accounts related to several resale customers in markets the Debtors determined should be closed.

a. *Bellsouth Telecommunications, Inc.*

As of May 16, 2002, certain of the Debtors entered into a service transition agreement with Bellsouth Telecommunications, Inc. ("Bellsouth"), pursuant to which such Debtors agreed to sell to Bellsouth approximately 10,000 resale customer lines in nine states for a potential total purchase price of up to \$750,000, the final total purchase price to be determined based upon the number of lines actually transferred to BellSouth. On June 20, 2002, the Bankruptcy Court entered an order approving the transaction. The lines were transferred in two phases:

(i) The initial closing relating to the first phase occurred on July 26, 2002 and an initial payment of \$25,470 was made in connection with the transfer of 2,547 lines. The final closing relating to the first phase occurred on October 30, 2002 and a final payment of \$96,330 was made in connection with 1,482 lines that remained with BellSouth 90 days after the initial closing for the first phase.

(ii) The subsequent closing relating to the second phase occurred on October 18, 2002 and an initial payment of \$24,104 was made in connection with transfer of 2,460 lines. The final closing relating to the second phase occurred on January 27, 2003 and a final payment of \$109,525 was made in connection with 1,685 lines that remained with BellSouth 90 days after the initial closing.

b. *Southwestern Bell Telephone L.P.*

As of August 8, 2002, certain of the Debtors entered into a purchase agreement with Southwestern Bell Telephone, L.P., d/b/a Southwestern Bell Telephone Company ("Southwestern Bell"), pursuant to which such Debtors agreed to sell to Southwestern Bell certain resale customer accounts in five states for a potential total purchase price of up to approximately \$298,125. On August 8, 2002, the Bankruptcy Court entered an order approving the transaction. There were 2,107 lines transferred on the closing date, with a payment being made on the closing date of \$158,025.

c. *Ameritech*

As of August 8, 2002, certain of the Debtors entered into a purchase agreement with Ameritech ("Ameritech"), pursuant to which such Debtors agreed to sell to Ameritech certain resale customer lines in three states for a total purchase price of up to \$408,750. On August 8, 2002, the Bankruptcy Court entered an order approving the transaction on August 8, 2002. The accounts were transferred on the closing date, with an initial payment being made on the closing date of \$120,862 for 3,223 lines and a final payment due on September 20, 2003.

3. *Additional Miscellaneous Asset Sales*

On July 2, 2002 the Bankruptcy Court entered an order approving guidelines pursuant to which the Debtors may sell certain assets if such sales meet certain criteria, including that the aggregate purchase price of such sale is equal to or less than \$500,000, without needing the further approval of the Bankruptcy Court. As of the date of this disclosure statement, ABIZ has realized an aggregate of \$1.4 million from sales of assets pursuant to such order.

**IV.**

**Potential Actions**

**A. ACC**

1. *Causes of Action Against ACC*

The Plan Proponents believe that the Debtors and their estates have numerous viable claims against ACC (including (i) claims arising under Section 105 of the Bankruptcy Code, (ii) claims relating to certain asset sales to ACC, (iii) claims relating to the Century Facility, (iv) claims relating to certain disproportionate distributions by the PECO Partnership, (v) claims relating to the ACC DIP Credit Agreement and (vi) claims relating to the ACC management/shared services agreement). ACC has retained BDO Seidman, LLC (“BDO”) as forensic accountants to assist in connection with ACC’s investigation and analysis of such claims. Based on BDO’s preliminary findings, ACC believes it has strong defenses against such claims. It must be borne in mind that (1) litigation is inherently risky, and it is not possible to predict the outcome of any litigation with certainty, (2) ACC vigorously contests any claims that the Debtors and/or the ABIZ Committees assert and (3) any litigation to enforce these claims is likely to be expensive and time-consuming. Subject to these caveats, however, the Plan Proponents believe that numerous potential claims should be asserted and prosecuted against ACC on behalf of the Debtors’ estates.

Any and all statements contained herein relative to the claims, disputes, relationship and history between ACC and the Debtors should not be construed as an admission by ACC as to the veracity or legitimacy thereof. ACC reserves any and all claims, rights, remedies and/or defenses it may have with respect thereto.

2. *Separation of the Debtors from ACC*

The Debtors are pursuing operational separation from ACC. Certain aspects of this separation have already been completed, including partial separation of information technology and back-office systems, and separation of physical space and cash management systems. Many aspects of the separation are still ongoing, including separation of assets in geographic areas where infrastructure overlaps (i.e., fiber assets in Virginia and Vermont) and separation of contracts that previously served both the Debtors and ACC (such as ILEC interconnection agreements and various vendor contracts). The Debtors disagree with ACC regarding which entity should be responsible for liabilities incurred on behalf of ACC, as well as the Debtors’ rights in certain material assets, such as fiber network assets and real estate.

ACC maintains that it has used its best, reasonable efforts and endeavored in good faith to reach a fair and final resolution of the issues relative to the asset separation. At this time, however, there can be no guarantee that an agreement regarding such separation ultimately

will be reached or that such separation will be consummated. ACC believes that in the event that no agreement is reached or either party is not able to satisfy the requisite conditions precedent to closing of the asset separation, and the asset separation is therefore not consummated, the Debtors' ability to operate their businesses in the future would be severely hampered. The Plan Proponents dispute this belief.

## **B. Century Facility**

Pursuant to the terms of the Century Facility, the Restricted Borrowers were, subject to the satisfaction of certain conditions, authorized to designate up to five "Unrestricted Borrowers" that could borrow up to an aggregate of \$500 million under the Century Facility.

Prior to the commencement of these cases, one of the Debtors was designated by the Restricted Borrowers, all of which are affiliates of ACC, as an "Unrestricted Borrower." BOA has asserted in its proof of Claim filed in connection with the Reorganization Cases that as an "Unrestricted Borrower," such Debtor borrowed and currently has outstanding approximately \$500 million under the Century Facility. The Plan Proponents dispute this claim.

The extent of the borrowings under the Century Facility and which entities actually received the funds in connection therewith have been subject to much debate. For example, BOA, as the Co-Administrative Agent under the Century Facility, stated in a pleading filed with the Bankruptcy Court in connection with the ACC bankruptcy cases that it does not have sufficient knowledge as to which entity actually received the loan proceeds.

It is the Plan Proponents' position, based upon information and belief, that no Debtor remains liable for any funds borrowed under the Century Facility. According to all information available to the Plan Proponents, to the extent any Debtor had borrowed funds under the Century Facility such funds have been repaid, in full. Alternatively, in the event any amount is purportedly owed by a Debtor to BOA, the Plan Proponents believe, upon information and belief, that such claim is not allowable because such claim arises from BOA's internal redesignation of borrowings by Restricted Borrowers as borrowings of the designated Debtor at the behest of Borrowing Group management.

BOA disputes the foregoing allegations and intends to vigorously defend its claims. Among such defenses, BOA maintains that the Debtors' books, records and Schedules filed in these cases reflect a liquidated and undisputed debt of \$500 million for the Century Facility, which Schedules were submitted under oath.

The Debtors are in the process of amending their Schedules to reflect that the amount of the Century Facility Claim is \$0 and is disputed.

The Plan Proponents are attempting to resolve the disputes related to BOA's claim. In the event these disputes cannot consensually be resolved, one or more of the Plan Proponents will, prior to a hearing on this Disclosure Statement, object to BOA's claim pursuant to section 502 of the Bankruptcy Code and seek to have such claim expunged. In addition, the Debtors will retain any and all causes of action in favor of the Debtors against BOA arising out of or related to the operation of the Century Facility and the obligations purportedly owed thereunder by the Debtors.

### **C. Rigas Family**

The Plan Proponents believe that the members of the Rigas Family caused the Debtors to enter into numerous transactions that were not negotiated at arm's length. Through their majority interest in ACC, members of the Rigas Family exercised complete control of the Debtors when ABIZ was a subsidiary of ACC. Following the spin-off of ABIZ from ACC, members of the Rigas Family continued to have majority voting power of ABIZ and, thus, continued to dominate and control ABIZ. In addition, there continued to be overlap in the directors and senior management of ABIZ and ACC, with members of the Rigas Family continuing to dominate both companies through control of the ABIZ and ACC boards of directors and management. The Plan Proponents further believe that ABIZ was severely undercapitalized from its inception, and that, as of the time of the spin-off, ABIZ lacked independent access to capital markets and lacked sufficient liquidity to fulfill its business plan.

The Plan Proponents believe that the equitable subordination of all claims by members of the Rigas Family (including any claims the members of the Rigas Family may have as holders of ABIZ debt instruments) is entirely appropriate as a mechanism to allow the Debtors' creditors to recover a greater proportion of the losses and damages that they have suffered. The Debtors' estates will retain all causes of action they have against members of the Rigas Family.

The Rigas Family contends that matters with respect to ongoing criminal proceedings would prohibit or impair an evidentiary hearing on issues related to equitable subordination, and that earlier rulings in connection with ACC's chapter 11 case, which they believe summarily prohibited discovery or negatively impacted on the ability to hold evidentiary hearings involving the Rigas Family, will be relevant to such equitable subordination proceedings. The Plan Proponents disagree and believe that equitable subordination of the Rigas Family Claims can be accomplished in accordance with any applicable constraints from the ongoing criminal proceedings and earlier rulings in the ACC chapter 11 case.

## **V.**

### **Treatment of Creditors and Stockholders Under the Plan of Reorganization**

The Plan governs the treatment of Claims against and Interests in each of the 18 separate Debtors in the Reorganization Cases. The table in *Section I.B.* summarizes the treatment for each Class. Provided in this section is a description of the types of Claims or Interests in each Class and a description of the Cash and Plan Securities to be distributed under the Plan. The last part of *Section V* discusses certain legal issues affecting the trading of Plan Securities.

#### **A. New Securities**

The following table summarizes the proposed capital structure for Reorganized ABIZ, including the post-Effective Date financing arrangements the Debtors may need to execute to fund Administrative Expense Claims and the working capital needs of the ongoing business operations of Reorganized ABIZ. The post-Effective Date financing arrangements are anticipated to include an exit facility. The securities to be issued to creditors are described in *Section V.F* below.

<b>Instrument</b>	<b>Description</b>	<b>Comments</b>
<i>Exit Facility</i>	up to \$75 million (if necessary)	(exit financing)
<i>New Common Stock</i>	up to 10,000,000 million shares, \$0.01 par value	(restructuring securities)
<i>New Warrants</i>	To purchase up to 1,500,000 shares of the New Common Stock	(restructuring securities)
<i>New Management Warrants</i>	To purchase up to 1,100,000 shares of New Common Stock	(restructuring securities)

## **B. Estimation of Recoveries**

The tables in *Sections I.B.* and *I.C.* divide the Claims against and Interests in the Debtors into separate Classes and summarize the treatment for each Class. The tables also identify which Classes are entitled to vote on the Plan, based on rules set forth in the Bankruptcy Code. Finally, the tables indicate an estimated recovery for each Class. **Important Note:** As described in *Section IX.D.* below, the telecommunications industry is affected by numerous uncertainties, including rapid and significant changes in technology. Those uncertainties and other risks related to the Debtors make it difficult to determine a precise value for the Debtors and the Plan Securities to be distributed under the Plan. The recoveries described in the tables in *Sections I.B.* and *I.C.* represent the Debtors' best estimates of those values given the information available at this time. These estimates do not predict the potential trading prices for securities issued under the Plan. Unless otherwise specified, the information in such tables and in the sections below are based on calculations as of September 30, 2003. The estimation of recoveries is based upon the following assumptions:

- ? The estimated equity value for Reorganized ABIZ is between \$147.0 million and \$215.0 million, and a point estimate for purposes of the Plan of \$178.8 million – See the valuation discussion in *Section VIII.*
- ? The estimated aggregate value of the New Warrants is \$7.8 million to \$10.1 million, with a point estimate of \$9 million based on a Black-Scholes analysis.
- ? The estimated aggregate amount of Allowed Class 7A and 7B Claims against the Debtors is approximately \$139.3 million – See the discussion in *Section I.C.* on the estimated amounts and types of Claims making up these Classes.

## **C. Administrative and Priority Expenses**

In order to confirm the Plan, Allowed undisputed Administrative Expense Claims and Allowed Priority Tax Claims must be paid in full or in a manner otherwise agreeable to the holders of those Claims. Administrative expenses are the actual and necessary costs and expenses of the Reorganization Cases. Those expenses include, but are not limited to, postpetition salaries and other benefits for employees, postpetition rent for facilities and offices, amounts owed to vendors providing goods and services during the Reorganization Cases, tax obligations incurred after the commencement of the Reorganization Cases, including interest, if applicable, under relevant state law, professional fees and certain statutory fees and expenses.

Consistent with the requirements of the Bankruptcy Code, the Plan generally provides for holders of Allowed Administrative Expense Claims to receive, on the Effective Date, cash in an amount equal to such Claims, except for Administrative Expense Claims relating to

ordinary course of business transactions, which will be paid by the Debtors or Reorganized ABIZ in accordance with the past practice of the Debtors and the terms of the agreements governing, instruments evidencing, or other documents relating to such transactions.

Allowed Priority Tax Claims entitled to priority under the Bankruptcy Code will be paid either in full on the Effective Date or with interest at a fixed annual rate equal to the rate applicable to underpayments of federal income tax on the Effective Date (determined pursuant to section 6621 of the Internal Revenue Code, without regard to subsection (c) thereof) over a period not exceeding six (6) years from the date of assessment of the tax with payments beginning on the first anniversary date of the Effective Date. Valid liens of the holders of Allowed Priority Tax Claims are not affected by the Plan.

#### **D. Allocation of Value**

The 12% Notes Claims (Class 7D) are contractually subordinated to the Claims of holders of 12 $\frac{1}{4}$ % Secured Notes (Classes 6 and 7C) and the 13% Notes Claims (treated in Class 7C) (collectively, the "Senior Claims"). These subordination provisions require that any property that such subordinated Claims would be entitled to receive under the Plan must be distributed to the holders of the Senior Claims until those Claims have been paid in full (including postpetition interest). This would result in there being no distribution under the Plan to the holders of 12% Notes Claims. However, the holders of Senior Claims have agreed to contribute on a ratable basis based upon the outstanding amount of the 12 $\frac{1}{4}$ % Deficiency Claim and the principal amount of the 13% Notes, a Stock and/or Warrant Recovery to holders of the 12% Notes (other than holders of Rigas Family Claims) equal to such holder's Ratable Proportion of 0.25% of the New Common Stock outstanding on the Effective Date, subject to the limitations described in the Plan and *Section V.E* below.

#### **E. Description of the Classes For the Debtors**

Unless otherwise indicated, the characteristics and amount of the Claims or Interests in the following Classes are based on the books and records of the Debtors. Each subclass is treated as a separate Class for purposes of the Plan and the Bankruptcy Code. However, the following discussion may refer to a group of subclasses as a single Class for ease of reference.

As provided below, holders of Allowed Class 6 and 7 Claims (and Allowed Class 8 Claims, if any) may elect to receive either (i) with respect to holders of Allowed Class 6 Claims, a proportionate share of the 12 $\frac{1}{4}$ % Secured Notes Percentage, and with respect to holders of Allowed Class 7 Claims (and Allowed Class 8 Claims, if any), a Stock and/or Warrant Recovery or (ii) a Cash Recovery. **HOLDERS OF ALLOWED CLASS 6 AND 7 CLAIMS (AND ALLOWED CLASS 8 CLAIMS, IF ANY) SHOULD BE AWARE THAT (i) THE PROPORTIONATE SHARE OF THE 12 $\frac{1}{4}$ % SECURED NOTES PERCENTAGE AND THE STOCK AND/OR WARRANT RECOVERY, AS APPLICABLE, ARE ILLIQUID SECURITIES, (ii) THE AMOUNT OF CASH TO BE RECEIVED PURSUANT TO THE CASH RECOVERY HAS BEEN ESTIMATED BASED ON ABIZ' CURRENT PROJECTIONS AT APPROXIMATELY 50% OF THE ESTIMATED VALUE OF THE NEW COMMON STOCK TO BE RECEIVED AND (iii) TO THE EXTENT THAT A HOLDER DOES NOT MAKE ANY ELECTION ON ITS BALLOT, SUCH HOLDER SHALL BE DEEMED TO HAVE ELECTED TO RECEIVE A CASH RECOVERY.**



1. *Secured Claims (Class 1) and CIT Secured Claim (Class 1A)*

a. *Secured Claims (Class 1)*

The Debtors estimate that, as of August 1, 2003, the aggregate amount of the Claims in Class 1 was approximately \$3.6 million.<sup>8</sup> Class 1 consists of the Claims of creditors that are secured by collateral (other than the 12¼% Secured Notes Claims and the Beal DIP Claims in Class 4).

Each holder of a Class 1 Claim will receive, unless such holder has agreed to a different treatment, either (i) the collateral securing such Claim, (ii) Cash or a note in an amount equal to the value of the collateral, as of the Effective Date, (iii) the net proceeds realized from the sale of such collateral, or (iv) the treatment under section 1124(2) of the Bankruptcy Code, which allows the Debtors to reinstate the terms of the indebtedness as if no default had occurred by reason of the chapter 11 filing or otherwise. Class 1 is unimpaired and not entitled to vote to accept or reject the Plan.

b. *CIT Secured Claim (Class 1A)*

The Debtors estimate that the aggregate amount of the CIT Secured Claim is approximately \$1.25 million.

Except to the extent the holder agrees to a different treatment, on the Effective Date, such holder of an Allowed CIT Secured Claim will receive a note secured by the existing collateral in an amount equal to the value of the collateral, with a term of three (3) years and bearing interest at a rate per annum no greater than LIBOR plus 300 basis points. To the extent that an Allowed CIT Secured Claim exceeds the value of the existing collateral securing such Claim, the excess portion of such Claim shall be treated as an unsecured Deficiency Claim in Class 7B.

To the extent that the Debtors seek to provide a different term and interest rate under a note to the holder of an Allowed CIT Secured Claim in the event that the holder of such claim makes a section 1111(b) election, then the Debtors shall disclose the term and interest rate for such note to the holder of an Allowed CIT Secured Claim on or before November 15, 2003, provided however, that the face amount of such note shall be not less than the full amount of the outstanding indebtedness arising under the CIT Agreement, with a value on the Effective Date equal to the value of the collateral as may be agreed to by the parties or as determined by the Bankruptcy Court.

As agreed by counsel for the Debtors and counsel for the holder of the CIT Secured Claim at the hearing on the approval of the Disclosure Statement and as approved by the Bankruptcy Court at such hearing, the last day for the holder of the Allowed Class 1A Claim to make a section 1111(b) election shall be November 26, 2003.

Class 1A is impaired and is entitled to vote to accept or reject the Plan.

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<sup>8</sup> Based on an analysis by the Debtors of the aggregate value of the collateral securing these Claims. Section 506(a) of the Bankruptcy Code provides that a Claim is secured only to the extent of the value of the underlying collateral. Any deficiency Claims of the holders of Claims in Class 1 are part of Class 7A or B (as applicable). The Debtors estimate that the aggregate amount of such Deficiency Claims will be approximately \$11.8 million (not including the 12¼% Deficiency Claim.)

2. *Secured Tax Claims (Class 2)*

The Debtors estimate that, as of June 30, 2003, the aggregate amount of Claims in Class 2 was approximately \$9,733. Class 2 consists of Claims which relate almost exclusively to real property.

Holders of Class 2 Claims will receive, at the option of the Debtors, either (i) the collateral securing such Claim, (ii) Cash in the amount equal to the value of such Claim, or (iii) equal annual Cash payments in an aggregate amount equal to such Claim, including interest at a fixed annual rate equal to five percent (5%) over a period through the sixth anniversary of the date of assessment of the tax, with payments beginning on the first anniversary of the Effective Date.

Class 2 is unimpaired and is not entitled to vote for or reject the Plan.

3. *Priority Non-Tax Claims (Class 3)*

The Claims in Class 3 are of the type identified in section 507(a) of the Bankruptcy Code that are entitled to priority in payment (other than Administrative Expense Claims and Priority Tax Claims). These Claims relate primarily to prepetition wages and employee benefit plan contributions that had not yet been paid as of the Petition Date. Most of these Claims have already been paid by the Debtors pursuant to an order entered by the Bankruptcy Court on the Petition Date. The Debtors currently estimate that the aggregate allowed amount of the Claims in Class 3 will not exceed \$75,000. Class 3 is unimpaired and is not entitled to vote to accept or reject the Plan.

4. *Beal DIP Claims (Class 4)*

The Debtors estimate that there will be approximately \$15 million in principal amount outstanding plus any interest, fees and other amounts owing under the Beal DIP Credit Agreement on the Effective Date.

On the Effective Date, except to the extent that the Beal DIP Credit Agreement otherwise provides or Beal Bank otherwise agrees, all obligations of the Debtors under the Beal DIP Credit Agreement will be paid in full in cash in accordance with the terms of the Beal DIP Credit Agreement. Upon such payment in cash in full, all liens and security interests granted to secure such obligations will be deemed terminated, released, and of no further force and effect. Class 4 is unimpaired and is not entitled to vote for or reject the Plan.

5. *ACC DIP Claims (Class 5)*

Holders of Class 5 Claims, the ACC DIP Claims, will receive no distribution under the Plan.

As described above, on the Petition Date the Debtors filed a motion to approve the ACC DIP Credit Agreement, pursuant to which ACC and Highland (as defined above), a Rigas Family affiliate, were to provide the Debtors with up to \$135 million of financing during the Debtors' chapter 11 process. The Debtors urgently required this working capital to maintain their operations and business during the chapter 11 process.

Pursuant to the terms of the ACC DIP Credit Agreement, each of ACC and Highland was obligated to fund half of the \$135 million commitment. Both ACC and Highland were controlled by members of the Rigas Family, who also controlled the Debtors' board of directors.

On April 4, 2002, the Court approved interim financing in the amount of \$27 million. However, the ACC DIP Credit Agreement never received final approval. Shortly after the Petition Date, ACC breached its commitment to the Debtors, with ACC making only \$15 million of interim financing available to the Debtors. Accordingly, the Debtors were unable to access the majority of the financing that they initially believed they would be able to access during the Reorganization Cases.

ACC's refusal to fund the ACC DIP Credit Agreement resulted in the Debtors being forced to seek an alternative source of DIP financing from Beal Bank. The Beal DIP Credit Agreement provided significantly less liquidity to the Debtors (\$15 million) at a substantially higher rate (effectively 12%). Additionally, the Debtors incurred closing and other related fees in connection with the negotiation of the Beal DIP Credit Agreement that totaled at least \$1.6 million, plus additional legal and financial advisory fees for Beal Bank, the Creditors' Committee, and the Secured Noteholders Committee to negotiate and consummate the Beal DIP Credit Agreement.

Due to the extensive harm caused by ACC's breach of the ACC DIP Credit Agreement and the consequent loss of value to all creditors, the Plan Proponents believe it is appropriate that Class 5 Claims receive no distribution under the Plan.

Class 5 is therefore impaired and is deemed to reject the Plan.

6. *12¼% Secured Notes Claim (Class 6)*

The Claims in this Class total \$107,280,000, representing the 12¼% Secured Notes Claims held by the holders of 12¼% Secured Notes. Each holder of 12¼% Secured Notes has an Allowed Secured Claim (proportionate share of the 12¼% Secured Notes Percentage) and Allowed unsecured Claim (Ratable Proportion of the 12¼% Deficiency Claim and Ratable Proportion of the 12¼% Buffalo Claim). The Allowed 12¼% Deficiency Claim and the Allowed 12¼% Buffalo Claim are Funded Debt Claims and are treated in Class 7C.

a. *Secured Claims*

Each holder of 12¼% Secured Notes shall elect on its Ballot to receive either (a) New Common Stock or (b) a Cash Recovery, in satisfaction of such holder's 12¼% Secured Notes Claim, as explained below.

(i) *New Common Stock*

On the Effective Date, a holder of a 12¼% Secured Notes Claim that elects New Common Stock will receive its proportionate share of the 12¼% Secured Notes Percentage (i.e., 60% of the New Common Stock prior to the implementation of any Cash Recovery elections) in respect of its 12¼% Secured Notes Claim.

(ii) Cash Recovery

On the Effective Date, a holder of a 12¼% Secured Notes Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a 12¼% Secured Notes Claim that elects to receive New Common Stock. To the extent there is insufficient Cash to satisfy all holders of Class 6 and 7C Claims who elect the Cash Recovery option, each holder of 12¼% Secured Notes Claims that elects a Cash Recovery shall receive a Cash distribution on a ratable basis with the holders of Allowed Claims in Class 7C who elect a Cash Recovery.

As described below in *Section V.E.7.c.*, the aggregate amount of Cash available under the Plan to satisfy holders of Class 6 Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any), less the amount of Cash used to satisfy Class 7A, 7B and 7D Claims. The holders of Allowed Claims in Class 6 that elect the Cash Recovery shall be entitled to receive Cash on a ratable basis with the holders of Claims in Class 7C.

The shares of New Common Stock otherwise distributable to holders of Class 6 Claims that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ.

In the event that the Cash available to holders of Allowed Claims in Classes 6 and 7C that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder will receive its proportionate share of the Cash available for Classes 6 and 7C, if any. The remainder of such holder's Claim will be satisfied by a distribution equal to the proportionate share of the New Common Stock otherwise distributable to such holder (if such holder had elected to receive a stock distribution rather than a Cash distribution) less the number of shares of New Common Stock equal to the quotient obtained by dividing the aggregate amount of Cash received by such holder by \$8.94.

**If a holder of a Class 6 Claim does not specify on such holder's Ballot the treatment such holder elects to receive, such holder will receive the Cash Recovery described above as the treatment for their 12¼% Secured Notes Claim.**

b. *Unsecured Claims*

Each holder of a 12¼% Secured Notes Claim will also (as a result of owning a 12¼% Secured Note) receive its Ratable Proportion of the 12¼% Deficiency Claim (i.e., the unsecured portion of the Claims arising from the 12¼% Secured Notes) and its Ratable Proportion of the 12¼% Buffalo Claim. These Claims are Allowed Funded Debt Claims and are treated in Class 7C, as described more fully below.

Class 6 is impaired and entitled to vote to accept or reject the Plan.

7. *General Unsecured Claims (Class 7)*

The aggregate amount of General Unsecured Claims filed against the Debtors exceeds approximately \$8.4 billion. The Debtors estimate that upon completion of the claims resolution process the aggregate amount of Allowed Claims in Classes 7A and B will be approximately \$139.3 million. Such estimate is based upon the Claims objections filed to date and anticipated to be filed in the future, as well as Claims settlements to which the Debtors are

party. The Claims in Class 7 generally consists of the Claims of suppliers and other vendors, landlords with prepetition rent Claims and/or Claims based on rejection of leases or contracts, claims arising from unsecured debt facilities, bond debt and other General Unsecured Claims.

a. *Convenience Claims (Class 7A)*

The Debtors estimate that approximately 830 creditors have General Unsecured Claims (other than Funded Debt Claims and 12% Notes Claims) of \$100,000 or less, aggregating approximately \$10 million. The vast majority of these Claims are those of suppliers and vendors. For purposes of administrative convenience and in accordance with section 1122(b) of the Bankruptcy Code, Convenience Claims are classified separately from other General Unsecured Claims.

Each holder of a Convenience Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Convenience Claim, as explained below.

(i) *Stock and/or Warrant Recovery*

On the Effective Date, a holder of a Convenience Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion (i.e., the ratio of the amount of the Allowed Claim (or Disputed Claim) in Class 7A to the aggregate amount of all Allowed Claims and Disputed Claims in Class 7) of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share).

(ii) *Cash Recovery*

On the Effective Date, a holder of a Convenience Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Convenience Claim that elects to receive New Common Stock. Holders of Convenience Claims who elect the Cash Recovery option will have their New Warrants extinguished.

The aggregate amount of Cash available under the Plan to satisfy holders of Convenience Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any). Based on current Claims estimates, this amount would be sufficient to satisfy all Cash Recovery elections in Class 7A.

The shares of New Common Stock otherwise distributable to holders of Allowed Convenience Claims that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ.

Any Cash not necessary to satisfy Cash Recovery elections in Class 7A (including such elections by holders of Disputed Claims in Class 7A) shall be used for funding Cash Recovery elections first by holders of Claims in Class 7B, second by holders in Class 7D, and third by holders in Classes 6 and 7C, as described below.

**If a holder of a Class 7A Claim does not specify on such holder's Ballot the treatment such holder elects to receive, such holder will receive the Cash Recovery described above as the treatment for their Claim.**

Class 7A is impaired and entitled to vote to accept or reject the Plan.

b. *Trade Claims (Class 7B)*

The Debtors estimate that the Allowed Claims in Class 7B will total approximately \$129.2 million. These Claims include all General Unsecured Claims other than Convenience Claims, Funded Debt Claims and 12% Notes Claims and are generally comprised of supplier and vendor Claims, in each case in excess of \$100,000.

Each holder of a Trade Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Trade Claim, as explained below.

(i) *Stock and/or Warrant Recovery*

On the Effective Date, a holder of a Trade Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion (i.e., the ratio of the amount of the Allowed Claim (or Disputed Claim) in Class 7B to the aggregate amount of all Allowed Claims and Disputed Claims in Class 7) of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share).

(ii) *Cash Recovery*

On the Effective Date, a holder of a Trade Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Trade Claim that elects to receive New Common Stock. Holders of Trade Claims who elect the Cash Recovery option will have a proportionate share of their New Warrants extinguished.

The aggregate amount of Cash available under the Plan to satisfy holders of Trade Claims that elect and receive a Cash Recovery will equal \$4 million, plus Excess Cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A.

The shares of New Common Stock otherwise distributable to holders of Trade Claims electing and receiving a Cash Recovery will be transferred to the treasury of Reorganized ABIZ.

In the event that the Cash available to holders of Allowed Claims in Class 7B that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder will receive its proportionate share of the Cash available for Class 7B, and the remainder of such holder's Claim will be satisfied by a Remaining Stock Distribution (i.e., the Ratable Proportion of New Common Stock otherwise distributable to the holder of a Claim (if such holder had originally elected the Stock and/or Warrant Recovery)), less the holder's

aggregate Cash Recovery received by such holder divided by \$8.94) and a Remaining Warrant Distribution (i.e., a distribution of New Warrants that is exercisable into a number of shares of New Common Stock equal to the Remaining Stock Distribution multiplied by 37.5%).

Any Cash not necessary to satisfy Cash Recovery elections in Class 7B (including such elections by holders of Disputed Claims in Class 7B) shall be used for funding Cash Recovery elections first by holders of Claims in Class 7D, and second by holders of Claims in Classes 6 and 7C.

**If a holder of a Class 7B Claim does not specify on such holder's Ballot the treatment such holder elects to receive, such holder will receive the Cash Recovery as the treatment for their Claim.**

Class 7B is impaired and entitled to vote to accept or reject the Plan.

c. *Funded Debt Claims (Class 7C)*

Class 7C consists of (i) the 12¼% Deficiency Claim inclusive of principal and interest accrued and unpaid through the Petition Date and the 12¼% Buffalo Claim, which together total \$235,544,306 and (ii) the 13% Notes Claims, which total \$321,504,920, inclusive of principal and interest accrued and unpaid through the Petition Date.

As described more fully in *Section V.D*, the 12% Notes Claims are contractually subordinated to the Claims of holders of 12¼% Secured Notes (Class 6 for the 12¼% Secured Notes Claims, Class 7C for the 12¼% Deficiency Claim and the 12¼% Buffalo Claim) and to the 13% Note Claims (Class 7C). As a result, holders of 12% Notes Claims would not be entitled to receive any distributions under the Plan on account of such Claims. However, the holders of 12¼% Secured Notes Claims and 13% Notes Claims have agreed to contribute on a ratable basis, based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes, a Stock and/or Warrant Recovery to holders of 12% Notes Claims (other than holders of Rigas Family Claims) equal to such holder's Ratable Proportion of 0.25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date.

Each holder of a Funded Debt Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Funded Debt Claim, as explained below.

(i) *Stock and/or Warrant Recovery*

On the Effective Date, a holder of a Funded Debt Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion (i.e., the ratio of the amount of the Allowed Claim (or Disputed Claim) in a Class to the aggregate amount of all Allowed Claims and Disputed Claims in the same Class) of (a) the General Unsecured Percentage (i.e., 40 percent of the New Common Stock prior to the implementation of Cash Recovery elections) and (b) the New Warrants (i.e., the warrants to purchase up to 1,500,000 shares of New Common Stock at an exercise price of \$22.35 per share), in each case taking into consideration the contractual subordination of the 12% Notes (Class 7D) to the 12¼% Secured Notes and the 13% Notes on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes.

(ii) Cash Recovery

On the Effective Date, a holder of a Funded Debt Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Funded Debt Claim that elects to receive New Common Stock. Holders of Funded Debt Claims who elect and receive a Cash Recovery will not receive any New Warrants.

The aggregate amount of Cash available under the Plan to satisfy holders of Funded Debt Claims that elect a Cash Recovery will equal \$4 million, plus Excess Cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Classes 7A, 7B and 7D. The holders of Allowed Claims in Class 7C that elect the Cash Recovery shall be entitled to receive Cash on a ratable basis with the holders of Claims in Class 6.

The shares of New Common Stock otherwise distributable to holders of funded Debt Claims electing and receiving a Cash Recovery will be transferred to the treasury of Reorganized ABIZ.

In the event that the Cash available to holders of Allowed Claims in Classes 6 and 7C that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder of Claims in Class 7C will receive its proportionate share of the Cash available for Classes 6 and 7C, and the remainder of such holder's Claim will be satisfied by a Remaining Stock Distribution (i.e., the Ratable Proportion of New Common Stock otherwise distributable to the holder of a Claim (if such holder had originally elected the Stock and/or Warrant Recovery), less the holder's aggregate Cash Recovery divided by \$8.94) and a Remaining Warrant Distribution (i.e., a distribution of New Warrants that is exercisable into a number of shares of New Common Stock equal to the Remaining Stock Distribution multiplied by 37.5%).

Any Cash not necessary to satisfy Cash Recovery elections in Classes 6 and 7C (including such elections by holders of Disputed Claims in Classes 6 and 7C) shall revert to the possession of Reorganized ABIZ.

**If a holder of a Class 7C Claim does not specify on such holder's Ballot the treatment such holder elects to receive, such holder will receive the Cash Recovery described above as the treatment for their Claim.**

Class 7C is impaired and entitled to vote to accept or reject the Plan.

d. *12% Notes Claims (Class 7D)*

Class 7D consists of the 12% Notes Claims, which total \$314,600,000, inclusive of principal and interest accrued and unpaid through the Petition Date.

As described more fully in *Section V.D*, the 12% Notes Claims are contractually subordinated to the Claims of holders of 12¼% Secured Notes (Class 6 for the 12¼% Secured Notes Claims, Class 7C for the 12¼% Deficiency Claim and the 12¼% Buffalo Claim) and to the 13% Note Claims (Class 7C). As a result, holders of 12% Notes Claims would not be entitled to receive any distributions under the Plan on account of such Claims. However, the holders of 12¼% Secured Notes Claims and 13% Notes Claims have agreed to contribute on a ratable basis,



based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes, a Stock and/or Warrant Recovery to holders of 12% Notes Claims (other than holders of Rigas Family Claims) equal to such holder's Ratable Proportion of 0.25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date.

Each holder of a 12% Notes Claim shall elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery or (b) a Cash Recovery, in full satisfaction of such Allowed Funded Debt Claim, as explained below.

(i) Stock and/or Warrant Recovery

On the Effective Date, a non-Rigas Family<sup>9</sup> holder of a 12% Notes Claim that elects a Stock and/or Warrant Recovery will receive its Ratable Proportion (i.e., the ratio of the amount of the Allowed Claim (or Disputed Claim) in a Class to the aggregate amount of all Allowed Claims and Disputed Claims in the same Class) of 0.25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date (calculated before accounting for Cash Recovery elections). Holders of 12% Notes Claims will not receive any New Warrants. Any New Warrants otherwise associated with the shares of New Common Stock contributed by the holders of 12¼% Secured Notes and 13% Notes will be extinguished.

