**UNITED STATES BANKRUPTCY COURT**
**FOR THE DISTRICT OF CONNECTICUT**
**BRIDGEPORT DIVISION**

| | | |
|---|---|---|
| In re: | : | |
| | : | |
| HALO TECHNOLOGY HOLDINGS, INC., | : | CHAPTER 11 |
| HTH EMP, Inc. f/k/a EMPAGIO, INC. | : | CASE NOS. 07-50480 |
| PROCESS SOFTWARE, LLC, | : | through 07-50481, |
| TENEBRIL, INC., | : | 07-50486 through |
| KENOSIA CORPORATION, | : | 07-50494 and |
| DAVID CORPORATION, | : | 07-50496 |
| ACUITREK, INC., | : | |
| REVCAST, INC., | : | |
| REVCAST ENTERPRISES, LLC, | : | |
| PROFITKEY INTERNATIONAL, LLC, | : | |
| 6043577 CANADA, INC., and | : | |
| WARP SOLUTIONS, INC., | : | |
| Debtors-in-Possession | : | Jointly Administered |

**DISCLOSURE STATEMENT RELATING**
**TO DEBTORS' JOINT PLAN OF REORGANIZATION**
**UNDER CHAPTER 11 OF THE BANKRUPTCY CODE**

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

ZEISLER & ZEISLER, PC
Attorneys for Debtors and
Debtors In Possession
558 Clinton Avenue
PO Box 3186
Bridgeport, CT 06605
(203) 368-4234

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Exhibits to Disclosure Statement

## I. INTRODUCTION

Halo Technology Holdings, Inc. ("Holdings"), HTH EMP, Inc. *f/k/a* Empagio, Inc. ("Empagio"), Process Software, LLC ("Process"), Tenebril, Inc. ("Tenebril"), David Corporation ("David"), Acuitrek, Inc. ("Acuitrek"), Kenosia Corporation ("Kenosia"), RevCast, Inc. ("RevCast"), RevCast Enterprises, LLC ("RevCast Enterprises"), ProfitKey International, LLC ("ProfitKey"), 6043577 Canada, Inc. ("Canadian Subsidiary"), and Warp Solutions, Inc. ("Warp"), debtors and debtors in possession (collectively, the "Debtors"), are soliciting acceptances of a chapter 11 plan of reorganization (the "Plan of Reorganization" or "Plan") attached as Exhibit 1 to this Disclosure Statement. This solicitation is being conducted at this time to obtain sufficient votes to enable the Plan of Reorganization to be confirmed by the Bankruptcy Court. Capitalized terms used in this Disclosure Statement but not defined herein have the meanings ascribed to such terms in the Plan.

Attached as exhibits to this Disclosure Statement are copies of the following documents:

The Plan of Reorganization (Exhibit 1);

Historical Financial Information (Exhibit 2); and

Liquidation Analysis (Exhibit 3).

WHO IS ENTITLED TO VOTE: Pursuant to the Disclosure Statement Order, the holders of Allowed Secured Claims (Class 2), the holders of Allowed Other Secured Claims (Class 3), the holders of Allowed General Unsecured Claims (Class 4), the holders of Allowed Subordinated Claims (Class 5), and the holders of Allowed Convenience Claims (Class 6) are entitled to vote on the Plan. A ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of claims in these classes that are entitled to vote. Holders of Old Equity Interests (Class 7) are deemed to reject the Plan and are not entitled to vote.

**THE DEBTORS AND THE DIP LENDER RECOMMEND THAT CREDITORS ENTITLED TO VOTE CLAIMS IN CLASS 2, CLASS 3, CLASS 4, CLASS 5 AND CLASS 6 VOTE TO ACCEPT THE PLAN.** The Debtors' legal advisor is Zeisler & Zeisler, PC. They can be contacted at:

Zeisler & Zeisler, PC
558 Clinton Avenue
Bridgeport, CT 06605

Attn: James Berman, Esq.
(203) 368-4234
jberman@zeislaw.com

The following table summarizes the treatment of Claims and Equity Interests under the Plan. For a complete explanation, please refer to the discussion in section VI below, entitled "THE PLAN OF REORGANIZATION" and to the Plan itself.

**IRS CIRCULAR 230 NOTICE:** TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND EQUITY INTERESTS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF FEDERAL TAX ISSUES CONTAINED OR REFERRED TO IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY HOLDERS OF CLAIMS OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON THEM UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE DEBTORS OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS AND EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

## II. SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN[1]

| Class | Type of Claim or Equity Interest | Treatment | Approximate Allowed Amount[2] | Approximate Percentage Recovery |
|---|---|---|---|---|
| -- | Administrative Expenses | Except to the extent that a holder of an Allowed Administrative Expense agrees to less favorable treatment, the Reorganized Debtors shall pay in full in Cash on the later of the Effective Date, the date allowed or the date due in the ordinary course. | $1.5 million | 100% |
| -- | Priority Tax Claims | Except to the extent that a holder of an Allowed Priority Tax Claim agrees to less favorable treatment, each holder shall receive, at the sole option of the Debtors, either (a) payment in full in Cash on the Effective Date or (b) payment in full in Cash over a period not exceeding six years from the date of assessment, together with interest thereon at the Applicable Rate. | $350,000 | 100% |

[1] This table is only a summary of the classification and treatment of claims and equity interests under the Plan. Reference should be made to the entire Disclosure Statement and the Plan for a complete description of the classification and treatment of claims and equity interests.

[2] The amounts set forth herein are the Debtors' estimates; the actual amounts will depend upon the final reconciliation and resolution of all Administrative Expenses and Claims.

| Class | Type of Claim or Equity Interest | Treatment | Approximate Allowed Amount[2] | Approximate Percentage Recovery |
|---|---|---|---|---|
| 1 | Priority Non-Tax Claims | Not impaired; except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to less favorable treatment, such Allowed Claims shall be paid in full in Cash on the later of the Effective Date, the date allowed or the date due in the ordinary course. | $151,000 | 100% |
| 2 | Secured Claims | Impaired; except to the extent that a holder of an Allowed Secured Claim agrees to a less favorable treatment, each holder of an Allowed Secured Claim will receive its Ratable Proportion of the New Senior Notes. | $9 million | 100% |
| 3 | Other Secured Claims | Impaired; the holder of the Allowed Other Unsecured Claims will receive shares of New Preferred Stock. | $352,500 | To be determined |
| 4 | General Unsecured Claims | Impaired; except to the extent that a holder of an Allowed General Unsecured Claim agrees to less favorable treatment, each holder of an Allowed General Unsecured Claim will receive in Cash its Ratable Proportion of the Class 4 Distribution Amount, and after determination of Disputed General Unsecured Claims, any amount remaining in the Class 4 Claim Reserve; provided, however, that the holders of Contributing Claims will agree to receive New Holdings Common Stock in exchange for their claims. In addition, each holder of an | $6.2 million. This amount assumes the Debtors are successful in disallowing in their entirety all Disputed General Unsecured Claims. | 10%, plus an additional amount to be determined after conclusion of the Pending Litigation |

| Class | Type of Claim or Equity Interest | Treatment | Approximate Allowed Amount[2] | Approximate Percentage Recovery |
|---|---|---|---|---|
| | | Allowed General Unsecured Claim shall receive its Ratable Proportion of the Class 4 Litigation Proceeds. | | |
| 5 | Subordinated Claims | Impaired; except to the extent that a holder of an Allowed Subordinated Claim agrees to less favorable treatment, each holder of an Allowed Subordinated Claim will receive its Ratable Portion of the Class 5 Notes. In addition, each holder of an Allowed General Unsecured Claim shall receive its Ratable Proportion of the Class 5 Litigation Proceeds. | $9 million | 10%, plus an additional amount to be determined after conclusion of the Pending Litigation |
| 6 | Convenience Class | Impaired; holders of claims in this class will receive twenty (20%) of the amount of their Allowed Convenience Class Claim on the later of the Effective Date or the date that is ten (10) days after the date such claim is allowed. | $935,000 | 20% |
| 7 | Old Equity Interests | Impaired; Equity Interests cancelled; no distribution. | N/A | 0% |

**A. Summary of Voting Procedures**

If you are entitled to vote to accept or reject the Plan, a ballot is enclosed for voting purposes. 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) in accordance with the instructions set forth herein.

TO BE COUNTED, YOUR VOTE INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE PROPERLY COMPLETED IN ACCORDANCE WITH THE INSTRUCTIONS ON THE BALLOT, AND MUST BE **ACTUALLY RECEIVED** BY THE DEBTORS' VOTING AGENT, ZEISLER & ZEISLER, PC, **NO LATER THAN 4:00 P.M., PREVAILING EASTERN TIME, ON [_____], 2009 (THE "VOTING DEADLINE")**. PLEASE RETURN YOUR PROPERLY COMPLETED BALLOT TO THE VOTING AGENT AT THE FOLLOWING ADDRESS:

ZEISLER & ZEISLER, PC
Attorneys for Debtors and
Debtors In Possession
558 Clinton Avenue
PO Box 3186
Bridgeport, CT 06605
Attn: James Berman, Esq.

BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL **NOT** BE COUNTED. FAXED COPIES OF BALLOTS WILL **NOT** BE COUNTED.

ANY PROPERLY EXECUTED, TIMELY RECEIVED BALLOT THAT DOES NOT INDICATE EITHER ACCEPTANCE OR REJECTION OF THE PLAN WILL BE COUNTED AS A VOTE TO ACCEPT THE PLAN. ANY PROPERLY EXECUTED, TIMELY RECEIVED BALLOT THAT INDICATES BOTH ACCEPTANCE AND REJECTION OF THE PLAN WILL BE COUNTED AS A VOTE TO ACCEPT THE PLAN. **BALLOTS SHOULD NOT BE DELIVERED DIRECTLY TO THE DEBTORS, THE COURT, THE COMMITTEE, THE PREPETITION AGENT OR THE DIP AGENT.**

If you are a holder of a 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 procedures for voting on the Plan, please contact the Debtors' Voting Agent, ZEISLER & ZEISLER, PC, Attorneys for Debtors and Debtors In Possession, Attn: James Berman, Esq., 558 Clinton Avenue, PO Box 3186, Bridgeport, CT 06605, (203) 368-4234.

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

**1). IF YOU HAVE THE FULL POWER TO VOTE AND DISPOSE OF ALLOWED SECURED CLAIMS (CLASS 2):**

Please complete the information requested on the Ballot, sign, date, and indicate your vote on the Ballot, and return your completed Ballot in the enclosed pre-addressed envelope so that it is actually received by the Voting Agent before the Voting Deadline.

**2). IF YOU HAVE THE FULL POWER TO VOTE AND DISPOSE OF OTHER ALLOWED SECURED CLAIMS (CLASS 3):**

Please complete the information requested on the Ballot, sign, date, and indicate your vote on the Ballot, and return your completed Ballot in the enclosed pre-addressed envelope so that it is actually received by the Voting Agent before the Voting Deadline.

**3). IF YOU HAVE THE FULL POWER TO VOTE AND DISPOSE OF ALLOWED GENERAL UNSECURED CLAIMS (CLASS 4):**

Please complete the information requested on the Ballot, sign, date, and indicate your vote on the Ballot and return your completed Ballot in the enclosed pre-addressed envelope so that it is actually received by the Voting Agent before the Voting Deadline.

**5). IF YOU HAVE THE FULL POWER TO VOTE AND DISPOSE OF ALLOWED SUBORDINATED CLAIMS (CLASS 5):**

Please complete the information requested on the Ballot, sign, date, and indicate your vote on the Ballot and return your completed Ballot in the enclosed pre-addressed envelope so that it is actually received by the Voting Agent before the Voting Deadline.

**6). IF YOU HAVE THE FULL POWER TO VOTE AND DISPOSE OF ALLOWED CONVENIENCE CLAIMS (CLASS 6):**

Please complete the information requested on the Ballot, sign, date, and indicate your vote on the Ballot, and return your completed Ballot in the enclosed pre-addressed envelope so that it is actually received by the Voting Agent before the Voting Deadline.

Any voter that has delivered a valid ballot may withdraw its vote by delivering a written notice of withdrawal to the Voting Agent before the Voting Deadline

(as more fully described in section VIII below, entitled "VOTING PROCEDURES AND REQUIREMENTS").

Any holder that has delivered a valid ballot may change its vote by delivering to the Voting Agent a properly completed subsequent ballot so as to be received before the Voting Deadline (as more fully described in section VIII below, entitled "VOTING PROCEDURES AND REQUIREMENTS").

For detailed voting instructions, see the instructions on your ballot. For a further discussion of voting on the Plan, see section VIII below, entitled "VOTING PROCEDURES AND REQUIREMENTS."

**B. Overview of Chapter 11 Process**

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself and all economic parties in interest. In addition to permitting rehabilitation of a debtor, chapter 11 promotes equality of treatment of similarly situated claims and similarly situated equity interests with respect to the distribution of a debtor's assets.

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

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court makes the plan binding upon a debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor of, or holder of an equity interest in, a debtor. Subject to certain limited exceptions, the confirmation order discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

In order to solicit acceptances of a proposed plan, however, section 1126 of the Bankruptcy Code requires a debtor and any other plan proponents to conduct such solicitation, pursuant to a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. The Debtors are submitting this Disclosure Statement in accordance with the Disclosure Statement Order and the requirements of sections 1125 and 1126 of the Bankruptcy Code.

## III.

## DESCRIPTION OF THE BUSINESS

### A. Corporate Structure

Halo Technology Holdings, Inc. is a consolidated provider of a diversified range of standards-based enterprise software applications and on-demand software solutions. Holdings is a holding company which has acquired and merged software companies offering complementary products and compatible technology, and which manages the integration and operations of its underlying subsidiaries. By merging technologies and realizing synergies in operating costs, management has aimed to create enhanced software solutions and better margins than if the entities operated on a stand alone basis.

The Company's current operating subsidiaries are the following: Process Software, LLC, Tenebril, Inc., DAVID Corporation, ProfitKey International, LLC, and Kenosia Corporation. In addition, Holdings owns HTH Emp, Inc. (f/k/a Empagio, Inc.) which is pursuing, in the Pending Litigation, claims against former employees and third parties for breach of contract and unfair trade practices, among other matters.

Furthermore, Holdings holds several non-operating entities as a result of acquisition and divestment activity in recent years. These entities are Warp Solutions, Inc. 6043577 Canada, Inc., Acuitrek, Inc., RevCast Enterprises and RevCast, LLC. These entities do no independently generate revenue, incur expenses, or have employees. Under the proposed Plan, assets of these entities (if any) will be transferred to Holdings or Holdings' operating subsidiaries, and then will be dissolved.

### B. Description of Operating Businesses

Holdings's portfolio companies generate revenue from three types of service offerings: licensing, professional services and maintenance support. The following is a brief description of each:

- **Licensing:** Clients use Holdings' proprietary software under an operating license purchased from one of Holdings' portfolio companies. License revenue is typically recognized at the time of sale or when the agreement is executed.
- **Professional Services:** Once a license agreement is executed, the product typically requires some level of customization to fit the needs of the client. Customization, training and any other consulting services needed by clients is included in professional services revenue.
- **Maintenance Support:** Once the product is customized and the clients' employees are trained, the maintenance support phase commences. A

standard contract consists of 12 months of maintenance support including regulatory/compliance updates, support calls and other minor fixes that may require software expertise.

## C. Portfolio Companies

The following is a brief description of the operating companies currently held by Holdings, all of which are Debtors:

- **Process Software, LLC:** Process is a communications and securities software solutions provider for universities and enterprise businesses that utilize Open Virtual Memory Systems ("OpenVMS"). OpenVMS is a software system originally designed in the 1970's. As such, Process's clients value reliability, security and dependability over cutting-edge technology.
- **Tenebril, Inc.:** Tenebril operates as a division of Process. It offers anti-spyware that can be added to Process' anti-spam software making it a security suite for businesses.
- **DAVID Corporation:** DAVID is a software provider of insurance risk management products and services for businesses and governments in the property and casualty insurance market. Its core product provides a comprehensive solution for claims and policy underwriting and administration. DAVID also provides customization services and maintenance support for each of its clients.
- **ProfitKey International, LLC:** ProfitKey is a software provider offering an integrated information control system for small to mid-size manufacturers. ProfitKey's core products are Enterprise Resource Planning and Manufacturing Execution System. It is primarily focused on the aerospace, automotive, OEM and Contract Electronic Assembly markets.
- **Kenosia Corporation:** Kenosia is a software and service provider for businesses in the Consumer Packaged Goods industry. Kenosia's software provides a platform for its users to sort through massive amounts of marketing data from multiple sources to analyze specific metrics in a concise and meaningful presentation.

## D. Prepetition Indebtedness

### 1. Senior Indebtedness

Prior to the commencement of the Reorganization Cases, the Debtors were borrowers under that certain Credit Agreement dated as of August 2, 2005 (as amended and together with all related documents and agreements, the "Prepetition Credit Agreement"), by and among the Debtors, Fortress Credit Corp. as administrative agent (solely in such capacity, for itself and the other financial institutions identified as

Lenders, the "Prepetition Agent"), and other financial institutions identified therein as "Lenders" (solely in such capacities, the "Prepetition Credit Agreement Lenders").

As of the Petition Date, the Debtors were indebted to the Prepetition Agent and the Prepetition Credit Agreement Lenders under the term loans, advances and/or other financial accommodations provided to or for the benefit of the Debtors (the "Prepetition Loans") under the Prepetition Credit Agreement. Such Prepetition Loans were also evidenced by senior secured promissory notes (the "Prepetition Senior Notes") made by the Debtors to the Prepetition Credit Agreement Lenders in accordance with the Prepetition Credit Agreement. As of the Petition Date the aggregate amount of any and all unpaid principal, accrued and unpaid interest, unpaid fees and attorneys' fees, and other charges, amounts and costs owing, accrued, accruing or chargeable in respect of any of the Debtors' obligations pursuant to the Prepetition Credit Agreement and the Prepetition Senior Notes (together, the "Prepetition Credit Agreement Obligations") equaled $7,810,193.

In accordance with the Prepetition Credit Agreement, the Debtors entered into security agreements with the Prepetition Agent (together, the "Prepetition Security Agreement") which, among other matters, granted first priority security interests in their assets to the Prepetition Agent as security for the financial obligations under the Prepetition Credit Agreement. In addition, the Debtors entered into pledge agreements with the Prepetition Agent (together, the "Prepetition Pledge Agreements") pledging the stock (or other equity interests) in their respective subsidiaries to the Prepetition Agent as further security for the financial obligations under the Prepetition Credit Agreement.