(ii) Cash Recovery

On the Effective Date, a non-Rigas Family<sup>10</sup> holder of a 12% Notes Claim that elects a Cash Recovery will receive a distribution of Cash equal to \$8.94 per share of such New Common Stock otherwise distributable to a holder of a Funded Debt Claim that elects to receive New Common Stock.

The aggregate amount of Cash available under the Plan to satisfy holders of 12% Notes Claims that elect a Cash Recovery will equal \$4 million, plus Excess cash (if any), less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A and 7B.

The shares of New Common Stock otherwise distributable to holders of 12% Notes Claims electing and receiving a Cash Recovery will be transferred to the treasury of Reorganized ABIZ.

In the event that the Cash available to holders of Allowed Claims in Class 7D that elect a Cash Recovery is insufficient (with such insufficiency being determined as of the First Subsequent Distribution Date (i.e., 180 days after the Effective Date)) to satisfy such Claims in full, each such holder of Claims in Class 7D will receive its proportionate share of the Cash available for Class 7D, and the remainder of such holder's Claim will be satisfied by a Remaining Stock Distribution (i.e., the Ratable Proportion of New Common Stock otherwise distributable to the holder of a Claim (if such holder had originally elected the Stock and/or Warrant Recovery), less the holder's aggregate Cash Recovery divided by \$8.94), provided, however, that the New Warrants related to such New Common Stock shall be extinguished.

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<sup>9</sup> See Section V.E.13.

<sup>10</sup> See Section V.E.13.

Any Cash not necessary to satisfy Cash Recovery elections in Class 7D (including such elections by holders of Disputed Claims in Class 7D) shall be used for funding Cash Recovery elections by holders of Claims in Classes 6 and 7C, as described above.

**If a holder of a Class 7D Claim does not specify on such holder's Ballot the treatment such holder elects to receive, such holder will receive the Cash Recovery described above as the treatment for their Claim.**

Class 7D is impaired and entitled to vote to accept or reject the Plan.

A practical example regarding the treatment of a holder of a Claim in Class 7C is attached as Exhibit C to this Disclosure Statement for illustrative purposes.

8. *Century Facility Claims (Class 8)*

The Century Facility Claims are Disputed Claims. Although, for the reasons described in *Section IV.B.* above, the Plan Proponents believe that the Century Facility Claims will be disallowed in their entirety, to the extent, if any, that the Century Facility Claims are Allowed, such Claims shall receive the same treatment as Claims in Class 7C.

Class 8 is impaired. Under the Plan, Disputed Claims such as the Century Facility Claims are not entitled to vote to accept or reject the Plan, subject to further order of the Bankruptcy Court.

9. *Securities Claims (Class 9)*

This Class consists solely of Securities Claims.

Holders of Class 9 claims will receive no distribution under the Plan.

Class 9 is impaired but is deemed to reject the Plan.

10. *Intercompany Claims (Class 10)*

Class 10 consists of intercompany claims of any Debtor against another Debtor. The Claims in Class 10 will be extinguished on the Effective Date by either offset, contribution, or distribution of such Claims. The Debtors holding such claims are impaired and are deemed to reject the Plan.

11. *Equity Interests (Class 11)*

Class 11 consists of the equity interests in ABIZ represented by any issued and outstanding shares of ABIZ' common or preferred stock or other instrument evidencing a present ownership interest in ABIZ, whether or not transferable, or any option, warrant, or right, contractual or otherwise, to acquire any such interest. All Equity Interests will be extinguished and holders thereof receive no distribution under the Plan and are deemed to reject the Plan.

12. *Subsidiary Equity Interests (Class 12)*

Class 12 consists of the equity interests in any , other than ABIZ represented by any issued and outstanding shares of such Debtor's common and preferred stock or other instrument evidencing a present ownership interest in ABIZ, whether or not transferable, or any

option, warrant, or right, contractual or otherwise, to acquire any such interest. Each Debtor that holds Subsidiary Equity Interests shall retain its rights in such Subsidiary Equity Interests and is not entitled to vote for or reject the Plan.

13. *Subordinated Claims (Class 13)*

Class 13 Claims include any Claim that is determined to be equitably subordinated to other Claims pursuant to section 510(c) of the Bankruptcy Code, including, but not limited to, any Rigas Family Claim.

Holders of Class 13 Claims will receive no distribution under the Plan. If and to the extent, however, that the Rigas Family Claims are Allowed and are not equitably subordinated, such Claims shall receive the same treatment as Claims in Class 7D.<sup>11</sup>

Class 13 is impaired but is deemed to reject the Plan.

**F. Securities to Be Issued or Authorized Under the Plan**

1. *New Common Stock*

As of the Effective Date, the authorized capital stock of Reorganized ABIZ will consist of \_\_\_\_\_ million shares of New Common Stock, \$.01 per share par value and \_\_\_\_\_ million shares of preferred stock, par value \$.01 per share. The Plan will authorize the issuance of 10,000,000 shares of New Common Stock. In addition, 1,500,000 shares of New Common will be authorized and reserved for the exercise of the New Warrants and 1,100,000 shares of New Common will be authorized and reserved for the exercise of New Management Warrants (see below).

So long as shares of New Common Stock may not be sold without registration under the Securities Act, as amended, holders of New Common Stock will have the unlimited right to register their shares as a part of any announced public offering by Reorganized ABIZ of the New Common Stock. If the registration is initiated by Reorganized ABIZ for its own account, the registrable securities to be included in such registration will be allocated first to Reorganized ABIZ and second, on a ratable basis (based upon the total number of shares held by stockholders exercising their right to register their shares), to the stockholders. Depending on the number of shares to be registered in the public offering, holders of New Common Stock may be limited to registering their proportionate share of their shares (based upon the total number of shares held by stockholders exercising their right to register their shares).

The New Common Stock will contain certain restrictions on the transfer of shares by stockholders. If a holder of five percent (5%) or more of the total outstanding New Common Stock (calculated on a non-diluted basis with respect to any outstanding New Warrants or options) enters into (or participates in) a transaction or series of related transactions within a one (1) year period (either alone or with other five percent (5%) or more stockholders in the context of a single transaction) pursuant to which stockholders sell or otherwise transfer to a buyer or

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<sup>11</sup> The Bankruptcy Court has directed that, notwithstanding the treatment of Claims in Class 7D, and pending the resolution of the allowability and potential equitable subordination of the Rigas Family Claims, the number of shares representing the Rigas Family's proportionate share of the New Common Stock distributable to holders in Class 7D (such proportionate share to be calculated as if such Rigas Family holders were not excluded from Class 7D) shall be held in the Disputed Claims Reserve.

related buyers 51% or more of the total outstanding shares of New Common Stock (pursuant to a stock sale, merger, joint venture, or other transaction), a non-participating holder of New Common Stock will have the right to “tag along” in such transaction and sell a percentage of their total number of shares of New Common Stock that is equivalent to the percentage that the shares of New Common Stock being sold bears to the total number of shares of New Common Stock held by the participating stockholders. Each participating stockholder in such a transaction will be required to file a notice with the Board of Directors of Reorganized ABIZ upon the sale of five percent (5%) or more of the total outstanding New Common Stock, and holders of New Common Stock will receive notice of certain material corporate transactions and sales by participating stockholders that trigger these tag along rights.

Additionally, if a majority in interest of the holders of New Common Stock accept a bona fide offer from a third party to buy outstanding shares of New Common Stock representing more than 50% of Reorganized ABIZ’s voting power, such stockholders can compel (or “drag along”), if they so choose, each other stockholder of Reorganized ABIZ to sell all of its shares of New Common Stock to the third party at the same price being paid to the compelling stockholders in the transaction.

If Reorganized ABIZ does not complete an underwritten public offering of New Common Stock on or before the two (2)-year anniversary of the Effective Date, all holders of New Warrants will have the right to compel Reorganized ABIZ to exchange such holder’s New Warrants for cash or shares of New Common Stock, with the choice of currency being at Reorganized ABIZ’s sole discretion, equal in value to the value of the New Warrants. The value of the New Warrants is to be determined based upon an agreed-upon formula as described in the Private Company Term Sheet, attached as Exhibit D to this Disclosure Statement. A holder of New Warrants will have this right for a period of 30 days following each of the second and third anniversary and during the 30 day period ending on the fourth anniversary of the Effective Date to exercise its New Warrants through the entire four (4) year term.

All holders of New Common Stock and New Warrants will receive unaudited quarterly and annual reports (which may be satisfied by posting such information on Reorganized ABIZ’s website) prepared in a similar manner as, and containing similar kinds of information as, Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q commonly filed with the Securities and Exchange Commission. Reorganized ABIZ will not, however, be required to file Forms 10-K or Forms 10-Q, or Current Reports on Form 8-K, unless required by applicable law.

For a further description of the rights of holders of New Common Stock, see the Private Company Term Sheet, attached as Exhibit D to this Disclosure Statement.

## 2. *New Warrants*

On the Effective Date, Reorganized ABIZ will issue warrants to purchase 1,500,000 shares of New Common Stock. The New Warrants will expire on the fourth anniversary of the Effective Date and will have an exercise price of \$22.35 per share of New Common Stock, which amount represents a 25% premium to the estimated value of the equity of \$178.8 million. The current valuation of the New Warrants is between \$7.8 million and \$10.1 million, based on (i) volatility of 70.0% to 90.0%, (ii) an estimated value of \$17.88 per share for the New Common Stock, (iii) the exercise price of \$22.35 for the New Warrants, (iv) a four-year expiration for the New Warrants, and (v) a risk free rate of 2.8%. The New Warrants provide the holder with a cashless exercise option.

For a further description of certain rights of holders of New Common Stock and New Warrants, see the Private Company Term Sheet, attached as Exhibit D to this Disclosure Statement.

3. *New Management Warrants*

As more fully described in *Section VIII.I. below*, 1,100,000 New Management Warrants, exercisable into shares of New Common Stock will be authorized for issuance to key employees as determined by the new board of directors.

4. *Restriction on Transfer of Plan Securities*

It is anticipated that after the issuance of the New Common Stock and New Warrants according to the terms set forth above in *Section I.B. entitled "Treatment of Creditors and Stockholders under the Plan of Reorganization"*, there will be fewer than 300 holders of record of the New Common Stock and New Warrants. The Debtors intend to file a certification regarding the number of holders of the New Common Stock and New Warrants with the Securities and Exchange Commission terminating their periodic filing requirements pursuant to the Securities Exchange Act of 1934 and ABIZ will no longer be a "public" company. The Debtors cannot ensure that a liquid market will develop for the New Common Stock and New Warrants, that the holders of the New Common Stock and New Warrants will be able to sell any of such securities at a particular time if at all or that the prices that holders will receive when they sell will be favorable. Since the New Common Stock and New Warrants, will be issued pursuant to an exemption from registration under the Securities Act and the Debtors intend to file a certification terminating their periodic filing requirements, there will be no public market for the New Common Stock or New Warrants. There is no assurance as to when or if the Debtors will complete an initial public offering for the New Common Stock or New Warrants.

The shares of New Common Stock and New Warrants will be subject to certain transfer restrictions set forth in the Shareholders' Agreement. Such transfer restrictions in the Shareholders' Agreement will prohibit a holder of New Common Stock and New Warrants, as applicable, from transferring any shares to any person not already holding shares of the same class as proposed to be transferred after such class has record holders of 450 or more persons. Until the Shareholders' Agreement is terminated, the shares of New Common Stock and New Warrants, as applicable, will bear an additional legend substantially to the following effect:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND PROVISIONS OF A SHAREHOLDERS' AGREEMENT DATED AS OF \_\_\_\_\_, 2003, AMONG TELCOVE (THE "COMPANY") AND THE SHAREHOLDERS NAMED THEREIN (AS SUCH AGREEMENT MAY BE SUPPLEMENTED, MODIFIED, AMENDED OR RESTATED FROM TIME TO TIME, THE "SHAREHOLDERS' AGREEMENT") AND MAY NOT BE OFFERED, SOLD, ASSIGNED, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED (COLLECTIVELY, "TRANSFERRED") UNLESS AND UNTIL SUCH TRANSFER COMPLIES WITH THE SHAREHOLDERS' AGREEMENT, COPIES OF WHICH ARE ON FILE WITH THE SECRETARY OF THE COMPANY.

**G. Substantive Consolidation for Distribution and Voting Purposes**

Generally, substantive consolidation of the estates of multiple debtors in a bankruptcy case effectively combines the assets and liabilities of the multiple debtors for certain

purposes under a plan. The effect of consolidation is the pooling of the assets of, and claims against, the consolidated debtors; satisfying liabilities from a common fund; and combining the creditors of the debtors for purposes of voting on the reorganization plan. There is no statutory authority specifically authorizing substantive consolidation. The authority of a Bankruptcy Court to order substantive consolidation is derived from its general equitable powers under section 105(a) of the Bankruptcy Code, which provides that the court may issue orders necessary to carry out the provisions of the Bankruptcy Code. Nor are there statutorily prescribed standards for substantive consolidation. Rather, judicially developed standards control whether substantive consolidation should be granted in any given case.

Specifically, under the Plan, on the Effective Date, (a) all assets and liabilities of each of the Debtors shall be deemed merged or treated as though they were merged; (b) no distributions shall be made under the Plan on account of Claims among the Debtors; and (c) all guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the consolidated Debtors. Such substantive consolidation (other than for purposes related to the Plan) shall not affect (i) the legal and corporate structures of the Debtors, and (ii) pre and post commencement date guarantees that are required to be maintained (x) in connection with executory contracts or unexpired leases that have been or will be assumed, or (y) pursuant to the Plan.

The deemed consolidation of the Debtors for distribution purposes shall not affect the requirement for each Debtor to pay the quarterly fees to the United States Trustee pursuant to 28 U.S.C. § 1930 for periods prior to the entry of the order confirming the Plan. The Debtors and the United States Trustee reserve their rights as to whether a deemed consolidation has any effect on the quarterly fees due after confirmation of the Plan.

The Debtors believe that the foregoing deemed consolidation of their respective estates is warranted in light of the criteria established by the courts in ruling on the propriety of substantive consolidation in other cases. The extensive list of elements and factors cited and relied upon by courts in determining the propriety of substantive consolidation may be viewed as variants of two critical factors considered in assessing the entitlement to substantive consolidation: (i) whether creditors dealt with the Debtors as a single economic unit and did not rely on their separate identity in extending credit or (ii) whether the affairs of the Debtors are so entangled that consolidation will benefit all creditors. With respect to the first factor, creditors who extend credit on the basis of the financial status of a separate entity expect to be able to look to the assets of their particular borrower for satisfaction of that loan. The second factor involves whether there has been a commingling of the assets and business functions and considers whether all creditors will benefit because untangling is either impossible or so costly as to consume the assets. Some courts have viewed these criteria as guidelines useful to courts charged with deciding whether there is substantial identity between the entities to be consolidated and whether consolidation is necessary to avoid some harm or to realize some benefit.

Among the specific factors or elements looked to by courts are the following:

- ? the degree of difficulty in segregating and ascertaining the individual assets and liabilities of the entities to be consolidated;
- ? the presence or absence of consolidated financial statements among the entities to be consolidated;

- ? the commingling of assets and business functions among the entities to be consolidated;
- ? the existence of overlapping directors and management among the entities to be consolidated;
- ? the unity of interests and ownership among the various entities;
- ? the existence of parent and intercorporate guarantees on loans to the various entities;
- ? the transfer of assets to and from the various entities without formal observance of corporate formalities; and
- ? the effect on the percentage recovery of a claim if substantive consolidation is allowed compared to administrative consolidation.

There is an ample factual basis for the deemed consolidation of the Debtors. First, the holders of the Trade Claims dealt with substantially all the Debtors as a single economic unit and did not rely on their separate identity in extending credit.

Second, the affairs of the Debtors are entangled to the extent that consolidation will benefit all creditors. The Debtors consist of ABIZ and 17 of its direct and indirect subsidiaries. Numerous intercompany agreements and arrangements existed. The Debtors provided each other with assets, funding and administrative services.

Third, the books and records of the Debtors reflect a large amount of intercompany claims evidencing, among other things, advances from ABIZ to fund and build its operations, upstreamed funds from the other Debtors to enable ABIZ to make payments to creditors, the allocation of corporate overhead, and the transfer of other property from one Debtor to another. In view of the complexity of such transactions and the adjustments that have been made over time, it would be difficult to reconcile intercompany claims without embarking on an enormous effort that would diminish the return for all creditors. As a result of these intercompany agreements and arrangements, a multitude of intercompany claims exists on the Debtors' books and records as of the Petition Date. There are, in total, thousands of discrete transfers or accounting entries underlying the intercompany claim balances on the books and records of the Debtors as of the Petition Date.

Furthermore, the Debtors participate in a unified cash management system (which includes non-Debtor subsidiaries) which would make it extremely difficult to confirm a plan of reorganization for individual Debtors.

In view of the foregoing, the Debtors believe that creditors would not be prejudiced to any significant degree by the deemed consolidation proposed in the Plan, which is consistent with creditors' having dealt with the Debtors as a single economic entity. Further, the Debtors believe that such deemed consolidation would best utilize the Debtors' assets and maximize the potential of all of the Debtors to pay to the creditors of each entity the distributions proposed in the Plan.

## H. Securities Law Matters

Holders of Allowed Claims in Classes 6, 7A, 7B, 7C and 7D (and Class 8, if any) who elect on their Ballots to receive New Common Stock and/or New Warrants will receive Plan Securities pursuant to the Plan. Section 1145 of the Bankruptcy Code provides certain exemptions from the securities registration requirements of federal and state securities laws with respect to the distribution of securities under a plan of reorganization.

### 1. *Issuance and Resale of New Securities Under the Plan.*

Section 1145(a) of the Bankruptcy Code generally exempts from registration under the Securities Act the offer or sale of a debtor's securities under a chapter 11 plan if such securities are offered or sold in exchange for a claim against, or an equity interest in, such debtor, and in the case of warrants so issued under a chapter 11 plan, also generally exempts the issuance of stock issued upon exercise of such warrants. In reliance upon this exemption, the New Common Stock and New Warrants will be issued on the Effective Date (or on a Subsequent Distribution Date) as provided in the Plan, and generally will be exempt from the registration requirements of the Securities Act. Accordingly, such securities may be resold without registration under the Securities Act or other federal securities laws pursuant to an exemption provided by section 4(1) of the Securities Act, unless the holder is an "underwriter" with respect to such securities, as that term is defined in the Bankruptcy Code. In addition, such securities generally may be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of the several states. However, recipients of securities issued under the Plan are advised to consult with their own legal advisors as to the availability of any such exemption from registration under state law in any given instance and as to any applicable requirements or conditions to such availability.

Section 1145(b) of the Bankruptcy Code defines "underwriter" for purposes of the Securities Act as one who (a) purchases a claim with a view to distribution of any security to be received in exchange for the claim other than in ordinary trading transactions, or (b) offers to sell securities issued under a plan for the holders of such securities, or (c) 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 (d) is a control person of the issuer of the securities or other issuer of the securities within the meaning of section 2(11) of the Securities Act. The legislative history of section 1145 of the Bankruptcy Code suggests that a creditor who owns at least ten percent (10%) of the securities of a reorganized debtor may be presumed to be a "control person".

Notwithstanding the foregoing, statutory underwriters may be able to sell their securities pursuant to the resale limitations of Rule 144 promulgated under the Securities Act. Rule 144 would, in effect, permit the resale of securities received by statutory underwriters pursuant to a chapter 11 plan, subject to applicable volume limitations, notice and manner of sale requirements, and certain other conditions. Parties who believe they may be statutory underwriters as defined in section 1145 of the Bankruptcy Code are advised to consult with their own legal advisors as to the availability of the exemption provided by Rule 144.

Whether any particular person would be deemed to be an "underwriter" with respect to any security issued under the Plan would depend upon the facts and circumstances applicable to that person. Accordingly, the Debtors express no view as to whether any particular person receiving distributions under the Plan would be an "underwriter" with respect to any security issued under the Plan.



In view of the complex, subjective nature of the question of whether a particular person may be an underwriter or an affiliate of the reorganizing Debtors, the Debtors make no representations concerning the right of any person to trade in the New Common Stock, to be distributed pursuant to the Plan. Accordingly, the Debtors recommend that potential recipients of Plan Securities consult their own counsel concerning whether they may freely trade such securities.

#### **I. Reservation of “Cram Down” Rights**

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan of reorganization over the dissent of any class of claims or equity interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes – often referred to as “cram down” – is an important part of the reorganization process. It assures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code.

The Debtors reserve the right to seek confirmation of the Plan, notwithstanding the rejection of the Plan by any Class entitled to vote. In the event a Class votes to reject the Plan, the Debtors will request the Bankruptcy Court to rule that the Plan meets the requirements specified in section 1129(b) of the Bankruptcy Code with respect to such Class. The Debtors will also seek such a ruling with respect to each Class that is deemed to reject the Plan.

### **VI.**

#### **Governance of Reorganized ABIZ**

##### **A. Board of Directors**

The initial Board of Directors of Reorganized ABIZ will consist of seven (7) members. Four (4) members will be selected by the Secured Noteholder Committee. Three (3) members will be selected by the Creditors’ Committee and one of such members will be Robert Guth, the Chief Executive Officer of the Debtors, provided that Mr. Guth is employed at the time by Reorganized ABIZ. If Mr. Guth is not so employed, the other members of the Board of Directors will designate another person to be a member. Each member of the initial Board of Directors will serve on the Board of Directors for a two (2)-year term. The Chairman of the Board of Directors will not be an executive of the Debtors.

##### **B. Senior Management**

Senior management of Reorganized ABIZ will consist of the following individuals: Mr. Guth will serve as Chief Executive Officer, Edward E. Babcock, Jr. will serve as Chief Financial Officer, and John B. Glicksman will serve as General Counsel. Terms of employment will be provided in the Plan Supplement

## VII.

### Other Aspects of the Plan of Reorganization

#### A. Distributions

One of the key concepts under the Bankruptcy Code is that only claims and equity interests that are “Allowed” may receive distributions under a chapter 11 plan. This term is used throughout the Plan and the descriptions below. In general, an Allowed Claim or Allowed Interest simply means that the Debtor agrees, or in the event of a dispute, that the Bankruptcy Court determines, that the Claim or Interest, and the amount thereof, is in fact a valid obligation of the Debtors.

Any Claim which is not a Disputed Claim and for which a proof of Claim has been filed is an Allowed Claim. Any Claim that has been listed by any Debtor in such Debtor’s schedules of assets and liabilities, as may be amended from time to time, as liquidated in amount and not disputed or contingent is an Allowed Claim in the amount listed in the schedules unless an objection to such Claim has been filed. If the holder of such Claim files a proof of Claim in an amount different than the amount set forth on the Debtor’s schedules of assets and liabilities, the Claim is a Disputed Claim. Any Claim that has been listed in the Debtor’s schedules of assets and liabilities as disputed, contingent or not liquidated and for which a proof of Claim has been filed is a Disputed Claim. Any Claim for which an objection has been timely interposed is a Disputed Claim. For an explanation of how Disputed Claims will be determined, see *Section VII.A.2.*

An objection to any Claim may be interposed within 120 days after the Confirmation Date. Any Claim for which an objection has been interposed will be an allowed Claim to the extent the objection is determined in favor of the holder of the Claim.

##### 1. *Timing and Conditions of Distributions*

###### a. *Date of Distribution*

Except as otherwise provided for in the Plan, initial distributions on account of Allowed Claims will be made on the Effective Date or as soon thereafter as is practicable but in no event later than 90 days following the Effective Date. Disputed Claims will be treated as set forth below.

Except as otherwise provided for in the Plan, to the extent Cash, New Common Stock or New Warrants become available after the Effective Date from either the release of Cash, New Common Stock or New Warrants from the Disputed Claims Reserve or from undeliverable, time-barred or unclaimed distributions to holders of Allowed Claims, such Cash, New Common Stock or New Warrants will be allocated in accordance with Cash Recovery elections made pursuant to Sections 3.6 and 3.7 of the Plan on the First Subsequent Distribution Date and each Subsequent Distribution Date thereafter to holders of General Unsecured Claims, to the extent such Claims become Allowed on the Effective Date or before such Subsequent Distribution Date, and to the holders of any pending Disputed Claims. Such allocated amounts will be distributed directly to holders of General Unsecured Claims, while the amounts to be distributed to holders of pending Disputed Claims will be distributed to the Disputed Claims Reserve, to be distributed as described below. The Disbursing Agent will not be obligated to make any such distribution, if, in its reasonable business judgment, it would not be justified to make a distribution, taking into

account all of the costs involved. In such case, the undistributed amount may be held over to the next Subsequent Distribution Date. The period for holding over such undistributed amount is not to exceed 180 days without the approval of Reorganized ABIZ' Board of Directors in consultation with the Special Board Committee.

b. *Surrender of Certain Securities Necessary for Distribution*

Plans of reorganization generally require a holder of an instrument or security of a debtor to surrender such instrument or security prior to receiving a new instrument or security in exchange therefore under a plan of reorganization. This rule avoids disputes regarding who is the proper recipient of instruments or securities under a plan of reorganization.

Other than with respect to book entry securities, as a condition to receiving any distribution under the Plan, a holder of a 12% Note, 12¼% Secured Note or 13% Note must, prior to the second anniversary of the Effective Date, (a) surrender such 12% Note, 12¼% Secured Note or 13% Note to Reorganized ABIZ or its designee or (b) provide evidence satisfactory to the appropriate Indenture Trustee of the loss, theft, mutilation or destruction of such note. Failure to do so within such time will result in the forfeiture of such holder's right to receive any distribution relating to such note under the Plan. All shares of New Common Stock and New Warrants which are not distributed as a result of such forfeiture will be redistributed on Subsequent Distribution Dates as described above.

Holders of Equity Interests, or other agreements or commitments relating thereto shall not be required to surrender such instruments or securities because they are not receiving a distribution under the Plan on account of such securities.

c. *Fractional Distributions*

No fractional shares of New Common Stock, no fractional New Warrants, no fractional New Management Warrants and/or no fractional dollars, shall be distributed. For purposes of distribution, fractional shares of New Common Stock, fractional New Warrants, fractional New Management Warrants, and fractional dollars shall be rounded up or down, as applicable, to the nearest whole number, or, in the event of a Cash payment, up or down to the nearest whole dollar.

d. *Time Bar to Cash Payments*

Any check issued by the Disbursing Agent in respect of a payment of an allowed Claim will be null and void if such check is not negotiated within 120 days of the date of issuance of such check. Any party that fails to cash a check within such 120 day period will be entitled to receive a reissued check from Reorganized ABIZ in the amount of the original check if such party requests reissuance and provides the proper documentation prior to the later of the second anniversary of the Effective Date or six (6) months after any such Claim becomes Allowed.

e. *Minimum Distributions*

No distribution will be made to a holder of a Claim in aggregate amount of \$500 or less unless the holder of such Claim makes a request in writing to the Disbursing Agent at the addresses provided in the Plan. Any undistributed amount shall be held over to the next Subsequent Distribution Date.

f. *Allocation of Distributions*

Any distribution made to the holder of an Allowed Claim will be allocated first to the principal portion of such Claim (as determined for federal income tax purposes) until such principal is satisfied in full, and then to the Allowed amount of any prepetition interest.

2. *Procedures for Treating Disputed Claims Under the Plan of Reorganization*

a. *Disputed Claims*

A Disputed Claim is a Claim for which a proof of Claim has been filed but that is listed on the Debtors' schedules of assets and liabilities as unliquidated, disputed or contingent, and which has not yet been resolved by the parties or by the Bankruptcy Court. If a holder of a claim has filed a proof of Claim that is inconsistent with the Claim as listed on the Debtors' schedules of assets and liabilities, such Claim is a Disputed Claim. Any claim for which the Debtors or any party in interest have interposed (or will interpose) a timely objection or a request for estimation, neither of which has been withdrawn or determined by a final order is a Disputed Claim. Additionally, any Claim which is disputed under the Plan is a Disputed Claim, as well as any Claim for which proof of such Claim was required to be filed with the Bankruptcy Court but was not timely or properly filed.

b. *Reserve for Class 7 Disputed Claims*

As described in *Section V.E.7*, a significant amount of General Unsecured Claims remain disputed. In order to avoid prejudice to any holder of a Claim that has not been Allowed or disallowed as of the Effective Date, Reorganized ABIZ will hold sufficient Cash, shares of New Common Stock and New Warrants, as applicable, to make distributions to holders of all Disputed Claims as if the Disputed Claims had been Allowed Claims on the Effective Date or any Subsequent Distribution Date. The Debtors (or Reorganized ABIZ, as applicable) may exclude Claims covered by insurance, to the extent of such insurance, from that calculation.

c. *Resolution of Disputed Claims*

Unless otherwise ordered by the Bankruptcy Court, the Debtors (in consultation with the Creditors' Committee and the Secured Noteholder Committee) and, after the Effective Date, Reorganized ABIZ in consultation with the Special Board Committee, will have the exclusive right (with certain exceptions) to make and file objections to Claims (other than applications for allowances of compensation and reimbursement of expenses and certain Claims which the Plan Proponents have agreed will be objected to by either or both of the Creditors' Committee and the Secured Noteholder Committee) and will serve a copy of each objection to the appropriate holder as soon as practicable, but in no event later than 120 days after the Confirmation Date. From and after the Effective Date, all objections will be litigated to a final order of the Bankruptcy Court, except to the extent that Reorganized ABIZ withdraws or settles the objection.

d. *No Distributions Pending Allowance*

If any portion of a Claim is a Disputed Claim, no payment or distribution shall be made on account of such Claim until such Disputed Claim becomes an Allowed Claim.

e. *Distributions After Allowance*

To the extent that a Disputed Claim becomes an Allowed Claim, the holder of such Allowed Claim shall receive a distribution in accordance with the provisions of the Plan. The distribution shall be made on the fifteenth business day of the first month following the month in which such Claim becomes Allowed.

To the extent that a Disputed Claim is disallowed, Cash and Plan Securities held in respect of such Claim pursuant to the Plan will be re-distributed to holders of Allowed Claims and to the reserve for Disputed Claims on Subsequent Distribution Dates.

**B. Treatment of Executory Contracts and Unexpired Leases**

1. *Contracts and Leases Not Expressly Assumed are Rejected*

All executory contracts and unexpired leases, except for those expressly assumed by the Plan or by separate motion, are rejected pursuant to the Plan.

The Plan provides for the Debtors to assume those executory contracts and unexpired leases specifically designated as a contract or lease to be assumed on Schedule 7.1 to the Plan. The Debtors will file Schedule 7.1 no later than 20 days prior to the Confirmation Hearing or on such date as may be otherwise fixed by the Bankruptcy Court. The Debtors reserve their right to add any executory contracts or unexpired leases to Schedule 7.1 prior to the Effective Date.

Any contract or lease that has already been assumed pursuant to a final order of the Bankruptcy Court or which is the subject of a separate motion to assume or reject such contract or lease filed prior to the filing of Schedule 7.1 will not be rejected pursuant to the Plan.

Executory contracts and unexpired leases that are listed on Schedule 7.1 relating to the use or occupancy of real property are broadly defined to include related agreements or supplements and executory contracts or unexpired leases appurtenant to the premises. The treatment of these other agreements will be the same as for the underlying agreement (*i.e.*, both will be assumed or both will be rejected) unless the Debtors specifically treat the other agreements separately in accordance with the provisions of the Plan.

Given the large number of contracts that the Debtors have entered into, it is possible that contracts may be inadvertently rejected under this procedure. Accordingly, if the non-debtor party to such a contract requests in writing that such contract be assumed, the Debtors will consider such request. The request must state that any defaults under such contract are being waived.

2. *Cure of Defaults*

Generally, if there has been a default (other than a default specified in section 365(b)(2) of the Bankruptcy Code) under an executory contract or unexpired lease, the debtor can assume the contract or lease only if the debtor cures the default. Accordingly, a condition to the assumption of an executory contract or unexpired lease is that any default under an executory contract or unexpired lease that is to be assumed pursuant to the Plan will be cured in a manner consistent with the Bankruptcy Code and as set forth in the Plan. The parties to such executory contracts to be assumed by the Debtors shall have 30 days to object to the cure amounts listed by

the Debtors. If there are any objections filed, the Bankruptcy Court shall hold a hearing. In the event the Bankruptcy Court determines that the cure amount is greater than the cure amount listed by the Debtors, the Debtors may reject the contract at such time rather than paying such greater amount.

3. *Rejection Claims*

If an entity has a Claim for damages arising from the rejection of an executory contract or unexpired lease pursuant to the Plan, and has not filed a proof of Claim for such damages, that Claim shall be barred and shall not be enforceable against the Debtors unless a proof of Claim is filed with the Bankruptcy Court and served upon counsel for the Debtors within 30 days after the Effective Date.

**C. Exit Facility**

On the Effective Date, Reorganized ABIZ will obtain exit financing from a source and in an amount and upon terms and conditions reasonably acceptable to the Creditors' Committee and the Secured Noteholder Committee. Together, the Plan Proponents are currently engaged in the process of obtaining such financing.

**D. Conditions to Occurrence of Effective Date**

Effectiveness of the Plan is subject to the following conditions: (i) a Confirmation Order, in form and substance reasonably satisfactory to the Plan Proponents, shall have been entered by the Bankruptcy Court and no stay of the Confirmation Order shall then be in effect; (ii) all Plan Documents shall be in form and substance satisfactory to the Plan Proponents and, where applicable, shall fully incorporate the terms of the Private Company Term Sheet; (iii) all actions, other documents, and agreements necessary to implement the Plan shall be executed and delivered on the Effective Date; (iv) Plan Securities shall be issued to fewer than 300 holders of record pursuant to the Plan; (v) the Debtors shall have obtained exit financing, to the extent necessary, in an amount and on terms satisfactory to each of the ABIZ Committees; (vi) any settlements reached with any holder of a Claim prior to the Effective Date that provides for special treatment of such holder's Claim in lieu of the treatment otherwise accorded to such Claim under the Plan shall be in form and substance satisfactory to each of the ABIZ Committees; (vii) an order, which may be the Confirmation Order, substantively consolidating the Reorganization Cases shall have been entered; and (viii) all amounts required to be paid to Beal Bank pursuant to Sections 3.4 and 2.1 of the Plan shall have been paid in full in Cash.

**E. Effect of Confirmation**

1. *Discharge of Claims and Termination of Interests*

Unless otherwise provided in the Plan, confirmation of the Plan will discharge all existing debts and Claims, and terminate all Interests, of any kind, nature or description whatsoever against or in the Debtors. All holders of existing Claims or Interests will be enjoined from asserting against the Debtors, or any of their assets or properties, any other or further Claim or Interest based upon any act or omission, transaction, or other activity that occurred prior to the Effective Date, whether or not such holder has filed a proof of Claim or proof of Interest. In addition, upon the Effective Date, each holder of a Claim or Interest shall be forever precluded and enjoined from prosecuting or asserting any discharged Claim or terminated Interests.

2. *Exculpation*

On the Effective Date, the respective current officers, current directors, current employees, current members, current financial advisors, current professionals, current accountants, and current attorneys, as applicable, of the Debtors, the Creditors' Committee, the Secured Noteholder Committee, Beal Bank and any Disbursing Agent selected by the Debtors shall be exculpated by the Debtors and any holder of any Claim or Interest for any act or omission in connection with, or arising out of, the Reorganization Cases, the confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or property to be distributed under the Plan, except for willful misconduct or gross negligence.

3. *Injunction Regarding Worthless Stock Deduction*

Unless otherwise ordered by the Bankruptcy Court, on and after the Confirmation Date, any "fifty percent shareholder" within the meaning of Section 382(g)(4)(D) of the Internal Revenue Code of 1986, as amended, shall be enjoined from claiming a worthless stock deduction with respect to any Interests held by such entity for any taxable year of such shareholder ending prior to the Effective Date.

**F. Releases**

The Plan provides for a release of all Claims by the Debtors against the current officers and current directors of the Debtors and any of their non-Debtor subsidiaries, the Creditors' Committee, the Secured Noteholder Committee, the indenture trustees, Beal Bank and each of their respective current agents, current employees, current advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons or entities), affiliates, members and current representatives. This provision is intended to release all Claims of the Debtors, whether arising prepetition or postpetition, and based on any theory (whether negligence, gross negligence, or willful misconduct) against these individuals. The release is limited to Claims that could be asserted by any Debtor or that any Debtor is entitled to assert in its own right or on behalf of any holder of any Claim or Interest or other person.