2. Subordinated Indebtedness

(a) 2005 Subordinated Notes

Prior to the commencement of the Reorganization Cases, the Debtors entered into that certain Subordinated Note and Warrant Purchase Agreement (as amended and together with all related documents, instruments and agreements, the "2005 Subordinated Note Purchase Agreement"), as of January 31, 2005, with the Purchasers identified therein, pursuant to which Holdings sold Subordinated Promissory Notes (the "2005 Subordinated Notes"). As originally issued, the aggregate principal amount of the 2005 Subordinated Notes was $4,000,000. In connection with the Prepetition Credit Agreement, however, certain 2005 Subordinated Notes were paid. As of the Petition Date, the aggregate amount of any and all unpaid principal, accrued and unpaid interest, unpaid fees and other charges, amounts and costs owing, accrued, accruing or chargeable in respect of any of the Debtors' obligations pursuant to the 2005 Subordinated Note Purchase Agreement and the remaining 2005 Subordinated Notes (together, the "2005 Subordinated Note Obligations") equaled $2,901,249. The holders of the remaining 2005 Subordinated Notes are referred to as the "2005 Subordinated Noteholders."

In connection with the Prepetition Credit Agreement, the Debtors, the Prepetition Credit Agreement Lenders, the Prepetition Agent and the 2005 Subordinated Noteholders entered into that certain Intercreditor and Subordination Agreement, dated as of August 2, 2005 (as amended and together with all related documents, instruments and agreements, the "2005 Subordination Agreement"). Under the 2005 Subordination Agreement, the 2005 Subordinated Noteholders agreed to subordinate their rights, including the right to payment, under the 2005 Subordinated Notes to the rights of the Prepetition Credit Agreement Lenders under the Prepetition Credit Agreement. Accordingly, the 2005 Subordinated Noteholders may not receive any payment until the Prepetition Credit Agreement Obligations have been paid in full.

(b) 2005 Acquisition Note

On September 12, 2005, Holdings entered into that certain Merger Agreement with TAC/Halo, Inc., Tesseract Corporation and Platinum Equity, LLC (as amended and together with all related documents, instruments and agreements, the "2005 Acquisition Note Agreement"). Pursuant thereto, in October, 2005, Holdings acquired Tesseract Corporation from Platinum Equity, LLC (the "2005 Acquisition Noteholder"). As a consequence, Holdings became obligated to pay amounts under the 2005 Acquisition Note Agreement and Holdings issued a promissory note (the "2005 Acquisition Note") to 2005 Acquisition Noteholder. As of the Petition Date, the aggregate amount of any and all unpaid principal, accrued and unpaid interest, unpaid fees and other charges, amounts and costs owing, accrued, accruing or chargeable in respect of any of the Debtors' obligations pursuant to the 2005 Acquisition Note Agreement and the 2005 Acquisition Note (together, the "2005 Acquisition Note Obligations") equaled $2,943,770.

At the time of the acquisition, the Debtors entered into an Intercreditor and Subordination Agreement with the Prepetition Credit Agreement Lenders, the Prepetition Agent and the 2005 Acquisition Noteholder pursuant to which the 2005 Acquisition Noteholder agreed that the obligations under the 2005 Acquisition Note are expressly subordinate and junior in right of payment to all of the Prepetition Credit Agreement Obligations.

(c) 2006 Financing Indebtedness

On October 12, 2006, Holdings and entered into that certain Subscription Agreement (as amended and together with all related documents, instruments and agreements, the "2006 Subscription Agreement") with the Investors (as defined therein) for the sale of the certain convertible promissory notes (collectively, the "2006 Notes") and warrants to acquire common stock in the Company. Under the 2006 Subscription Agreement, HALO issued 2006 Notes in the aggregate principal amount of $2,750,000. As of the Petition Date, the aggregate amount of any and all unpaid principal, accrued and unpaid interest, unpaid fees and other charges, amounts and costs owing, accrued, accruing or chargeable in respect of any of the Debtors' obligations pursuant to the Subscription Agreement and the 2006 Notes (together, the "2006 Note Obligations")

equaled $3,192,292. The holder of the 2006 Notes is referred to herein as the "2006 Noteholder".

In connection with the 2006 Subscription Agreement, on October 12, 2006 the Debtors entered into that certain Subordination Agreement (the "2006 Subordination Agreement") with the 2006 Noteholder and the Prepetition Agent. Under this agreement, the 2006 Noteholder agreed that the 2006 Note Obligations are expressly subordinate and junior in right of payment to all of the Prepetition Credit Agreement Obligations.

3. Trade Debt

As of the Petition Date, and excluding in their entirety all disputed amounts, the Debtors also had outstanding trade payables, accrued expenses, and other general unsecured obligations of approximately $7.1 million.

## IV.

## KEY EVENTS LEADING TO THE COMMENCEMENT OF THE REORGANIZATION CASES

### A. Damages to Empagio Business

While other events may have contributed to the Debtors' bankruptcy, the most significant factor leading to the commencement of the Reorganization Cases was the damage suffered by the Debtors as a result of the actions of Randall Cooper, the former Chief Executive Officer of Empagio, other former officers of Empagio, and certain financial institutions which these individuals engaged. The activities of these individuals and institutions, including breach of contract, breach of fiduciary duty, unfair trade practices and other improper conduct resulted in significant harm to the business and value of Empagio, which the Debtors were attempting to sell, robbed the Debtors of substantial cash flow, and led to the Debtors' inability to make scheduled principal payments under their Prepetition Credit Agreement, allowing the Prepetition Lenders to declare a default and accelerate the maturity of the loans under such facility.

Consequently, during the period from March and April of 2007, with increasing pressure from the Prepetition Agent due to the default, the Debtors took vigorous steps to sell Empagio or its assets. On May 25, 2007 Empagio sold its assets for $16 million, payable $14 million at closing and $2 million deferred for a total of 24 months.

However, the foregoing sale was upon terms and conditions which were unfavorable to the Debtors -- namely, that by the time the matter closed, the debt under the Prepetition Credit Agreement was substantially in arrears and the Debtors had no defense to an acceleration by the Prepetition Agent of the $20,000,000 debt then outstanding under the Prepetition Credit Agreement. As a consequence, of the $14 million paid at closing, the Debtors were required to pay the Prepetition Agent $13

million, leaving the Debtors with very little operating capital. Additionally, the remaining amounts owing under the Prepetition Credit Agreement (in excess of $7,000,000) were made due and payable on or before August 31, 2007.

Thereafter, despite the various initiatives undertaken by Holdings in the period after the sale of Empagio's assets, including proposals to the holders of Secured Claims and the holders of Subordinated Claims involving sales of subsidiaries, restructuring of debt, conversion of debt into equity and other transactions, in light of the developments outlined in the preceding paragraphs, the Debtors could not continue their operations in the ordinary course and, on August 20, 2007, commenced these Reorganization Cases.

### B. The Debtors' Business Plan

The Debtors are optimistic about their long-term economic prospects. Since the commencement of the Reorganization Cases, the Debtors have significantly reduced general and administrative costs as well as other expenses. The measures implemented by the Debtors' management team have resulted in significant growth in certain businesses, and the stabilization of others. Going forward, the Debtors propose to continue to manage the operating businesses for stable long term growth, and customer retention. In the opinion of the Debtors' management team, continued successful execution of the their strategy combined with the restructuring proposed in the Plan will enable the Debtors to continue to grow in the near and long term for the benefit of all economic parties in interest in these Reorganization Cases.

## V.

## THE REORGANIZATION CASES

### A. Debtor in Possession Financing and Use of Cash Collateral

To enable the continued operation of their business, avoid short-term liquidity concerns, and preserve the going concern value of their estates, the Debtors, together with their attorneys, negotiated the terms and conditions of both a long-term cash collateral order with the Prepetition Agent and postpetition financing arrangements with the DIP Lender. Thereafter, the Debtors entered into the Postpetition Financing Agreement, providing for $300,000 in debtor-in-possession financing. On November 2, 2007, the Bankruptcy Court entered an order (the "Postpetition Financing Order") approving the proposed financing arrangement on a final basis. As of the date hereof, the principal and accrued but unpaid interest thereon owed to the DIP Lender total approximately $346,500.

**B. Creditors' Committee**

Pursuant to section 1102(a) and (b) of the Bankruptcy Code, on September 25, 2007, the U.S. Trustee appointed a five-member Committee to represent the interests of unsecured creditors in the Reorganization Cases. The Committee is represented by Pepe & Hazard LLP, 30 Jelliff Lane, Southport, CT 06890-1436 (Attn: Kristin B. Mayhew and James C. Graham). The current members of the Committee are:

| Creditors' Committee Members | |
|---|---|
| Bowne of New York LLC<br>Salvatore Astuto, Credit Manager<br>55 Water Street<br>New York, NY 10041<br>Telephone: (212) 658-5452<br>Facsimile: (212) 658-5496 | Mahoney Cohen & Co.<br>Jeffrey T. Sutton,<br>Director Corporate Recovery Services<br>1065 Avenue of the Americas<br>New York, NY 10018<br>Telephone: (212) 790-5732<br>Facsimile: (212) 790-5909 |
| Unify Corporation<br>Todd Wille, CEO<br>2101 Arena Boulevard, Suite 100<br>Sacramento, CA 95834<br>Telephone: (916) 928-6400<br>Facsimile: (916) 928-6408 | Montgomery & Co., LLC<br>Kevin P. Higgins, CFO<br>100 Wilshire Boulevard, Suite 400<br>Santa Monica, CA 90401<br>Telephone: (310) 260-6006<br>Facsimile: (310) 260-6095 |
| RR Donnelley Receivables Inc.<br>Daniel Pevonka, Senior Credit Manager<br>3075 Highland Parkway<br>Downers Grove, IL 60515<br>Telephone: (630) 322-6931<br>Facsimile: (630) 322-6052 | |

**C. Bar Date**

In accordance with the provisions of the Bankruptcy Code and Bankruptcy Rules, the Debtors requested and the Bankruptcy Court issued an order (the "Bar Date Order") establishing December 17, 2007 as the date by which proofs of claims (of parties other than governmental units) against the Debtors were to be filed in the Reorganization Cases (the "Bar Date"). A notice of the Bar Date was sent to all creditors as part of the Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors, and Deadlines dated August 21, 2007 and a proof of claim form was mailed to all known holders of Claims.