The purpose of the release of the Debtors' personnel is to prevent a collateral attack against the Debtors by asserting large derivative Claims against its current officers and directors. Management of the Debtors has made enormous contributions to the reorganization efforts and the companies set forth in the Plan. Therefore, it is important that these individuals be relieved of the threat of any derivative actions against them personally by parties in the Reorganization Cases that may be dissatisfied with the treatment provided in the Plan.

The purpose of the release of the representatives of the other major constituencies in the Reorganization Cases, such as the Creditors' Committee and the Secured Noteholder Committee, is to protect the chapter 11 process for individuals who have contributed to the restructuring process.

**G. Miscellaneous Provisions**

The Plan contains provisions relating to the cancellations of existing securities, corporate actions, the Disbursing Agent, delivery of distributions, manner of payment, vesting of assets, binding effect, term of injunctions or stays, injunction against interference with the Plan, payment of statutory fees, dissolution of the Creditors' Committee (on the Effective Date), recognition of guaranty rights, substantial consummation, compliance with tax requirement,

severability and amendment of the Plan, governing law, and timing. For more information regarding these items, see the Plan attached as Exhibit A to this Disclosure Statement.

#### **H. Creation of Special Board Committee**

On the Effective Date, a member of the Board of Directors, selected by the Secured Noteholder Committee, and a member of the Board of Directors, selected by the Creditors' Committee, and Robert Guth, the Debtors' Chief Executive Officer, shall be appointed to a Special Board Committee. The Special Board Committee's responsibilities shall consist of overseeing and reporting to the Board of Directors with respect to matters affecting distributions to holders of Claims under the Plan.

#### **I. Certain Indenture Trustee Fees and Expenses**

The Debtors shall satisfy in Cash, and to the extent contingent, disputed, or unliquidated on the Effective Date, shall include in the Disputed Claims Reserve, Cash in an amount sufficient to satisfy the reasonable fees and expenses of each of the indenture trustees prior to the Effective Date, including the reasonable fees and expenses of their professionals. Each indenture trustee shall submit its actual and estimated fees (through the Effective Date) to the Debtors, the Creditors' Committee and the Secured Noteholder Committee at least 25 days prior to the Confirmation Hearing, and the reasonableness of such fees and expenses shall be determined first by the Debtors, the Creditors' Committee and the Secured Noteholder Committee. To the extent there are any disputes regarding the reasonableness of payment of such fees and expenses under this section, such dispute shall be submitted to the Bankruptcy Court for resolution.

#### **J. Cancellation of Existing Securities and Agreements and Related Indentures/Discharge of Indenture Trustee**

On the Effective Date, the 12¼% Secured Notes, the 13% Notes and the 12% Notes shall be cancelled and the holders thereof shall have no further rights or entitlements in respect thereof except the rights to receive the distributions to be made to such holders under the Plan. To the extent possible, distributions to be made under the Plan to the beneficial owners of the 12% Notes, the 12¼% Secured Notes, and the 13% Notes shall be made through the Depository Trust Company and its participants. The Confirmation Order shall authorize the Disbursing Agent to take whatever action may be necessary to deliver the distributions, including, without limitation obtaining an order of the Bankruptcy Court.

On the Effective Date, the indenture trustees and their agents shall be discharged of all their obligations associated (i) with the 12¼% Secured Notes, the 13% Notes, and the 12% Notes, (ii) the indentures governing the 12¼% Secured Notes, the 13% Notes, and the 12% Notes, and (iii) any related documents, and released from all Claims arising in the Reorganization Cases. As of the Effective Date, the indentures with respect to the 12¼% Secured Notes, the 13% Notes, and the 12% Notes shall be deemed cancelled, except that such cancellation shall not impair the rights of the holders of the 12¼% Secured Notes, the 13% Notes, and the 12% Notes to receive distributions under the Plan, or the rights of the indenture trustees under its (their) charging liens pursuant to the indentures, to the extent that the indenture trustees have not received payment as provided for in Section 12.6 of the Plan.



## **K. Management Incentive Plan**

At the Effective Date, Reorganized ABIZ will implement a Management Incentive Plan (the "Plan"), pursuant to which Reorganized ABIZ will issue New Management Warrants exercisable into shares of New Common Stock. The New Management Warrants will be issuable in three (3) tranches.

Tranche A Warrants will consist of new Management Warrants with an option to purchase 575,000 shares of New Common Stock during a four (4) year period at a strike price of \$13.41 for 172,500 shares and \$22.35 for 402,500 shares. Tranche B Warrants will consist of New Management Warrants with an option to purchase 300,000 shares of New Common Stock during a four (4) year period at a strike price of \$22.35. Tranche A and Tranche B Warrants will be granted at emergence from Chapter 11 and will vest 30% at the Effective Date (for Tranche A, the \$13.41 shares), 30% on a ratable basis (1/3 per year) over three (3) years, and 40% on a ratable basis (1/3 per year) over three (3) years based on performance criteria.

Tranche C Warrants will consist of New Management Warrants with an option to purchase 225,000 shares of New Common Stock during a four (4) year period at a strike price of \$22.35. The grant dates and vesting schedule for Tranche C Warrants will be determined from time to time by the Board of Directors of Reorganized ABIZ.

The strike prices for all three tranches of the New Management Warrants are subject to adjustments as set forth in the New Management Warrant Agreement, which will be included in the Plan Supplement.

In the absence of a specific liquidity event, the valuation for all New Management Warrants will be derived in a manner similar to an unsecured warrant plan.

## **L. No Deemed Waiver of Cause of Action**

Notwithstanding any payment on an account of an Allowed Claim to a creditor or a settlement with a creditor with respect to a Disputed Claim, unless expressly provided, there shall be no deemed waiver of any rights of any Debtor or any other party in interest to bring a cause of action, including, without limitation, a subsequent avoidance action against such creditor.

# **VIII.**

## **Financial Information, Projections, and Valuation Analysis**

### **A. Introduction**

This section provides summary information concerning the recent financial performance of the Debtors. It also sets forth an estimate of a going concern valuation for the Debtors, based on information available at the time of the preparation of this Disclosure Statement.

The projections assume an Effective Date of September 30, 2003 with Allowed Claims treated as described in the Plan. Expenses incurred as a result of the Reorganization

Cases are assumed to be paid on the Effective Date. If the Debtors do not emerge from chapter 11 as currently scheduled, additional Administrative Expense Claims will be incurred until such time as a plan of reorganization is confirmed and becomes effective. These Administrative Expense Claims could significantly impact the Debtors' cash flows if the Effective Date is materially later than the effective Date assumed in these projections.

It is important to note that the Projections (defined below) and estimates of equity values for Reorganized ABIZ described below may differ from actual performance and are highly dependent on significant assumptions concerning the future operations of Reorganized ABIZ. These assumptions include growth of certain lines of business, labor and other operating costs, regulatory environment, inflation, and the level of investment required for capital expenditures and working capital. Please refer to *Section IX*, below, for a discussion of many of the factors that could have a material effect on the information provided in this section.

The estimates of equity value for Reorganized ABIZ are not intended to reflect the equity values that may be attainable in public or private markets. They also are not intended to be appraisals or reflect the value that may be realized if assets are sold.

## B. Operating Performance

The following are unaudited balance sheets and income statements for the Debtors, shown on a consolidated basis. These financial statements include the operations of non-Debtor subsidiaries. With the exception of periods up to and including December 31, 2000, all financial information provided in this section is unaudited.

(\$ in Millions)

	As of December 31,			As of
	2000	2001	2002	June 30, 2003
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 3.5	\$ 1.1	\$ 23.3	\$ 26.3
Due from Adelphi - net	92.9	-	-	-
Accounts receivable - net	72.7	74.3	67.4	76.2
Other current assets	14.8	34.3	21.7	18.0
Total current assets	184.0	109.8	112.4	120.4
Restricted Cash	54.2	19.0	20.2	20.2
Investments	48.4	54.8	47.8	40.6
Property, plant and equipment - net	1,437.8	623.4	612.8	562.1
Other assets - net	153.9	48.6	36.4	33.9
Total assets	1,878.3	855.5	829.6	777.1
<b>LIABILITIES, PREFERRED STOCK AND COMMON STOCK</b>				
Current Liabilities:				
Accounts Payable	\$ 146.7	\$ 75.3	\$ 133.7	\$ 150.3
Due to Adelphi - net	-	7.8	52.5	47.9
Due to affiliates - net	8.1	38.1	-	-
Accrued interest	31.0	37.7	68.7	68.9
Accrued interest - Adelphi	7.0	19.2	31.3	31.3
13.00% Senior Discount Note due 2003	-	303.8	303.8	303.8
12.25% Senior Secured Notes due 2004	-	250.0	250.0	250.0
12.00% Senior Subordinated Notes due 2007	-	300.0	300.0	300.0
Century Credit Facility	-	-	500.0	500.0
Other Current liabilities	12.6	33.3	55.6	44.1
Total current liabilities	205.5	1,065.2	1,695.6	1,696.3
13.00% Senior Discount Notes due 2003	291.9	-	-	-
12.25% Senior Secured Notes due 2007	250.0	-	-	-
12.00% Senior Subordinated Notes due 2007	300.0	-	-	-
Century Credit Facility	500.0	500.0	-	-
DIP Loans	-	-	30.0	30.0
Other debt	38.8	46.9	37.4	35.5
Total liabilities	1,586.2	1,612.1	1,763.0	1,761.9
12.875% Senior Exchangeable Redeemable Preferred Stock	297.1	338.1	349.6	349.7
Common stock and stockholders' deficiency:				
Class A common stock	0.4	0.5	1.2	1.2
Class B common stock	0.4	0.9	0.1	0.1
Additional paid in capital	679.2	1,127.4	1,132.9	1,136.0
Unearned stock compensation	(4.1)	(2.4)	(2.0)	(2.0)
Accumulated deficit	(680.7)	(2,221.0)	(2,415.3)	(2,469.8)
Total common stock and stockholders' deficiency	(4.9)	(1,094.7)	(1,283.1)	(1,334.5)
Total	\$1,878.3	\$ 855.5	\$ 829.6	\$ 777.1

### C. Pro Forma Financial Data And Projections

The following unaudited pro forma projected financial data (the "Projections") for the Debtors have been derived to show the effect of the consummation of the Plan and the projected financial performance of each of the Reorganized Debtors following the effectiveness of the Plan, which for purposes of this analysis is assumed to occur on September 30, 2003. Other significant assumptions on which the pro forma adjustments and the Projections are based are set forth in the notes to the Projections.

**THE PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARDS COMPLYING WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS. THE DEBTORS' INDEPENDENT ACCOUNTANT HAS NOT REVIEWED THE ACCOMPANYING PROJECTIONS TO DETERMINE THE REASONABLENESS THEREOF AND, ACCORDINGLY, HAS NOT EXPRESSED AN OPINION OR ANY OTHER FORM OF ASSURANCE WITH RESPECT THERETO.**

**THE DEBTORS DO NOT, AS A MATTER OF COURSE, PUBLISH PROJECTIONS OF THEIR ANTICIPATED FINANCIAL POSITION, RESULTS OF OPERATIONS OR CASH FLOWS. ACCORDINGLY, THE DEBTORS DO NOT INTEND TO, AND DISCLAIM ANY OBLIGATION TO, (A) FURNISH UPDATED PROJECTIONS TO HOLDERS OF CLAIMS OR INTERESTS PRIOR TO THE EFFECTIVE DATE OR TO HOLDERS OF REORGANIZED ABIZ' NEW COMMON STOCK OR ANY OTHER PARTY AFTER THE EFFECTIVE DATE, (B) INCLUDE SUCH UPDATED INFORMATION IN ANY DOCUMENTS THAT MAY BE REQUIRED TO BE FILED WITH THE SEC, OR (C) OTHERWISE MAKE SUCH UPDATED INFORMATION PUBLICLY AVAILABLE.**

**THE PROJECTIONS PROVIDED IN THE DISCLOSURE STATEMENT HAVE BEEN PREPARED EXCLUSIVELY BY THE DEBTORS' MANAGEMENT. THESE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS, WHICH, THOUGH CONSIDERED REASONABLE BY MANAGEMENT, AFTER CONSULTATION WITH THE DEBTORS' FINANCIAL ADVISORS, MAY NOT BE REALIZED, AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE AS TO THE ACCURACY OF THESE FINANCIAL PROJECTIONS OR TO THE DEBTORS' ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL NOT MATERIALIZE. FURTHER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THESE PROJECTIONS WERE PREPARED MAY BE DIFFERENT FROM THOSE ASSUMED OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIAL AND POSSIBLY ADVERSE MANNER. THE PROJECTIONS, THEREFORE, MAY NOT BE RELIED UPON AS A GUARANTY OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. FINALLY, THE FOLLOWING PROJECTIONS INCLUDE ASSUMPTIONS AS TO THE ENTERPRISE VALUE OF THE DEBTORS, THE FAIR**

**VALUE OF THEIR ASSETS AND THEIR ACTUAL LIABILITIES AS OF THE EFFECTIVE DATE.**

The Debtors have prepared the accompanying pro forma projections assuming that the Debtors complete the restructuring pursuant to the Plan. This requires the Debtors to apply “fresh start” accounting. The principles are contained in the American Institute of Certified Public Accountants Statement of Position 90-7, “Financial Reporting by Entities in Reorganization Under the Bankruptcy Code.” In accordance with “fresh start” reporting, the reorganization value would be allocated to the applicable Debtor’s assets and no gain could be recorded in the restructuring.

Jefferies has provided an estimated range of the equity value for Reorganized ABIZ of \$147.0 million to \$215.0 million. For the purpose of the following Projections, a reorganization value of \$178.8 million has been assigned and allocated to the post-chapter 11 assets and liabilities in accordance with SFAS 141. This estimated reorganization value, as well as its allocation to the specific assets and liabilities may be significantly different from the final amounts that will be determined upon the Debtors’ emergence from chapter 11.

**Adelphia Business Solutions, Inc. and Subsidiaries**  
**Projected Pro Forma Condensed Consolidated Balance Sheet**  
**As of September 30, 2003 (unaudited)**

*(In Millions)*

	Projected	Effective Date Adjustments		Pro Forma
	September 30, 2003	Financing / Effective Date	Reorganization Adjustments	September 30, 2003
<b>Assets</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents	\$ 13.2	(\$ 3.1)	(\$ 3.0)	\$ 7.1
Accounts Receivable, Net <sup>(A)</sup>	54.6	(14.5)	-	40.1
Other Current Assets <sup>(B)</sup>	18.0	-	(16.0)	2.0
Total Current Assets	\$ 85.8	(\$ 17.6)	(\$ 19.0)	\$ 49.2
Restricted Cash - PA Contract	20.2	-	-	20.2
Investments <sup>(C)</sup>	36.6	-	(2.5)	34.1
Property, Plant and Equipment, Net <sup>(D)</sup>	541.9	-	(352.3)	189.6
Reorg Value in Excess of Assets	-	-	-	-
Other assets - Net <sup>(E)</sup>	33.9	-	(30.0)	3.9
Total Assets	\$ 718.4	(\$ 17.6)	(\$ 403.8)	\$ 297.1
<b>Liabilities and Shareholders' Equity</b>				
<b>Current Liabilities</b>				
Accounts Payable - Pre-Petition <sup>(F)</sup>	\$ 87.8	(\$ 52.6)	(\$ 35.2)	-
Accounts Payable - Post Petition	29.7	-	-	29.7
Due to Adelphia Communications - Net	47.9	-	(47.9)	-
Accrued Interest	67.3	-	(67.3)	-
Accrued Interest - Adelphia Communications	31.3	-	(31.3)	-
13% Senior Discount Notes	303.8	-	(303.8)	-
12.25% Senior Secured Notes due 2004	250.0	-	(250.0)	-
12% Senior Subordinated Notes due 2007	300.0	-	(300.0)	-
Note Payable - Bank	500.0	-	(500.0)	-
Other current liabilities <sup>(G)</sup>	40.1	-	(20.0)	20.1
Total current liabilities	\$ 1,658.0	(\$ 52.6)	(\$ 1,555.6)	\$ 49.8
Capital Leases <sup>(H)</sup>	35.0	-	(16.6)	18.4
9.00% ADLAC DIP	17.0	-	(17.0)	-
12.00% Beal DIP	15.0	(15.0)	-	-
New Revolver	-	-	-	-
New Term Loan	-	40.0	-	40.0
Deferred Exit Costs	-	10.0	-	10.0
Total Liabilities	\$ 1,724.9	(\$ 17.6)	(\$ 1,589.1)	\$ 118.3
Pre-Petition Preferred Stock	349.7	-	(349.7)	-
Class A Common Stock <sup>(I)</sup>	1.2	-	177.6	178.8
Class B Common Stock	0.1	-	(0.1)	-
Additional Paid in Capital	1,136.0	-	(1,136.0)	-
Unearned Stock Compensation	(2.0)	-	2.0	-
Accumulated Deficit	(2,491.6)	-	2,491.6	-
Total Common Shareholders' Equity	(\$ 1,356.2)	-	\$ 1,535.0	\$ 178.8
Total Liabilities and Shareholders' Equity	\$ 718.4	(\$ 17.6)	(\$ 403.8)	\$ 297.1

Note A – Accounts Receivable – reduced by \$14.5 million to reflect offsets of accounts receivable against pre-petition accounts payable in connection with ILEC settlements.

Note B – Other Current Assets – consists primarily of deposits and has been reduced to reflect assets that are expected to be foregone upon emergence from chapter 11.

Note C – Investments – consists primarily of the Debtors' investments in joint ventures, including PECO TelCove and Susquehanna Adelphia Business Solutions. Investments has been reduced to reflect the write-off of ABIZ's investment in Into Networks upon emergence from chapter 11.

Note D – Property, Plant, and Equipment, Net – reduced by \$352.3 million to reflect application of “fresh start” accounting on the Effective Date.

Note E – Other Assets, Net – consists primarily of local multipoint distribution service (“LMDS”) spectrum and deferred loan fees and has been reduced to reflect assets that are expected to be realizable after emergence from chapter 11.

Note F – Accounts Payable Pre-Petition – Effective Date adjustments relate to settlements with pre-petition creditors (involving Cash payments and allowance of unsecured Claims) and offsets of accounts receivable with ILECs as discussed in Note A.

Note G – Other Current Liabilities – consists primarily of prepaid IRU sale revenue, accrued telecommunications disputes, accrued payroll, the current portion of long-term debt and amounts due to one of the Debtors' joint ventures and has been reduced to reflect the compromise of pre-petition liabilities on account of the chapter 11 process.

Note H – Capital Leases – reduced to reflect rejected contracts underlying capital lease obligations, primarily fiber IRUs.

Note I – Class A Common Stock – adjusted to reflect “fresh start” equity valuation of \$178.8 million.

1. *Projected Pro Forma Capitalization*

The following table sets forth the Reorganized Debtors’ unaudited cash and cash equivalents and the capitalization as of September 30, 2003 on a projected and a projected pro forma basis. The projected pro forma capitalization is adjusted to give effect to the consummation of the Plan as if the consummation of the Plan occurred on such date. The pro forma capitalization assumes that the Reorganized Debtors raise a new revolver, which will be undrawn on the Effective Date, and a new term loan of \$40 million in exit financing on the Effective Date.

*(\$ in Millions, unaudited)*

Capitalization (as of September 30, 2003)			
Projected		Pro Forma	
Cash	\$ 13.2	Cash	\$ 7.1
13% Senior Discount Notes	303.8	New Revolver <sup>(A)</sup>	-
12.25% Senior Secured Notes due 2004	250.0	New Term Loan	40.0
12% Senior Subordinated Notes due 2007	300.0	Capital Leases and IRUs	18.4
Century Facility	500.0	Deferred Exit Costs	10.0
Capital Leases and IRUs	35.0		
Total Pre-Petition Debt	<u>1,388.8</u>	Total Debt	<u>68.4</u>
9.00% ADLAC DIP	17.0		
12.00% Beal DIP	15.0		
Total Debt	<u>1,420.8</u>		
Preferred Stock	349.7		
Common Stock	(1,356.2)	Common Stock	<u>178.8</u>
Total Capitalization	<u>\$ 414.3</u>	Total Capitalization	\$ 247.2

Note A – The Debtors’ are pursuing a \$25.0 million revolver, which would be available but undrawn at emergence from chapter 11.

2. *Projections*

a. *Introduction*

As a condition to confirmation of a plan of reorganization, the Bankruptcy Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by liquidation or the need for a subsequent financial reorganization of the Debtors. In connection with the development of the Plan, and for purposes of determining whether the Plan satisfies this feasibility standard, the Debtors’ management analyzed the Reorganized Debtors’ liquidity under the Plan. In connection with this analysis, the Debtors’ management and advisors developed projections of the Debtors’ balance sheets, operating profits and cash flows for the period from October 1, 2003 – December 31, 2006.

The Projections set forth below are based on a number of significant assumptions, including the successful adoption of the Plan, emergence on or about September 30, 2003, no significant downturn in the markets where the Debtors operate and the availability of sufficient exit financing to implement the Plan.

The Debtors do not, as a matter of course, publicly disclose projections as to future revenues, earnings or cash flow. In connection with the Debtors’ consideration of the Plan, certain projections of the future financial performance of the Debtors’ operating businesses were prepared. Accordingly, after the Effective Date, each of the Reorganized Debtors does not intend to update or otherwise revise the Projections to reflect changes in the general economic or industry conditions. Significant assumptions underlying the Projections are set forth below and should be read in conjunction with the Debtors’ historical financial information set forth elsewhere in this Disclosure Statement.

The Projections were prepared by the Debtors to analyze their ability to meet their obligations under the Plan and to assist each holder of a Claim in determining whether to accept or reject the Plan. The Projections were not prepared to conform to the guidelines established by the American Institute of Certified Public Accountants regarding financing forecasts. While presented with numerical specificity, these Projections are based upon a variety of assumptions (which the Debtors believe are reasonable), and are subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond the control of the Debtors. Consequently, the inclusion of the Projections herein should not be regarded as a representation by the Debtors (or any other person) that the Projections will be realized, and actual results may vary materially from those presented below. Due to the fact that such Projections are subject to significant uncertainty and are based upon assumptions which may not prove to be correct, neither the Debtors nor any other person assumes any responsibility for their accuracy or completeness.

Moreover, the telecommunications industry is highly competitive and the Debtors’ earnings may be adversely affected by the actions of competitors, either through competitive influx, price pressure, or business expansion. The Projections generally assume that no material change to the competitive environment will occur and that no significant changes in the telecommunications industry will occur as a result of shifting consumer demand, regulatory changes or other factors.



b. *Principal Assumptions*

The Projections are based upon forecasts of operating results. The following is a list of the principal assumptions that were used to develop the Projections.

1. The Projections assume an Effective Date of September 30, 2003.
2. It is assumed that as of the Effective Date the equity value of Reorganized ABIZ will be \$178.8 million.
3. The Projections assume the successful issuance of a new revolver, which will be undrawn at closing, and a \$40 million new term loan as of the Effective Date. In connection with the issuance of the term loan, the Projections assume that the Debtors repay their loans pursuant to the Beal DIP Credit Agreement, pay approximately \$20.0 million in cure costs, fund the Cash Recovery elections for Classes 6, 7A, 7B, 7C and 7D and pay other Administrative Expense Claims. Additional proceeds are available to fund working capital, capital expenditures and other general corporate purposes.
4. The Projections assume that there will be approximately \$5.1 million of Excess Cash (or a total of \$8.1 million) available to fund the Cash Recovery elections.
5. The Projections assume that the Debtors will satisfy certain cure costs and creditor Claims through the issuance of new notes. Such new notes are estimated at \$10.0 million and referred to as “Deferred Exit Costs” throughout the Projections.
6. The Projections assume the consummation of the Plan, including the subordination of the ACC DIP Claims.
7. The Projections **DO NOT** assume any recovery from litigation with ACC or any other party.
8. The Projections assume that no material changes in the telecommunications industry will occur as a result of regulatory changes.
9. The Projections assume that ABIZ emerges from chapter 11 as a private company and remains a private company.

(i) *Balance Sheet.* The Projected balance sheet data reflects all of the adjustments to record confirmation of the Plan as presented above (i.e. debt discharge and “fresh start” accounting entries). Projected balance sheet information is presented below for December 31, 2003, 2004, 2005 and 2006.

(ii) *Working Capital.* Trade receivables and accounts payable levels are projected according to historical relationships with respect to revenue and expense levels. The assumptions have been adjusted to reflect recent agreements with other carriers with regard to pricing and payment terms.

(iii) *Revenues.* Revenue is generated from the sale of communications services consisting primarily of local switched phone service, dedicated access, Inter-city Private Line (“IcPL”) services, data/internet services, long distance service, carrier access and mutual compensation. The Debtors generate revenue directly from end user customers as well as from other carriers. Most end user revenue is subject to contracts and includes monthly recurring fees and usage charges. The Debtors project revenue to grow from \$252.0 million for 2003 to \$378.5 million projected for 2006, representing a compounded annual growth rate (“CAGR”) of 14.5%. As a result of the Debtors’ strategy to focus on communications-intensive customers, this revenue growth is driven primarily by ABIZ’ Dedicated Access, Data, Internet and IcPL products.

- *Dedicated Access.* Revenues are projected to grow from \$56.9 million in 2003 to \$105.6 million in 2006 representing a CAGR of 22.9%. Dedicated Access services are the Debtors’ core differentiating products because they are typically provisioned on the Debtors’ fiber network and leverage the Debtors’ existing deployed infrastructure. Due to the high capital requirement to provide Dedicated Access services, customers typically enter into long-term contracts and customer churn is typically very low.
- *Inter-city Private Line.* Revenues are projected to grow from \$12.5 million in 2003 to \$45.6 million in 2006 representing a CAGR of 53.8%. IcPL is a high-capacity, point-to-point network that pairs customer locations in the Debtors’ markets via a self-healing, dedicated fiber-optic infrastructure. The Debtors are able to offer Inter-city Private Line services due to their extensive end-to-end network infrastructure. IcPL services are sold to multi-location customers who routinely transmit large volumes of data from location-to-location.
- *Switched Access.* Revenues are projected to grow from \$85.4 million in 2003 to \$115.4 million in 2006 representing a CAGR of 10.6%. Switched access services are the Debtors’ core voice product offering. The Debtors have eliminated the majority of their total service resale (“TSR”) lines through asset sales, market closures and voluntary terminations. Accordingly, the growth in switched access revenue is projected to be driven primarily by sale of type I and type II. Switched access lines are projected to grow from 318,859 as of December 31, 2003 to 511,733 as of December 31, 2006.
- *Data / Internet.* Revenues are projected to grow from \$26.7 million in 2003 to \$42.7 million in 2006 representing a CAGR of 16.9%.
- *Long Distance.* Revenues are projected to grow from \$17.8 million in 2003 to \$21.5 million in 2006 representing a CAGR of 6.6%. Growth in long distance revenue is driven primarily by increases in access line utilization and increases in access lines, offset by decreases in long distance rates. The Debtors project increases in long distance penetration rates as it begins to transition long distance from a fully-resold service to an on-network service, allowing the Reorganized Debtors to offer long distance at more competitive rates.
- *Carrier Revenues.* Revenues are projected to decrease from \$29.6 million in 2003 to \$24.6 million in 2004 and remain constant at \$24.6 million through 2006. This decrease is attributable to decreases in federal (Federal Communications Commission (“FCC”)) and state (PUC) mandated reciprocal compensation rates. While the Debtors believe that there will be opportunities to increase carrier revenues in the

future, the Debtors have projected flat revenue due to the regulatory uncertainty that surrounds carrier revenue in general. Historically, the Debtors have had substantial disputes with the ILECs making it difficult to collect reciprocal compensation and related revenue. The Reorganized Debtors' projected carrier revenue is based on what the Debtors believe to be fully-collectible revenue rates. Projections are based on what the Debtors believe to be the appropriate FCC rates for reciprocal compensation, or the rate governed by existing contracts between the Debtors and the carriers.

- *Other Revenues.* Revenues are projected to decrease slightly from \$23.2 million in 2003 to \$23.1 million in 2006. Other revenues consist of management fees associated with the Debtors' joint venture markets.

(iv) *Net Technical Expenses.* Net Technical Expenses consist primarily of the labor and operating expenses required to operate the Debtors' network. For certain types of services, it also includes leased transport, long distance, and carrier compensation paid by the Debtors. Leased transport expenses consist of monthly recurring charges paid to the ILEC for circuits which the Debtors lease in order to deliver service to its customers or for circuits which connect the Debtors' network to other carriers' networks. Long distance expenses are charges the Debtors pay to wholesale long distance service providers who the Debtors use to connect their long distance customers to parties dialing outside of the Debtors' service areas. These expenses are based on minutes of use. Technical expenses are projected to increase from \$111.4 million in 2003 to \$130.1 million in 2006, but decrease as a percentage of revenue from 44.2% in 2003 to 34.4% in 2006 due to improvements in network efficiencies and the Debtors' ability to leverage its existing installed infrastructure, rather than relying on third party networks. In general, on-net revenue requires minimal incremental Technical Expenses while resold voice services typically require substantial incremental Technical Expenses. As a result of increased revenue, aggressive management of Technical Expenses, and increased operating leverage, the Debtors project gross margins (defined as Revenues less Net Technical Expenses) to increase from 55.8% in 2003 to 65.6% in 2006.

(v) *Selling and Marketing Expenses.* Selling and Marketing Expenses are projected to increase from \$16.2 million in 2003 to \$29.9 million in 2006. Selling and Marketing Expenses are primarily personnel wages and commissions which are driven by incremental revenue and headcount. The Debtors anticipate increasing the number of account executives from 90 as of September 30, 2003 to 137 as of December 31, 2006.

(vi) *General and Administrative Expenses.* General and administrative expenses are projected to increase from \$86.3 million in 2003 to \$100.3 million in 2006. Increases in general and administrative expenses are primarily driven by increases in the Debtors' headcount as well as increased sales taxes and variable billing costs, all associated with the projected growth in revenues.

(vii) *Income Taxes.* For the purposes of projecting tax expense for book purposes, the Debtors have assumed that pre-tax income is taxed at 38% consisting of 35% federal income tax and a blended average of 3% state income tax. A portion of the Debtors' income that is generated in Pennsylvania is exempt from state income taxes due to the Keystone Opportunity Improvement Zone. The Debtors' have assumed that no actual federal income tax will be payable through 2006 due to available net operating losses carryforwards (even though the application of such NOL carryforwards will be subject to certain limitations – see *Section XIII*).

The Debtors' have also assumed that state income taxes are paid in cash as incurred for book purposes.

(viii) *Capital Expenditures.* Most of the Debtors' Capital Expenditures are either capitalized cost of customer installation and/or success-based capital associated with provisioning new customers and products. In addition, in 2005 and 2006, the Debtors are projecting substantial capital expenditures associated with the implementation of high margin dedicated access and IcPL services, which require a large initial capital investment. In all cases, the Debtors manage their capital expenditures to meet a maximum payback period of 12 to 18 months on invested capital. A substantial portion of the Debtors' capital expenditures are offset by the Debtors' ability to redeploy assets that have been warehoused from markets that were previously shut-down. The Debtors' project that approximately \$45.0 million in Capital Expenditures will be offset through the redeployment of owned assets. Capital Expenditures by category are projected to be:

(\$ in Millions)

Category	Q4 2003	2004	2005	2006
Maintenance	\$0.5	\$2.3	\$2.9	\$3.1
Success-Based	2.7	28.9	41.5	41.6
Trunk Capacity	0.4	3.3	4.5	4.6
Network and New Products	0.8	4.3	9.4	12.6
Systems	0.4	1.6	2.4	1.2
Capitalized Installation Costs	2.8	9.5	10.3	10.8
<b>Total</b>	<b>\$7.6</b>	<b>\$49.8</b>	<b>\$70.6</b>	<b>\$73.9</b>

(\$ in Millions)

	Projected as of December 31,			
	2003	2004	2005	2006
<b>Assets</b>				
Current Assets				
Cash and Cash Equivalents	\$ 5.2	\$ 5.0	\$ 5.0	\$ 18.6
Accounts Receivable, Net	40.2	46.6	53.4	60.2
Other Current Assets	2.0	2.0	2.0	2.0
<b>Total Current Assets</b>	<b>\$ 47.5</b>	<b>\$ 53.6</b>	<b>\$ 60.4</b>	<b>\$ 80.7</b>
Restricted Cash - PA Contract	20.2	20.2	20.2	20.2
Investments	32.0	26.7	21.1	15.0
Property, Plant and Equipment, Net	187.3	193.9	213.7	227.9
Reorg Value in Excess of Assets	-	-	-	-
Other Assets, Net	3.9	3.9	3.9	3.9
<b>Total Assets</b>	<b>\$ 290.8</b>	<b>\$ 298.3</b>	<b>\$ 319.3</b>	<b>\$ 347.7</b>
<b>Liabilities and Shareholders' Equity</b>				
Current Liabilities				
Accounts Payable - Post Petition	29.2	30.2	32.2	34.7
Other Current Liabilities	17.6	22.2	34.8	54.6
<b>Total Current Liabilities</b>	<b>\$ 46.8</b>	<b>\$ 52.4</b>	<b>\$ 67.0</b>	<b>\$ 89.3</b>
Capital Leases	17.9	15.8	11.1	9.7
New Revolver	-	-	-	-
New Term Loan	40.0	39.4	29.6	-
Deferred Exit Costs	9.0	4.5	1.0	-
<b>Total Liabilities</b>	<b>\$ 113.7</b>	<b>\$ 112.1</b>	<b>\$ 108.7</b>	<b>\$ 99.0</b>
Class A Common Stock	178.8	178.8	178.8	178.8
Class B Common Stock	-	-	-	-
Additional Paid in Capital	-	-	-	-
Unearned Stock Compensation	-	-	-	-
Accumulated Deficit	(1.7)	7.4	31.8	69.9
<b>Total Common Shareholders' Equity</b>	<b>\$ 177.1</b>	<b>\$ 186.2</b>	<b>\$ 210.6</b>	<b>\$ 248.7</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 290.8</b>	<b>\$ 298.3</b>	<b>\$ 319.3</b>	<b>\$ 347.7</b>

(\$ in Millions)

	For the Projected Years Ended December 31,			
	2003	2004	2005	2006
Revenue				
Dedicated Access	\$ 56.9	\$ 74.1	\$ 89.8	\$ 105.6
Inter-City Private Line	12.5	26.0	35.7	45.6
Switched Access	85.4	94.9	105.4	115.4
Data / Internet	26.7	32.9	37.7	42.7
Long Distance	17.8	18.4	20.2	21.5
Carrier Revenues	29.6	24.6	24.6	24.6
Other Revenues	23.2	22.4	22.7	23.1
Total Revenue	252.0	293.3	336.2	378.5
Total Technical Expenses	122.2	122.5	130.6	140.9
Capitalized Costs	(10.8)	(9.5)	(10.3)	(10.8)
Net Technical Expenses	111.4	113.0	120.3	130.1
Gross Margin	140.5	180.3	215.9	248.4
Gross Margin %	55.8%	61.5%	64.2%	65.6%
Sales and Marketing Expenses	16.2	26.3	28.4	29.9
General and Administrative Expenses	86.3	89.6	94.9	100.3
Total S, G&A Expenses	102.6	115.9	123.3	130.2
EBITDA <sup>(A)</sup>	38.0	64.4	92.6	118.2
EBITDA %	15.1%	21.9%	27.6%	31.2%
Depreciation and Amortization	83.5	43.2	50.7	59.7
<b>EBIT</b>	(45.6)	21.1	41.9	58.5
Reorganization Costs	12.8	-	-	-
Interest Income	(0.3)	(0.1)	(0.1)	(0.2)
Interest Expense	7.3	8.2	6.0	2.1
Income Taxes	-	5.0	13.7	21.5
Loss before equity in income from JVs	(65.4)	8.1	22.3	35.1
Equity in loss (income) from JVs	1.2	(1.1)	(2.1)	(3.0)
Loss on Disposition of Assets	14.0	-	-	-
Discontinued Operations	0.9	-	-	-
Net Income (Loss)	(\$ 81.6)	\$ 9.2	\$ 24.4	\$ 38.1

Note A: Earnings before interest expense, income taxes, depreciation and amortization, restructuring charges, other non-cash charges, gain on sale of investment, interest income and equity in net loss of joint ventures (“EBITDA”) and similar measurements of cash flow are commonly used in the telecommunications industry to analyze and compare telecommunications companies on the basis of operating performance, leverage, and liquidity. While EBITDA is not an alternative to operating income as an indicator of operating performance or an alternative to cash flows from operating activities as a measure of liquidity, all as defined by generally accepted accounting principles, and while EBITDA may not be comparable to other similarly titled measures of other companies, ABIZ’ management believes EBITDA is a meaningful measure of performance.