## VI.

## THE PLAN OF REORGANIZATION

### A. Introduction

The Plan provides for a restructuring of the Debtors' financial obligations which will result in a significant deleveraging of the Debtors. The Debtors believe that the proposed restructuring will provide them with the necessary liquidity to compete effectively in today's business environment.

The Debtors also believe, and will demonstrate to the Bankruptcy Court, that, under the Plan, creditors and shareholders will substantially more value than they would receive in a liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

The following is a general discussion of the provisions of the Plan. The Plan is attached as Exhibit 1 to this Disclosure Statement. In the event of any discrepancies, the terms of the Plan will govern.

### B. Classification and Treatment of Claims and Equity Interests Under the Plan of Reorganization

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" equity interest simply means that the debtor agrees, or in the event of a dispute, that the Bankruptcy Court determines, that the claim or equity interest, and the amount thereof, is in fact a valid obligation of the debtor. Section 502(a) of the Bankruptcy Code provides that a timely filed claim or equity interest is automatically "allowed" unless the debtor or other party in interest objects. However, section 502(b) of the Bankruptcy Code specifies certain claims that may not be "allowed" in bankruptcy even if a proof of claim is filed. These include, but are not limited to, claims that are unenforceable under the governing agreement between a debtor and the claimant or applicable non-bankruptcy law, claims for unmatured interest, property tax claims in excess of the debtor's equity in the property, claims for services that exceed their reasonable value, real property lease and employment contract rejection damage claims in excess of specified amounts, late-filed claims, and contingent claims for contribution and reimbursement. Additionally, Bankruptcy Rule 3003(c)(2) prohibits the allowance of any claim or equity interest that either is not listed on the debtor's schedules or is listed as disputed, contingent, or unliquidated, if the holder has not filed a proof of claim or equity interest before the established deadline.

The Bankruptcy Code requires that, for purposes of treatment and voting, a chapter 11 plan divide the different claims against, and equity interests in, the debtor into separate classes based upon their legal nature. Claims of a substantially similar legal nature are usually classified together, as are equity interests of a substantially similar

legal nature. Because an entity may hold multiple claims and/or equity interests which give rise to different legal rights, the "claims" and "equity interests" themselves, rather than their holders, are classified.

Under a chapter 11 plan, the separate classes of claims and equity interests must be designated either as "impaired" (affected by the plan) or "unimpaired" (unaffected by the plan). If a class of claims is "impaired," the Bankruptcy Code affords certain rights to the holders of such claims, such as the right to vote on the plan, and the right to receive, under the chapter 11 plan, no less value than the holder would receive if the debtor were liquidated in a case under chapter 7 of the Bankruptcy Code. Under section 1124 of the Bankruptcy Code, a class of claims or interests is "impaired" unless the plan (i) does not alter the legal, equitable and contractual rights of the holders or (ii) irrespective of the holders' acceleration rights, cures all defaults (other than those arising from the debtor's insolvency, the commencement of the case or nonperformance of a nonmonetary obligation), reinstates the maturity of the claims or interests in the class, compensates the holders for actual damages incurred as a result of their reasonable reliance upon any acceleration rights, and does not otherwise alter their legal, equitable and contractual rights. Typically, this means that the holder of an unimpaired claim will receive on the later of the consummation date or the date on which amounts owing are actually due and payable, payment in full, in Cash, with postpetition interest to the extent appropriate and provided for under the governing agreement (or if there is no agreement, under applicable nonbankruptcy law), and the remainder of the debtor's obligations, if any, will be performed as they come due in accordance with their terms. Thus, other than its right to accelerate the debtor's obligations, the holder of an unimpaired claim will be placed in the position it would have been in had the debtor's case not been commenced. Pursuant to 1126(f) of the Bankruptcy Code, holders of unimpaired claims or interests are "conclusively presumed" to have accepted the plan. Accordingly, their votes are not solicited. Under the Debtors' Plan, there is no class of claims which are unimpaired, and, therefore, there are no holders of claims who are "conclusively presumed" to have voted to accept the Plan.

Under certain circumstances, a class of claims or equity interests may be deemed to reject a plan of reorganization. For example, a class is deemed to reject a plan of reorganization under section 1126(g) of the Bankruptcy Code if the holders of claims or interests in such class do not receive or retain property under the plan on account of their claims or equity interests. Under this provision of the Bankruptcy Code, the holders of equity interests in Class 7 (Old Equity Interests) are deemed to reject the Plan because they receive no distribution and retain no property interest under the Plan. Because Class 7 (Old Equity Interests) are deemed to reject the Plan, the Debtors are required to demonstrate that the Plan satisfies the requirements of section 1129(b) of the Bankruptcy Code with respect to such class. Among these are the requirements that the plan be "fair and equitable" with respect to, and not "discriminate unfairly" against, the claims and equity interests in such class. For a more detailed description of the requirements for confirmation, see section IX.B below, entitled "CONFIRMATION OF THE PLAN OF REORGANIZATION -- Requirements for Confirmation of the Plan of Reorganization."

Consistent with these requirements, the Plan divides the Allowed Claims against, and Allowed Equity Interests in, the Debtors into the following classes:

| | | |
|---|---|---|
| Unclassified | Administrative Expenses | |
| Unclassified | Priority Tax Claims | |
| Class 1 | Priority Non-Tax Claims | Not impaired. |
| Class 2 | Secured Claims | Impaired. |
| Class 3 | Other Secured Claims | Impaired. |
| Class 4 | General Unsecured Claims | Impaired. |
| Class 5 | Subordinated Claims | Impaired. |
| Class 6 | Convenience Claims | Impaired. |
| Class 7 | Old Equity Interests | Impaired; deemed to reject. |

1. Unclassified

(a) *Administrative Expenses*

Administrative Expenses are the actual and necessary costs and expenses of the Debtors' Reorganization Cases that are allowed under sections 503(b) and 507(a)(1) of the Bankruptcy Code. Such expenses will include, but are not limited to, amounts owed to vendors providing goods and services to the Debtors during the chapter 11 cases, tax obligations incurred after the Petition Date, and reclamation claims granted administrative expense status by the Debtors in accordance with the Bankruptcy Court order authorizing the implementation of certain reclamation procedures in these cases. Other administrative expenses include the actual, reasonable, and necessary professional fees and expenses of the Debtors' and Committee's advisors incurred during the pendency of the Reorganization Cases.

Administrative Expenses representing liabilities incurred by the Debtors in the ordinary course of business and consistent with past practice, or liabilities arising under loans or advances to the Debtors after the Petition Date, whether or not incurred in the ordinary course of business, shall be assumed and will be paid by the Debtors in accordance with the terms and conditions of the particular transaction and any related agreements and instruments. All other Allowed Administrative Expenses will be paid, in full, in Cash, on the Effective Date, or on such other terms to which the Debtors and the holder of such Administrative Expense agree.

All payments to professionals for compensation and reimbursement of expenses and all payments to reimburse expenses of members of any statutory committees will be made in accordance with the procedures established by the Bankruptcy Court and Bankruptcy Rules relating to the payment of interim and final compensation and expenses.

In addition to the foregoing, section 503(b) of the Bankruptcy Code provides for payment of compensation to creditors, indenture trustees, and other Persons

making a "substantial contribution" to a chapter 11 case, and to attorneys for, and other professional advisors to, such Persons. Requests for such compensation must be approved by the Bankruptcy Court after notice and a hearing at which the Debtors and other parties in interest may participate, and, if appropriate, object to such requests.

The Debtors estimate, assuming the Effective Date occurs no later than June 1, 2009, Allowed unpaid Administrative Expenses on the Effective Date will approximate $1.5 million.

(b) *Priority Tax Claims*

Priority Tax Claims essentially consist of unsecured claims of federal and state governmental authorities for the kinds of taxes specified in section 507(a)(8) of the Bankruptcy Code, such as certain income taxes, property taxes, excise taxes, and employment and withholding taxes. These unsecured claims are given a statutory priority in right of payment. The Debtors estimate that on the Effective Date, the Allowed amounts of such claims will aggregate approximately $352,500.

With respect to any Priority Tax Claims not paid pursuant to prior Bankruptcy Court order, except to the extent that a holder of an Allowed Priority Tax Claim agrees to a less favorable treatment, each holder of an Allowed Priority Tax Claim will receive, at the sole option of the Debtors or the Reorganized Debtors, (i) on the Effective Date, Cash in an amount equal to such Allowed Priority Tax Claim, or (ii) commencing on the Effective Date and continuing over a period not exceeding six (6) years after the date of assessment of such Allowed Priority Tax Claim, Cash payments in an aggregate amount equal to such Allowed Priority Tax Claim, together with simple interest at the Applicable Rate, subject to the sole option of the Debtors or Reorganized Debtors to prepay the entire amount of the Allowed Priority Tax Claim without penalty. All Allowed Priority Tax Claims which are not due and payable on or before the Effective Date will be paid in the ordinary course of business as such obligations become due.

2. Classified

The Plan provides for the treatment of each class of claims or interests as outlined below.

**Class 1 – Priority Non-Tax Claims**
(*Not Impaired. Not Entitled to vote.*)

Priority Non-Tax Claims include certain claims that are granted priority in payment under section 507(a) of the Bankruptcy Code, including certain wage, salary and other compensation obligations to employees of the Debtors up to a statutory cap of $10,000 per employee. The Debtors estimate that on the Effective Date, the allowed amount of such claims will aggregate approximately $151,000.