(\$ in millions)

	For the Year Ended December 31,			
	2003	2004	2005	2006
Cash Flows from Operating				
Net Loss	(\$ 81.4)	\$ 9.2	\$ 24.4	\$ 38.1
Adjustments				
Depreciation and Amortization	83.5	43.2	50.7	59.7
Loss (Gain) on Disposition of Assets	14.0	-	-	-
Equity in net loss of JV	1.2	(1.1)	(2.1)	(3.0)
PIK Interest	1.1	-	-	-
Changes in Working Capital				
Accounts Receivable	12.7	(6.4)	(6.8)	(6.7)
Other Current Assets	3.7	-	-	-
Other Long-Term Assets	(0.0)	-	-	-
Accounts Payable	(44.7)	1.0	2.0	2.5
Accrued Interest	(2.4)	-	-	-
Other	(12.2)	4.6	12.6	19.8
Net Cash Provided by Operating	(24.5)	50.5	80.9	110.4
Cash flows from Investing				
Proceeds from Asset Sales	10.7	-	-	-
Distributions from JV	-	6.3	7.7	9.1
Net Capital Expenditures	(25.5)	(49.8)	(70.6)	(73.9)
Net Cash used in Investing	(14.8)	(43.5)	(62.9)	(64.8)
Cash flows from Financing				
Issuance of Debt	40.0	-	-	-
Repayment of Debt	(18.1)	(7.2)	(18.0)	(32.0)
Other	(0.6)	-	-	-
Net Cash from Financing	21.4	(7.2)	(18.0)	(32.0)
Increase (Decrease) in Cash	(18.0)	(0.2)	-	13.6
Cash and cash equivalents, Beginning	23.3	5.2	5.0	5.0
Cash and cash equivalents, Ending	5.2	5.0	5.0	18.6

#### D. Going Concern Valuation

The Debtors have been advised by Jefferies, their financial advisor, with respect to the estimated reorganization equity value of Reorganized ABIZ on a going concern basis. Solely for purposes of the Plan, the analysis performed by Jefferies indicates that the estimated reorganization equity value of Reorganized ABIZ, after accounting for estimated debt upon emergence from chapter 11 and distributions of Cash pursuant to the Plan, is within the range of \$147.0 million to \$215.0 million as of September 30, 2003. Assuming a distribution of 10,000,000 shares of New Common Stock, the estimated imputed range of equity value is between \$14.70 and \$21.50 per share.

THE ESTIMATED RANGE OF REORGANIZATION VALUES ASSUMES AN EFFECTIVE DATE OF SEPTEMBER 30, 2003, REFLECTS WORK PERFORMED BY JEFFERIES ON THE BASIS OF INFORMATION CONCERNING THE BUSINESS, AND

ASSETS OF THE DEBTORS AVAILABLE TO JEFFERIES AS OF JULY 31, 2003. NEITHER JEFFERIES NOR THE DEBTORS HAVE UPDATED THE ESTIMATED RANGE OF REORGANIZATION VALUES TO REFLECT INFORMATION AVAILABLE TO THE DEBTORS OR JEFFERIES SUBSEQUENT TO JUNE 30, 2003.

The foregoing estimate of the equity value of Reorganized ABIZ is based on a number of assumptions, including a successful reorganization of the Debtors' business and finances in a timely manner, the implementation of the Reorganized Debtors' business plan, the achievement of the forecasts reflected in the Projections, market conditions, and the Plan becoming effective in accordance with the estimates and other assumptions discussed herein.

In preparing its analysis of the estimated reorganization equity value of Reorganized ABIZ, Jefferies, among other analyses: (i) reviewed certain historical financial information of the Debtors for recent years and interim periods including the most current financial results through June 30, 2003; (ii) reviewed certain internal financial and operating data of the Debtors including financial projections prepared and provided by management relating to their business and their prospects; (iii) met with certain members of senior management of the Debtors to discuss the Debtors' operations and future prospects; (iv) reviewed publicly available financial data and considered the market value of public companies which Jefferies deemed generally comparable to the operating business of the Debtors; (v) considered certain economic and industry information relevant to the Reorganized Debtors; and (vi) conducted such other studies, analysis, inquiries, and investigations as it deemed appropriate.

ALTHOUGH JEFFERIES CONDUCTED A REVIEW AND ANALYSIS OF THE DEBTORS' BUSINESS, OPERATING ASSETS AND LIABILITIES AND THE REORGANIZED DEBTORS' BUSINESS PLANS, IT ASSUMED AND RELIED ON THE ACCURACY AND COMPLETENESS OF ALL (I) FINANCIAL AND OTHER INFORMATION FURNISHED TO IT BY THE DEBTORS, AND (II) PUBLICLY AVAILABLE INFORMATION. IN ADDITION, JEFFERIES DID NOT INDEPENDENTLY VERIFY MANAGEMENT'S PROJECTIONS IN CONNECTION WITH SUCH ESTIMATES OF THE REORGANIZATION VALUE, AND NO INDEPENDENT VALUATIONS OR APPRAISALS OF THE DEBTORS WERE SOUGHT OR OBTAINED IN CONNECTION HERewith.

THE ESTIMATED RANGE OF REORGANIZATION VALUES DESCRIBED HEREIN DOES NOT PURPORT TO BE AN APPRAISAL OR NECESSARILY REFLECT THE VALUES WHICH MAY BE REALIZED IF ASSETS ARE SOLD AS A GOING CONCERN, IN LIQUIDATION, OR OTHERWISE.

THE ANALYSIS OF THE DEBTORS' REORGANIZATION EQUITY VALUE PREPARED BY JEFFERIES REPRESENTS THE HYPOTHETICAL RANGE OF EQUITY VALUES AND IS BASED ON THE ASSUMPTIONS CONTAINED HEREIN. THE ANALYSIS WAS DEVELOPED SOLELY FOR PURPOSES OF THE FORMULATION AND NEGOTIATION OF A PLAN OF REORGANIZATION AND THE DETERMINATION OF IMPLIED RELATIVE RECOVERIES TO CREDITORS THEREUNDER. SUCH ESTIMATES REFLECT COMPUTATIONS OF THE RANGE OF EQUITY VALUES OF REORGANIZED ABIZ THROUGH THE APPLICATION OF VARIOUS GENERALLY ACCEPTED VALUATION TECHNIQUES AND DO NOT PURPORT TO REFLECT OR CONSTITUTE APPRAISALS, LIQUIDATION VALUES, OR ESTIMATES OF THE ACTUAL MARKET VALUE THAT MAY BE REALIZED THROUGH THE SALE OF ANY SECURITIES TO BE

ISSUED PURSUANT TO THE PLAN, WHICH MAY BE SIGNIFICANTLY DIFFERENT THAN THE AMOUNTS SET FORTH HEREIN.

THE VALUE OF AN OPERATING BUSINESS IS SUBJECT TO NUMEROUS UNCERTAINTIES AND CONTINGENCIES WHICH ARE DIFFICULT TO PREDICT, AND WILL FLUCTUATE WITH CHANGES IN FACTORS AFFECTING THE FINANCIAL CONDITION AND PROSPECTS OF SUCH A BUSINESS. AS A RESULT, THE ESTIMATE OF THE RANGE OF EQUITY VALUES OF REORGANIZED ABIZ SET FORTH HEREIN IS NOT NECESSARILY INDICATIVE OF ACTUAL OUTCOMES, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN THOSE SET FORTH HEREIN. BECAUSE SUCH ESTIMATES ARE INHERENTLY SUBJECT TO UNCERTAINTIES, NEITHER THE DEBTORS, JEFFERIES, NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THEIR ACCURACY. IN ADDITION, THE VALUATION OF NEWLY ISSUED SECURITIES IS SUBJECT TO ADDITIONAL UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT.

1. *Valuation Methodology*

Jefferies performed a variety of analyses and considered a variety of factors in preparing its estimated range of Reorganized ABIZ' equity value. While several generally accepted valuation techniques for estimating ABIZ' equity value were used, Jefferies primarily relied on three principal methodologies to estimate the value of Reorganized ABIZ, based on the 2003 to 2006 financial projections described under "Projections" which were prepared by ABIZ: (i) a comparison of financial data of ABIZ (including historical and projected financial data) with similar data for other publicly held companies in businesses similar to ABIZ, (ii) an analysis of comparable valuations indicated by precedent mergers and acquisitions of such companies, and (iii) a calculation of the present value of the unlevered free cash flows reflected in Reorganized ABIZ' Projections, including calculating the terminal value of the business based upon a range of EBITDA multiples and weighted average cost of capital ("WACC").

The following summary does not purport to be a complete description of the analyses undertaken and factors reviewed to support Jefferies' conclusions. The preparation of a valuation is a complex process involving various determinations as to the most appropriate analyses and factors to consider, and the application of those analyses and factors under the particular circumstances. As a result, the process involved in preparing a valuation is not readily summarized. Jefferies valuation must be considered as a whole and selecting just one methodology or portions of the analyses, without considering the analyses as a whole, could create a misleading or incomplete conclusion as to ABIZ' value.

a. *Comparable Company Analysis*

The comparable company analysis involved identifying a group of publicly traded companies whose businesses are similar to those of Reorganized ABIZ and then calculating ratios of various financial results (i.e., revenue and EBITDA) to the enterprise values of these companies based upon the public market value of such companies' securities. Criteria for selecting comparable companies include, among other relevant characteristics, similar lines of business, business risks, growth prospects, business maturity, market presence, and size and scale of operations. The selection of truly comparable companies is often difficult and subject to interpretation. However, the underlying concept is to develop a premise for relative value, which, when coupled with other approaches, presents a foundation for determining firm



value. The ranges of ratios derived were then applied to the ABIZ' historical and projected financial results to derive a range of implied values.

b. *Comparable Transaction Analysis*

The comparable transaction analysis estimates value by examining public merger and acquisition transactions. The valuations paid in such acquisitions or implied in such mergers were analyzed as ratios of various financial results. These transaction multiples are calculated based on the purchase price (including any debt assumed) paid to acquire companies that are comparable to ABIZ. These ratios were then applied to ABIZ' financial results and Reorganized ABIZ' projections to determine a valuation range. Since precedent transaction analysis explains other aspects of value besides the inherent value of a company, there are limitations as to its usage in Reorganized ABIZ' valuation.

c. *Discounted Cash Flow Approach ("DCF")*

The discounted cash flow ("DCF") valuation methodology relates the value of an asset or business to the present value of expected future cash flows to be generated by that asset or business. The DCF methodology is a "forward looking" approach that discounts the expected future cash flows by an estimated WACC. The expected future cash flows have two components: the present value of the projected unlevered free cash flows for a determined period and the present value of the terminal value of cash flows (representing firm value beyond the time horizon of the projections). Jefferies discounted cash flow valuation is based on the projection of ABIZ' operating results.

This approach relies on the company's ability to project future cash flows with some degree of accuracy. Since ABIZ' projections reflect significant assumptions made by ABIZ' management concerning anticipated results, the assumptions and judgments used in the projections may or may not prove correct and therefore, no assurance can be provided that projected results are attainable or will be realized. Jefferies cannot and does not make any representations or warranties as to the accuracy or completeness of ABIZ' projections.

THE RANGE OF REORGANIZATION VALUES DETERMINED BY JEFFERIES IS AN ESTIMATE AND DOES NOT NECESSARILY REFLECT VALUES THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS.

## **IX.**

### **Certain Factors to Be Considered**

#### **A. General Consideration**

The Plan sets forth the means for satisfying the Claims against and Interests in the Debtors. Certain Claims and Interests receive no distributions pursuant to the Plan. Reorganization of certain of the Debtors' businesses and operations under the proposed Plan also avoids the potentially adverse impact of a liquidation on those Debtors' employees and other stakeholders.

## **B. Certain Reorganization Considerations**

Although the Plan Proponents believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes. In addition, although the Plan Proponents believe that the Effective Date will occur soon after the Confirmation Date, there can be no assurance as to such timing.

The Plan provides for certain conditions that must be fulfilled prior to confirmation of the Plan and the Effective Date. As of the date of this Disclosure Statement, there can be no assurance that any or all of the conditions in the Plan 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 and the restructuring completed. If a liquidation or protracted reorganization were to occur, there is a substantial risk that the value of the Debtors' enterprise would be substantially eroded to the detriment of all stakeholders.

The Plan provides for no distribution to Class 5 (ACC DIP Claims), Class 9 (Securities Claims), Class 11 (Equity Interests) and Class 13 (Subordinated Claims). The Bankruptcy Code conclusively deems these Classes to have rejected the Plan. Notwithstanding the fact that these Classes are deemed to have rejected the Plan, the Bankruptcy Court may confirm the Plan if at least one impaired Class votes to accept the Plan (with such acceptance being determined without including the vote of any "insider" in such Class). Thus, for the Plan to be confirmed, one impaired Class, among Class 1A (CIT Secured Claim), Class 6 (12¼% Secured Notes Claims), Class 7A (Convenience Claims), Class 7B (Trade Claims), Class 7C (Funded Debt Claims) and Class 7D (12% Notes Claims), must vote to accept the Plan. As to each impaired Class that has not accepted the Plan, the Plan may be confirmed if the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to these Classes. The Debtors believe that the Plan satisfies these requirements. For more information, see *Section XI* below.

## **C. Risks Relating to the Plan Securities**

### *1. Variances from Projected Financial Information*

The financial projections included in this Disclosure Statement are dependent upon the successful implementation of the Debtors' 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 performance of Reorganized ABIZ, industry performance, certain assumptions with respect to competitors of Reorganized ABIZ, general business and economic conditions and other matters, many of which are beyond the control of Reorganized ABIZ. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the projections may affect the actual financial results of Reorganized ABIZ. Although the Debtors believe that the projections are reasonably attainable, variations between the actual financial results and those projected may occur and be material.

The Debtors have not completed an outside audit since December 2000. On August 11, 2003, the Debtors filed a Current Report on Form 8-K with the Securities and

Exchange Commission, announcing the retention of Grant Thornton LLP as their new independent accountant, effective as of August 5, 2003. Accordingly the Debtors' historical financial results for 2001, 2002 and 2003 were prepared without the assistance of an outside auditor. As a result, the Debtors cannot provide creditors with financial statements prepared or reviewed by outside auditors with which the financial projections in this Disclosure Statement can be compared.

2. *Significant Holders*

If the Plan is approved, the holders of the 12¼% Secured Notes will own a majority of the New Common Stock. Bay Harbour Management L.C. would be the only such holder entitled to receive more than 10% of the New Common Stock to be distributed under the Plan. The holders of the 12¼% Secured Notes will have the ability to elect a majority of the members of the Board of Directors of Reorganized ABIZ and to control the vote on all matters presented to a vote of the holders of New Common Stock.

3. *Lack of Trading Market*

The stock issued under the Plan will not be listed on any exchange. There can be no assurance that an active trading market for the New Common Stock will develop. Accordingly, no assurance can be given that a holder of New Common Stock will be able to sell such securities in the future or as to the price at which any such sale may occur. If such markets were to exist, such securities could trade at prices higher or lower than the value ascribed to such securities herein depending upon many factors, including the prevailing interest rates, markets for similar securities, general economic and industry conditions, and the performance of, and investor expectations for, Reorganized ABIZ.

4. *Dividend Policies*

Because all of the Debtors' cash flows will be used in the foreseeable future to either make payments under any exit facility that may be entered into in connection with the emergence from chapter 11 and under certain of the Plan Securities, or for working capital purposes, Reorganized ABIZ does not anticipate paying dividends on the New Common Stock in the near future.

5. *Restrictions on Transfer*

The New Common Stock will be distributed pursuant to the Plan without registration under the Securities Act and without qualification or registration under state securities laws, pursuant to exemptions from such registration and qualification contained in section 1145 of the Bankruptcy Code. With respect to certain persons who receive such securities pursuant to the Plan, these Bankruptcy Code exemptions apply only to the distribution of such securities under the Plan and not to any subsequent sale, exchange, transfer or other disposition of such securities or any interest therein by such persons. Therefore, subsequent sales, exchanges, transfers, or other dispositions of such securities or any interest therein by "underwriters" or "issuers" would not be exempted by section 1145 of the Bankruptcy Code from registration under the Securities Act or state securities laws.

Holders of Plan Securities who are deemed to be "underwriters" as defined in section 1145(b) of the Bankruptcy Code, including holders who are deemed to be "affiliates" or "control persons" within the meaning of the Securities Act, will be unable to transfer or to sell

their securities freely except pursuant to (a) “ordinary trading transactions” by a holder that is not an “issuer” within the meaning of section 1145(b), (b) an effective registration of such securities under the Securities Act and under equivalent state securities or “blue sky” laws or (c) pursuant to the provisions of Rule 144 under the Securities Act or another available exemption from registration requirements. For a more detailed description of these matters, see *Section V.F.*

As a result, the Plan provides that Reorganized ABIZ will enter into registration rights agreements with significant holders of the New Common Stock to be issued in the Plan providing for unlimited “piggyback” registration rights and will undertake to deliver information required by Rule 144A of the Securities Exchange Act of 1934. All registration obligations of Reorganized ABIZ will be with respect to the New Common Stock only. For a more detailed description of these matters, see *Section V.F.*

Additionally, the New Common Stock will contain tag-along and drag-along rights, as described in *Section V.F.*

In addition, the shares of New Common Stock will be subject to certain transfer restrictions set forth in a shareholders’ agreement among the holders of the shares of New Common Stock and New Warrants (the “Shareholders’ Agreement”) who receive their shares or warrants pursuant to the Plan, as the Shareholders’ Agreement may be supplemented, modified, amended or restated from time to time. Such transfer restrictions will prohibit a holder of New Common Stock from transferring any shares to any Person not already holding shares of New Common Stock after New Common Stock is held of record by 450 or more Persons.

Also, such holders of the New Common Stock will be able to sell their shares of New Common Stock only if a registration statement relating to such shares is then in effect, or if such transaction is exempt from the registration requirements of the Securities Act, and such shares are qualified for sale or exempt from qualification under the applicable securities laws of the states in which the purchaser of such shares resides. See *Section V.H.*

#### **D. Telecommunications Competition**

The Debtors experience competition from numerous types of telecommunication service providers, including inter-exchange carriers, long-haul providers, local telephone companies, broadband cable television companies and fixed wireless providers. Accordingly, there can be no assurance that ABIZ will be able to compete successfully against other providers of such services, or that the Debtors will be able to achieve profitability from such services in future years.

In addition, the telecommunications services industry in general is subject to rapid and significant changes in technology. These changes may increase competitive pressures on the Reorganized Debtors or require capital investments by the Reorganized Debtors in excess of its available resources. Because of the rapid and high level of technological change in the industry, the effect on the businesses of the Reorganized Debtors cannot be predicted with any certainty.

#### **E. Government Regulation**

The telecommunications industry is extensively regulated by the FCC and state public utility commissions. For example, the FCC is required to grant prior approval of any assignment or transfer of control involving an entity that holds an FCC license or Section 214

authorization. Because of the inherent uncertainties in the application process (*e.g.*, a challenge to the FCC applications and composition of ownership of voting securities), there can be no assurance that such applications will be granted within two to three months of their filing or at all. Revisions to the FCC's rules and regulations implementing the Telecommunications Act of 1996 may also impact Reorganized ABIZ' ability to successfully execute its business plan. Recently, the FCC announced the adoption of revised rules that affect the availability and pricing of the unbundled network elements that ABIZ purchases from the ILECs to provide services to its customers. The FCC's order regarding the adoption of these rules has not been released, and it is unknown as to what specific impact these rules may have on Reorganized ABIZ' business plan.

#### **F. Reliance on Key Personnel**

One of the Debtors' primary assets is their highly skilled professionals, who have the ability to pursue other employment opportunities and deprive the Debtors of the skill and knowledge essential for performance of new and existing contracts. The Debtors operate a business that is dependent on highly skilled employees, who will perform tasks of the highest standards over an extended period of time. A loss of a significant number of key professionals could have a material adverse effect on the Debtors.

The Debtors' successful transition through the restructuring process is dependent in part on their ability to retain and motivate their officers and key employees. There can be no assurance that the Debtors will be able to retain and employ qualified management and technical personnel. The Debtors obtained Bankruptcy Court approval of a bonus program designed to retain certain of their key employees, but there is no guarantee that such program will have the intended effect. See *Section III.I*.

#### **G. Liquidity and Capital Resources**

To compete effectively in the telecommunications industry, prior to the commencement of the Reorganization Cases the Debtors have spent significant capital constructing and operating their network. As a result, the Debtors have incurred significant operating losses. Given the current volatility in the telecommunications industry, there can be no assurance that the Reorganized Debtors will be able to generate operating profits on a sustained basis. Further, due to the bankruptcy filing and related events, there is no assurance that the carrying amounts of certain assets will be realized or that liabilities will be liquidated or settled for the amounts recorded.

The Debtors believe that their cash and short-term investments upon emergence from chapter 11 should enable the Reorganized Debtors to fund operations. There can be no assurance, however, that such resources will be sufficient for anticipated or unanticipated working capital and capital expenditure requirements, or that the Reorganized Debtors will achieve or sustain profitability or positive cash flow in the future.

#### **H. Technical Support and Network Expansion**

The Debtors are attempting to increase total network utilization through the sale of additional services. To the extent such strategy is successful, there will be additional demands on the Debtors' network, customer support, sales and marketing resources. Accordingly, in the event the Debtors fail to manage such growth effectively, their financial condition could be materially and adversely affected.

In addition, while portions of the Debtors' telecommunications network were designed with redundant backbone circuits to allow traffic re-routing in the event of a fiber cut or other equipment outage, other portions of its network do not have such redundancy. Therefore, there can be no assurance that the Debtors will not experience certain network failures, or even a catastrophic failure of its entire network.

Moreover, to facilitate new service offerings, the Debtors must secure additional access to incumbent local telephone companies' network, and establish satisfactory billing and payment arrangements with such companies. These companies have traditionally monopolized the local markets and have used their extensive financial and political leverage to hinder the Debtors' ability to access their networks. Thus, the Debtors may not be able to access these networks in a timely or profitable manner, or in a manner that will allow them to retain and grow their customer base. The Debtors' inability to offer new services may significantly inhibit their ability to compete in the telecommunications industry.

#### **I. Industry Conditions**

The general economic slowdown and the severe downturn in the telecommunications and internet industries have caused the Debtors to suffer from: exposure to increased credit risks from existing customers, increased customer turnover, and industry-wide oversupply, which has created substantial pricing pressures.

A significant source of revenue for the Debtors is derived from providing services to other companies which have experienced in the past, or are currently experiencing financial distress, including some who have filed for chapter 11 protection. As a result, Reorganized ABIZ' ability to collect receivables and its future operating results could be adversely affected.

The immense capital investments made in the telecommunications industry have created a substantial supply of network infrastructure. Oversupply combined with rapid technological advancements that have the potential to reduce operating costs and intense competition from numerous participants in most of the Debtors' markets have resulted in significant pricing pressure in each of the Debtor's main service areas. While the Debtors believe they are price competitive overall, they cannot predict the extent of further pricing pressures and potential adverse impacts to future operating results.

#### **J. Potential Loss of Hanover Surety Bonds**

Prior the commencement of the Reorganized Cases, The Hanover Insurance Company ("Hanover") issued approximately \$30,000,000 of surety bonds to guarantee various aspects of the Debtors' business operations. Such operations are dependent upon the continued existence of many of these bonds. After commencement of the Reorganized Cases, Hanover moved to lift the automatic stay so that it could cancel the surety bonds. The Bankruptcy Court denied Hanover's motion, which decision is on appeal. Hanover and the Debtors have been negotiating a settlement, which would include Hanover providing a post-confirmation surety credit facility in exchange for certain security to be deposited with Hanover and resolution of an outstanding bond claim. If such issues are not resolved, Hanover has advised the Debtors that it has no intention of providing a post-confirmation surety credit facility and will undertake to terminate the outstanding surety bonds on or after the Effective Date in accordance with their terms and applicable law. In the event that Hanover does not provide such a surety credit facility, the Debtors believe they can obtain appropriate bonding from one or more alternative sources.

**K. ACC Separation**

The Debtors’ inability to completely separate their operations from ACC in an orderly manner could impair the Debtors’ ability to continue to operate their business in the future. Although certain of the Debtors’ assets and operations were separated from ACC following the spinoff, others remain shared and have not been definitively resolved. Accordingly, the Debtors disagree with ACC regarding which entity should be responsible for liabilities incurred on behalf of ACC, as well as the Debtors’ rights in certain material assets, such as fiber network assets and real estate. The Debtors’ inability to resolve these disagreements in a favorable manner could impair their ability to operate their business in the future.

**X.**

**Voting Procedures and Requirements**

Detailed voting instructions are provided with the Ballot accompanying this Disclosure Statement. The following classes (the “Voting Classes”) are entitled to vote to accept or reject the Plan.

<b>Class</b>	<b>Description</b>
1A	CIT Secured Claim
6	12¼% Secured Notes Claims
7A	Convenience Claims
7B	Trade Claims
7C	Funded Debt Claims (including 13% Notes Claims, the 12¼% Deficiency Claim and the 12¼% Buffalo Claim)
7D	12% Notes Claims

If your Claim is not in one of these Voting Classes, you are not entitled to vote and you will not receive a Ballot with this Disclosure Statement. If your Claim is in one of these Voting Classes, you should read your Ballot and follow the listed instructions carefully. Please use only the Ballot that accompanies this Disclosure Statement.

<b>Innisfree M&amp;A</b>	<b>Bankruptcy Services LLC</b>
<b>Ballot information number:</b> <b>(877) 750-2689 (toll-free)</b>	<b>Ballot Information Number:</b> <b>(646) 282-2500</b>
<b>Banks and Brokers call:</b> <b>(212) 750-5833</b>	

**A. Vote Required for Acceptance by a Class**

Under the Bankruptcy Code, acceptance of a plan of reorganization by a class of claims occurs if creditors in that class who actually cast ballots for acceptance or rejection of the Plan hold at least two-thirds in dollar amount and more than one-half in number of the claims in such class. Thus, acceptance of the Plan by the Voting Classes will occur only if at least two-

thirds in dollar amount and a majority in number of the holders of such Claims in each Voting Class that actually cast their Ballots vote in favor of acceptance. Any executed Ballot received that does not indicate either acceptance or rejection of the Plan will not be counted for numerosity or amount requirements.

**B. Classes Not Entitled to Vote**

Under the Bankruptcy Code, creditors are not entitled to vote if their contractual rights are unimpaired by the Plan or if they will receive no distributions under the Plan. Based on this standard, for example, the holders of Priority Non-Tax Claims and miscellaneous Secured Claims are not being affected by the Plan. In addition, the holders of the Intercompany Claims are not receiving any property and are not entitled to vote. Holders of Securities Claims and Subordinated Claims are also not receiving any distributions and are therefore deemed to reject the Plan. Similarly, stockholders of ABIZ are not entitled to vote because they are not receiving any property under the Plan. Such stockholders are also deemed to vote to reject the Plan. For a summary of the Classes entitled to vote, see the chart in *Section I.B.*

**C. Election of Treatment**

Each holder of an Allowed Class 6 Claim (12¼% Secured Notes Claims), an Allowed Class 7A Claim (Convenience Claims), an Allowed Class 7B Claim (Trade Claims), an Allowed Class 7C Claim (Funded Debt Claims) or an Allowed Class 7D Claim (12% Notes Claims) (or an Allowed Class 8 Claim (Century Facility Claim), if any) will have the ability to elect on its Ballot the treatment such holder wishes to receive under the Plan. If, however, a holder of any such Claims fails to submit a Ballot or elect a treatment on its Ballot, such holder will be deemed to have elected a Cash distribution as described in *Section V.E.* hereof and in Section 8.1 of the Plan. As a result, the failure to submit a Ballot or elect a treatment could result in the holder of such Claim receiving a treatment it does not desire (although a holder that submits a Ballot and elects its desired treatment, but fails to indicate whether it accepts or rejects the Plan, will still receive its desired treatment). The Plan Proponents therefore encourage holders of Class 6, 7A, 7B, 7C and 7D Claims to elect a desired treatment on their respective Ballots.

**D. Voting**

In order for your vote to be counted, your vote must be actually received by the voting agent before the voting deadline of 12:00 p.m., Eastern Time, on December 1, 2003. All Ballots, except those beneficial owner Ballots that are to be returned to the nominee, should be returned in the envelope provided, or by mail, hand delivery, or overnight carrier to:

**Voting Agent**

**For Classes 6, 7C and 7D:**

Adelphia Business Solutions, Inc.  
c/o Innisfree M&A Incorporated  
501 Madison Avenue, 20th Floor  
New York, New York 10022

**Voting Agent**

**For Classes 1A, 7A and 7B:**

Adelphia Business Solutions, Inc.  
c/o Bankruptcy Services LLC  
757 Third Avenue, 3rd Floor  
New York, New York 10017



If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots, which must be used for each separate Class of Claims. Please vote and return your Ballot(s) to the respective location specified in the instructions accompanying each Ballot.

If the instructions on your Ballot require you to return the Ballot to your bank, broker, or other nominee, or to their agent, you must deliver your Ballot to them in sufficient time for them to process it and return it to the voting agent before the voting deadline. If a Ballot is damaged or lost, you may contact the Debtors' voting agent at the number set forth above. Any Ballot that is executed and returned but which does not indicate an acceptance or rejection of the Plan will not be counted.

**DO NOT RETURN ANY NOTES OR SECURITIES WITH YOUR BALLOT.**

**TO BE COUNTED, YOUR BALLOT (OR, IN THE CASE OF PUBLICLY HELD BONDS, THE MASTER BALLOT CAST ON YOUR BEHALF BY YOUR NOMINEE) INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE FORWARDED IN ACCORDANCE WITH THE ACCOMPANYING INSTRUCTIONS IN SUFFICIENT TIME FOR IT TO BE RECEIVED BY THE DEBTORS' TABULATION AGENT NO LATER THAN 12:00 P.M., EASTERN TIME, ON DECEMBER 1, 2003. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN SHALL NOT BE COUNTED.**

Any Claim in an impaired Class as to which an objection or request for estimation is pending or which is scheduled by the Debtors as unliquidated, disputed, or contingent and for which no proof of Claim has been filed 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 Disclosure Statement Order, the Bankruptcy Court set October 16, 2003 as the record date for voting on the Plan. Accordingly, only holders of record as of such date that otherwise are entitled to vote under the Plan will receive a Ballot and may vote on the Plan.

If you are a holder of a Class 6, 7C or 7D Claim 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 Adelphia Business Solutions, Inc., c/o Innisfree M&A Incorporated, 501 Madison Avenue, 20th Floor, New York, New York 10022 at (877) 750-2689 (toll-free) (Banks and Brokers call (212) 750-5833).

If you are a holder of a Class 1A, 7A or 7B Claim 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 Business Solutions, Inc., c/o Bankruptcy Services LLC, 757 Third Avenue, 3rd Floor, New York, New York 10017 at (646) 282-2500.

## XI.

### Confirmation of the Plan of Reorganization

#### A. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold a hearing on confirmation of a plan of reorganization. The Confirmation Hearing is scheduled for 9:45 a.m. Eastern Time, on December 8, 2003 (and such other dates as may be necessary), before the Honorable Robert E. Gerber, Courtroom 621, United States Bankruptcy Court, Southern District Of New York, Alexander Hamilton Custom House, Bowling Green, New York, New York. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court and the Plan Proponents without further notice except for an announcement of the adjourned date made at the confirmation hearing or any subsequent adjourned confirmation hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan of reorganization. Any objection to confirmation of the Plan must be in writing, must conform to the Federal Rules of Bankruptcy Procedure, must set forth the name of the objector, the nature and amount of Claims or Interests held or asserted by the objector against the Debtors, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court, electronically in accordance with General Order M-182 (General Order M-182 and the User's Manual for the Electronic Case Filing System can be found at <http://www.nysb.uscourts.gov>, the official website for the Bankruptcy Court), by registered users of the Bankruptcy Court's case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), WordPerfect or any other Windows-based word processing format (with a hard-copy delivered directly to Chambers), and served (in accordance with General Order M-182) upon and received no later than 5:00 p.m. Eastern Time on November 26, 2003 by (i) the attorneys for the Debtors, Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Judy G.Z. Liu, Esq.), (ii) the Office of the United States Trustee, 33 Whitehall Street, 21<sup>st</sup> floor, New York, New York 10004 (Attn: Tracy H. Davis, Esq.), (iii) the attorneys for the Creditors' Committee, Kramer Levin Naftalis & Frankel, 919 Third Avenue, New York, New York 10022 (Attn: Mitchell A. Seider, Esq.), (iv) the attorneys for the Secured Noteholder Committee, Akin Gump Strauss Hauer & Feld, LLP, 590 Madison Avenue, New York, New York 10022 (Attn: Ira Dizengoff, Esq.), and (v) the attorneys for the Debtors' postpetition lenders, Jenkens & Gilchrist Parker Chapin LLP, The Chrysler Building, 405 Lexington Avenue, New York, New York 10174 (Attn: Hollace T. Cohen, Esq. and Jennifer L. Saffer, Esq.).

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

**THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF. HOLDERS OF CLAIMS AND INTERESTS SHOULD CAREFULLY READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING THE PLAN, PRIOR TO VOTING ON THE PLAN.**

**THIS DISCLOSURE STATEMENT HAS NOT BEEN FILED WITH, REVIEWED, OR APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION AND THE COMMISSION HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED HEREIN.**

**FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THIS 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 DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR INTERESTS.**

**THE DEBTORS BELIEVE THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS, THEIR CHAPTER 11 ESTATES, AND THEIR CREDITORS.**

**THE DEBTORS URGE CREDITORS TO VOTE TO ACCEPT THE PLAN.**

**EACH OF THE CREDITORS' COMMITTEE AND THE SECURED NOTEHOLDER COMMITTEE SUPPORTS THE PLAN AND URGES CREDITORS TO VOTE TO ACCEPT THE PLAN.**

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

**B. General Requirements of Section 1129**

At the confirmation hearing, the Bankruptcy Court will determine whether the following confirmation requirements specified in section 1129 of the Bankruptcy Code have been satisfied.