With respect to any Allowed Priority Non-Tax Claims not paid pursuant to prior Bankruptcy Court order, on the Effective Date, except to the extent that a holder of an Allowed Priority Non-Tax Claim agrees to less favorable treatment, each Allowed Priority Non-Tax Claim will be paid in full, in Cash. All Allowed Priority Non-Tax Claims which are not due and payable on or before the Effective Date will be paid in the ordinary course of business in accordance with the terms thereof. Such distributions shall be in complete satisfaction and discharge of the Debtors' obligations to the holders of Priority Non-Tax Claims.

**Class 2 – Secured Claims**
(*Impaired. Entitled to vote*.)

Class 2 consists of the Allowed Prepetition Credit Agreement Obligations. The Debtors estimate that on the Effective Date, the Allowed amount of such claims will aggregate approximately $9 million.

On the Effective Date, except to the extent that a holder of an Allowed Secured Claim agrees to a less favorable treatment, each holder of an Allowed Secured Claim will receive its Ratable Proportion of New Senior Notes.

Such distributions will be in complete satisfaction and discharge of the Debtors' obligations to the holders of Secured Claims.

**Class 3 – Other Secured Claims**
(*Impaired. Entitled to vote*.)

Class 3 consists of Allowed Other Secured Claims, which are secured Claims other than those classified in Class 2, and represent claims under the Postpetition Financing Agreement. The Debtors estimate that on the Effective Date, the Allowed amount of Other Secured Claims will aggregate approximately $352,500.

On the Effective Date, except to the extent that a holder of an Allowed Other Secured Claim agrees to less favorable treatment, the holder of the Allowed Other Secured Claim will receive shares of New Holdings Preferred Stock. Such distributions shall be in complete satisfaction and discharge of the Debtors' obligations to the holders of Other Secured Claims.

**Class 4 – General Unsecured Claims**
(*Impaired. Entitled to vote*.)

Class 4 consists of Allowed General Unsecured non-priority Claims, which generally include the Claims of trade and other business creditors for goods and services provided to the Debtors prior to the Petition Date, damage Claims arising from the Debtors' rejection of executory contracts and unexpired leases, and claims asserted in litigation in respect of events arising prior to the Petition Date.

The Debtors estimate that on the Effective Date, the amount of Allowed Class 4 Claims will aggregate approximately $6.2 million, as measured by generally accepted accounting principles.

The Plan provides that on the Effective Date, except to the extent that a holder of an Allowed General Unsecured Claim agrees to less favorable treatment, each holder of an Allowed General Unsecured Claim will receive its Ratable Proportion of the Class 4 Distribution Amount, in Cash. In addition, each holder of an Allowed General Unsecured Claim shall receive its Ratable Proportion of the Class 4 Litigation Proceeds, which are a share of proceeds realized from the Pending Litigation. Such share of proceeds will be distributed by the Distribution Agent within thirty (30) days after all amounts owing under the New Senior Notes have been paid in full. Furthermore, each holder of an Allowed General Unsecured Claim will receive its share of Cash remaining the in the Disputed Class 4 Claim Reserve as required under section 7.3 of the Plan, after determination of Disputed Class 4 Claims has been made.

Notwithstanding the foregoing, the Plan also provides that holders of Contributing Claims – certain officers of the Debtors, as well as certain affiliates of such individuals -- will convert such claims to the Reorganized Debtors into New Holdings Common Stock in accordance with Section 5.3 of the Plan

Each holder's distribution under the Plan shall be in complete satisfaction and discharge of such holder's Allowed Class 4 General Unsecured Claim.

**Class 5 – Subordinated Claims**
(*Impaired. Entitled to vote*.)

Class 5 consists of Allowed Subordinated non-priority Claims, which generally include the Claims of investors in Holdings who agreed to be contractually subordinate in terms of payment and priority to the Secured Claims. Such claims are also subordinate to the Other Secured Claims.

The Debtors estimate that on the Effective Date, the amount of Allowed Class 5 Claims will aggregate approximately $9 million, as measured by generally accepted accounting principles.

The Plan provides that on the Effective Date, except to the extent that a holder of an Allowed Subordinated Claim agrees to less favorable treatment, each holder of an Allowed Subordinated Claim will receive its Ratable Proportion of the Class 5 Notes. Such notes will be subordinate to the New Senior Notes, and will have a maturity date equal to the date which is one hundred and eighty (180) days after the payment in full of all amounts under the New Subordinated Secured Note.

In addition, each holder of an Allowed General Unsecured Claim shall receive its Ratable Proportion of the Class 5 Litigation Proceeds, which are a share of proceeds realized from the Pending Litigation. Such proceeds will be distributed by the Distribution Agent within thirty (30) days after all amounts owing under the New Senior Notes have been paid in full.

Each holder's distribution under the Plan shall be in complete satisfaction and discharge of such holder's Allowed Class 5 Subordinated Claim.

**Class 6 – Convenience Claims**
(*Impaired. Entitled to vote*.)

Class 6 consists of claims which would otherwise fall within the meaning of General Unsecured Claims, and, to the extent Allowed, are equal to or less than $10,000; and (ii) Claims, to the extent Allowed, that are in excess of $10,000 but where the holder thereof has agreed to reduce such Claim to $10,000 and be treated as a member of Class 6.

The Plan provides that on the later of the Effective Date, or the date that is ten (10) days after such claim is Allowed, except to the extent that a holder of an Allowed Convenience Claim agrees to a less favorable treatment, each holder of an Allowed Convenience Claim will receive twenty percent (20%) of the amount of their Allowed Convenience Claim.

Each holder's distribution under the Plan shall be in complete satisfaction and discharge of such holder's Allowed Class 6 Convenience Claim.

**Class 7 – Old Equity Interests**
(*Impaired. Deemed to reject the Plan. Not entitled to vote*.)

Class 7 consists of the Old Equity Interests, which include any and all shares of common stock, shares of preferred stock or other equity or ownership interests whatsoever in or of any of the Debtors, including all rights relating to any Equity Security, and all rights, interests, and Claims arising under or in connection with any agreements entered into by any of the Debtors in connection with the issuance, purchase or sale of such security. On the Effective Date, the Old Equity Interests will be cancelled and the holders of the Old Equity Interests will not be entitled to, and will not receive or retain, any property or interest in property on account of such Old Equity Interests.

**C. Means of Implementing the Plan**

1. Substantive Consolidation

Substantive consolidation is an equitable remedy that a bankruptcy court may be asked to apply in chapter 11 cases involving affiliated debtors. Substantive consolidation involves the pooling and merging of the assets and liabilities of the affected debtors. All of the debtors in the substantively consolidated group are treated as if they were a single corporate and economic entity. Consequently, a creditor of one of the substantively consolidated debtors is treated as a creditor of the substantively consolidated group of debtors, and issues of individual corporate ownership of property and individual corporate liability on obligations are ignored.

Substantive consolidation of two or more debtors' estates generally results in (i) the deemed consolidation of the assets and liabilities of the debtors; (ii) the deemed elimination of intercompany claims, subsidiary equity or ownership interests, multiple and duplicative creditor claims, joint and several liability claims and guarantees; and (iii) the payment of allowed claims from a common fund.

The Debtors' Plan is premised upon the substantive consolidation of the Debtors for Plan purposes only. Accordingly, for Plan purposes, (a) the assets and liabilities of the Debtors are deemed to be the assets and liabilities of a single, consolidated entity, (b) all guarantees of any Debtor of the payment, performance, or collection of obligations of any other Debtor are eliminated and cancelled, (c) all joint obligations of two or more Debtors, and all multiple Claims against such entities on account of such joint obligations, are considered a single Claim against the Debtors, and (d) any Claim filed in the Reorganization Case of any Debtor is deemed filed against the consolidated Debtors and a single obligation of the consolidated Debtors on and after the Effective Date. Such substantive consolidation shall not (other than for Plan voting, treatment, and distribution purposes) affect (a) the legal and corporate structures of the Debtors, (b) any Intercompany Claims (other than Claims based upon intercompany guarantees) and (c) the Equity Interests in the direct and indirect subsidiaries of the Debtors.

2. Cancellation of Existing Securities and Agreements

On the Effective Date, the Postpetition Financing Agreement, the Prepetition Credit Agreement, the Prepetition Pledge Agreement, the Prepetition Security Agreement, the Prepetition Senior Notes, the 2005 Acquisition Note, the 2005 Acquisition Note Agreement, the 2005 Subordinated Note, the 2005 Subordinated Note Purchase Agreement, the 2006 Note, the 2006 Subscription Agreement, all agreements, documents and instruments relating to the Old Equity Interests, and all Old Equity Interests shall be cancelled; *provided, however*, that the Prepetition Credit Agreement shall continue in effect to the extent necessary to allow Reorganized Debtors and the Prepetition Agent to make distributions pursuant to the Plan on account of Allowed Secured Claims arising under the Prepetition Credit Agreement Obligations.

3. Issuance of New Indebtedness

On the Effective Date, or at such later date as provided in the Plan, without the need for any further corporate action or action by the holders of Claims or Equity Interests in the Debtors, the Reorganized Debtors will issue the New Senior Notes, and the Class 5 Notes in substantially the forms set forth in the Plan Supplement.

4. Issuance of New Holdings Common and Preferred Stock

As of the Effective Date, the holders of Contributing Claims shall be deemed to have converted their Contributing Claims into, and shall receive from Reorganized Holdings, shares of the New Holdings Common Stock at a price of $1.00 per share.

Effective on the Effective Date, the issuance by Reorganized Holdings of the New Holdings Common Stock to the holders of the Contributing Claims is authorized pursuant to the Plan without the need for any further corporate action and without any further action by holders of Claims or Equity Interests.

As of the Effective Date, the New Equity Investor shall pay to the Reorganized Holdings $1,000,000 in exchange for shares of New Holdings Preferred Stock, at a purchase price of $1.00 per share. As of the Effective Date, the DIP Lender shall convert the $300,000 principal amount due under the Postpetition Financing Agreement, together with all accrued but unpaid interest thereunder (estimated to be in excess of $50,000 at the Effective Date), into shares of New Holdings Preferred Stock, at a price of $1.00 per share.

Effective on the Effective Date, the issuance by Reorganized Holdings of the New Holdings Preferred Stock to the to the New Equity Investor and the DIP Lender is hereby authorized without the need for any further corporate action and without any further action by holders of Claims or Equity Interests.

5. Dissolution of Certain Entities

(a) As of the Effective Date, the Plan provides that all of the assets of Acuitrek shall be transferred to David. As of the Effective Date, or as soon as practicable thereafter after said transfer, Acuitrek shall be dissolved.

(b) As of the Effective Date, the Plan provides that all of the assets of RevCast and RevCast Enterprises shall be transferred to Kenosia. As of the Effective Date, or as soon as practicable thereafter after said transfer, RevCast and RevCast Enterprises shall be dissolved.

(c) As of the Effective Date, the Plan provides that the Reorganized Debtors shall cause all of the assets of non-debtor Spider Software, Inc., if any, to be assigned and transferred to the Canadian Subsidiary, and shall cause Spider Software,

Inc. to dissolve. As of the Effective Date, or as soon as practicable thereafter, all of the assets of Canadian Subsidiary shall be transferred to Holdings. As of the Effective Date, or as soon as practicable thereafter after said transfers, the Canadian Subsidiary shall be dissolved.

(d) As of the Effective Date, the Plan provides that the Reorganized Debtors shall cause all of the assets of non-debtor Warp Solutions, Ltd., if any, to be assigned and transferred to Warp and shall cause Warp Solutions, Ltd. to dissolve. As of the Effective Date, or as soon as practicable thereafter, all of the assets of Warp shall be transferred to Holdings. As of the Effective Date, or as soon as practicable thereafter after said transfers, Warp shall be dissolved.

(e) Spider Software, Inc. and Warp Solutions, Ltd. are not Debtors under the Plan and will be pursuing liquidating proceedings and dissolution in Canada and the United Kingdom, respectively.

6. Legal Form and Governance

(a) *New Organizational Documents*

Holdings and each other Debtor as may be specified in the Plan Supplement shall be deemed to have adopted its respective New Organizational Documents effective as of the Effective Date. On the Effective Date, or as soon thereafter as practicable, Holdings and each such Debtor shall file the applicable New Organizational Documents as required or deemed appropriate, with the appropriate Persons in the applicable jurisdiction of incorporation or organization. The Holdings New Organizational Documents shall provide for the New Holdings Preferred Stock and the New Holdings Common Stock, among other things as deemed necessary, advisable or appropriate by the Board of Holdings. Except to the extent amended or restated by applicable New Organizational Documents, each Debtor's Existing Organizational Documents will remain in full force and effect after the Effective Date.

(b) *Boards of the Reorganized Debtors*

On the Effective Date, the operation of the Reorganized Debtors shall become the general responsibility of their respective Boards, subject to, and in accordance with, their respective New Organizational Documents or Existing Organizational Documents. The initial members of the Boards of the Reorganized Debtors, together with biographical information, shall be set forth in the Plan Supplement.

(c) *Officers of the Reorganized Debtors*

The initial officers of the Reorganized Debtors, together with biographical information, shall be set forth in the Plan Supplement.

(d) *Due Authorization*

On the Effective Date, the adoption of the New Organizational Documents shall be authorized and approved in all respects, to be effective as of the Effective Date, in each case without further action under applicable law, regulation, order, or rule, including without limitation, any action by the directors, Boards, managers, members, partners or stockholders of the Debtors or the directors, Boards, managers, members, partners or stockholders of the Reorganized Debtors. On the Effective Date, the cancellation and termination of all Equity Interests in Holdings, the authorization and issuance of the New Holdings Common Stock, and the New Holdings Preferred Stock, and all other matters provided in the Plan involving the legal structure or governance of the Reorganized Debtors shall be deemed to have occurred, been authorized, and be in effect from and after the Effective Date, in each case without further action under applicable law, regulation, order, or rule, including, without limitation, any action by the directors, Boards, managers, members, partners or stockholders of the Debtors or the Reorganized Debtors.

**D. Securities Law Matters - Exemptions from Registration**

In reliance upon section 1145 of the Bankruptcy Code, the offer and issuance of the New Senior Notes, the Class 5 Notes, New Holdings Common Stock, and New Holdings Preferred Stock (to the extent that each constitutes "securities", and the New Senior Notes, the Class 5 Notes, New Holdings Common Stock, and New Holdings Preferred Stock being hereinafter collectively referred to as the "1145 Securities") will be exempt from the registration requirements of the Securities Act of 1933 (the "Securities Act") and equivalent provisions in state securities laws. Section 1145(a) of the Bankruptcy Code generally exempts from such registration requirements the issuance of securities if the following conditions are satisfied: (i) the securities are issued or sold under a chapter 11 plan by (A) a debtor, (B) one of its affiliates participating in a joint plan with the debtor, or (C) a successor to a debtor under the plan; and (ii) the securities are issued entirely in exchange for a claim against or interest in the debtor or such affiliate, or are issued principally in such exchange and partly for cash or property. The Debtors believe that the exchange of 1145 Securities for Claims against the Debtors under the circumstances provided in the Plan will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

The 1145 Securities will be "restricted securities" under applicable federal securities laws upon issuance on the Effective Date. The Securities Act of 1933 (as amended, the "Securities Act") and the rules of the Securities and Exchange Commission (the "Commission") provide in substance that the holders may dispose of the 1145 Securities only pursuant to an effective registration statement under the Securities Act or an exemption therefrom. However, the Debtors have no obligation or intention to register any of the 1145 Securities, or to take action so as to permit sales pursuant to the Securities Act (including Rule 144 thereunder). Accordingly, under the Commission's rules, the holders may dispose of the 1145 Securities principally only in "private placements" which are exempt from registration under the Securities Act, in which event

the transferee will acquire "restricted securities" subject to the same limitations as in the hands of the holders. As a consequence, the holders must bear the economic risks of 1145 Securities for an indefinite period of time. There is no public market for the 1145 Securities and such a public market may never develop.

Pursuant to the Plan, certificates evidencing 1145 Securities will bear a legend substantially in the form below:

> **THE ISSUANCE OF THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION AND SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE OR OTHERWISE TRANSFERRED UNLESS SUCH OFFER, SALE OR TRANSFER IS REGISTERED OR QUALIFIED UNDER SAID ACT AND APPLICABLE STATE SECURITIES LAWS OR UNLESS THE COMPANY RECEIVES AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH REGISTRATION OR QUALIFICATION IS NOT REQUIRED.**

The Debtors make no representations concerning the right of any person to transfer any securities to be distributed pursuant to the Plan.

**E. Plan Provisions Governing Distribution**

1. Date of Distributions

Any distributions and deliveries to be made under the Plan shall be made on the Effective Date or as soon thereafter as practicable and deemed made on the Effective Date. In the event that any payment or act under the Plan is required to be made or performed on a date that is not a Business Day, then the making of such payment or the performance of such act may be completed on the next succeeding Business Day, but shall be deemed to have been completed as of the required date.

2. Distributions Concerning Disputed Class 4 Claims

(a) *Disputed Claims Reserve*

From and after the Effective Date, all Cash to be distributed on account of any Disputed Class 4 Claim when and if such Disputed Claims become Allowed, (a) will be maintained by and in the name of the Disbursing Agent in the Disputed Class 4 Claim Reserve, and will be held in trust pending distribution by the Disbursing Agent for the benefit of the holders of such Claims and, to the extent that all Disputed Class 4 Claims are not Allowed in full, for the benefit of holders of Allowed Class 4 Claims in

accordance with section 7.3 of the Plan, (b) will be accounted for separately and (c) will not constitute property of the Reorganized Debtors except as provided in section 7.3 of the Plan. The Disbursing Agent will invest any Cash in a manner consistent with Reorganized Debtors' investment and deposit guidelines.

(b) *Amount of Reserve*

The amount of Cash to be placed in the Disputed Class 4 Claim Reserve shall be calculated as if each Disputed Claim were an Allowed Claim in its Face Amount, such that the Reserved Distribution shall include the aggregate Ratable Proportion of Cash that such Disputed Claims would receive if they were Allowed in their Face Amount.

(c) *Recourse*

Each holder of a Disputed Class 4 Claim will have recourse only to the undistributed Cash held in the Disputed Class 4 Claim Reserve for satisfaction of the distributions to which holders of Disputed Class 4 Claims are entitled under the Plan, and not to the Reorganized Debtors, their property or any assets previously distributed on account of any Allowed Claim.

3. Disbursing Agent

In general, a disbursing agent is an entity designated to administratively effect the distributions to be provided under a plan of reorganization. All distributions under the Plan shall be made by Holdings as Disbursing Agent or such other entity designated by Holdings as a Disbursing Agent on the Effective Date.

4. Rights and Powers of Disbursing Agent

(a) *Powers of the Disbursing Agent*

The Disbursing Agent will 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 by the Plan, (iii) employ professionals to represent it with respect to its responsibilities, and (iv) exercise such other powers as may be vested in the Disbursing Agent by order of the Bankruptcy Court, pursuant to the Plan, or as deemed by the Disbursing Agent to be necessary and proper to implement the provisions hereof.