1. *The Plan complies with the applicable provisions of the Bankruptcy Code.*
2. *The Debtors have complied with the applicable provisions of the Bankruptcy Code.*
3. *The Plan has been proposed in good faith and not by any means proscribed by law.*
4. *Any payment made or promised by the Debtors or by a person issuing securities or acquiring property under the Plan for services or for costs and expenses in, or in connection with, the Reorganization Cases, or in connection with the Plan and incident to the Reorganization Cases, has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable.*

5. *The Debtors have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer or voting trustee of the Debtors, affiliates of the Debtors participating in the Plan with the Debtors, or a successor to the Debtors under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity holders and with public policy, and the Debtors have disclosed the identity of any insider that will be employed or retained by the Debtors, and the nature of any compensation for such insider.*
6. *With respect to each Class of Claims or Interests, each holder of an impaired Claim or impaired Interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount such holder would receive or retain if the Debtors were liquidated on the Effective Date under chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test" below.*
7. *Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Interests has either accepted the Plan or is not impaired under the Plan. Classes 5 (ACC DIP Claim), 9 (Security Claims), 11 (Equity Interests) and 13 (Subordinated Claims) are deemed to have rejected the Plan and, thus, the Plan can be confirmed only if the requirements of section 1129(b) of the Bankruptcy Code are met.*
8. *Except to the extent that the holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Allowed Administrative Expense Claims and Allowed Priority Non-Tax Claims will be paid in full on the Effective Date and that Allowed Priority Tax Claims will receive on account of such Claims deferred cash payments, over a period not exceeding six (6) years after the date of assessment of such Claims, of a value, as of the Effective Date, equal to the Allowed amount of such Claims.*
9. *At least one class of impaired Claims has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim in such class.*
10. *Confirmation of the Plan is not likely to be followed by the liquidation or the need for further financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan. See discussion of "Feasibility" below.*
11. *The Plan provides for the continuation after the Effective Date of payment of all retiree benefits (as defined in section 1114 of the Bankruptcy Code), at the level established pursuant to subsection 1114(e)(1)(B) or 1114(g) of the Bankruptcy Code at any time prior to confirmation of the Plan, for the duration of the period the Debtors have obligated themselves to provide such benefits.*

### **C. Best Interests Tests**

As described above, the Bankruptcy Code requires that each holder of an impaired Claim or 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 if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

The first step in determining whether this test has been satisfied is to determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The gross amount of Cash that would be available for satisfaction of Claims and Interests would be the sum of the proceeds resulting from the disposition of the unencumbered assets and properties of the Debtors, augmented by any unencumbered Cash held by the Debtors at the time of the commencement of the liquidation case.

The next step is to reduce that gross amount by the costs and expenses of the liquidation itself and by such additional administrative and priority Claims that might result from the termination of the Debtors' business and the use of chapter 7 for the purposes of liquidation. Any remaining net cash would be allocated to creditors and stockholders in accordance with section 726 of the Bankruptcy Code. Finally, the present value of such allocations (taking into account the time necessary to accomplish the liquidation) are compared to the value of the property that is proposed to be distributed under the Plan on the Effective Date.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such a trustee might engage. Other liquidation costs include the expenses incurred during the Reorganization Cases allowed in the chapter 7 case, such as compensation for attorneys, financial advisors, appraisers, accountants and other professionals for the Debtors, the Creditors' Committee and the Secured Noteholder Committee, and costs and expenses of members of the Creditors' Committee, as well as other compensation Claims. In addition, Claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the Debtors during the pendency of the Reorganization Cases.

The foregoing types of Claims, costs, expenses, fees and such other Claims that may arise in a chapter 7 liquidation case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay pre-chapter 11 priority and unsecured Claims. The Debtors believe that in a chapter 7, no prepetition Claims or Interests would receive any distribution of property.

**THE DEBTORS' LIQUIDATION ANALYSIS IS AN ESTIMATE OF THE PROCEEDS THAT MAY BE GENERATED AS A RESULT OF A HYPOTHETICAL CHAPTER 7 LIQUIDATION OF THE DEBTORS. THE ANALYSIS IS BASED ON A NUMBER OF SIGNIFICANT ASSUMPTIONS WHICH ARE DESCRIBED. THE LIQUIDATION ANALYSIS DOES NOT PURPORT TO BE A VALUATION OF THE DEBTORS' ASSETS AND IS NOT NECESSARILY INDICATIVE OF THE VALUES THAT MAY BE REALIZED IN AN ACTUAL LIQUIDATION.**

#### **D. Liquidation Analysis**

The liquidation analysis presented below has been prepared in consultation with the Debtors' financial advisors.

**The Debtors' liquidation analysis is an estimate of the proceeds that may be generated as a result of a hypothetical chapter 7 liquidation of the Debtors. The analysis is based on a number of significant assumptions which are described. The liquidation analysis**

**does not purport to be a valuation of the Debtors' assets and is not necessarily indicative of the values that may be realized in an actual liquidation.**

The liquidation analysis reflects the Debtors' estimate of the proceeds that could be realized if the Debtors were to be liquidated in accordance with chapter 7 of the Bankruptcy Code. Underlying the liquidation analysis are a number of estimates and assumptions that, although developed and considered reasonable by management and Jefferies, are inherently subject to significant business, economic, and competitive risks, uncertainties, and contingencies beyond the control of the Debtors and their management, and upon assumptions with respect to the liquidation decisions which could be subject to change. **ACCORDINGLY, THERE CAN BE NO ASSURANCE THAT THE VALUES REFLECTED IN THE LIQUIDATION ANALYSIS WOULD BE REALIZED IF THE DEBTORS WERE, IN FACT, TO ATTEMPT TO UNDERGO SUCH A LIQUIDATION, AND ACTUAL RESULTS COULD VARY MATERIALLY FROM THOSE SHOWN HERE.**

The analysis assumes that a chapter 7 case is initiated and a chapter 7 trustee is appointed. The chapter 7 trustee would be responsible for liquidating the Debtors' assets over an assumed period of six (6) months. It is likely that the chapter 7 trustee would lift the automatic stay to permit secured creditors to foreclose on their collateral. Proceeds resulting from the liquidation would be reduced by the expenses of the liquidation before any allowed secured claimant would receive proceeds from the sale of collateral securing that claim.

The liquidation analysis presented below has been prepared in consultation with  
 Jefferies.  
 (\$ in Millions)

	Notes Reference	Book Value as of June 30, 2003	Asset Realization Rates		Asset Recoveries	
			Low	High	Low	High
<b>Statement of Assets</b>						
Cash & Cash Equivalents	A	26.3	100.0%	100.0%	26.3	26.3
Accounts Receivables, Net	B	76.1	10.4%	21.7%	7.9	16.5
Other Current Assets, Net	C	18.0	0.0%	0.0%	-	-
Restricted Cash	D	20.2	0.0%	0.0%	-	-
Investments	E	37.6	13.3%	29.2%	5.0	11.0
Property, Plant and Equipment, Net	F	561.8	8.4%	14.6%	47.2	81.9
Other Assets	G	33.9	0.0%	10.0%	-	3.4
<b>Total Liquidated Proceeds</b>		<b>773.9</b>	<b>11.2%</b>	<b>18.0%</b>	<b>86.4</b>	<b>139.1</b>
<b>Less: Wind Down Operating Costs</b>	H				<b>(65.2)</b>	<b>(65.2)</b>
<b>Total Liquidated Proceeds Available to Pay Chapter 7 Administrative Claims</b>					<b>21.2</b>	<b>73.9</b>

		Estimated Claim		Estimated Recovery		Estimated Recovery(%)	
		Low	High	Low	High	Low	High
<b>Senior Secured Claims</b>							
Beal DIP Claims	I	15.0	15.0	15.0	15.0	100.0%	100.0%
12¼% Secured Notes Claim	J	-	-	-	-	NA	NA
Capital Lease Obligations	K	1.3	1.3	1.3	1.3	100.0%	100.0%
<b>Total Secured Claims</b>		<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>16.3</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Net Estimated Recovery - Secured Claims</b>				<b>100.0%</b>	<b>100.0%</b>		
<b>Net Estimated Proceeds Available for Distribution after Senior Secured Claims</b>				<b>4.9</b>	<b>57.6</b>		

		Estimated Claim		Estimated Recovery		Estimated Recovery(%)	
		Low	High	Low	High	Low	High
<b>Junior Secured Claims</b>							
ACC DIP	L	-	-	-	-	NA	NA
<b>Net Estimated Proceeds Available for Distribution after Junior Secured Claims</b>				<b>4.9</b>	<b>57.6</b>		

		Estimated Claim		Estimated Recovery		Estimated Recovery(%)	
		Low	High	Low	High	Low	High
<b>Chapter 7 Administrative Claims</b>							
Trustee Fees	M	2.6	4.2	2.3	4.2	87.5%	100.0%
Counsel and Advisors to the Trustee	N	0.6	1.0	0.6	1.0	87.5%	100.0%
Liquidation Costs	O	2.4	4.1	2.1	4.1	87.5%	100.0%
<b>Total Chapter 7 Administrative Claims</b>		<b>5.6</b>	<b>9.3</b>	<b>4.9</b>	<b>9.3</b>	<b>87.5%</b>	<b>100.0%</b>
<b>Net Estimated Proceeds Available for Distribution after Chapter 7 Administrative Claims</b>				-	<b>48.3</b>		

		Estimated Claim		Estimated Recovery		Estimated Recovery(%)	
		Low	High	Low	High	Low	High
<b>Administrative Claims</b>							
Post-Petition Taxes	P	2.0	2.0	-	2.0	0.0%	97.5%
Post-Petition Accrued Salaries	Q	-	-	-	-	NA	NA
Post-Petition Accounts Payable	R	40.0	45.0	-	43.9	0.0%	97.5%
Chapter 11 Restructuring Professionals	S	1.5	2.5	-	2.4	0.0%	97.5%
<b>Total Administrative Claims</b>		<b>43.5</b>	<b>49.5</b>	-	<b>48.3</b>	<b>0.0%</b>	<b>97.5%</b>
<b>Net Estimated Recovery - Administrative Claims</b>				0.0%	97.5%		
<b>Net Proceeds Available for Distribution after Administrative Claims</b>				-	-		

		Estimated Claim		Estimated Recovery		Estimated Recovery(%)	
		Low	High	Low	High	Low	High
<b>Unsecured Claims</b>							
12¼% Secured Notes Claim	T	267.5	267.5	-	-	0.0%	0.0%
13% Notes Claim	T	321.5	321.5	-	-	0.0%	0.0%
12% Notes Claim	T	314.6	314.6	-	-	0.0%	0.0%
General Unsecured Claims	U	139.3	139.3	-	-	0.0%	0.0%
Contingent Liabilities	V	6.9	6.9	-	-	0.0%	0.0%
<b>Total General Unsecured Claims</b>		<b>1,049.8</b>	<b>1,049.8</b>	-	-	<b>0.0%</b>	<b>0.0%</b>

1. *Key Limitations*

- i) During the chapter 7 liquidation, ABIZ, through its subsidiaries, continues to operate certain of its businesses and, accordingly, events may occur that could impact recovery proceeds and claims to be satisfied, such as the foreclosure by the secured creditors on their collateral.
- ii) If the implementation of the liquidation process is delayed, significant operating losses and/or changes in assets and liabilities may be incurred during the interim period until the liquidation is completed, and the net liquidation value could be significantly below that estimated herein.
- iii) Upon liquidation, actual liabilities may vary significantly from those reflected on the Debtors' estimated consolidated balance sheet and in this liquidation analysis, because claims presently unknown to the Debtors may be asserted. It is not possible to predict with any certainty the potential increase in liabilities resulting from contingent and/or unliquidated claims. The Debtors have estimated what they believe to be reasoned estimates of liabilities resulting from contingent and unliquidated claims. Actual amounts may vary materially from these estimates.
- iv) Liquidation values are predicated upon the June 30, 2003 unaudited financial statements provided by the Debtors. The analysis does not take into account operating results subsequent to June 30, 2003, or changes in assets and liabilities after that date, except for specific adjustments described in the assumptions or notes to the liquidation analysis, including the estimated costs of winding down the business.

2. *Notes to Liquidation Analysis*

Note A – Cash and Cash Equivalents

Cash and Cash Equivalents reflect consolidated cash available as of June 30, 2003. Cash and Cash Equivalents are reported net of outstanding checks. Recovery on Cash and Cash Equivalents is assumed to be 100% of book value.

Note B – Accounts Receivable, Net

The Debtors' estimated accounts receivable recoveries by analyzing accounts receivable aging summaries by receivable type. The Debtors' blended accounts receivable recovery is projected to be 10.4% - 21.7% based on the following assumptions:



	<b>Low</b>	<b>High</b>
<b>End-User</b>		
Current	50%	85%
Over 30 Days	25%	50%
Over 60 Days	0%	25%
Over 90 Days	0%	10%
<b>Mutual Compensation and Carrier Access</b>		
Current	25%	35%
Over 30 Days	0%	15%
Over 60 Days	0%	5%
Over 90 Days	0%	0%

Mutual compensation and carrier access receivable recoveries are assumed to be significantly lower than end-user accounts receivable due to the nature of the mutual compensation and carrier access customers, the controversial nature of mutual compensation revenue and the likely set-off assertions that such customers would be expected to make.

#### Note C – Other Current Assets

Other current assets consist primarily of prepaid expenses and deposits. The Debtors are assuming no recovery on Other Current Assets.

#### Note D – Restricted Cash

The Debtors have approximately \$20.2 million in Restricted Cash which supports a letter of credit in favor of the Commonwealth of Pennsylvania. In the event that the Debtors default on the Commonwealth of Pennsylvania contract, the Commonwealth would draw on the letter of credit and the issuing bank would seize the Restricted Cash. Therefore, the Debtors have projected that there would be no recovery on account of the restricted cash in the event of a chapter 7 liquidation.

#### Note E – Investments

The Debtors' principle investments are partnerships in Philadelphia, Allentown and York, Pennsylvania. The Debtors project that in a distressed sale environment in which the estates are selling their equity interests in the partnerships, recoveries would range from \$5.0 million to \$11.0 million, of which \$5.0 million - \$10.0 million would be recovered from the Debtors' Philadelphia partnership.

#### Note F – Property, Plant and Equipment, net

The Debtors project that recoveries from Property, Plant and Equipment would be 8.4% - 14.6% of **net** book value. The Debtors' recovery assumptions on **gross** book value of assets by asset type are as follows:

	<b>Low</b>	<b>High</b>
Vehicles	9%	11%
CO Switching Equipment	3%	5%
Buildings	13%	23%
Construction in Process	0%	0%
Distribution Plant – Fiber	3%	5%
Capitalized Labor	0%	0%
Tools and Equipment	10%	15%
Computer Equipment	3%	5%
Office Equipment	10%	15%
Leasehold Improvements	0%	0%
Inventory	10%	15%

#### Note G – Other Assets

Other Assets consist primarily of accrued assets, LMDS spectrum and litigation claims. The Debtors believe that in a chapter 7 liquidation the only valuable asset within Other Assets would be the Debtors' LMDS spectrum. However, the Debtors believe that there is a limited market for LMDS spectrum and that there is significant supply of LMDS spectrum available to any potential purchaser. Therefore, the Debtors believe that there is a significant possibility that in a chapter 7 liquidation there would be no bidders for its LMDS spectrum. The Debtors have assumed that the value of its LMDS spectrum in a chapter 7 liquidation would range from \$0.0 million to \$3.4 million.

#### Note H – Wind-Down Costs

The Debtors have assumed a six (6) month wind-down period. The Debtors have assumed that they would continue to service customers for 60 days upon conversion to chapter 7. After 60 days, the Debtors would wind-down operations over a four month period, selling off all of their assets over that time. Components of the Debtors wind-down budget include:

Technical Expenses	\$22.2
SG&A	22.6
Severance and Retention	15.7
LSO Decommissioning	6.0
Less: Revenue Collected	1.2
Total Wind-down Costs	\$65.2

#### Note I – Beal DIP Credit Agreement

The Debtors have \$15 million in principal amount outstanding under the Beal DIP Credit Agreement which together with any unpaid interest, fees and other amounts owed under the Beal DIP Credit Agreement is secured by substantially all of the assets of the Debtors.

#### Note J – 12 ¼% Secured Notes – Secured Claim

The 12 ¼% Secured Notes are secured by the stock of certain subsidiaries. The Debtors' estimate that in a chapter 7 liquidation (where the assets owned by those subsidiaries are liquidated) that the stock of the 12 ¼% Secured Notes' collateral would have no value. Therefore,

the Debtors have assumed that the 12¼% Secured Notes have no secured claim in a chapter 7 liquidation. The 12¼% Secured Notes' entire claim is treated as an unsecured claim.

#### Note K – Capital Lease Obligations

The Debtors have Capital Lease Obligations, which the Debtors believe would be treated as secured claims in a liquidation. The Debtors have financed nine (9) of their Lucent 5ESS switches using such capital leases. The senior Secured Claim associated with Capital Lease Obligations is estimated at the lesser of the face amount of the capital lease or the liquidation value of the assets underlying the Company's Capital Lease Obligations. The Debtors estimate that the switch assets are worth approximately \$1.3 million in a chapter 7 liquidation. For the purposes of this analysis, the Debtors have excluded secured claims related to security deposits as these claims are expected to be fully satisfied by cash that is held by such creditors and is no longer considered an asset of the Debtors for the purposes of this analysis.

#### Note L – ACC DIP Credit Agreement

The Debtors borrowed a total of \$15 million on the ACC DIP Credit Agreement. Since that time the Debtors have not paid current interest on the ACC DIP Credit Agreement. The Debtors estimate that the total principal and unpaid interest outstanding on the ACC DIP Credit Agreement is approximately \$17.0 million. ACC DIP Claims are subordinated to Beal DIP Claims by virtue of an intercreditor subordination agreement, and therefore ACC DIP Claims have been classified as junior secured Claims. Under the Plan, the Debtors do not intend to make a distribution on account of claims arising from the ACC DIP Credit Agreement. As stated above in *Section IV.A.*, one or more of the Plan Proponents intend to pursue litigation against ACC. Accordingly, the Debtors also do not believe a distribution would be made to ACC on account of the ACC DIP Credit Agreement under a chapter 7 liquidation scenario.

#### Note M – Chapter 7 Trustee Fees

Trustee fees are estimated to be 3.0% of total liquidated proceeds.

#### Note N – Counsel and Advisors to the Trustee

Counsel and Advisor to the Trustee are estimated to be 25% of the Trustee Fees.

#### Note O – Liquidation Costs

Liquidation Costs are estimated to be 5.0% of the liquidated proceeds from Property, Plant and Equipment, net.

#### Note P – Post-Petition Taxes

Post-petition taxes consist primarily of sales, telecommunications and property taxes. The Debtors do not project any income or other post-petition taxes.

#### Note Q – Post-Petition Accrued Salaries

The Debtors, as a general rule, pay salaries and associated taxes as they are expensed on a bi-weekly basis. Therefore, the Debtors project that there would be no Post-Petition Accrued Salaries in the event of a chapter 7 liquidation.

#### Note R – Post-Petition Accounts Payable

As of June 30, 2003, the Debtors had approximately \$46.0 million in post-petition accounts payable outstanding. Of that amount, the Debtors expect that \$16.0 million would be satisfied through the offset of post-petition accounts receivable. These offsets relate primarily to the ILECs. In addition, the Debtors estimate that certain trade creditors would assert additional contingent and unliquidated claims in excess of the accounts payable reflected on the Debtors' books and records, in the context of a chapter 7 liquidation. For the purposes of this analysis, the Debtors have assumed that such contingent and unliquidated claims would total \$10.0 – 15.0 million.

#### Note S – Chapter 11 Restructuring Professionals

The Debtors anticipate that upon converting their cases from chapter 11 to chapter 7, they would be required to pay the professionals employed through the Reorganization Cases for fees that have been incurred but not yet paid. The Debtors estimate this amount at \$1.5 million.

#### Note T – Funded Debt Claims

Funded Debt Claims are estimated as the principal outstanding and accrued interest as of March 27, 2002.

#### Note U – General Unsecured Claims

The Debtors estimate that other unsecured Claims in Classes 7A and 7B will total \$139.3 million, excluding contingent liabilities that might be generated if the Debtors were to convert the Reorganization Cases to chapter 7 proceedings.

#### Note V – Contingent Liabilities

The Debtors estimate that if they were to convert their Reorganization Cases to chapter 7 proceedings that it would generate an incremental contingent liability of approximately \$6.9 million related primarily to lease and contract rejection claims.

### **E. Feasibility**

The Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan of reorganization 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 Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared projections described in *Section VII* above. Based upon such projections, the Debtors believe that they will be able to make all payments required pursuant to the Plan and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

### **F. Section 1129(b)**

The Bankruptcy Court may confirm a plan of reorganization over the rejection or deemed rejection of the plan of reorganization by a class of claims or equity interests if the plan

of reorganization “does not discriminate unfairly” and is “fair and equitable” with respect to such class.

1. *No Unfair Discrimination.*

This test applies to classes of Claims or Interests that are of equal priority and are receiving different treatment under the Plan. The test does not require that the treatment be the same or equivalent, but that such treatment be “fair.”

2. *Fair and Equitable Test.*

This test applies to classes of different priority and status (e.g., secured versus unsecured) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. As to the dissenting class, the test sets different standards, depending on the type of claims or interests in such class:

- *Secured Creditors.* Each holder of an impaired secured claim either (i) retains its liens on the property, to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date, of at least the allowed amount of such claim, or (ii) has the right to credit bid the amount of its claim if its property is sold and retains its liens on the proceeds of the sale (or if sold, on the proceeds thereof) or (iii) receives the “indubitable equivalent” of its allowed secured claim.
- *Unsecured Creditors.* Either (i) each holder of an 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.
- *Equity Interests.* Either (i) each equity interest holder will receive or retain under the plan property of a value equal to the greater of (a) the fixed liquidation preference or redemption price, if any, of such stock and (b) the value of the stock, or (ii) the holders of interests that are junior to the equity interests of the dissenting class will not receive or retain any property under the plan of reorganization.

The Debtors believe the Plan will satisfy the “fair and equitable” requirement notwithstanding that Class 5 (ACC DIP Claims), Class 9 (Securities Claims), Class 11 (Equity Interests) and Class 13 (Subordinated Claims) are deemed to reject the Plan because no Class of Allowed Claims will receive or retain any property or distributions on account of the Claims or Interests in such Class.

The 12% Notes Claims (Class 7D) are contractually subordinated to the 13% Notes Claims (included in Class 7C) and the Claims of holders of 12¼% Secured Notes (Class 6 and 7C). These subordination provisions require that such 12% Notes Claims are not entitled to receive a distribution unless all senior Claims are paid in full (including postpetition interest). The Plan enforces these subordination provisions. Because the 12¼% Secured Notes Claims and the 13% Notes Claims are not being paid in full, the holders of the 12% Notes Claims would not be entitled to payment pursuant to these subordination provisions. Nonetheless, pursuant to the terms of the Plan, holders of the 12¼% Secured Notes Claims and the 13% Notes Claims are contributing to the holders of 12% Notes Claims a portion of the distribution that such senior

holders receive under the Plan on a ratable basis based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes.

The Securities Claims are subordinated by section 510(b) of the Bankruptcy Code to the Class of Claims to which the securities in dispute related, except for Securities Claims relating to common stock which ranks pari passu with common stock. The Securities Claims are also junior to the 12¼% Secured Notes Claims and the 13% Notes Claims, which are not being paid in full. Accordingly, the Securities Claims are not receiving any distribution under the Plan.

Because several Classes of Claims are not being paid in full, the Equity Interests in ABIZ are being extinguished.

## **XII.**

### **Alternatives to Confirmation and Consummation of the Plan of Reorganization**

#### **A. Liquidation Under Chapter 7**

If no chapter 11 plan can be confirmed, the Reorganization Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a chapter 7 trustee would be elected or appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. A discussion of the effect that a chapter 7 liquidation would have on the recoveries of holders of Claims is set forth in *Section XI.D* of this Disclosure Statement. The Plan Proponents believe that liquidation under chapter 7 would result in smaller distributions being made to creditors (other than Beal Bank) than those provided for in the Plan because of (a) the likelihood that the assets of the Debtors would have to be sold or otherwise disposed of in a less orderly fashion, (b) additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, and (c) additional expenses and Claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations.

#### **B. Alternative Plan of Reorganization**

If the Plan is not confirmed, the Debtors or any other party in interest (if the Debtors' exclusive period in which to file a plan of reorganization has expired) could attempt to formulate a different plan of reorganization. Such a plan might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of the Debtors' assets under chapter 11. The Debtors have concluded that the Plan enables creditors and equity holders to realize the most value under the circumstances. In a liquidation under chapter 11, the Debtors would still incur the expenses associated with closing or transferring numerous facilities to new operators. The process would be carried out in a more orderly fashion over a greater period of time. Further, if a trustee were not appointed, because such appointment is not required in a chapter 11 case, the expenses for professional fees would most likely be lower than those incurred in a chapter 7 case which would contribute an extra layer of chapter 7 administrative claims as well as the chapter 7 trustee's statutory fees. Although preferable to a chapter 7 liquidation, the Debtors believe that liquidation under chapter 11 is a much less attractive alternative to creditors and equity holders than the Plan because of the greater return provided by the Plan.

### **XIII.**

#### **Certain Federal Income Tax Consequences of the Plan**

The following discussion summarizes certain federal income tax consequences of the implementation of the Plan to the Debtors and certain holders of Claims. The following summary does not address the federal income tax consequences to creditors whose Claims are entitled to reinstatement or payment in full in cash or are otherwise unimpaired under the Plan (e.g., holders of Administrative Expense Claims and Priority Non-Tax Claims), secured creditors, or creditors whose Claims will be extinguished for no consideration (e.g., the Securities Claims).

The following summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations promulgated thereunder, judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service ("IRS"), all as in effect on the date hereof. Changes in such rules or new interpretations thereof may have retroactive effect and could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt. In addition, this summary addresses neither the foreign, state, or local income or other tax consequences of the Plan, nor the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-exempt organizations, persons holding Claims as part of a hedge, integrated constructive sale or straddle, and investors in pass-through entities).

Additionally, this discussion assumes that the various debt and other arrangements to which the Debtors are a party will be respected for federal income tax purposes in accordance with their form.

***The following summary of certain federal income tax consequences is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of a Claim. All holders of Claims are urged to consult their own tax advisors for the federal, state, local, and other tax consequences applicable to them under the Plan.***

#### **A. Consequences to Debtors**

ABIZ and its U.S. corporate subsidiaries (the "ABIZ Group") file a consolidated federal income tax return, which takes into account the operations of all of the Debtors (some of which are treated as partnerships or disregarded entities for federal income tax purposes). For federal income tax purposes, the Debtors expect the ABIZ Group to report, for its taxable year ended December 31, 2002, consolidated net operating loss ("NOL") carryforwards of approximately \$1.25 billion (a substantial amount of which is attributable to subsidiaries of ABIZ). In addition, the Debtors expect the ABIZ Group to incur additional NOLs during its current taxable year, through the projected Effective Date, of \$350 million or more. The amount of such NOL carryforwards and other losses remains subject to adjustment by the IRS.

In addition, as discussed below, any such NOLs will be substantially reduced in connection with the implementation of the Plan, and the utilization of any remaining NOLs as well as certain other tax attributes of the Debtors (including tax basis in assets) may be restricted following the Effective Date.

1. *Cancellation of Debt.*

In general, the Tax Code provides that a debtor in a bankruptcy case must reduce certain of its tax attributes – such as NOL carryforwards and current year NOLs, tax credits, and tax basis in assets – by the amount of any cancellation of debt (“COD”). Where the debtor joins in the filing of a consolidated federal income tax return, recently issued Treasury Regulations require, in certain circumstances, that the tax attributes of the consolidated subsidiaries of the debtor and other members of the group also be reduced. COD is the amount by which the indebtedness discharged (reduced by any unamortized discount) exceeds any consideration given in exchange therefor. Certain statutory or judicial exceptions can apply to limit the amount of COD and attribute reduction (such as where the payment of the cancelled debt would have given rise to a tax deduction). In addition, to the extent the amount of COD exceeds the tax attributes available for reduction, the remaining COD is simply forgiven. If, however, nonrecourse is satisfied with the underlying collateral, generally the debtor recognizes a gain from the disposition of property based on an amount realized equal to the nonrecourse debt satisfied, as opposed to COD.

Prior to the issuance of the Treasury Regulations discussed above, legislation was proposed that would also require the reduction of the tax attributes of all of the members of the consolidated group. It is unclear whether the proposed legislation would operate in the same manner as these Treasury Regulations. Moreover, it is uncertain whether this proposed legislation will be pursued in its current form or at all, and if passed, what its effective date would be.

Any reduction in tax attributes does not occur until the end of the taxable year or, in the case of asset basis reduction, the first day of the taxable year following the taxable year in which the COD is incurred. If advantageous, a debtor may elect to reduce the basis of depreciable property prior to any reduction in its NOLs or other tax attributes.

As a result of the discharge of Claims pursuant to the Plan, the Debtors will incur substantial COD. The extent of such COD and resulting tax attribute reduction will depend, in principal part, on the value of the New Common Stock and New Warrants distributed. Based on the projected reorganization value of the Reorganized Debtors (*see Section VIII*), it is anticipated that the Reorganized Debtors will incur approximately \$1.4 billion of COD. Accordingly, it is expected that the current year NOLs and consolidated NOL carryforwards of the ABIZ group will be substantially reduced, but that the ABIZ Group may still have upwards of \$200 million or more in NOL carryforwards remaining.

2. *Limitations on Loss Carryforwards and Other Tax Benefits*

Following the implementation of the Plan, any remaining NOL carryforwards and certain other tax attributes of the Reorganized Debtors (including current year NOLs) allocable to periods prior to the Effective Date (collectively, “pre-change losses”) may be subject to limitation under section 382 of the Tax Code as a result of the change in ownership of the Reorganized Debtors.



Under section 382, if a corporation undergoes an “ownership change” and the corporation does not qualify for (or elects out of) the special bankruptcy exception discussed below, the amount of its pre-change losses that may be utilized to offset future taxable income is subject to an annual limitation. Such limitation also may apply to certain losses or deductions that are “built-in” (*i.e.*, economically accrued but unrecognized) as of the date of the ownership change and that are subsequently recognized.

The issuance of the New Common Stock to holders of Allowed General Unsecured Claims and Allowed 12¼% Secured Notes Claims pursuant to the Plan will constitute an ownership change of the Reorganized Debtors.

a. *General Section 382 Limitation.*

In general, the amount of the annual limitation to which a corporation (or consolidated group) would be subject is equal to the product of (i) the fair market value of the stock of the corporation (or, in the case of a consolidated group, the common parent) immediately before the ownership change (with certain adjustments) multiplied by (ii) the “long-term tax-exempt rate” in effect for the month in which the ownership change occurs (4.74% for ownership changes occurring in October 2003). For a corporation (or consolidated group) in chapter 11 that undergoes the change of ownership pursuant to a confirmed plan, the stock value generally is determined immediately after (rather than before) the ownership change, after giving effect to the surrender of claims of creditor, and certain adjustments that ordinarily would apply do not apply.

Any unused limitation may be carried forward, thereby increasing the annual limitation in the subsequent taxable year. However, if the corporation (or the consolidated group) does not continue its historic business or use a significant portion of its assets in a new business for two years after the ownership change, the annual limitation resulting from the ownership change is zero.

b. *Built-In Gains and Losses.*

If a loss corporation (or consolidated group) has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of “built-in” income and deduction), then any built-in losses recognized during the following five years (up to the amount of the original net unrealized built-in loss) generally will be treated as pre-change losses and similarly will be subject to the annual limitation. Conversely, if the loss corporation (or consolidated group) has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized during the following five years (up to the amount of the original net unrealized built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation (or consolidated group) would be permitted to use its pre-change losses against such built-in gain income in addition to its regular annual allowance. (Although the rule applicable to net unrealized built-in losses generally applies to consolidated groups on a consolidated basis, certain corporations that join the consolidated group within the preceding five years may not be able to be taken into account in the group computation of net unrealized built-in loss. Such corporations would nevertheless still be taken into account in determining whether the consolidated group has a net unrealized built-in gain.) In general, a loss corporation’s (or consolidated group’s) net unrealized built-in gain or loss will be deemed to be zero unless it is greater than the lesser of (i) \$10 million or (ii) 15% of the fair market value of its assets (with certain adjustments) before the ownership change. Due to certain interpretational issues, it is

currently unclear whether the ABIZ Group will be in a net unrealized built-in gain or net unrealized built-in loss position as of the Effective Date.

c. *Special Bankruptcy Exception*

An exception to the foregoing annual limitation rules generally applies where qualified (so-called “old and cold”) creditors of a debtor receive, in respect of their claims, at least 50% of the vote and value of the stock of the reorganized debtor (or a controlling corporation if also in bankruptcy) pursuant to a confirmed chapter 11 plan. Under this exception, a debtor’s pre-change losses are not limited on an annual basis but, instead, are required to be reduced by the amount of any interest deductions claimed during the three taxable years preceding the effective date of the reorganization, and during the part of the taxable year prior to and including the reorganization, in respect of all debt converted into stock in the bankruptcy proceeding. Moreover, if this exception applies, any further ownership change of the debtor within a two-year period after the consummation of the chapter 11 plan will result in an annual limitation of zero, and thus would preclude the debtor’s future utilization of any pre-change losses existing at the time of the subsequent ownership change. Neither the statute nor the regulations address whether this exception can be applied on a consolidated basis or only on a separate company basis.

Given the extent to which General Unsecured Claims and 12¼% Secured Notes Claims have been accumulated, the Debtors currently anticipate (and the Projections assume) that they will not qualify for this exception. However, were the Debtors nevertheless to qualify for this exception, they could, if they so desire, elect not to have the exception apply and instead remain subject to the annual limitation described above. Such election would have to be made in the Debtors’ federal income tax return for the taxable year in which the change occurs.

3. *Alternative Minimum Tax*

In general, a federal alternative minimum tax (“AMT”) is imposed on a corporation’s alternative minimum taxable income at a 20% rate to the extent that such tax exceeds the corporation’s regular federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. In particular, even though a corporation otherwise might be able to offset all of its taxable income for regular tax purposes by available NOL carryforwards, only 90% of a corporation’s taxable income for AMT purposes may be offset by available NOL carryforwards (as computed for AMT purposes).

In addition, if a corporation (or consolidated group) undergoes an “ownership change” within the meaning of section 382 of the Tax Code and is in a net unrealized built-in loss position on the date of the ownership change, the corporation’s (or group’s) aggregate tax basis in its assets would be reduced for certain AMT purposes to reflect the fair market value of such assets as of the change date. Although not entirely clear, it appears that the application of this provision to the Debtors is unaffected by whether the Debtors otherwise qualify for the special bankruptcy exception to the annual limitation rules of section 382 discussed in the preceding section.

Any AMT that a corporation pays generally will be allowed as a nonrefundable credit against its regular federal income tax liability in future taxable years when the corporation is no longer subject to the AMT.

## **B. Consequences to Holders of Certain Claims**

Pursuant to and in accordance with the Plan, holders of Allowed General Unsecured Claims (including certain deficiency claims relating to the 12¼% Secured Notes Claims) will receive New Common Stock, New Warrants, and/or Cash in satisfaction of their respective Claims. In addition, holders of Allowed 12¼% Secured Notes Claims will receive New Common Stock and/or Cash in satisfaction of such Claims.

Holders of Allowed General Unsecured Claims (which includes, as subclasses, Allowed Funded Debt Claims, Allowed Trade Claims, Allowed Convenience Claims, and Allowed 12% Notes Claims) and, holders of Allowed 12¼% Secured Notes Claims will receive Cash only if the holder makes a Cash Recovery election (or is deemed to make such an election by failing to make an election for treatment on its ballot); otherwise such holder's Claim will be satisfied solely with New Common Stock and/or New Warrants. It is possible that a holder of an Allowed Claim who makes a Cash Recovery election with respect to its Claim will receive solely Cash in satisfaction of its Claims, depending on the extent to which other holders have also so elected.

For purposes of the following discussion, it is assumed that holders of Allowed 12% Notes Claims will be treated for federal income tax purposes as receiving the New Common Stock directly from the Debtors and that such New Common Stock will not be treated as first being distributed to holders of 12¼% Secured Notes or the 13% Notes. There is no assurance that the IRS would not take a contrary position.

The federal income tax consequences of the Plan to holders of Allowed General Unsecured Claims and, holders of Allowed 12¼% Secured Notes Claims depends, in part, on whether such claims constitute "securities" of ABIZ for federal income tax purposes. The term "security" is not defined in the Tax Code or in the Treasury Regulations issued thereunder and has not been clearly defined by judicial decisions. The determination of whether a particular debt constitutes a "security" depends on an overall evaluation of the nature of the debt. One of the most significant factors considered in determining whether a particular debt is a security is its original term. In general, debt obligations issued with a weighted average maturity at issuance of five years or less (*e.g.*, trade debt and revolving credit obligations) do not constitute securities, whereas debt obligations with a weighted average maturity of ten years or more constitute securities. For purposes of the following discussion, it has been assumed that Allowed Convenience Claims and Allowed Trade Claims do not constitute securities for federal income tax purposes. Each holder is urged to consult its tax advisor regarding the status of its claim, or any portion thereof, as a "security" of ABIZ.