(b) *Expenses Incurred on or After the Effective Date*

Except as otherwise ordered by the Bankruptcy Court, the amount of any reasonable fees and expenses incurred by the Disbursing Agent on or after the Effective Date (including, without limitation, taxes) and any reasonable compensation and expense reimbursement claims (including, without limitation, reasonable attorney fees and

expenses) made by the Disbursing Agent will be paid in Cash by the Reorganized Debtors.

5. Delivery of Distributions

(a) *Last Known Address*

Subject to Bankruptcy Rule 9010, all distributions to any holder of an Allowed Claim or Allowed Administrative Expense will 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, as applicable, unless the Debtors or Reorganized 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 for such holder on the Schedules. In the event that any distribution to any holder is returned as undeliverable, the Disbursing Agent will use commercially reasonable efforts to determine the current address of such holder, but no distribution to such holder will be made unless and until the Disbursing Agent has determined the then current address of such holder, at which time such distribution will be made to such holder without interest; provided that such distributions will be deemed unclaimed property under section 347(b) of the Bankruptcy Code at the expiration of one year from the Effective Date. After such date, all unclaimed property or interest in property will revert to Holdings, and the claim of any other holder to such property or interest in property will be discharged and forever barred.

(b) *Distributions for Allowed Secured Claims*

Distributions required under the Plan to holders of Allowed Secured Claims in Class 2 shall be made to the Prepetition Agent, which, in turn, shall make the distributions to the holders of Allowed Secured Claims in accordance with the Prepetition Credit Agreement.

6. Manner of Payment

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

All distributions of Cash, New Holdings Common Stock, New Holdings Preferred Stock, New Senior Notes, Class 5 Notes to the creditors of each of the Debtors under the Plan shall be made by, or on behalf of, the applicable Debtor.

7. No Fractional Distributions

No fractions of New Holdings Common Stock, New Holdings Preferred Stock, or Cash in lieu thereof shall be distributed. For purposes of distribution, fractions

of New Holdings Common Stock and New Holdings Preferred Stock shall be rounded up or down to the nearest whole number.

8. Setoffs and Recoupment

The Debtors may, but will not be required to, set off against, or recoup from, any Claim and the payments to be made pursuant to the Plan in respect of such Claim, any Claims of any nature whatsoever that the Debtors may have against the claimant, but neither the failure to do so nor the allowance of any claim under the Plan will constitute a waiver or release by the Debtors or Reorganized Debtors of any such claim it may have against such claimant.

9. Allocation of Plan Distributions Between Principal and Interest

To the extent that any Allowed Claim entitled to a distribution under the Plan consists of indebtedness and accrued but unpaid interest thereon, such distribution will be allocated first to the principal amount of the Claim (as determined for federal income tax purposes) and then, to the extent the consideration exceeds the principal amount of the Claim, to accrued but unpaid interest.

**F. Procedures for Treating Disputed Claims**

1. Objections

Except as otherwise provided in the Plan, as of the Effective Date, objections to, and requests for estimation of, Claims and Administrative Expenses may be interposed and prosecuted only by the Reorganized Debtors. Such objections and requests for estimation shall be served on the respective claimant and filed with the Bankruptcy Court on or before the latest of (a) sixty (60) days after the Effective Date, (b) sixty (60) days after a proof of Claim has been filed with Bankruptcy Court, (c) sixty (60) days after an application for allowance of an Administrative Expense has been filed with the Bankruptcy Court in the Reorganization Cases, or (d) with respect to certain Claims identified prior to the Confirmation Date by the Debtors, such other date as may be fixed by the Bankruptcy Court.

2. No Distributions Pending Allowance

Notwithstanding any other provision in the Plan, if any portion of a Claim or Administrative Expense is Disputed, no payment or distribution provided in the Plan shall be made on account of such Claim or Administrative Expense unless and until such Disputed Claim or Disputed Administrative Expense becomes Allowed. In lieu of distributions under the Plan to holders of Disputed Class 4 Claims, if Allowed, the Disputed Class 4 Claim Reserve will be established on the Effective Date to hold property for the benefit of these Claim holders. The Reorganized Debtors will fund the Disputed Class 4 Claim Reserve described in Section 6.2 of the Plan.

3. Distributions After Allowance

To the extent that a Disputed Claim or Disputed Administrative Expense ultimately becomes an Allowed Claim or Allowed Administrative Expense, distributions (if any) shall be made to the holder of such Allowed Claim or Allowed Administrative Expense in accordance with the provisions of the Plan. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing any Disputed Claim or Disputed Administrative Expense becomes a Final Order, the Disbursing Agent shall provide to the holder of such Claim or Administrative Expense the distribution (if any) to which such holder is entitled under the Plan, plus (if the distribution is to be made in Cash) interest on the amount to be distributed on account thereof, calculated from the date on which the distribution would have been made if such Claim or Administrative Expense had been Allowed on the Effective Date, to the actual date of distribution, calculated at the at the Applicable Rate. In the event that any such distribution is to be made by the delivery of New Senior Notes or Class 5 Notes, then such note will accrue interest at the rate provided therein as if the note was issued on the Effective Date. Any amounts of Cash that remain in the Disputed Class 4 Claim Reserve following resolution and payment of all Disputed Claims for the relevant claims reserve shall be paid to the holders of the Allowed Class 4 Claims, pro rata. Any amounts that remain in any disputed claims reserve (excluding the Disputed Class 4 Claim Reserve) following resolution and payment of all Disputed Claims for the relevant claims reserve shall be paid to Holdings.

**G. Provisions Governing Executory Contracts and Unexpired Leases**

1. Treatment

Subject to the approval of the Court, the Bankruptcy Code empowers the Debtors to assume or reject their executory contracts and unexpired leases. Except as otherwise provided in the Plan, including in section 8.4 (Compensation and Benefit Plans, and section 10.5 (Indemnification Obligations), the Confirmation Order, or in any contract, instrument, release, indenture, or other agreement or document entered into in connection with the Plan, as of the Effective Date, the Debtors will be deemed to have rejected each Pre-Petition executory contract and unexpired lease to which they are a party, unless such contract or lease (a) was previously assumed or rejected by the Debtors, (b) previously expired or terminated pursuant to its own terms, (c) is the subject of a motion to assume filed on or before the Confirmation Date, or (d) is set forth in the Plan Supplement, as an executory contract or unexpired lease to be assumed. The Confirmation Order will constitute an order of the Bankruptcy Court under sections 365 and 1123(b) of the Bankruptcy Code approving the contract and lease assumptions or rejections described above, as of the Effective Date.

Each executory contract and unexpired lease that is assumed and relates to the use, ability to acquire, or occupancy of real property includes (a) all modifications,

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

2. Cure Payments

The Bankruptcy Code authorizes a debtor to make any payments necessary to cure outstanding defaults under such executory contracts or unexpired leases in connection with their assumption. With respect to any executory contract or unexpired leases assumed as of the Effective Date, the Debtors will make such necessary cure payments. Any monetary amounts by which any executory contract or unexpired lease to be assumed hereunder is in default shall be satisfied, under section 365(b)(1) of the Bankruptcy Code, by the Debtors. If there is a dispute regarding (i) the nature or amount of any Cure, (ii) the ability of the Debtors or any assignee to provide "adequate assurance of future performance" (within the meaning of section 365 of the Bankruptcy Code) under the contract or lease to be assumed, or (iii) any other matter pertaining to assumption, Cure will occur following the entry of a Final Order resolving the dispute and approving the assumption or assumption and assignment, as the case may be.

3. Rejection Damage Claims

Subject to the approval of the Court, the Bankruptcy Code authorizes a debtor to reject any of its executory contracts or unexpired leases. Proofs of all Claims arising out of the rejection of executory contracts and unexpired leases pursuant to the Plan must be filed with the Bankruptcy Court, with proper supporting documentation detailing the calculation of such claim, and served upon the Debtors and their counsel not later than 30 days after the earlier of (a) the date on which the notice of the occurrence of the Effective Date has been served, and (b) the date of entry of an order of the Bankruptcy Court approving such rejection. Any Claims not filed within such time shall be forever barred from assertion against the Debtors, their Estates, the Reorganized Debtors, and their respective properties and interests.

4. Compensation and Benefit Plans

Except and to the extent previously assumed pursuant to an order of the Bankruptcy Court entered on or before the Confirmation Date, and subject to the following sentence, all employee compensation and Benefit Plans of the Debtors, and programs subject to sections 1113, 1114 and 1129(a)(13) of the Bankruptcy Code, entered into before or after the Petition Date and not since terminated, will be deemed to be, and will be treated as if they were executory contracts that are assumed under the Plan. The Debtors' obligations under such plans and programs will survive confirmation

of the Plan, except for (a) executory contracts or employee compensation and Benefit Plans rejected pursuant to the Plan Supplement (to the extent such rejection does not violate sections 1113, 1114 and 1129(a)(13) of the Bankruptcy Code), (b) such executory contracts or employee compensation and Benefit Plans as have previously been rejected, are the subject of a motion to reject pending as of the Confirmation Date, or have been specifically waived by the beneficiaries of any employee compensation and Benefit Plan or contract, and (c) such executory contracts or employee compensation and Benefit Plans to the extent they relate to former employees whose employment by the Debtors terminated prior to the Petition Date.

**H. Conditions Precedent to Effective Date**

1. Conditions Precedent to Confirmation

The Plan will not be confirmed unless and until the following conditions have been satisfied or waived in accordance with Article IX of the Plan:

(a) The Confirmation Order, in form and substance satisfactory to the Debtors has been entered on the docket maintained by the Clerk of the Bankruptcy Court;

(b) The Plan, all exhibits thereto, and the Confirmation Order are acceptable in form and substance to the Debtors; and

(c) The New Equity Investor shall not have rescinded the New Equity Investment Agreement.