### *1. Holders of General Unsecured Claims and, 12¼% Secured Notes Claims That Do Not Constitute "Securities" of ABIZ or That Receive Solely Cash*

The receipt of New Common Stock, New Warrants, and/or Cash in satisfaction of an Allowed Convenience Claim, an Allowed Trade Claim, any Funded Debt Claim, Allowed 12¼ Secured Claim or 12% Notes Claim that does not constitute a security of ABIZ for federal income tax purposes or that receives solely Cash, will be a fully taxable transaction. Accordingly, a holder of such an Allowed Claim generally will recognize gain or loss in an amount equal to the difference between (i) the sum of any Cash and the fair market value of any New Common Stock and New Warrants received by the holder in satisfaction of its Claim (other than any Claim for accrued but unpaid interest, and less any portion of the distribution required to be treated as imputed interest as a result of any such distribution being made after the Effective

Date) and (ii) the holder's adjusted tax basis in its Claim (other than any Claim for accrued but unpaid interest). For a discussion of the treatment of any Claim for accrued but unpaid interest, see “– Distributions in Discharge of Accrued But Unpaid Interest,” below.

A holder of an Allowed Claim that makes a Cash Recovery election is entitled to share in a pool of cash of \$4 million (plus any Excess Cash, the amount of which is, in part, within the discretion of Reorganized ABIZ) in accordance with Sections 3.6 and 3.7 of the Plan. Initial Cash distributions will be made to some, but not necessarily all, holders on the Effective Date. To the extent that such distribution is insufficient to satisfy a particular holder's Claim, such holder will participate in a subsequent distribution to be made on the First Subsequent Distribution Date (*i.e.*, on or about 180 days after the Effective Date). At such time, such holder will receive its share of Excess Cash, if any, and, to the extent of any cash shortfall, its share of any New Common Stock or New Warrants. The federal income tax treatment of this subsequent distribution is not entirely clear. The Debtors intend to take the position that such distribution (whether paid in cash, stock or warrants) should be treated as an additional payment on the holder's Claim for federal income tax purposes, and thus as an additional amount realized by the holder in respect of its Claim, other than any portion required to be treated as imputed interest under section 483 of the Tax Code.

Also, a holder of an Allowed General Unsecured Claims (whether or not such holder makes a Cash Recovery election) may receive distributions subsequent to the Effective Date of the Plan as any Disputed Claims are disallowed. The imputed interest provisions of the Tax Code may apply to treat a portion of such subsequent distributions as imputed interest as well. Depending upon the timing of a distribution made subsequent to the Effective Date, any imputed interest (including any imputed interest described in the preceding paragraph) may accrue over time using the constant interest method, in which event the holder may be required to include such imputed interest in income prior to the actual distribution.

Because additional distributions may be made to certain holders of Allowed Claims after the initial distribution, any loss and a portion of any gain realized by such holder may be deferred until such time as such holder has received its final distribution. All holders of Allowed Claims are urged to consult their tax advisors regarding the possible application of (or ability to elect out of) the “installment method” of reporting any gain that may be recognized by such holder in respect of its Allowed Claim.

Where gain or loss is recognized by a holder, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Claim constitutes a capital asset in the hands of the holder and how long it has been held, whether the Claim was acquired at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction. A holder of an Allowed Claim which purchased its Claim from a prior holder at a market discount may be subject to the market discount rules of the Tax Code. Under those rules, assuming that the holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of its Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

A holder's tax basis in any New Common Stock or New Warrants received will equal the fair market value of such common stock or warrants. The holding period for any New Common Stock or New Warrants received generally will begin the day following the Effective Date.

Notwithstanding the foregoing, if a holder of Allowed Claims against any subsidiary of ABIZ receives New Common Stock in all or partial satisfaction of its Claims, it is possible the IRS may attempt to treat the receipt of the New Common Stock, together with any New Warrants and Cash received, by such holder as part of a non-recognition transaction. So treated, such a holder would not be permitted to recognize any loss, but would still be required to recognize any gain to the extent that the holder receives New Warrants and Cash. In the case of a holder that does not recognize loss, the holder's tax basis in its New Common Stock would reflect the unrecognized loss. In addition, the holder's holding period in the New Common Stock would, in whole or in part, include its holding period in its Claim. However, the Debtors believe, and the discussion herein assumes, that the satisfaction of Claims described in this paragraph should be treated as a fully taxable transaction, in which both gain and loss may be recognized.

2. *Holders of Allowed Funded Debt Claims, Allowed 12¼% Secured Notes Claims and Allowed 12% Notes Claims That Constitute "Securities" of ABIZ*

The receipt of New Common Stock, New Warrants and/or Cash by holders of Allowed Funded Debt Claims, Allowed 12¼% Secured Notes Claims and Allowed 12% Notes Claims that constitute "securities" of ABIZ will constitute a "recapitalization" for federal income tax purposes.

Accordingly, in general, the holder of such an Allowed Claim will not recognize loss upon such exchange but will recognize any gain realized (computed as described in the preceding section) in an amount *not in excess* of any Cash received with respect to such Claim (excluding the portion of any consideration allocable to a Claim for accrued but unpaid interest or required to be treated as imputed interest as a result of any such distribution being made after the Effective Date). The timing and character of such gain will be determined in accordance with the principles discussed in the preceding section. For a discussion of the treatment of any Claim for accrued but unpaid interest, see "– Distributions in Discharge of Accrued But Unpaid Interest," below.

A holder's aggregate tax basis in any New Common Stock or New Warrants received in satisfaction of its Claim will equal the holder's aggregate adjusted tax basis in its Claim (including any Claim for accrued but unpaid interest), increased by any gain or interest income recognized in respect of its Claim and decreased by any Cash received and any deductions claimed in respect of any interest previously accrued but not paid in full pursuant to the Plan. Such tax basis would be allocated between the New Common Stock and the New Warrants based on relative fair market value. In general, the holder's holding period for the New Common Stock or New Warrants received will include the holder's holding period for the Claim, except to the extent that the New Common Stock or New Warrants were issued in respect of a Claim for accrued but unpaid interest or treated as imputed interest (which will begin the day following its receipt of such interest).

If a holder of an Allowed Funded Debt Claim, Allowed 12¼% Secured Notes Claim or Allowed 12% Notes Claim who makes a Cash Recovery election in respect of its Claim receives no New Common Stock or New Warrants, the receipt of the Cash will be a fully taxable transactions for federal income tax purposes. The tax consequences to such a holder would be the same as those described in the preceding section.

3. *Distributions in Discharge of Accrued but Unpaid Interest*

In general, to the extent that any stock received by a holder of an allowed Claim (whether paid in cash or stock) is received in satisfaction of accrued interest or amortized original issue discount (“OID”) during its holding period, such amount will be taxable to the holder as interest income (if not previously included in the holder’s gross income). Conversely, a holder generally recognizes a deductible loss to the extent any accrued interest claimed or amortized OID was previously included in its gross income and is not paid in full. However, the IRS has privately ruled that a holder of a security, in an otherwise tax-free exchange, could not claim a current deduction with respect to any unpaid OID. Accordingly it is also unclear whether, by analogy, a holder of a Claim that does not constitute a security would be required to recognize a capital loss, rather than an ordinary loss, with respect to previously included OID that is not paid in full.

Pursuant to the Plan, all distributions in respect of Allowed Claims will be allocated first to the principal amount of such Claims, as determined for federal income tax purposes, and thereafter, to the portion of such Claim, if any, representing accrued but unpaid interest. However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes.

Each holder of a Claim is urged to consult its tax advisor regarding the allocation of consideration and the deductibility of unpaid interest for tax purposes.

4. *Subsequent Sale of New Common Stock*

Any gain recognized by a holder upon a subsequent taxable disposition of New Common Stock received in satisfaction of a Claim (or any stock or property received for it in a later tax-free exchange) of a claim against ABIZ or a first-tier corporate subsidiary of ABIZ will be treated as ordinary income to the extent of (i) any bad debt deductions (or additions to a bad debt reserve) claimed with respect to its Claim and any ordinary loss deductions incurred upon satisfaction of its Claim, less any income (other than interest income) recognized by the holder upon satisfaction of its Claim, and (ii) with respect to a cash-basis holder, also any amounts which would have been included in its gross income if the holder’s Claim had been satisfied in full but which was not included by reason of the cash method of accounting.

In addition, the Treasury Department is expected to promulgate regulations that will provide that any accrued “market discount” not treated as ordinary income upon a tax-free exchange (including a recapitalization exchange) of market discount bonds would carry over to the nonrecognition property received in the exchange. If such regulations are promulgated and applicable to the Plan (and likely even without issuance of regulations), any holder of an Allowed Funded Debt Claim, an Allowed 12¼% Secured Notes Claim or an Allowed 12% Notes Claim that constitute “securities” of ABIZ that has accrued market discount would carry over such accrued market discount to any New Common Stock or New Warrants received pursuant to the Plan (presumably allocated on the basis of relative fair market value), such that any gain recognized by the holder upon a subsequent disposition of such stock or warrants would be treated as ordinary income to the extent of any accrued market discount not previously included in income.

If no appropriate adjustment is made to the number of shares of New Common Stock for which a New Warrant may be exercised or to the exercise price of the New Warrants, a

constructive distribution may result that could be taxable to the holders of the New Common Stock.

5. *Ownership and Disposition of New Warrants; Constructive Distributions to Holders of New Common Stock*

A holder of a New Warrant generally will not recognize gain or loss upon the cash exercise of such warrant. A holder's tax basis in the New Common Stock received upon exercise of a New Warrant will be equal to the sum of the holder's tax basis in the warrant and the exercise price. The holder will commence a new holding period with respect to the New Common Stock received. In the event that the holder carried over to the New Warrant accrued market discount (as discussed in the preceding section), it is possible that such taint would carry over to the common stock acquired upon exercise of such warrant.

The tax treatment of the cashless exercise of a New Warrant is somewhat unclear. The Debtors believe that the appropriate treatment is to treat the cashless exercise as a tax-free recapitalization of the New Warrant for New Common Stock and, accordingly, that no gain or loss should be recognized by a holder as a result of the cash exercise. Nevertheless, the IRS may argue that the surrender of one or more New Warrants in payment of the exercise price of another New Warrant results in taxable gain or loss to the exercising holder in an amount equal to the difference between the exercise price deemed paid and the tax basis in the New Warrants surrendered as a payment of the exercise price. If the cashless exercise is treated as a tax-free recapitalization, the holder's holding period in the New Common Stock received would include the holding period of the New Warrant. Otherwise, the holder will commence a new holding period in the stock received.

If the terms of the New Warrant provide for any adjustment to the number of shares of New Common Stock for which the warrant may be exercised or to the exercise price of the warrants, such adjustment may, under certain circumstances, result in constructive distributions that could be taxable to the holder of the New Warrants. Conversely, the absence of an appropriate adjustment may result in a constructive distribution that could be taxable to the holders of the New Common Stock.

Upon the lapse or disposition of a New Warrant, the holder generally would recognize gain or loss equal to the difference between the amount received (zero in the case of a lapse) and its tax basis in the warrant. In general, such gain or loss would be a capital gain or loss, long-term or short-term, depending on whether the requisite holding period was satisfied.

The New Warrants will contain a provision permitting the holders of New Warrants, under certain circumstances, to compel the repurchase of the warrants for cash or New Common Stock equal in value to the New Warrants. The use of Cash by Reorganized ABIZ would be treated as a taxable disposition of the New Warrants by the holder of such warrants. The use of New Common would be treated as either a tax-free recapitalization exchange of such warrants or, possibly, an exercise of the warrants, the principal difference being the holder's holding period for the New Common Stock acquired. In the case of a tax-free recapitalization, the holder's holding period in the New Common Stock acquired would include the holding period of the repurchased warrants.

6. *Information Reporting and Withholding*

All distributions to holders of Allowed Claims under the Plan are subject to any applicable withholding (including employment tax withholding). Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to “backup withholding” at the then applicable rate (currently 28%). Backup withholding generally applies if the holder (a) fails to furnish its social security number or other taxpayer identification number (“TIN”), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is its correct number and that it is not subject to backup withholding. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax and the appropriate information is supplied to the IRS.

Recently effective Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated after January 1, 2003, including, among other types of transactions, the following: (i) certain transactions that result in the taxpayer claiming a loss in excess of specified thresholds; and (ii) certain transactions in which the taxpayer’s book-tax differences exceed a specified threshold in any tax year. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the holders’ tax returns.



#### **XIV.**

#### **Conclusion**

The Debtors, the Creditors' Committee and the Secured Noteholder Committee believe the Plan is in the best interests of all creditors and equity holders and urges the holders of impaired Claims in Class 1A (CIT Secured Claim), Class 6 (12¼% Secured Notes Claim), Class 7A (Convenience Claims), Class 7B (Trade Claims), Class 7C (Funded Debt Claims -- including 13% Notes Claims, the 12¼% Deficiency Claim and the 12¼% Buffalo Claim) and Class 7D (12% Notes Claims) to vote to accept the Plan and to evidence such acceptance by returning their Ballots.

Dated: October 22, 2003

Respectfully submitted,

By: /s/ Ed Babcock

Name: Ed Babcock

Title: Vice President &  
Chief Financial Officer

**EXHIBIT A**  
**to**  
**DISCLOSURE STATEMENT**

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

-----X  
In re : Chapter 11 Case No.  
: :  
ADELPHIA BUSINESS SOLUTIONS, INC., et al., : 02-11389 (REG)  
: :  
Debtors. : (Jointly Administered)  
-----X

**DEBTORS' SECOND AMENDED JOINT PLAN OF  
REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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Dated: October 22, 2003

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

-----X  
 In re : Chapter 11 Case No.  
 :  
 ADELPHIA BUSINESS SOLUTIONS, INC., *et al.*, : 02-11389 (REG)  
 :  
 Debtors. : (Jointly Administered)  
 :  
 -----X

**DEBTORS’ SECOND AMENDED JOINT PLAN OF  
REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

Adelphia Business Solutions, Inc., a Delaware corporation, for itself and on behalf of certain of its direct and indirect subsidiaries,<sup>1</sup> the Creditors’ Committee and the Secured Noteholder Committee (collectively, the “Plan Proponents”) jointly propose the following joint chapter 11 Plan of Reorganization, pursuant to section 1121(a) of title 11 of the United States Code.

The Debtors’ Reorganization Cases have been consolidated for procedural purposes and are being jointly administered pursuant to an order of the Bankruptcy Court. This Plan contemplates the substantive consolidation of the Debtors’ Reorganization Cases into a single chapter 11 case solely for the purposes of distribution and voting under this Plan, and in furtherance of certain settlements and compromises detailed in the Plan. For all other purposes, the Debtors will continue to maintain their separate corporate existence, except as otherwise expressly provided for in this Plan. In addition any obligation of any Debtor and all guarantees thereof executed by one or more of the Debtors will be deemed to be one obligation of the deemed consolidated Debtors; any Claims filed or to be filed in connection with any such obligation and such guarantees will be deemed one Claim against the deemed consolidated Debtors and each and every Claim filed in the individual Reorganization Case of any of the Debtors will be deemed filed against the deemed consolidated Debtors.

Reference is made to the Disclosure Statement, distributed contemporaneously herewith, for a discussion of the Debtors’ history, businesses, properties, certain postpetition events, results of operations, and projections for future operations, risk factors, and for a summary and analysis of the Plan and certain related matters, including the New Common Stock to be issued pursuant to the Plan. All holders of Claims against the Debtors entitled to vote on the Plan are encouraged to read the Plan and the Disclosure Statement in their entirety before voting to accept or reject the Plan.

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<sup>1</sup> Adelphia Business Solutions Operations, Inc., Adelphia Business Solutions of Atlantic, Inc., Adelphia Business Solutions of Florida, Inc., Adelphia Business Solutions of Kentucky, Inc., Adelphia Business Solutions of Tennessee, Inc., and Adelphia Business Solutions of Vermont, Inc., Adelphia Business Solutions Long Haul, L.P., Adelphia Business Solutions International, LLC, Adelphia Business Solutions, LLC, Adelphia Business Solutions of Jacksonville, Inc., Adelphia Business Solutions of Louisiana, Inc., Adelphia Business Solutions of Nashville, L.P., Adelphia Business Solutions of South Carolina, Inc., Adelphia Business Solutions of Virginia, LLC, Adelphia Business Solutions Investment East, LLC, Adelphia Business Solutions Investment, LLC, and Adelphia Business Solutions of Louisiana, LLC.

## SECTION 1. DEFINITIONS AND INTERPRETATION

### A. Definitions.

The following terms used herein shall have the respective meanings ascribed below:

- 1.1. **ABIZ** means Adelpia Business Solutions, Inc., a Delaware corporation.
- 1.2. **ABIZ Committees** means the Creditors' Committee and the Secured Noteholder Committee.
- 1.3. **ACC** means Adelpia Communications Corporation, the Debtors' former parent corporation, and certain of its subsidiaries and/or affiliates, as relevant.
- 1.4. **ACC DIP Claims** means all Claims arising under the ACC DIP Credit Agreement.
- 1.5. **ACC DIP Credit Agreement** means that certain Secured Debtor in Possession Credit and Security Agreement dated as of March 27, 2002, as amended, among certain of the Debtors, ACC, and Highland 2000, L.P.
- 1.6. **Administrative Expense Claim** means any right to payment constituting a cost or expense of administration of any of the Reorganization Cases 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 Debtors' estates, (b) any actual and necessary costs and expenses of operating the Debtors' businesses, (c) any indebtedness or obligations incurred or assumed by the Debtors, as debtors in possession, during the Reorganization Cases, (d) any allowances of compensation and reimbursement of expenses to the extent allowed by Final Order under sections 330 or 503 of the Bankruptcy Code, and (e) any fees or charges assessed against the estates of the Debtors under section 1930 of chapter 123 of title 28 of the United States Code.
- 1.7. **Allowed** means, with reference to any Claim, (a) any Claim against any Debtor which has been listed by such Debtor in the Schedules, as such Schedules may be amended by the Debtors from time to time in accordance with Bankruptcy Rule 1009, as liquidated in amount and not disputed or contingent and for which no contrary proof of claim has been filed, (b) any Claim as to which no objection to allowance has been timely interposed in accordance with section 502 of the Bankruptcy Code and Bankruptcy Rule 2007 or such other applicable period of limitation fixed by the Bankruptcy Code, the Bankruptcy Rules, or the Bankruptcy Court, or as to which any objection has been determined by a Final Order to the extent such objection is determined in favor of the respective holder, (c) any Claim as to which, upon the lifting of the automatic stay pursuant to section 362 of the Bankruptcy Code, the liability of the Debtors, allowance and the amount thereof are determined by Final Order of a court of competent jurisdiction other than the Bankruptcy Court, or (d) any Claim expressly allowed pursuant to this Plan.
- 1.8. **Amended By Laws** means the By Laws of Reorganized ABIZ, substantially in the form set forth in the Plan Supplement.
- 1.9. **Amended Certificate of Incorporation** means the Certificate of Incorporation of Reorganized ABIZ, as amended and restated, substantially in the form set forth in the Plan Supplement (and containing the applicable terms set forth in the Private Company Term Sheet).

1.10. **Ballot** means the form or forms distributed by the Debtors to each holder of an impaired Claim on which the holder of such Claim is to indicate acceptance or rejection of the Plan.

1.11. **Bankruptcy Code** means title 11 of the United States Code, as amended from time to time, applicable to the Reorganization Cases.

1.12. **Bankruptcy Court** means the United States District Court for the Southern District of New York having jurisdiction over the Reorganization Cases and, to the extent of any reference made under section 157 of title 28 of the United States Code, the unit of such District Court having jurisdiction over the Reorganization Cases under section 151 of title 28 of the United States Code.

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

1.14. **Beal Bank** means Beal Bank, SSB.

1.15. **Beal DIP Claims** means all Claims arising under the Beal DIP Credit Agreement.

1.16. **Beal DIP Credit Agreement** means that certain Secured Debtor in Possession Priming Term Loan, dated August 9, 2002, by and among the Debtors and Beal Bank, as amended, and all other agreements and documents entered into or executed in connection therewith.

1.17. **Business Day** means any day other than a Saturday, a Sunday, or a day on which banking institutions in New York, New York are required or authorized to close by law or executive order.

1.18. **Cash** means legal tender of the United States of America.

1.19. **Cash Recovery** means a distribution of Cash to a holder of a Claim in Class 6, 7A, 7B, 7C, and/or 7D in lieu of New Common Stock and New Warrants (to the extent applicable) otherwise distributable to any such holder pursuant to Sections 3.6 and 3.7, in an amount equal to \$8.94 per share of such New Common Stock that such holder would otherwise have received (with any related New Warrants to be extinguished).

1.20. **Century Facility** means the credit agreement, dated as of April 4, 2000 (as amended, modified, supplemented, or restated from time to time), among Century Cable Holdings, LLC, Ft. Myers Cablevision, LLC, and Highland Prestige Georgia, Inc., as borrowers, and one of the Debtors, as a purported unrestricted borrower pursuant to a designation request under such agreement, and Bank of America, N.A. and the Chase Manhattan Bank, as co-administrative agents, and the other lenders and agents party thereto.

1.21. **Century Facility Claim** means all Claims arising under the Century Facility.

1.22. **CIT Secured Claim** means an Allowed Claim representing the secured portion of such claim arising from that certain Master Lease Agreement, dated December 31, 1997.

1.23. **Claim** has the meaning set forth in section 101 of the Bankruptcy Code.

- 1.24. **Class** means any group of Claims or Interests classified by the Plan pursuant to section 1122(a)(1) of the Bankruptcy Code.
- 1.25. **Collateral** means any property or interest in property of the estate of any Debtor subject to a lien, charge, or other encumbrance to secure the payment or performance of a Claim, which lien, charge, or other encumbrance is not subject to avoidance under the Bankruptcy Code.
- 1.26. **Confirmation Date** means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on its docket.
- 1.27. **Confirmation Hearing** means the hearing to be held by the Bankruptcy Court regarding confirmation of the Plan, as such hearing may be adjourned or continued from time to time.
- 1.28. **Confirmation Order** means the order of the Bankruptcy Court confirming the Plan, pursuant to, *inter alia*, section 1129 of the Bankruptcy Code.
- 1.29. **Convenience Claim** means a General Unsecured Claim (other than a Funded Debt Claim, a 12% Notes Claim, or a Century Facility Claim) in an amount less than or equal to \$100,000 that will receive the treatment provided under the Plan in Class 7A.
- 1.30. **Covered Claim** means any Claim arising from an incident or occurrence that is covered under the Debtors' insurance policies, other than a workers' compensation insurance policy, but excluding any deductible or self insured retention amounts not covered by any such policies.
- 1.31. **Creditors' Committee** means the official committee of general unsecured creditors appointed in the Debtors' chapter 11 cases, as re-constituted from time to time.
- 1.32. **Debtors** means ABIZ, and each of the entities listed in footnote 1 of this Plan.
- 1.33. **Deficiency Claim** means the portion, if any, of a Secured Claim that is unsecured.
- 1.34. **Disbursing Agent** means any entity in its capacity as a disbursing agent under section 5.16 hereof, whose appointment shall be in consultation with each of the ABIZ Committees, to the extent they exist at the time the appointment is made.
- 1.35. **Disclosure Statement** means that certain disclosure document relating to the Plan, including, without limitation, all exhibits and schedules thereto, as approved by the Bankruptcy Court pursuant to section 1125 of the Bankruptcy Code.
- 1.36. **Disputed Claim** means, with reference to a Claim, any Claim (a) which has been or hereafter is listed on the Schedules as unliquidated, disputed, or contingent, and which has not been resolved by written agreement of the parties or by an order of the Bankruptcy Court, (b) which is disputed under the Plan, (c) as to which a Debtor or its designee has interposed a timely objection and/or request for estimation in accordance with section 502(c) of the Bankruptcy Code and Bankruptcy Rule 3018, which objection and/or request for estimation has not been withdrawn or determined by a Final Order, (d) any Claim, proof of which was filed in an amount greater than the amount reflected for such Claim as listed on the Schedules, and (e) any Claim proof of which was required to be filed by order of the Bankruptcy Court but as to which a proof of claim was not timely or properly filed.

1.37. **Disputed Claims Reserve** means, in the event there exists any Disputed Claims on the Effective Date, the reserve established in accordance with Section 6 of the Plan, to hold the Cash, New Common Stock and New Warrants that will be distributable to the holders of such Claims if such Claims are subsequently Allowed or distributed pursuant to section 5.3, as set forth more fully in Section 6 of this Plan.

1.38. **Effective Date** means a Business Day selected by the Debtors on which (i) no stay of the Confirmation Order is in effect and (ii) the conditions to the effectiveness of the Plan specified in section 9.2 hereof has been satisfied or waived. The Effective Date shall be no earlier than (i) 11 days after the later of the Confirmation Date, the date any stay of the Confirmation Order is dissolved, or (ii) the date on which the conditions to the effectiveness of the Plan specified in section 9.2 hereof have been satisfied or waived.

1.39. **Equity Interest** means the interest of any holder of an equity security of ABIZ represented by any issued and outstanding shares of common or preferred stock or other instrument evidencing a present ownership interest in ABIZ, whether or not transferable, or any option, warrant, or right, contractual or otherwise, to acquire any such interest.

1.40. **Excess Cash** means Cash available to the Debtors (including proceeds from any asset divestitures, but excluding proceeds from litigation settlements and any exit financing) in excess of the \$4 million to be used to fund Cash Recovery elections by holders of Claims in Classes 6, 7A, 7B, 7C, and 7D to the extent ABIZ determines in its sole discretion on or before the Effective Date, to make such Excess Cash available for purposes of offering Cash Recovery elections to such holders, and only if such Cash is not otherwise needed as working capital for the ongoing operations of Reorganized ABIZ. Notwithstanding the foregoing, with respect to any Cash generated from non-operating sources (including proceeds from any asset divestitures, but excluding proceeds from any exit financing) prior to the Effective Date, the determination of Excess Cash will be determined by the Debtors in consultation with the ABIZ Committees.

1.41. **Final Order** means an order or judgment of the Bankruptcy Court entered by the Clerk of the Bankruptcy Court on the docket in the Reorganization Cases, which has not been reversed, vacated, or stayed and as to which (a) the time to appeal, petition for certiorari or move for a new trial, reargument, or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for a new trial, reargument, or rehearing shall then be pending or (b) if an appeal, writ of certiorari, new trial, reargument, or rehearing thereof has been sought, such order or judgment of the Bankruptcy Court shall have been affirmed by the highest court to which such order was appealed, or certiorari shall have been denied or a new trial, reargument, or rehearing shall have been denied or resulted in no modification of such order, and the time to take any further appeal, petition for certiorari, or move for a new trial, reargument, or rehearing shall have expired; provided, however, that the possibility that a motion under Rule 60 of the Federal Rules of Civil Procedure, or any analogous rule under the Bankruptcy Rules, may be filed relating to such order, shall not cause such order not to be a Final Order.

1.42. **First Subsequent Distribution Date** means the date which shall occur on or about 180 days after the Effective Date.

1.43. **Funded Debt Claim** means an Allowed unsecured Claim arising under the 12¼% Secured Notes (solely with respect to the 12¼% Buffalo Claim and the 12¼% Deficiency Claim), or the 13% Notes, in each case excluding any Securities Claims.

1.44. **General Unsecured Claim** means any Claim against any of the Debtors that is not a Secured Claim, Administrative Expense Claim, Priority Tax Claim, Priority Non-Tax Claim, Securities Claim, or Subordinated Claim.

1.45. **General Unsecured Percentage** means 40 percent of the New Common Stock, prior to the implementation of any Cash Recovery elections.

1.46. **Intercompany Claims** means a Claim of any one Debtor against another Debtor.

1.47. **Interests** means any Equity Interest or Subsidiary Equity Interest.

1.48. **New Common Stock** means the 10,000,000 shares of common stock, \$0.01 par value, of Reorganized ABIZ authorized and issued hereunder or authorized for the purposes specified herein or in the Plan Securities.

1.49. **New Management Warrants** means warrants to purchase up to 1,100,000 shares of New Common Stock, at an aggregate price of \$13.41 per share (172,500 Warrants) and \$22.35 per share (927,500 Warrants), subject to adjustment as set forth in the New Management Warrant Agreement.

1.50. **New Management Warrant Agreement** means the warrant agreement substantially in the form included in the Plan Supplement governing the exercise of the New Management Warrants.

1.51. **New Warrant Agreement** means the warrant agreement substantially in the form included in the Plan Supplement (and containing the applicable terms set forth in the Private Company Term Sheet), governing the exercise of the New Warrants.

1.52. **New Warrants** means the detachable warrants to purchase up to 1,500,000 shares of New Common Stock (representing up to 15.0% of the New Common Stock, excluding any option shares reserved for management and shares issued upon exercise of such warrants) in accordance with the provisions of the New Warrant Agreement, at an aggregate exercise price of \$22.35 per share, as more fully described in Section VF2 of the Disclosure Statement.

1.53. **Plan** means this Joint Plan of Reorganization, including the exhibits and schedules annexed hereto and the documents included in the Plan Supplement, as the same may be amended or modified from time to time in accordance with the provisions of the Bankruptcy Code and the terms hereof.

1.54. **Plan Securities** means, collectively, the New Common Stock and the New Warrants.

1.55. **Plan Supplement** means the supplement to the Plan containing certain documents relevant to the implementation of such Plan or the treatment of Allowed Claims thereunder, including, without limitation, the New Warrant Agreement, the New Management Warrant Agreement, a form of New Warrant, the Amended Certificate of Incorporation, the Amended By-Laws, and the Registration Rights Agreement. The Plan Supplement will be filed with the Bankruptcy Court no later than 10 days prior to the Confirmation Hearing.



1.56. **Priority Non-Tax Claim** means any Claim against any of the Debtors that is not an Administrative Expense Claim or a Priority Tax Claim, and that is entitled to priority in payment as specified in sections 507(a)(2), (3), (4), (5), (6), (7), or (9) of the Bankruptcy Code.

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

1.58. **Private Company Term Sheet** means that certain term sheet, which is attached to the Disclosure Statement as Exhibit D, setting forth certain rights of holders of New Common Stock and New Warrants.

1.59. **Ratable Proportion** means the ratio (expressed as a percentage) of the amount of an Allowed Claim (or Disputed Claim) in a Class to the aggregate amount of all Allowed Claims and Disputed Claims in the same Class.

1.60. **Registration Rights Agreement** means a registration rights agreement containing the provisions set forth in the Private Company Term Sheet (attached to the Disclosure Statement as Exhibit D) to be agreed upon in form and substance by the Plan Proponents, and also containing provisions that will restrict transfers to preclude inadvertent requirement to register under '34 Act.

1.61. **Remaining Class 6 Distribution** means a distribution of the number of shares of New Common Stock to be distributed to the holder of a Claim in Class 6 that elects a Cash Recovery, which shall be made on the First Subsequent Distribution Date, in the event that there is insufficient Cash on the First Subsequent Distribution Date to satisfy in full such holder's Cash Recovery election, which distribution shall be made in accordance with the following formula: the proportionate share of New Common Stock otherwise distributable to the holder of a Claim in Class 6 (if the holder had instead elected a proportionate share of the 12¼% Secured Notes Percentage), less (aggregate Cash Recovery received by such holder divided by \$8.94).

1.62. **Remaining Distribution** means a distribution of a Remaining Stock Distribution and a Remaining Warrant Distribution to a holder of a Claim, which shall be made on the First Subsequent Distribution Date, to the extent necessary to satisfy in full the Claims of each holder that elects a Cash Recovery, in the event that there is insufficient Cash on the First Subsequent Distribution Date to satisfy in full such holder's Cash Recovery election.

1.63. **Remaining Stock Distribution** means the number of shares of New Common Stock to be distributed to the holder of a Claim that elects a Cash Recovery, in the event that there is insufficient Cash to satisfy in full such holder's Cash Recovery election, which distribution shall be made on the First Subsequent Distribution Date in accordance with the following formula: the Ratable Proportion of New Common Stock otherwise distributable to the holder of a Claim (if the holder had instead elected a Stock and/or Warrant Recovery), less (aggregate Cash Recovery received by such holder divided by \$8.94).

1.64. **Remaining Warrant Distribution** means a distribution on the First Subsequent Distribution Date of New Warrants that is exercisable into a number of shares of New Common Stock equal to the Remaining Stock Distribution multiplied by 37.5%.

1.65. **Reorganization Cases** means the jointly administered cases commenced under chapter 11 of the Bankruptcy Code commenced by the Debtors on March 27, 2002, and June 18, 2002 in the United States District Court for the Southern District of New York and styled In re Adelpia Business Solutions, Inc. et al., 02-11389 (REG).

1.66. **Reorganized ABIZ** means ABIZ, as reorganized as of the Effective Date in accordance with the Plan.

1.67. **Rigas Family** means any member of the Rigas Family, including spouses, aunts, uncles, siblings and their spouses, cousins, and any children or parents of the foregoing, of John J. Rigas, Timothy J. Rigas, Michael J. Rigas, or James P. Rigas, or any affiliate of the Rigas Family other than (i) ABIZ and its subsidiaries and (ii) ACC and each of its subsidiaries that have commenced a case under chapter 11 of the Bankruptcy Code.

1.68. **Rigas Family Claim** means any Claim against any of the Debtors that is held by a member of the Rigas Family.

1.69. **Schedules** means the schedules of assets and liabilities and the statements of financial affairs filed by the Debtors under section 521 of the Bankruptcy Code, Bankruptcy Rule 1007 and the Official Bankruptcy Forms of the Bankruptcy Rules as such schedules and statements have been or may be supplemented or amended through the Confirmation Date.

1.70. **Secured Claim** means a Claim (i) that is secured by Collateral, and that is of an amount that is greater than, equal to, or less than the value of such Collateral, as determined by (A) the Plan, (B) an agreement between the holder of such Claim and the Debtors, or (C) a Final Order in accordance with section 506(a) of the Bankruptcy Code, or (ii) in the amount of any rights of setoff of the holder thereof under section 553 of the Bankruptcy Code, but excluding for purposes of this Plan, a 12¼% Secured Note Claim (which is treated separately under this Plan).

1.71. **Secured Noteholder Committee** means the ad hoc committee of holders of 12¼% Secured Notes.

1.72. **Secured Tax Claim** means any Secured Claim that, absent its secured status, would be entitled to priority in right of payment under section 507(a)(8) of the Bankruptcy Code.

1.73. **Securities Claim** means a Claim for damages or rescission arising from the purchase or sale of a security of a Debtor, or for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such a Claim, that is subordinated to other Claims or interests in accordance with section 510(b) of the Bankruptcy Code.

1.74. **Shareholders Right Agreement** means a shareholders' rights agreement containing the provisions set forth in the Private Company Term Sheet (attached to the Disclosure Statement as Exhibit D) to be agreed upon in form and substance by the Plan Proponents, and also containing provisions that will restrict transfers to preclude inadvertent requirement to register under '34 Act.

1.75. **Special Board Committee** means the committee established pursuant to Section 12.4 of the Plan.

1.76. **Stock and/or Warrant Recovery** means (A) as to a holder of a Funded Debt Claim, Trade Claim, Convenience Claim, or Century Facility Claim (to the extent any portion thereof is Allowed) a Ratable Proportion of (i) the General Unsecured Percentage and (ii) the New Warrants, in each case taking into consideration the contractual subordination of the 12% Notes to the 12¼% Secured Notes and the 13% Notes, and (B) as to a non-Rigas Family holder of 12% Notes, a Ratable Proportion of .25% of the aggregate number of shares of New Common Stock outstanding on the Effective Date, contributed by the holders of the 12¼% Secured Notes and the 13% Notes based upon

a proportionate share of such holders' respective Stock and/or Warrant Recovery (excluding for purposes of this calculation, the 12¼% Buffalo Claim). The holders of 12¼% Secured Notes Claims and 13% Notes Claims have agreed that the distributions that the holders of the 12% Notes Claims would otherwise receive will be made to the holders of the 12¼% Secured Notes Claims and 13% Notes Claims ratably based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes.

1.77. ***Subsequent Distribution Date*** means, following the First Subsequent Distribution Date, a date which shall occur at the end of each subsequent three-month period, or more frequently as may be determined by the Disbursing Agent, on which a Ratable Proportion of the Cash, New Common Stock or New Warrants is distributed to the holders of Allowed Claims and to the Disputed Claims Reserve, in accordance with section 5 of the Plan.

1.78. ***Subordinated Claim*** means any Claim that is determined to be subordinated to other Claims pursuant to section 510(c) of the Bankruptcy Code, including, but not limited to, any Rigas Family Claim.

1.79. ***Subsidiary Debtor*** means one of the Debtors, excluding ABIZ.

1.80. ***Subsidiary Equity Interest*** means the interest of any holder of an equity security of any Debtor other than ABIZ represented by any issued and outstanding shares of common or preferred stock or other instrument evidencing a present ownership interest in such Debtor, whether or not transferable, or any option, warrant, or right, contractual or otherwise, to acquire any such interest.

1.81. ***Tort Claim*** means any Claim that has not been compromised and settled or otherwise resolved (a) relating to personal injury, wrongful death, property damage, products liability, or other similar Claim asserted against any of the Debtors, or (b) arising under any federal, state or local statute, rule regulation or ordinance governing, regulating or relating to health, safety, hazardous substances or the environment, including, in each case, unasserted and other intangible Claims.

1.82. ***Trade Claim*** means a General Unsecured Claim (other than a Funded Debt Claim, 12% Notes Claim, or Century Facility Claim) in an amount more than \$100,000 that will receive the treatment provided under the Plan in Class 7B.

1.83. ***Wachovia Letter of Credit Claims*** means those claims by Wachovia Bank, National Association against Adelpia Business Solutions of Pennsylvania, Inc., Adelpia Business Solutions Investments, LLC, Adelpia Business Solutions Operations, Inc. f/k/a Adelpia Business Solutions of Illinois, Inc., and Adelpia Business Solutions of Virginia, LLC pursuant to those separate certain Applications And Agreements For Irrevocable Standby Letter Of Credit against Adelpia Business Solutions Operations, Inc. and Adelpia Business Solutions, Inc. pursuant to those certain Guaranty Agreements and related Pledge Agreements approved by the Final Order Pursuant To Sections 105, 363(b) and 364 of the Bankruptcy Code and Bankruptcy Rule 4001, Authorizing The Debtors To Replace An Expired Performance Bond With A Secured Letter Of Credit.

1.84. ***12% Notes*** means the 12% Senior Subordinated Notes Due 2007 issued by ABIZ.

1.85. ***12% Notes Claim*** means an Allowed Claim in the aggregate amount of \$314,600,000 arising from the 12% Notes.

1.86. **12¼% Buffalo Claim** means an Allowed Claim in the aggregate amount of \$75,300,000 against ABIZ, in full satisfaction of Claims arising from various transactions involving Adelpia Business Solutions Atlantic, Inc., a Subsidiary Debtor.

1.87. **12¼% Deficiency Claim** means a Deficiency Claim in the aggregate amount of \$160,244,306.

1.88. **12¼% Secured Notes** means the Series A & B 12¼% Senior Secured Notes Due 2004 issued by ABIZ.

1.89. **12¼% Secured Notes Claim** means an Allowed Claim in the aggregate amount of \$107,280,000 representing the secured portion of such Claim arising from the 12¼% Secured Notes.

1.90. **12¼% Secured Notes Percentage** means 60 percent of the New Common Stock, prior to the implementation of any Cash Recovery elections.

1.91. **13% Notes** means the Series A & B 13% Senior Discount Notes Due 2003 issued by ABIZ.

1.92. **13% Notes Claim** means an Allowed Claim in the aggregate amount of \$321,504,920 arising from the 13% Notes.

## **B. Interpretation; Application of Definitions and Rules of Construction.**

Unless otherwise specified, all section, schedule, or exhibit references in the Plan are to the respective section in, article of, or schedule or exhibit to the Plan, as the same may be amended, waived, or modified from time to time. The words “herein,” “hereof,” “hereto,” “hereunder,” and other words of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained therein. A term used herein that is not defined herein shall have the meaning assigned to that term in the Bankruptcy Code. The rules of construction contained in section 102 of the Bankruptcy Code shall apply to the Plan. The headings in the Plan are for convenience of reference only and shall not limit or otherwise affect the provisions hereof.

## **SECTION 2. ADMINISTRATIVE EXPENSE CLAIMS AND PRIORITY TAX CLAIMS**

### **2.1. Administrative Expense Claims.**

On the Effective Date, except to the extent that a holder of an Allowed Administrative Expense Claim against any of the Debtors agrees to a different treatment, each holder of an Allowed Administrative Expense Claim shall receive Cash in an amount equal to such Claim; *provided, however*, that Allowed Administrative Expense Claims representing liabilities incurred in the ordinary course of business by the Debtors, as debtors in possession, shall be paid by the Debtors or by Reorganized ABIZ in the ordinary course of business, consistent with past practice and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to such transactions. On the Effective Date or at a later date pursuant to the Beal DIP Credit Agreement, each Beal DIP Claim arising under or evidenced by the Beal DIP Credit Agreement that is not otherwise paid in full under section 3.4 below shall be an allowed Administrative Expense Claim of a higher priority than any other Administrative Expense Claim, and shall be paid in Cash in an amount equal to the amount of such Beal DIP Claim.

## 2.2. *Priority Tax Claims.*

On the Effective Date, except to the extent that a holder of an Allowed Priority Tax Claim agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, at the sole option of the Debtors, (a) Cash in an amount equal to such Allowed Priority Tax Claim or (b) equal annual Cash payments through the sixth anniversary of the date of assessment of such Allowed Priority Tax Claim, in an aggregate amount equal to such Allowed Priority Tax Claim, together with interest at a fixed annual rate equal to 5%, with payments commencing at the first anniversary of the Effective Date, or (c) upon such other terms determined by the Bankruptcy Court to provide the holder of such Allowed Priority Tax Claim deferred Cash payments having a value, as of the Effective Date, equal to such Allowed Priority Tax Claim. All Allowed Priority Tax Claims that are not due and payable on or before the Effective Date shall be paid in the ordinary course of business as such obligations become due.

### **CLASSIFICATION OF CLAIMS AND INTERESTS**

The following tables (i) designate the classes of Claims against, and Interests in, the Debtors, taking into account the substantive consolidation of the Debtors that is contemplated by section 4.1 of the Plan, and (ii) specify which of those classes are (a) impaired or unimpaired by the Plan, (b) entitled to vote to accept or reject the Plan in accordance with section 1126 of the Bankruptcy Code, or (c) deemed to reject the Plan.

2.3. *Classes of Claims and Interests.*

<u>Class</u>	<u>Designation</u>	<u>Impairment</u>	<u>Entitled to Vote</u>
Class 1	Secured Claims	unimpaired	No
Class 1A	CIT Secured Claims	impaired	Yes
Class 2	Secured Tax Claims	unimpaired	No
Class 3	Priority Non-Tax Claims	unimpaired	No
Class 4	Beal DIP Claims	unimpaired	No
Class 5	ACC DIP Claims	impaired	No (deemed to reject)
Class 6	12¼% Secured Notes Claims	impaired	Yes
Class 7	General Unsecured Claims		
Class 7A	Convenience Claims	impaired	Yes
Class 7B	Trade Claims	impaired	Yes
Class 7C	Funded Debt Claims	impaired	Yes
Class 7D	12% Notes Claims	impaired	Yes
Class 8	Century Facility Claims	impaired	No <sup>2</sup>
Class 9	Securities Claims	impaired	No (deemed to reject)
Class 10	Intercompany Claims	impaired	No (deemed to reject)
Class 11	Equity Interests	impaired	No (deemed to reject)
Class 12	Subsidiary Equity Interests	unimpaired	No
Class 13	Subordinated Claims	impaired	No (deemed to reject)

**SECTION 3. TREATMENT OF CLAIMS AND EQUITY INTERESTS**

3.1. *Secured Claims (Classes 1 and 1A).*

(i) *Class 1 (Secured Claims).* On the Effective Date, except to the extent that a holder of an Allowed Secured Claim against any of the Debtors has agreed to a different treatment of such Claim, each holder of an Allowed Secured Claim shall receive, at the option of the Debtors, either (i) the Collateral securing such Allowed Secured Claim, (ii) Cash or a Note in an amount equal to the value of the Collateral, as of the Effective Date, securing such Allowed Secured Claim, (iii) the net proceeds realized from the sale of any Collateral securing such Claim, or (iv) the treatment required under section 1124(2) of the Bankruptcy Code for such Claim to be reinstated or rendered unimpaired. To the extent the amount of an Allowed Secured Claim exceeds the value of the Collateral securing such Allowed Secured Claim, the excess portion of such Claim shall be treated as an unsecured Deficiency Claim in Classes 7A or 7B, as applicable.

(ii) *Class 1A (CIT Secured Claim).* Except to the extent the holder agrees to a different treatment, on the Effective Date, such holder of an Allowed CIT Secured Claim will receive a note secured by the existing collateral in an amount equal to the value of the collateral, with a term of three (3)

<sup>2</sup> The Century Facility Claims are Disputed Claims. Under this Plan, Disputed Claims are not entitled to vote, subject to further Order of the Court.



years and bearing interest at a rate per annum no greater than LIBOR plus 300 basis points. To the extent that an Allowed CIT Secured Claim exceeds the value of the existing collateral securing such Claim, the excess portion of such Claim shall be treated as an unsecured Deficiency Claim in Class 7B.

To the extent that the Debtors seek to provide a different term and interest rate under a note to the holder of an Allowed CIT Secured Claim in the event that the holder of such claim makes a § 1111(b) election, then the Debtors shall disclose the term and interest rate for such note to the holder of an Allowed CIT Secured Claim on or before November 15, 2003, *provided however*, that the face amount of such note shall be not less than the full amount of the outstanding indebtedness arising under the CIT Agreement, with a value on the Effective Date equal to the value of the collateral as may be agreed to by the parties or as determined by the Bankruptcy Court.

As agreed by counsel for the Debtors and counsel for the holder of the CIT Secured Claim at the hearing on the approval of the Disclosure Statement and as approved by the Court at such hearing, the last day for the holder of the Allowed Class 1A Claim to make a § 1111(b) election shall be November 26, 2003.

### 3.2. *Secured Tax Claims (Class 2).*

On the Effective Date, except to the extent that a holder of an Allowed Secured Tax Claim against any of the Debtors has agreed to a different treatment of such Claim, each holder of an Allowed Secured Tax Claim shall receive, at the option of the Debtors, either (i) the Collateral securing such Allowed Secured Tax Claim, (ii) Cash in an amount equal to the value of such Allowed Secured Tax Claim, or (iii) equal annual Cash payments in an aggregate amount equal to such Allowed Secured Tax Claim, including interest at a fixed annual rate equal to 5%, over a period through the sixth anniversary of the date of assessment of such Allowed Secured Tax Claim, with payments commencing on the first anniversary of the Effective Date, or (c) upon such other terms determined by the Bankruptcy Court to provide holder of such Allowed Secured Tax Claim deferred Cash payments having a value, as of the Effective Date, equal to such Allowed Secured Tax Claim.

### 3.3. *Priority Non-Tax Claims (Class 3).*

On the Effective Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim against any of the Debtors has agreed to a different treatment of such Claim, each such holder shall receive, in full satisfaction of such Claim, Cash in an amount equal to such Claim.

### 3.4. *Beal DIP Claims (Class 4).*

On the Effective Date, except to the extent that the Beal DIP Credit Agreement otherwise provides, all obligations of the Debtors under the Beal DIP Credit Agreement shall be paid in cash in full in accordance with the terms of the Beal DIP Credit Agreement. Upon payment or satisfaction in full of all obligations under the Beal DIP Credit Agreement in accordance with the terms thereof, all liens and security interests granted to secure such obligations shall be deemed terminated, released, and of no further force and effect. In addition, to the extent, if any, that the Beal DIP Claim is not satisfied in cash in full under this section 3.4, such claim shall have the rights afforded in section 2.1 hereof.

### 3.5. *ACC DIP Claims (Class 5).*

On the Effective Date, for the reasons set forth in the Disclosure Statement, ACC shall receive no distribution of property in respect of any Claims it has asserted under the ACC DIP Credit Agreement.

3.6. ***12¼% Secured Note Claims (Class 6).***

On the Effective Date, each holder of an Allowed 12¼% Secured Notes Claim shall receive (a) its proportionate share of the 12¼% Secured Notes Percentage, (b) its Ratable Proportion of the 12¼% Deficiency Claim, and (c) its Ratable Proportion of the 12¼% Buffalo Claim in full satisfaction of such holder's Claims arising under the 12¼% Secured Notes. Each holder of a 12¼% Secured Notes Claim shall elect on its Ballot to receive in respect of its proportionate share of the 12¼% Secured Notes Percentage either (a) New Common Stock or (b) a Cash Recovery, in full satisfaction of such Allowed Claim. The aggregate amount of Cash available under the Plan to satisfy any Cash Recovery elections by the holders of Claims in Class 6 shall be \$4 million, less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A, 7B, and 7D, plus Excess Cash, if any (the "Funded Debt Cash"). The holders of Allowed Claims in Class 6 that elect the Cash Recovery shall be entitled to receive the Funded Debt Cash only on a ratable basis with the holders of Allowed Claims in Class 7C who elect a Cash Recovery. The shares of New Common Stock otherwise distributable to holders of Class 6 Claims that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ. In the event that the Funded Debt Cash is insufficient to satisfy in full the Claims of all holders in Classes 6 and 7C that elect a Cash Recovery (with such insufficiency being determined as of the First Subsequent Distribution Date), each such holder shall receive its proportionate share of the Funded Debt Cash, and the remainder of its Claims shall be satisfied with a Remaining Class 6 Distribution. To the extent that any Cash remains after the satisfaction of any Cash Recovery elections in Classes 6 and 7C (including Cash Recovery elections by holders of Disputed Claims in Class 7C), such Cash shall revert to the possession of Reorganized ABIZ. The holders of Allowed Claims in Class 6 shall have the secured portion of their Claims allowed in the amount of \$107,280,000, and their respective 12¼% Deficiency Claims and 12¼% Buffalo Claims shall be Allowed and treated in accordance with section 3.7(c) of the Plan.

3.7. ***General Unsecured Claims (Class 7)***

(a) ***Convenience Claims (Class 7A).*** On the Effective Date, each holder of an Allowed Convenience Claim shall receive (as elected on its Ballot) either (a) a Stock and/or Warrant Recovery, or (b) a Cash Recovery, in full satisfaction of such Allowed Claim. The aggregate amount of Cash available under the Plan to satisfy any Cash Recovery elections by the holders of Claims in Class 7A shall be \$4 million, plus Excess Cash, if any (the "Class 7A Cash"). The shares of New Common Stock otherwise distributable to holders of Claims in this Class 7A that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ, and the New Warrants otherwise distributable to holders of Claims in this Class 7A that elect and receive a Cash Recovery will be extinguished. Any Class 7A Cash not necessary to satisfy Cash Recovery elections in Class 7A (including such elections by holders of Disputed Claims in Class 7A) shall be used for funding Cash Recovery elections by holders of Claims in Class 7B, as described below.

(b) ***Trade Claims (Class 7B).*** On the Effective Date, each holder of an Allowed Trade Claim shall receive (as elected on its Ballot) either (a) a Stock and/or Warrant Recovery, or (b) a Cash Recovery, in full satisfaction of such Allowed Claim. The aggregate amount of Cash available under the Plan to satisfy any Cash Recovery elections by the holders of Claims in Class 7B shall be \$4 million, less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A, plus Excess Cash, if any (the "Class 7B Cash"). The shares of New Common Stock otherwise distributable to holders of Claims in this Class 7B that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ, and the New Warrants otherwise distributable to holders of Claims in this Class 7B that elect and receive a Cash Recovery will be extinguished. In the event the Class 7B Cash is insufficient to satisfy in full the Claims of all holders in Class 7B that elect a Cash Recovery (with such insufficiency being determined as of the First Subsequent Distribution Date), each



such holder shall receive its proportionate share of the Class 7B Cash, and the remainder of its Claims shall be satisfied with a Remaining Distribution. Any Class 7B Cash not necessary to satisfy Cash Recovery elections in Class 7B (including such elections by holders of Disputed Claims in Class 7B), shall be used for funding Cash Recovery elections by holders of Claims in Class 7D, as described below.

(c) **Funded Debt Claims (Class 7C).** On the Effective Date, each holder of a Funded Debt Claim shall receive (as elected on its Ballot) either (a) a Stock and/or Warrant Recovery, or (b) a Cash Recovery, in full satisfaction of such Allowed Claim. The aggregate amount of Cash available under the Plan to satisfy any Cash Recovery elections by the holders of Claims in Class 7C shall be the Funded Debt Cash, as defined in section 3.6 of this Plan. The holders of Allowed Claims in Class 7C that elect the Cash Recovery shall be entitled to receive the Funded Debt Cash only on a ratable basis with the holder of Allowed Claims in Class 6. The shares of New Common Stock otherwise distributable to holders of Claims in this Class 7C that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ, and the New Warrants otherwise distributable to holders of Claims in this Class 7C that elect and receive a Cash Recovery will be extinguished. In the event that the Funded Debt Cash is insufficient to satisfy in full the Claims of all holders in Classes 6 and 7C that elect a Cash Recovery (with such insufficiency being determined as of the First Subsequent Distribution Date), each such holder shall receive its proportionate share of the Funded Debt Cash, and the remainder of its Claims shall be satisfied with a Remaining Distribution. To the extent that any Funded Debt Cash remains after the satisfaction of any Cash Recovery elections in Classes 6 and 7C (including Cash Recovery elections by holders of Disputed Claims in Classes 7C), such Cash shall revert to the possession of Reorganized ABIZ.

(d) **12% Notes Claims (Class 7D).**

i. As described more fully in *Section V.D* of the Disclosure Statement, the 12% Notes Claims are contractually subordinated to the holders of 12¼% Secured Notes Claims (Class 6 for the 12¼% Secured Notes Claim, Class 7C for the 12¼% Deficiency Claim and the 12¼% Buffalo Claim) and to the 13% Note Claims (Class 7C Claims). As a result, holders of 12% Notes Claims would not be entitled to receive any distributions under the Plan on account of such Claims. However, the holders of 12¼% Secured Notes Claims and 13% Notes Claims have agreed to contribute, on a ratable basis, based upon the outstanding amount of the 12¼% Deficiency Claim and the principal amount of the 13% Notes, a Stock and/or Warrant Recovery to holders of 12% Notes Claims (other than holders of Rigas Family Claims) in the amount set forth in Section 1.74(B).

ii. On the Effective Date, each holder of a 12% Notes Claim (other than a Rigas Family member)<sup>3</sup> shall receive (as elected on its Ballot) either (a) a Stock and/or Warrant Recovery representing such holder's proportionate share of 0.25% of the New Common Stock issued and outstanding on the Effective Date, or (b) a Cash Recovery, in full satisfaction of such Allowed Claim. The aggregate amount of Cash available under the Plan to satisfy any Cash Recovery elections by the holders of Claims in Class 7D shall be \$4 million, less the amount of Cash used to satisfy Cash Recovery elections by the holders of Claims in Class 7A and 7B, plus Excess Cash, if any (the "Class 7D Cash"). The shares of New Common Stock otherwise distributable to holders of Claims in this Class 7D that elect and receive a Cash Recovery will be transferred to the treasury of Reorganized ABIZ. In the event that the Class 7D Cash is insufficient to satisfy in full the Claims of all holders in Classes 6 and 7C that elect a Cash Recovery (with such insufficiency being determined as of the Effective Date), each such holder shall receive its proportionate share of the Class 7D Cash, and the remainder of its Claims shall be satisfied with a Remaining Stock Distribution, *provided, however*, that the New Warrants

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<sup>3</sup> See section 3.13, *infra*.

related to such Stock shall be extinguished. To the extent that any Class 7D Cash remains after the satisfaction of any Cash Recovery elections in Class 7D (including Cash Recovery elections by holders of Disputed Claims in Class 7D), such Cash shall revert to the possession of Reorganized ABIZ.

3.8. ***Century Facility Claims (Class 8).***

The Century Facility Claims are Disputed Claims; *provided, however*, that, to the extent, if any, the Century Facility Claims are Allowed, such Claims shall receive the same treatment as Claims in Class 7C of this Plan.

3.9. ***Securities Claims (Class 9).***

On the Effective Date, each holder of a Securities Claim shall receive no distribution of property on account of such Claim.

3.10. ***Intercompany Claims (Class 10).***

On or prior to the Effective Date, each holder of an Allowed Intercompany Claim shall be extinguished by either offset, distribution, or contribution of such Claims, or otherwise (as, and to the extent, determined by the Debtors). Any Claims held by any Debtor against any Non-Debtor Subsidiary or by any Non-Debtor Subsidiary against any Debtor shall be reviewed by Reorganized ABIZ and adjusted, continued, or discharged, as appropriate.

3.11. ***Equity Interests (Class 11).***

On the Effective Date, each holder of an Equity Interest shall receive no distribution of property on account of such Equity Interest. On the Effective Date, all Equity Interests in ABIZ will be extinguished.

3.12. ***Subsidiary Equity Interests (Class 12).***

On the Effective Date, each holder of a Subsidiary Equity Interest shall retain its rights in such Subsidiary Equity Interest.

3.13. ***Subordinated Claims (Class 13).***

On the Effective Date, each holder of a Subordinated Claim shall receive no distribution of property on account of such Claim; *provided, however*, that, to the extent, if any, that the Rigas Family Claims are Allowed and not equitably subordinated, such Claims shall receive the same treatment as Claims in Class 7D.<sup>4</sup>

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<sup>4</sup> The Bankruptcy Court has directed that, notwithstanding the provisions of section 3.7(d)(ii), and pending the resolution of the allowability and potential equitable subordination of the Rigas Family Claims, the number of shares representing the Rigas Family Claims' proportionate share of the New Common Stock distributable to holders in Class 7D (such proportionate share to be calculated as if the Rigas Family holders were not excluded by section 3.7(d)(ii)), shall be held in the Disputed Claims Reserve.

### 3.14. *Special Claims Treatment.*

#### (a) *Tort Claims*

All Tort Claims are Disputed Claims. Any Tort Claim as to which a proof of claim was timely filed in the Chapter 11 Cases shall be determined and liquidated either (i) in the administrative or judicial tribunal in which it is pending on the Effective Date or, if no action was pending on the Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction, or (ii) in accordance with any alternative dispute resolution or similar proceeding as the same may be approved by order of a court of competent jurisdiction. Any Tort Claim determined and liquidated (i) pursuant to a judgment obtained in accordance with this Section and applicable non-bankruptcy law which is no longer appealable or subject to review, or (ii) in any alternative dispute resolution or similar proceeding as the same may be approved by order of a court of competent jurisdiction (except, in either case, as to a Tort Claim which is an Allowed Administrative Claim) shall be deemed, to the extent applicable, an Allowed General Unsecured Claim in such liquidated amount; *provided, however*, that the Allowed amount of any Tort Claim that is also a Covered Claim shall be limited as provided in Section 3.14(b) and treated as General Unsecured Claims as set forth in Section 3.7(a) or 3.7(b) of this Plan, as applicable. Nothing contained in this Section shall impair the rights of the Debtors or any other party in interest to seek estimation of any and all Tort Claims and other unliquidated Claims in a court or courts of competent jurisdiction. In addition, nothing contained in this Section shall constitute or be deemed a waiver of any claim, or right that the Debtors may have against any person in connection with or arising out of any Tort Claim.

#### (b) *Covered Claims*

To the extent that any holder of a General Unsecured Claim has recourse to any insurance policy issued to or for the benefit of the Debtors for the coverage of such Claim, the holder of such Claim must first, to the satisfaction of the Debtors, use its best efforts to collect its Allowed Claims from the insurance carrier. Any remaining unpaid portion of such Allowed General Unsecured Claim shall be treated as an Allowed General Unsecured Claim. Any liquidated and determined Covered Claim shall be the obligation of, and satisfied by, any applicable insurance agreement providing coverage for the Covered Claim.

#### (c) *Wachovia Letter of Credit Claims*

The Wachovia Letter Of Credit Claims shall be reinstated against the respective Debtors and shall continue to be governed thereby. The discharge and injunction provisions of this Plan shall not impact or otherwise affect the Wachovia Letter of Credit Claims.

## SECTION 4. **MEANS FOR IMPLEMENTATION**

### 4.1. *Deemed Substantive Consolidation of Debtors for Plan Purposes Only.*

Subject to the occurrence of the Effective Date, the Debtors shall be deemed consolidated for purposes of voting and determining distributions under the Plan. Any obligation of any Debtor and all guarantees thereof executed by one or more of the Debtors will be deemed to be one obligation of the deemed consolidated Debtors; any Claims filed or to be filed in connection with any such obligation and such guarantees will be deemed one Claim against the deemed consolidated Debtors and each and every Claim filed in the individual Reorganization Cases of any of the Debtors will be deemed filed against the deemed consolidated Debtors.

Such deemed consolidation, however, shall not (other than for purposes related to funding distributions under the Plan and as set forth above in this section) affect: (i) the legal and organizational structure of the Debtors; (ii) pre- and post-chapter 11 guaranties, liens, and security interests that are required to be maintained (A) in connection with executory contracts or unexpired leases that were entered into during the Reorganization Cases or that have been or will be assumed, (B) pursuant to the Plan, or (C) in connection with any financing entered into by the Debtors on (or after) the Effective Date; and (iii) distributions to holders of claims paid from insurance policies or proceeds of such policies.

4.2. ***New Corporate Structure for Reorganized ABIZ.***

Except as otherwise set forth in the Plan, prior to or as of the Effective Date, and only with each of the ABIZ Committee's prior written consent, ABIZ may cause any or all of the Debtors to engage in any restructuring transactions deemed necessary or appropriate (including, without limitation, merging, dissolving, or transferring assets between or among the Debtors).

4.3. ***Authorization of Plan Securities.***

Reorganized ABIZ is authorized to issue (i) the New Common Stock, (ii) the New Warrants, and (iii) the New Management Warrants. Such securities shall have the various associated rights described in Section 4.2 of the Disclosure Statement.

4.4. ***Exit Facility.***

On the Effective Date, to the extent necessary, Reorganized ABIZ shall obtain exit financing from a source and in an amount and upon terms and conditions reasonably acceptable to the Creditors' Committee and the Secured Noteholder Committee.

4.5. ***Cancellation of Existing Securities and Agreements and Related Indentures/Discharge of Indenture Trustee.***

(a) On the Effective Date, the 12¼% Secured Notes, the 13% Notes and the 12% Notes shall be cancelled and the holders thereof shall have no further rights or entitlements in respect thereof except the rights to receive the distributions to be made to such holders under the Plan. To the extent possible, distributions to be made under the Plan to the beneficial owners of the 12% Notes, the 12¼% Secured Notes, and the 13% Notes shall be made through the Depository Trust Company and its participants. The Confirmation Order shall authorize the Disbursing Agent to take whatever action may be necessary to deliver the distributions, including, without limitation obtaining an order of the Bankruptcy Court.

(b) On the Effective Date, the indenture trustee(s) and its(their) agents shall be discharged of all their obligations associated (i) with the 12¼% Secured Notes, the 13% Notes, and the 12% Notes, (ii) the indentures governing the 12¼% Secured Notes, the 13% Notes, and the 12% Notes, and (iii) any related documents, and released from all Claims arising in the Reorganization Cases. As of the Effective Date, the indentures with respect to the 12¼% Secured Notes, the 13% Notes, and the 12% Notes shall be deemed cancelled, except that such cancellation shall not impair the rights of the holders of the 12¼% Secured Notes, the 13% Notes, and the 12% Notes to receive distributions under the Plan, or the rights of the indenture trustees under its (their) charging liens pursuant to the indentures, to the extent that the indenture trustees have not received payment as provided for in section 12.7 of the Plan.

4.6. ***Board of Directors.***

The initial Board of Directors of Reorganized ABIZ shall consist of 7 members whose names shall be disclosed at or prior to the Confirmation Hearing. The Secured Noteholder Committee shall appoint four members to the Board of Directors. In addition, the Creditors' Committee shall appoint three members to the Board of Directors, *provided, however*, that one of the Creditor Committee's designees shall be Robert Guth, the Debtors' Chief Executive Officer, provided that he is employed by Reorganized ABIZ; otherwise the other members of the Board of Directors shall designate another member. Initial appointments will be for a term of two years, and the chairman of the Board of Directors shall not be an executive of the Debtors.

4.7. ***Corporate Action.***

On the Effective Date, Reorganized ABIZ shall file the Amended Certificate of Incorporation with the Secretary of State of the State of Delaware. The Amended Certificate of Incorporation shall prohibit the issuance of nonvoting equity securities, subject to further amendment of such Amended Certificate of Incorporation as permitted by applicable law. The Board of Directors shall adopt Amended By-Laws and revise Reorganized ABIZ's charter to be consistent with best corporate practices.

**SECTION 5. DISTRIBUTIONS**

5.1. ***Record Date for Distributions.***

By Order dated October \_\_, 2003, the Bankruptcy Court established October 16, 2003 as the Record Date for voting purposes for the holders of Allowed Claims. As of the Record Date, the various transfer registers for each of the Classes of Claims or Equity Interests as maintained by the Debtors or their respective agents shall be deemed closed, and there shall be no further changes made to reflect any new record holders of any Claims or Equity Interests. The Debtors shall have no obligation to recognize any transfer of Claims or Equity Interests occurring on or after such date.

5.2. ***Date of Distributions.***

Unless otherwise provided herein, any distributions and deliveries to be made hereunder to the holders of Allowed Claims shall be made on the Effective Date or as soon thereafter as is practicable, but in no event later than 90 days following the Effective Date.

5.3. ***Subsequent Distributions***

Unless otherwise provided in the Plan, to the extent Cash, New Common Stock or New Warrants are available subsequent to the Effective Date from (i) the release of Cash, New Common Stock or New Warrants from the Disputed Claims Reserve or (ii) undeliverable, time-barred or unclaimed distributions to holders of Allowed Claims, the Disbursing Agent shall, on the First Subsequent Distribution Date and each Subsequent Distribution Date thereafter, allocate such Cash, New Common Stock or New Warrants in accordance with the elections made pursuant to Sections 3.6 and 3.7 herein, and between (x) the holders of Allowed General Unsecured Claims that were Allowed Claims on the Effective Date or subsequently have become Allowed on or before the Subsequent Distribution Date and (y) the holders of any still pending Disputed Claims; with the amount allocated to the former then distributed to such holders, the amount allocated to the latter retained in the Disputed Claims Reserve (and administered in accordance with Section 6 of this Plan); *provided, however*, that in no event shall the Disbursing Agent be obligated to make a distribution of such Cash, New Common Stock or New

Warrants if, in the reasonable business judgment of the Disbursing Agent, the amount then on hand and the ultimate distribution to be made would not be justified, taking into account all of the attendant costs of such distribution. In such case, any undistributed amount may be held over to the next Subsequent Distribution Date, provided that undistributed amounts for each period will not be held longer than 180 days without approval of the Board of Directors of Reorganized ABIZ in consultation with the Special Board Committee.

#### 5.4. *Surrender of Instruments.*

As a condition to receiving any distribution under the Plan (other than with respect to book entry securities), each holder of 12% Notes, 12¼% Secured Notes, or 13% Notes must surrender such Notes to Reorganized ABIZ or its designee. Any holder of 12% Notes, 12¼% Secured Notes, or 13% Notes that fails to (a) surrender such instrument or (b) submit evidence satisfactory to the appropriate indenture trustee of the loss, theft, mutilation, or destruction of such note before the second anniversary of the Effective Date shall be deemed to have forfeited all rights and Claims and may not participate in any distribution under the Plan. All shares of New Common Stock and New Warrants not distributed as a result of any such forfeiture shall be redistributed in accordance with Section 5.3 -- "Subsequent Distributions" -- of the Plan.

#### 5.5. *Setoffs.*

Except with respect to the Intercompany Claims, the Debtors may, but shall not be required to, setoff against any Claim (for purposes of determining the Allowed amount of such Claim in respect of which distribution shall be made), any claims of any nature whatsoever that the Debtors may have against the holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release by the Debtors of any such claim the Debtors may have against the holder of such Claim, *provided*, that in the event the Debtors seek to exercise such setoff rights against the holder of a Claim that is a debtor in a case under the Bankruptcy Code, the Debtors shall comply with the requirements of the Bankruptcy Code, including seeking relief from the automatic stay.

#### 5.6. *Delivery of Distributions.*

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth on the Schedules filed with the Bankruptcy Court or on the books and records of the Debtors or their agents, unless the Debtors 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 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 has determined the then current address of such holder, at which time such distribution shall be made to such holder; provided that such distributions shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of the second anniversary from the date of distribution. After such date, Reorganized ABIZ shall deliver all unclaimed property to the Disbursing Agent for disbursement in accordance with the applicable provisions of the Plan, and the claim of any other holder to such property or interest in property shall be discharged and forever barred.

#### 5.7. *Manner of Payment Under the Plan.*

(a) All distributions of Cash and Plan Securities to the creditors of each of the Debtors under the Plan of Reorganization shall be made by or on behalf of the applicable Reorganized

Debtor. Where the applicable Reorganized Debtor is a subsidiary of Reorganized ABIZ, Reorganized ABIZ shall be treated as if it were making a capital contribution, either directly or indirectly, to the applicable Reorganized Debtor equal to the amount distributed (other than the Cash distributed from such Reorganized Debtor's own funds), but only at such time as, and to the extent that, the amounts are actually distributed to holders of Allowed Claims, whether directly from the Reorganized Debtor or the Disputed Claims Reserve.

(b) At the option of the Debtors, any Cash payment to be made hereunder may be made by a check or wire transfer from a domestic bank or as otherwise required or provided in applicable agreements.

**5.8. *No Fractional Distributions.***

No fractional shares of New Common Stock, no fractional New Warrants, no fractional New Management Warrants, nor fractional dollars shall be distributed. For purposes of distribution, fractional shares of New Common Stock, fractional New Warrants, and fractional New Management Warrants shall be rounded up or down, as applicable, to the nearest whole number, or, in the event of a Cash payment, up or down, to the nearest whole dollar.

**5.9. *Distributions After Effective Date.***

Distributions made after the Effective Date to the Disputed Claims Reserve for the benefit of the holders of Disputed Claims that later become Allowed Claims shall be deemed to have been made on the Effective Date.

**5.10. *Potential Actions Against ACC.***

One or more of the Plan Proponents intend to assert certain causes of action against ACC, for the benefit of Reorganized ABIZ. Any settlement of Claims against ACC occurring post-Effective Date, as well as the use of proceeds from recoveries, if any, realized from the prosecution or settlement of any such actions shall (i) require the consent of five (5) members of the Board, and (ii) be excluded from the Collateral securing any Claims of the Debtors' exit facility and other post-Effective Date lenders.

**5.11. *Withholding and Reporting Requirements.***

In connection with the Plan and all instruments issued in connection therewith and distributed thereon, the Disbursing Agent shall comply with all applicable withholding and reporting requirements imposed by any federal, state or local taxing authority, and all distributions under the Plan shall be subject to any such withholding or reporting requirements.

**5.12. *Time Bar to Cash Payments.***

Checks issued by the Disbursing Agent in respect of Allowed Claims shall be null and void if not negotiated within one hundred and twenty (120) days after the date of issuance thereof. Any party that is entitled to receive a check under this Plan but that fails to cash such check within 120 days of its issuance shall be entitled to receive a reissued check from Reorganized ABIZ for the amount of the original check if the party requests that the Disbursing Agent reissue such check and provides the Disbursing Agent, with such documentation as the Disbursing Agent requests to verify that such party is entitled to such check, prior to the later of (a) the second anniversary of the Effective Date or (b) six (6) months after any such Claim becomes an Allowed Claim. If a party fails to cash a check within 120 days of its issuance and fails to request reissuance of such check prior to the later to occur of (a) the second

anniversary of the Effective Date or (b) six (6) months following the date such party's Claim becomes an Allowed Claim, such party shall not be entitled to receive any Distribution under this Plan with respect to the amount of such check.

5.13. ***Transactions on Business Days.***

If the Effective Date or any other date on which a transaction may occur under the Plan shall occur on a day that is not a Business Day, the transactions contemplated by the Plan to occur on such day shall instead occur on the next succeeding Business Day.

5.14. ***Minimum Distributions.***

There shall be no distribution to any holder of a Claim in an aggregate face amount of \$500 or less unless a request therefor is made in writing to the Disbursing Agent (at the addresses provided in the Plan). Any undistributed amount shall be held over to the next Subsequent Distribution Date.

5.15. ***Allocation of Distributions.***

Distributions to any holder of an Allowed Claim shall be allocated first to the principal portion of any such Allowed Claim (as determined for federal income tax purposes), and, only after the principal portion of any such Allowed Claim is satisfied in full, to any portion of such Allowed Claim comprising prepetition interest (but solely to the extent that interest is an allowable portion of such Allowed Claim).

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

(a) All distributions under the Plan shall be made by Reorganized ABIZ as Disbursing Agent or such other entity designated by Reorganized ABIZ as a Disbursing Agent. A Disbursing Agent 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 is so otherwise ordered, all costs and expenses of procuring any such bond or surety shall be borne by Reorganized ABIZ.

(b) 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.

(c) 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 Reorganized ABIZ.



## SECTION 6. PROCEDURES FOR TREATING DISPUTED CLAIMS

### 6.1. *No Distribution Pending Allowance.*

Notwithstanding any other provision of the Plan, no Cash, New Common Stock, nor New Warrants shall be distributed under the Plan on account of any Disputed Claim, unless and until such Claim becomes an Allowed Claim.

### 6.2. *Reserve Account for Disputed Claims.*

On and after the Effective Date, the Disbursing Agent shall hold in the Disputed Claims Reserve, Cash, New Common Stock, and New Warrants in an aggregate amount sufficient to compensate each holder of a Disputed Claim with the amount that such holder would have been entitled to receive under the Plan if such Claim had been an Allowed Claim on the Effective Date or any Subsequent Distribution Date.

### 6.3. *Resolution of Disputed Claims.*

Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, the Debtors (in consultation with the ABIZ Committees) and, after the Effective Date, Reorganized ABIZ, in consultation with the Special Board Committee, shall have the right to the exclusion of all others (except (i) as to applications for allowances of compensation and reimbursement of expenses under sections 330 and 503 of the Bankruptcy Code and (ii) certain Claims that the Plan Proponents have agreed will be objected to by the Creditors' Committee and/or the Secured Noteholder Committee), to make and file objections to Claims and shall serve a copy of each objection upon the holder of the Claim to which the objection is made as soon as practicable, but in no event later than 120 days after the Confirmation Date. From and after the Effective Date, all objections shall be litigated to a Final Order except to the extent Reorganized ABIZ elects to withdraw any such objection or Reorganized ABIZ and the claimant elect to compromise, settle, or otherwise resolve any such objection, in which event they may settle, compromise, or otherwise resolve any Disputed Claim without the necessity of Bankruptcy Court approval.

### 6.4. *Estimation of Claims.*

The Debtors and/or either of the ABIZ Committees may request that the Bankruptcy Court estimate any Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors have previously objected to such Claim, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time. In the event that the Bankruptcy Court estimates any Disputed Claim, that estimated amount may constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on such Claim, the Debtors may elect to pursue any supplemental proceedings to object to any ultimate payment of such Claim. All of the aforementioned Claims objection, estimation, and resolution procedures are cumulative and not necessarily exclusive of one another. On and after the Confirmation Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

### 6.5. *Allowance of Disputed Claims.*

If, on or after the Effective Date, any Disputed Claim becomes an Allowed Claim, the Disbursing Agent shall, on the fifteenth Business Day of the first month following the month in which the Claim becomes an Allowed Claim, distribute from the Disputed Claims Reserve to the holder of such Allowed Claim, Cash, New Common Stock, and/or New Warrants, as applicable, in an aggregate amount

sufficient to provide each holder of a Disputed Claim with the amount that such holder would have been entitled to receive under the Plan if such Claim had been an Allowed Claim on the Effective Date or any Subsequent Distribution Date.

**6.6. *Release of Funds from Disputed Claims Reserve.***

To the extent a Disputed Claim is disallowed, the Cash, New Common Stock or New Warrants that would otherwise be distributed pursuant to section 6.5 hereof will instead be re-distributed in the manner described in Section 5.3 of the Plan, to the holders of Allowed Claims and to the Disputed Claims Reserve, on behalf of holders of Disputed Claims, such that each such holder receives its Ratable Proportion of such subsequent distribution.

**6.7. *Investment of Disputed Claims Reserve; Expenses.***

The Disbursing Agent shall be permitted, from time to time, in consultation with Reorganized ABIZ, to invest all or a portion of the Cash in the Disputed Claims Reserve in United States Treasury Bills, interest-bearing certificates of deposit, tax exempt securities or investments permitted by section 345 of the Bankruptcy Code or otherwise authorized by the Bankruptcy Court, using prudent efforts to enhance the rates of interest earned on such Cash without inordinate credit risk or interest rate risk. Reorganized ABIZ shall be entitled to all interest and other accretions earned on any Cash held for distribution on account of Disputed Claims, and any such interest and other accretions shall be payable, at least annually, to Reorganized ABIZ. Reorganized ABIZ shall report any such interest and other accretions in its income on a current basis. Reorganized ABIZ shall be responsible for all costs and expenses of the Disputed Claims Reserve.

**6.8. *Expedited Determination of Taxes.***

The Disbursing Agent may request an expedited determination of taxes of the Disputed Claims Reserve, under section 505(b) of the Bankruptcy Code for all returns filed for, or on behalf of the Disputed Claims Reserve for all taxable periods through the dissolution of the Disputed Claims Reserve.

**SECTION 7. EXECUTORY CONTRACTS AND UNEXPIRED LEASES**

**7.1. *General Treatment.***

All executory contracts (including any option or warrant to purchase common stock of any of the Debtors to the extent such option or warrant is determined not to be an Equity Interest) and unexpired leases to which any of the Debtors are parties are hereby rejected, except for an executory contract or unexpired lease that (a) has been assumed or rejected pursuant to Final Order of the Bankruptcy Court, (b) is specifically designated or generally described on Schedule 7.1 hereto as a contract or lease to be assumed, or (c) is the subject of a separate motion filed under section 365 of the Bankruptcy Code by the Debtors prior to the Effective Date. For purposes hereof, each executory contract and unexpired lease listed or generally described on Schedule 7.1 hereto that relates to the use or occupancy of real property shall include (a) 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, without regard to whether such agreement, instrument, or other document is listed on Schedule 7.1 hereto and (b) executory contracts or unexpired leases appurtenant to the premises listed on Schedule 7.1 hereto including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, usufructs, reciprocal easement agreements, vault, tunnel or bridge agreements, or franchises, and any other interests in real estate or rights *in rem* relating to such premises to the extent any of the foregoing are executory contracts or

unexpired leases, unless any of the foregoing agreements are specifically rejected. A non-Debtor party to an executory contract or unexpired lease that is being rejected hereunder may request that the Debtors assume such contract or lease by sending written notice to the Debtors, which notice shall include a waiver of any defaults (including any payment defaults) and any right to any cure payment under such contract or lease. The Debtors may assume such contract or lease without further action of the Bankruptcy Court. The Debtors reserve their right to add any executory contract or unexpired lease to Schedule 7.1 prior to the Effective Date.

### 7.2. *Cure of Defaults.*

Except to the extent that different treatment has been agreed to by the nondebtor party or parties to any executory contract or unexpired lease to be assumed pursuant to section 7.1 hereof, the Debtors shall, pursuant to the provisions of sections 1123(a)(5)(G) and 1123(b)(2) of the Bankruptcy Code and consistent with the requirements of section 365 of the Bankruptcy Code, on or before the Confirmation Date, file a pleading with the Bankruptcy Court listing the cure amounts of all executory contracts to be assumed, with such cure amounts to be determined in consultation with the ABIZ Committees. The parties to such executory contracts to be assumed by the Debtors shall have 30 days to object to the cure amounts listed by the Debtors. If there are any objections filed, the Bankruptcy Court shall hold a hearing. In the event the Bankruptcy Court determines that the cure amount is greater than the cure amount listed by the Debtors, the Debtors may reject the contract at such time rather than paying such greater amount.

### 7.3. *Rejection Claims.*

In the event that the rejection of an executory contract or unexpired lease by any of the Debtors pursuant to the Plan results in damages to the other party or parties to such contract or lease, a Claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtors, or their respective properties or interests in property as agents, successors, or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel for the Debtors on or before the date that is 30 days after the later of the Effective Date or the date of such rejection.

## SECTION 8. ACCEPTANCE OR REJECTION OF THE PLAN

### 8.1. *Voting of Claims.*

Each holder of an Allowed Claim in an impaired Class of Claims shall be entitled to vote to accept or reject the Plan as provided for in the order entered by the Bankruptcy Court establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan (a copy of which will be distributed together with the Disclosure Statement). Each holder of an Allowed Claim in Classes 6 and 7, as described more fully in Sections 3.6 and 3.7 above, may elect on its Ballot to receive either (a) a Stock and/or Warrant Recovery, except to the extent that a holder of an Allowed General Unsecured Claim against any of the Debtors has agreed to a less favorable treatment of such Claim, or (b) a Cash Recovery in full satisfaction of such Allowed Claim, *provided, however*, that (i) the failure by a holder of an Allowed Claim in Classes 6, 7A, 7B, 7C, or 7D to either: (a) submit a Ballot, or (b) specify on the Ballot such holder's elected treatment shall result in such holder receiving a Cash Recovery, as described in sections 3.6 and 3.7, as applicable, and (ii) a holder that submits a Ballot and elects their desired treatment, but fails to indicate whether they accept or reject the Plan, will still receive its desired treatment. For purposes of calculating the number of Allowed Claims in a Class of Claims that have voted to accept or reject the Plan under section 1126(c) of the Bankruptcy Code, all Allowed Claims in such Class held by one entity or any affiliate thereof (as defined in the Securities Act of 1933 and the

rules and regulations promulgated thereunder) shall be aggregated and treated as one Allowed Claim in such Class.

**8.2. *Acceptance by a Class of Creditors.***

Consistent with section 1126(c) of the Bankruptcy Code and except as provided for in section 1126(e) of the Bankruptcy Code, a Class of creditors shall have accepted the Plan if it is accepted by at least two-thirds in dollar amount and more than one-half in number of the holders of Allowed Claims of such Class that have timely and properly voted to accept or reject the Plan.

**8.3. *Presumed Rejections of Plan and Cram Down.***

For purposes of voting on the Plan, each holder of an Allowed ACC DIP Claim in Class 5, an Allowed Securities Claim in Class 9, an Allowed Equity Interest in Class 11, and an Allowed Subordinated Claim in Class 13 is conclusively presumed to have rejected the Plan. The Debtors shall utilize the provisions of section 1129(b) of the Bankruptcy Code to satisfy the requirements for confirmation of the Plan over the presumed rejections of such Class and the rejection, if any, of any other Class entitled to vote to accept or reject the Plan.

**SECTION 9. *CONDITION PRECEDENT TO THE EFFECTIVE DATE***

**9.1. *Conditions to Confirmation.***

(a) This Plan may not be confirmed unless each of the conditions set forth below is satisfied. Except as provided in Section 9.3 below, any one or more of the following conditions may be waived at any time by the Debtors with the consent of the Creditors' Committee and the Secured Noteholder Committee.

(b) An Order finding that the Disclosure Statement contains adequate information pursuant to section 1125 of the Bankruptcy Code shall have been issued by the Bankruptcy Court.

(c) The Confirmation Order shall be in a form reasonably acceptable to the Plan Proponents.

(d) Confirmation of this Plan is contingent upon a maximum \$150 million in Allowed Trade Claims and Allowed Convenience Class Claims.

**9.2. *Conditions to Occurrence of Effective Date.***

(a) The Effective Date for this Plan may not occur unless each of the conditions set forth below is satisfied. Except as provided in Section 9.3 below, any one or more of the following conditions may be waived at any time by the Debtors with the consent of the Creditors' Committee and the Secured Noteholder Committee.

(b) A Confirmation Order, in form and substance reasonably satisfactory to the Plan Proponents, shall have been entered by the Bankruptcy Court and no stay of the Confirmation Order shall then be in effect.

(c) All Plan Documents shall be in form and substance satisfactory to the Plan Proponents and, where applicable, shall fully incorporate the terms of the Private Company Term Sheet.

(d) All actions, other documents, and agreements necessary to implement the Plan shall be executed and delivered on the Effective Date.

(e) Plan Securities being issued to fewer than 300 holders of record pursuant to the Plan.

(f) The Debtors shall have obtained exit financing, to the extent necessary, in an amount and on terms satisfactory to each of the ABIZ Committees.

(g) Any settlements reached with any holder of a Claim prior to the Effective Date that provides for special treatment of such holder's Claim in lieu of the treatment otherwise accorded to such Claim under the Plan shall be in form and substance satisfactory to each of the ABIZ Committees.

(h) An order, which may be the Confirmation Order, substantively consolidating the Reorganization Cases shall have been entered.

(i) All amounts required to be paid to Beal Bank pursuant to sections 3.4 and 2.1 shall have been paid in full in cash.

### 9.3. ***Waiver of Conditions.***

The Debtors may, at their option, but only with the written consent of the Creditors' Committee and the Secured Noteholder Committee, waive the conditions set forth in Sections 9.1 and 9.2, *provided, however*, that the Debtors may not waive entry of the Order approving the Disclosure Statement, entry of the Confirmation Order, or any condition the waiver of which is proscribed by law. Any such waivers shall be evidenced by a writing, signed by the waiving parties, and served upon counsel for the Creditors' Committee, the Secured Noteholder Committee, and the United States Trustee and filed with the Bankruptcy Court. The waiver may be a conditional one, such as to extend the time under which a condition may be satisfied.

### 9.4. ***Effect of Failure of Conditions.***

In the event that the conditions specified in Section 9.2 have not been satisfied or waived in the manner provided in Section 9.3 within ninety days following the Confirmation Date, then upon written notification filed by the Debtors with the Bankruptcy Court and served upon counsel for the Creditors' Committee, the Secured Noteholder Committee, and the United States Trustee, (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made, (c) the Debtors and all holders of Claims and Interests shall be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date as though the Confirmation Date had never occurred, and (d) all the Debtors' obligations with respect to the Claims and Interests shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors.

## SECTION 10. **EFFECT OF CONFIRMATION**

### 10.1. ***Vesting of Assets.***

Upon the Effective Date, except as otherwise provided herein, pursuant to sections 1141(b) and (c) of the Bankruptcy Code, all property of the Debtors' bankruptcy estates shall vest in the Reorganized Debtors free and clear of all Claims, liens, encumbrances, charges, and other interests,

except as provided herein or in the Confirmation Order. The Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules and in all respects as if there were no pending cases under any chapter or provision of the Bankruptcy Code, except as provided herein.

**10.2. *Discharge of Claims and Termination of Equity Interests.***

Except as otherwise provided herein or in the Confirmation Order, the rights afforded in the Plan and the payments and distributions to be made hereunder shall discharge all existing debts and Claims, and terminate all Equity Interests, of any kind, nature, or description whatsoever against or in the Debtors or any of their assets or properties to the fullest extent permitted by section 1141 of the Bankruptcy Code. Except as provided in the Plan, upon the Effective Date, all existing Claims against the Debtors and Equity Interests in ABIZ, shall be, and shall be deemed to be, discharged and terminated, and all holders of Claims and Equity Interests shall be precluded and enjoined from asserting against the Debtors, or any of their assets or properties, any other or further Claim or Equity Interest based upon any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date, whether or not such holder has filed a proof of claim or proof of equity interest.

**10.3. *Discharge of Debtors.***

Upon the Effective Date and in consideration of the distributions to be made hereunder, except as otherwise expressly provided herein, each holder (as well as any trustees and agents on behalf of each holder) of a Claim or Equity Interest and any affiliate of such holder shall be deemed to have forever waived, released, and discharged the Debtors, to the fullest extent permitted by section 1141 of the Bankruptcy Code, of and from any and all Claims, rights and liabilities that arose prior to the Effective Date. Upon the Effective Date, all such persons shall be forever precluded and enjoined, pursuant to section 524 of the Bankruptcy Code, from prosecuting or asserting any such discharged Claim against or terminated Equity Interest in the Debtors.

**10.4. *Term of Injunctions or Stays.***

Unless otherwise provided, all injunctions or stays arising under or entered during the Reorganization Cases under sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

**10.5. *Injunction Against Interference with Plan.***

Upon the entry of a Confirmation Order with respect to the Plan and, except as otherwise provided herein or with respect to an appeal of the Confirmation Order, all holders of Claims and Equity Interests and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

**10.6. *Exculpation.***

On the Effective Date, the respective current officers, current directors, current employees, current members, current financial advisors, current professionals, current accountants, and current attorneys, as applicable, of the Debtors, the Creditors' Committee, the Secured Noteholder Committee, Beal Bank, and any disbursing agent selected by the Debtors shall be exculpated by the Debtors and any holder of any Claim or Interest for any act or omission in connection with, or arising out of, the Reorganization Cases, the confirmation of the Plan, the consummation of the Plan, or the

administration of the Plan or property to be distributed under the Plan, except for willful misconduct or gross negligence.

10.7. ***Releases***

On the Effective Date, any and all Claims of the Debtors against the current officers and current directors of the Debtors and any of their non-Debtor subsidiaries, the Creditors' Committee, the Secured Noteholder Committee, the indenture trustees for the 12% Notes, 13% Notes, and 12¼% Secured Notes, Beal Bank, and each of their respective current agents, current employees, current advisors (including any attorneys, financial advisors, investment bankers and other professionals retained by such persons or entities), affiliates, and current representatives shall be released by the Debtors.

10.8. ***Avoidance Actions.***

Reorganized ABIZ or one or both of the ABIZ Committees, as may be agreed to by the Plan Proponents shall have the right to prosecute any avoidance or recovery actions under sections 542 through 551, and 553 of the Bankruptcy Code that belong to the Debtors or debtors in possession. The proceeds of such actions shall be retained by the Reorganized Debtors.

10.9. ***Injunction Regarding Worthless Stock Deduction.***

Unless otherwise ordered by the Bankruptcy Court, on and after the Confirmation Date, any "fifty percent shareholder" within the meaning of section 382(g)(4)(D) of the Internal Revenue Code of 1986, as amended, shall be enjoined from claiming a worthless stock deduction with respect to any Equity Interests for any taxable year of such shareholder ending prior to the Effective Date.

**SECTION 11. RETENTION OF JURISDICTION**

11.1. ***Jurisdiction of the Bankruptcy Court.***

On and after the Effective Date, the Bankruptcy Court shall retain jurisdiction over all matters arising in, arising under, and related to the Reorganization Cases for, among other things, the following purposes:

- (a) To hear and determine pending applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom.
- (b) To determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on the Confirmation Date.
- (c) To ensure that distributions to holders of Allowed Claims are accomplished as provided herein.
- (d) To consider Claims or the allowance, classification, priority, compromise, estimation, objection to, or payment of any Claim, Administrative Expense Claim, or Equity Interest.
- (e) To hear and determine all actions pursuant to sections 505, 542, 543, 544, 545, 547, 548, and 549 of the Bankruptcy Code, collection matters related thereto, and settlements thereof.



(f) To hear and determine any disputes or issues arising under the settlement agreements referred to in this Plan or any other settlements of claims approved by the Bankruptcy Court.

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

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

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

(j) To hear and determine all applications of retained professionals 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.

(k) 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.

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

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

(n) To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including, but not limited to, an expedited determination under section 505(b) of the Bankruptcy Code of the tax liability of the Debtors or the Disputed Claims Reserve for all applicable tax periods).

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

(p) To enter a final decree closing the Reorganization Cases.

(q) To recover all assets of the Debtors and property of the Debtors' estates, wherever located.

## SECTION 12. **MISCELLANEOUS PROVISIONS**

### 12.1. *Payment of Statutory Fees.*

On the Effective Date, and thereafter as may be required, the Debtors shall pay in Cash all fees payable pursuant to section 1930 of chapter 123 of title 28 of the United States Code.



**12.2. *Compensation and Reimbursement Claims.***

All entities seeking an award by the Bankruptcy Court of compensation for services rendered or reimbursement of expenses incurred through and including the Effective Date under sections 503(b)(2), 503(b)(3), 503(b)(4), or 503(b)(5) of the Bankruptcy Code (a) shall file their respective final applications for allowances of compensation for services rendered and reimbursement of expenses incurred on or before the date that is 60 days after the Effective Date and (b) shall be paid in full in such amounts as are allowed by the Bankruptcy Court (i) on the date upon which the order relating to any such Administrative Expense Claim becomes a Final Order or (ii) upon such other terms as may be mutually agreed upon between such holder of an Administrative Expense Claim and the Debtors or, on and after the Effective Date, Reorganized ABIZ. The Debtors are authorized to pay compensation for services rendered and reimbursement of expenses incurred after the Confirmation Date and until the Effective Date in the ordinary course and without the need for Bankruptcy Court approval. Without limiting the foregoing, the Reorganized Debtors shall pay the charges they may incur for reasonable professional fees, disbursements, expenses, or related support services after the Effective Date without any application to the Court.

**12.3. *Dissolution of Creditors' Committee.***

On the Effective Date, the Creditors' Committee will dissolve and the members of the Creditors' Committee will be released and discharged from all duties and obligations arising from or related to the Reorganization Cases. The professionals retained by the Creditors' Committee and the members of the Creditors' Committee thereof and the professionals retained by the Secured Noteholder Committee will not be entitled to compensation or reimbursement of expenses for any services rendered after the Effective Date, except for services rendered and expenses incurred in connection with any applications for allowance of compensation and reimbursement of expenses pending on the Effective Date or filed and served after the Effective Date, or for any services requested by Reorganized ABIZ.

**12.4. *Creation of Special Board Committee***

On the Effective Date, a member of the Board of Directors, selected by the Secured Noteholder Committee, and a member of the Board of Directors, selected by the Creditors' Committee, and Robert Guth, the Debtors' Chief Executive Officer, shall be appointed as a Special Board Committee. The Special Board Committee's responsibilities shall consist of overseeing and reporting to the Board of Directors with respect to matters affecting distributions to holders of Claims under the Plan.

**12.5. *Recognition of Guaranty Rights.***

The classification of and manner of satisfying all Claims and Equity Interests under the Plan takes into consideration (i) the existence of guaranties by the Debtors, and (ii) the fact that the Debtors may be joint obligors with each other or other entities, with respect to an obligation. All Claims against any of the Debtors based upon any such guaranties or joint obligations shall be discharged in the manner provided in the Plan.

**12.6. *No Deemed Waiver of Causes of Action.***

Notwithstanding any payment on account of an Allowed Claim to a creditor or a settlement with a creditor with respect to a Disputed Claim, unless expressly provided, there shall be no deemed waiver of any rights of any Debtor or any other party in interest to bring a cause of action, including, without limitation, a subsequent avoidance action, against such creditor.

12.7. ***Certain Indenture Trustee Fees and Expenses.***

The Debtors shall satisfy in Cash, and to the extent contingent, disputed, or unliquidated on the Effective Date, shall include in the Disputed Claims Reserve, Cash in an amount sufficient to satisfy the reasonable fees and expenses of each of the indenture trustees prior to the Effective Date, including the reasonable fees and expenses of their professionals. Each indenture trustee shall submit its actual and estimated fees (through the Effective Date) to the Debtors and the ABIZ Committees at least twenty-five (25) days prior to the Confirmation Hearing, and the reasonableness of such fees and expenses shall be determined first by the Debtors and the ABIZ Committees. To the extent there are any disputes regarding the reasonableness of payment of such fees and expenses under this section, such dispute shall be submitted to the Bankruptcy Court for resolution. Nothing herein shall be deemed to impair, waive, or discharge the indenture trustees' respective rights, liens, and priorities or any other rights of the indenture trustees under their respective indentures against the distributions to the holders of the 12¼% Secured Notes, 13% Notes, and 12% Notes.

12.8. ***Expedited Determination of Taxes***

The Reorganized Debtors may request an expedited determination of taxes of the Reorganized Debtors under section 505(b) of the Bankruptcy Code for all returns file for, or on behalf of, the Reorganized Debtors for all taxable periods through the Effective Date.

12.9. ***Substantial Consummation.***

On the Effective Date, the Plan shall be deemed to be substantially consummated under sections 1101 and 1127(b) of the Bankruptcy Code.

12.10. ***Amendments.***

(a) ***Plan Modifications.*** The Plan may be amended, modified, or supplemented by the Debtors, with the prior written consent of each of the ABIZ Committees, in the manner provided for by section 1127 of the Bankruptcy Code or as otherwise permitted by law without additional disclosure pursuant to section 1125 of the Bankruptcy Code, except as the Bankruptcy Court may otherwise direct. In addition, after the Confirmation Date, so long as such action does not materially adversely affect the treatment of holders of Claims or Equity Interests under the Plan, the Debtors may institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan or the Confirmation Order, with respect to such matters as may be necessary to carry out the purposes and effects of the Plan.

(b) ***Other Amendments.*** Prior to the Effective Date and with the consent of the Creditors' Committee and the Secured Noteholder Committee, which consent shall not be unreasonably withheld, the Debtors may make appropriate technical adjustments and modifications to the Plan without further order or approval of the Bankruptcy Court, provided that such technical adjustments and modifications do not adversely affect in a material way the treatment of holders of Claims or Equity Interests.

12.11. ***Governing Law.***

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an Exhibit hereto 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 New York, without giving effect to the principles of conflict of laws thereof.

12.12. *Severability.*

In the event that the Bankruptcy Court determines, prior to the Confirmation Date, that any provision of the Plan is invalid, void or unenforceable, the Bankruptcy Court shall, with the consent of the Plan Proponents, have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan 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 pursuant to its terms.

12.13. *Headings.*

Headings are used in the Plan for convenience and reference only, and shall not constitute a part of the Plan for any other purpose.

12.14. *Exhibits.*

All Exhibits and Schedules to the Plan are incorporated into and are a part of the Plan as if set forth in full herein.

12.15. *Time.*

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

12.16. *Notices.*

All notices, requests, and demands to or upon the Debtors to be effective shall be in writing (including by facsimile transmission) and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

Adelphia Business Solutions, Inc.  
712 N. Main Street  
Coudersport, Pennsylvania 16915  
Attn: John Glicksman, Esq.  
Secretary and General Counsel  
Telephone: (814) 260-8000  
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- and -

Weil, Gotshal & Manges LLP  
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Debtors in Possession  
767 Fifth Avenue  
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- and -

Kramer Levin Naftalis & Frankel, LLP  
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- and -

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- and -

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Dated: New York, New York  
October 22, 2003

Respectfully submitted,

ADELPHIA BUSINESS SOLUTIONS, INC.  
(for itself and on behalf of each of the Debtors)

By: /s/ Ed Babcock  
Name: Ed Babcock  
Title: Chief Financial Officer

**SCHEDULE 7.1**

(To be provided)

**EXHIBIT B**  
**to**  
**DISCLOSURE STATEMENT**

**[To be provided]**

**EXHIBIT C**

**to**

**DISCLOSURE STATEMENT**



#### A Practical Example:

A hypothetical Class 7C creditor is entitled to receive 2,000 shares of reorganized common stock and warrants to purchase an additional 750 shares of stock based on the size of its claim relative to the total amount of claims in Class 7 (including certain claims which the company disputes). This creditor elects to receive the Cash Recovery, pursuant to which it is entitled to receive \$17,880 in cash (calculated as 2,000 shares times \$8.94/share) in lieu of its stock and warrant recovery.

However, based on the cash available to fund the Cash Recovery (\$4 million plus Excess Cash, if any) as determined by the company on the Effective Date, and the amount of claims held by claimants who have opted for the Cash Recovery in Classes 7A, 7B and 7D, there is only cash available to fund 50% of the amount of claims in Classes 6 and 7C that have opted for a Cash Recovery. Therefore, this hypothetical Class 7C creditor would receive \$8,940 in cash on the Effective Date (representing 50% of the \$17,880). The remainder of the hypothetical creditor's recovery would be deferred until Reorganized ABIZ provided a Distribution True-Up which would occur no later than 180 days following the effective date. The deferred recovery consists of either (i) an additional \$8,940 in cash (provided such cash subsequently becomes available), (ii) 1,000 shares of common stock and warrants to purchase 375 shares, or (iii) some combination thereof.

Following its emergence from chapter 11, Reorganized ABIZ will continue to resolve the remaining disputed claims. If as a result of the claims resolution process, cash has become available due to the disallowance of certain disputed Class 7 claims for which the holder was a Cash Electee, such cash shall be offered to Cash Electees in Class 6 and Class 7C on a pro rata basis. In addition, the company may in its discretion determine at the Distribution True-Up date that it has additional Excess Cash, and augment the available cash recovered from disallowed disputed claims for purposes of satisfying Cash Electees.

As a result of the disallowance of the disputed claims discussed above, and the company's determination that it now has additional Excess Cash to fund the Cash Recovery, there is enough additional cash available to fund 60% of the remaining recoveries for Class 6 and Class 7C Cash Electees. Under these facts, the hypothetical creditor would receive an additional \$5,364 in cash, 400 shares of stock, and warrants to purchase 150 shares of stock. This stock distribution is calculated as the stock that the creditor would have otherwise received (A) less the cash that was received (B) divided by \$8.94. The warrant distribution is calculated as the stock distribution times 37.5%. In this case that is, 2,000 Shares —  $(\$14,304 / \$8.94) = 400 \text{ Shares} + 400 * 37.5\% \text{ Warrants}$ .

In addition, as discussed above, since certain disputed claims have been disallowed, all creditors in Class 7 will receive an additional distribution. This additional distribution will be in cash for Cash Electees if cash is available, otherwise such additional distribution will be in stock and warrants. This additional distribution was not incorporated into the calculations described in the preceding paragraph for purposes of simplicity.

**EXHIBIT D**

**to**

**DISCLOSURE STATEMENT**

TELCOVE: UNSECURED CREDITORS' COMMITTEE PROPOSAL FOR  
PRIVATE COMPANY

6/17/2003

Registration Rights	<p>Piggyback rights: So long as shares may not be sold without registration under the Securities Act, all shareholders shall have unlimited piggy back rights (i.e., the right to register their shares and warrants upon announcement by TelCove of a public offering of its common stock), subject to pro rata cut-back provisions, provided, however, that it is acknowledged by the parties that pursuant to the foregoing provision, the registrable securities to be included in a registration initiated by TelCove for its own account shall be allocated first, to TelCove and second, pari passu, to the shareholders.</p>
Tagalong Rights	<p>A participating shareholder is a shareholder who owns over 5% of the total outstanding common stock (on an undiluted basis) and participates in one of the transactions described below.</p> <p>Tagalong rights are defined as the right of all shareholders to participate in transactions involving a participating shareholder at the same transaction price. All Non-participating shareholders maintain the right to sell a percentage of their total common shares equivalent to the percentage that the common shares being sold bears to the total common shares held by the participating shareholders when such rights are triggered (as described below).</p> <p>All shareholders will have tag-along rights triggered upon any of the following transactions:</p> <ul style="list-style-type: none"><li>i) A single participating shareholder enters into a transaction (e.g., sale of stock or joint venture), or series of related transactions within a one-year period with a single buyer or related buyers involving the transfer of 51% or more of the total outstanding common stock (on an undiluted basis).</li><li>ii) Multiple participating shareholders enter into a single transaction (e.g. sale of stock or joint venture) with a single buyer or related buyers involving the transfer of 51% or more of the total outstanding common stock (on an undiluted basis).</li></ul> <p>Each participating shareholder will be required to file a notice with the Board of Directors upon the sale of 5% or more of its stock. The Board of</p>

	Directors will monitor such notices to determine if tagalong rights are triggered.
Dragalong Rights	If at any time: (i) a third party makes a bona fide offer to buy outstanding shares of common stock representing more than fifty percent (50%) of the Reorganized Company's voting power and (ii) a majority in interest of the shareholders (the "Initiating Shareholders") agree to sell all of their common stock to such third party (an "Acquisition"), then such Initiating Shareholders shall have the right (but not the obligation) to compel each other shareholder to sell to such third party (a "Drag Along Sale") all of the shares of common stock owned by such shareholders at the same transaction price being paid in the Acquisition to the Initiating Shareholders.
Value Reallocation	The 12.25% Noteholders and 13% Noteholders shall contribute, pro rata, from their respective common stock distributions, common stock representing .25% of the aggregate amount of stock outstanding on the Effective Date to the 12% Noteholders assuming that 10 million shares are outstanding on the Effective Date. To the extent creditors elect the Cash Recovery option under the Plan, the percentage of stock issued to the 12% Noteholders shall be reduced by a percentage corresponding to the reduction in number of shares outstanding on the Effective Date.
Warrantholder Rights/Cashless Exercise	If TelCove has not completed an underwritten public offering of its common stock on or before the two-year anniversary of its emergence from Chapter 11, all warrant holders will have the right to put all of their warrants to TelCove in exchange for the value of the warrants in either cash or common stock, with the choice of currency being at TelCove's discretion. Such put rights may be exercised during the 30 day periods commencing on the second and third anniversaries of TelCove's emergence from chapter 11 and during the 30 day period ending on the fourth anniversary of such emergence. Each warrant holder may elect to exercise its warrants and receive the number of shares of common stock or amount of cash (as determined below) by delivering to the Reorganized Company (a) a certificate representing the warrants to be exercised, (b) a form of exercise duly executed by the holder thereof, indicating such holder is electing the net issuance option and (c) the number of warrants to be

	<p>exercised, and will be computed using the following formula:</p> $X = ((C-B)/C)*(Y)$ <p>X is the number of warrant-related shares of new common stock to be issued to the holder pursuant to the net exercise option; Y is the number of warrants being submitted for exercise; B is the warrant exercise price (as determined by dividing the equity valuation in the Disclosure Statement by the number of primary shares issued and outstanding on the Effective Date); C is the current market price of one share of new common stock determined by (i) multiplying 4.25 by the trailing twelve-month EBITDA (as adjusted for the inclusion of cash distributions received from the PECO and York joint ventures, excluding one time distributions) less net debt determined at the end of the most recent fiscal quarter (however, the first \$5 million of cash shall be excluded from the net debt calculation)(the “Total Equity Value”) and (ii) dividing the Total Equity Value by the “Diluted Number of Shares.” “Diluted Number of Shares” means the sum of the “Primary Shares”, the “Net Warrant Shares” and the “Net Option Shares.” “Primary Shares” means the number of shares outstanding as of the end of the prior quarter, adjusted for stock splits, dividends and combinations. “Net Warrant Shares” means the product of (1) the number of warrants outstanding at the end of the prior quarter and (2) the result obtained by dividing (A) the positive excess, if any, of the Total Equity Value over \$223,500,000 by (B) the Total Equity Value. “Net Option Shares” means the product of (1) the number of options outstanding under employee benefit plans as of the end of the prior quarter and (2) the result obtained by dividing (A) the positive excess, if any, of the Total Equity Value over the product of (1) the weighted average exercise price of such options and (2) the number of Primary Shares by (B) the Total Equity Value.</p> <p>If TelCove completes a public offering at any time after the two-year anniversary of its emergence from Chapter 11, the warrant holder put rights are immediately extinguished.</p>
<p>Notice Rights:</p>	<p>Customary notice of certain material corporate transactions and sales by participating stockholders that trigger tag-along rights.</p>

Reporting Requirements	All shareholders and warrant holders shall receive unaudited quarterly and annual reports (which may be satisfied by posting such information on TelCove's website) prepared in a similar, and containing similar kinds of information, as 10-Ks and 10-Qs commonly filed with the Securities and Exchange Commission, but TelCove shall not be required to file 10-Ks, 10-Qs or other 8-Ks unless required by applicable law.
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