2. Conditions Precedent to Effectiveness

The Effective Date will not occur and the Plan will not become effective unless and until the following conditions are satisfied in full or waived in accordance with Article IX of the Plan:

(a) The Confirmation Order is a Final Order on or before June 1, 2009;

(b) The conditions precedent to the effectiveness of the New Equity Investment Agreement are satisfied or waived by the parties thereto and the Reorganized Debtors have access to funding thereunder;

(c) All amounts to be paid to Holdings under the New Equity Investment Agreement are indefeasibly paid in full, in Cash;

(d) The relevant Ratable Proportion of New Holdings Common Stock shall have been issued and delivered by Holdings to the holders of Contributing Claims,

and the New Holdings Preferred Stock shall have been issued and delivered by Holdings to the New Equity Investor and the DIP Lender;

(e) All actions and all agreements, instruments, or other documents necessary to implement the terms and provisions of the Plan, including those actions identified in Article V of the Plan, are effected or executed and delivered, as applicable, in form and substance satisfactory to the Debtors; and

(f) All authorizations, consents, and regulatory approvals**, if any, r**equired by the Debtors in connection with the consummation of the Plan are obtained and not revoked.

3. Waiver of Conditions

Each of the conditions precedent in section 9.2 of the Plan, may be waived, in whole or in part, by the Debtors with the written consent of the New Equity Investor. Any such waivers may be effected at any time, without notice, without leave or order of the Bankruptcy Court, and without any formal action.

4. Satisfaction of Conditions

Any actions required to be taken on the Effective Date will take place and will be deemed to have occurred simultaneously, and no such action will be deemed to have occurred prior to the taking of any other such action. If the Debtors determine, after consultation with the New Equity Investor, that one of the conditions precedent set forth in section 9.2 of the Plan cannot be satisfied and the occurrence of such condition is not waived or cannot be waived, then the Debtors will file a notice of the failure of the Effective Date with the Bankruptcy Court and the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is vacated pursuant to section 9.4 of the Plan, the Plan will be null and void in all respects, and nothing contained in the Plan will constitute a waiver or release of any Claims against any of the Debtors or the allowance of any Administrative Expense or Claim as an Allowed Claim.

5. Effect of Nonoccurrence of Conditions

If each of the conditions to consummation and the occurrence of the Effective Date has not been satisfied or duly waived within 30 days of the Confirmation Date, or such later date as shall be consented to by the New Equity Investor, the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is so vacated, the Plan will be null and void in all respects, and nothing contained in the Plan will constitute a waiver or release of any Claims against any of the Debtors or the Allowance of any Administrative Expense or Claim.

## I. Effect of Confirmation

1. Revesting of Assets

On the Effective Date, the Debtors, their properties and interests in property, and their operations will be released from the custody and jurisdiction of the Bankruptcy Court, and all property of the Estates of the Debtors, including and pre-paid expenses or deposits with vendors, will vest in the Reorganized Debtors. From and after the Effective Date, the Reorganized Debtors may operate their business and may use, acquire and dispose of property free of any restrictions of the Bankruptcy Code or the Bankruptcy Rules, subject to the terms and conditions of the Plan.

2. Binding Effect

Subject to the occurrence of the Effective Date, on and after the Confirmation Date, the provisions of the Plan will bind any holder of a Claim against, or Equity Interest in, the Debtors and such holder's respective successors and assigns, whether or not the Claim or Equity Interest of such holder is impaired under the Plan, whether or not such holder has accepted the Plan, and whether or not such holder is entitled to distribution under the Plan.

3. Discharge of Debtors

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

4. Term of Injunctions or Stays

Except as otherwise expressly provided in the Plan or in the Confirmation Order, all Persons or entities who have held, hold or may hold Claims or Equity Interests will be permanently enjoined, from and after the Effective Date, from (i) commencing or continuing in any manner any action or other proceeding of any kind on any such Claim or Equity Interest against any of the Debtors or Reorganized Debtors, or their respective

Affiliates or Representatives, (ii) the enforcement, attachment, collection, or recovery by any manner or means of any judgment, award, decree, or order against any Debtor or Reorganized Debtor, or their respective Affiliates or Representatives, with respect to such Claim or Equity Interest, (iii) creating, perfecting, or enforcing any encumbrance of any kind against any Debtor or Reorganized Debtor, or their respective Affiliates or Representatives, or against the property or interests in property of any Debtor or Reorganized Debtor, or their respective Affiliates or Representatives, with respect to such Claim or Equity Interest, and (iv) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to any Debtor or Reorganized Debtor, or their respective Affiliates or Representatives, or against the property or interests in property of any Debtor or Reorganized Debtor, with respect to such Claim or Equity Interest,.

Unless otherwise provided in the Confirmation Order, all injunctions or stays arising under or entered during the Reorganization Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the Effective Date.

In furtherance of the foregoing, on and after the Effective Date, any "fifty percent shareholder" (within the meaning of section 382(g)(4)(D) of the Tax Code) will be enjoined from claiming a worthless stock deduction with respect to any Equity Interests held by such entity for any taxable year of such shareholder ending prior to the Effective Date.

5. Indemnification Obligations

Each Debtor's obligations under the Corporate Indemnities to indemnify any Indemnified Person with respect to Claims arising prior to the Effective Date will be deemed and treated as executory contracts that are assumed by the Reorganized Debtors pursuant to the Plan and sections 365 and 1123(b) of the Bankruptcy Code as of the Effective Date and the occurrence of the Effective Date shall be the only condition necessary to such assumption and all requirements for Cure and/or adequate assurance of future performance under section 365 for such assumption shall be deemed satisfied.

6. Exculpation

As of the Confirmation Date, the Debtors, their Affiliates and their Representatives shall be deemed to have solicited acceptances of the Plan of Reorganization in good faith and in compliance with the applicable provisions of the Bankruptcy Code and the Bankruptcy Rules. The Debtors, the Reorganized Debtors, the DIP Lender, the Disbursing Agent, the holders of Contributing Claims, the New Equity investor, the Prepetition Credit Agreement Lenders, the Prepetition Agent, and the Committee and each of their respective Affiliates and Representatives shall have no liability to any holder of any Claim or Equity Interest or any other Person for any act or omission taken or not taken in good faith in connection with, or arising out of, the Reorganization Cases, the Disclosure Statement, the Plan, the Postpetition Financing

Agreement, the Postpetition Financing Order, the New Equity Investment Agreement, the solicitation of votes for and the pursuit of confirmation of the Plan, the offer and issuance of any securities under the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence as determined by a Final Order and, in all respects, shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

7. Causes of Action

(a) *Avoidance Actions*

Effective as of the Effective Date, unless such avoidance or recovery cause of action is commenced prior to the Confirmation Date, all avoidance or recovery causes of action of the Debtors under sections 544, 545, 547, 548, 549, 550, and 551 of the Bankruptcy Code against the holders of Claims in Class 2, Class 3, Class 4, Class 5 and Class 6 will be released and extinguished pursuant to the Plan.

**J. Retention of Jurisdiction**

The Bankruptcy Court will have exclusive jurisdiction of all matters, except as expressly noted herein, arising out of, or related to, the Reorganization Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

a) To hear and determine pending applications for the assumption or rejection of executory contracts or unexpired leases and the allowance of Claims and Administrative Expenses resulting therefrom;

b) To determine any and all adversary proceedings, applications, and contested matters that are pending on the Effective Date;

c) To ensure that distributions to holders of Allowed Administrative Expenses and Allowed Claims are accomplished as provided in the Plan;

d) To hear and determine any timely objections to, or requests for estimation of, Administrative Expenses or proofs of claims, including, without limitation, any objections to the classification of any Administrative Expense, Claim or Equity Interest, and to allow or disallow any Disputed Administrative Expense or Disputed Claim, in whole or in part;

e) To resolve disputes as to the ownership of any Administrative Expense, Claim, or Equity Interest;

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

g) To issue such orders in aid of execution of the Plan, to the extent authorized by section 1142 of the Bankruptcy Code;

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

i) 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 Effective Date;

j) To hear and determine disputes or issues arising in connection with the interpretation, implementation or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated by the Plan, any agreement, instrument, or other document governing or relating to any of the foregoing, or any settlement approved by the Bankruptcy Court;

k) To hear and determine matters concerning state, local and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including, without limitation, any request by the Debtors prior to the Effective Date, or request by the Reorganized Debtors after the Effective Date, for an expedited determination of tax under section 505(b) of the Bankruptcy Code);

l) To hear any other matter not inconsistent with the Bankruptcy Code;

m) To hear and determine all disputes involving the existence, scope and nature of the discharges, releases and injunctions granted under the Plan, the Confirmation Order, or the Bankruptcy Code;

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

o) To enter a final decree closing the Reorganization Cases; and

p) To hear any claim, matter or chose in action, whether or not it has been commenced prior to the Effective date, that any of the Debtors may prosecute, which has not been liquidated prior to the Effective Date, including, without limitation, any such matter for which the United States District Court for the District of Connecticut (the "District Court") may also have concurrent jurisdiction, in which case the District Court may also hear any such claim, matter or chose in action.

**K. Miscellaneous Provisions**

1. Payment of Statutory Fees

All fees payable under section 1930, chapter 123, title 28, United States Code, as determined by the Bankruptcy Court at the Confirmation Hearing, will be paid on the Effective Date.

2. Modification of Plan

The Plan may be modified by the Debtors, with the written consent of the New Equity Investor, in accordance with section 1127 of the Bankruptcy Code.

3. Revocation of Plan

The Debtors reserve the right, with the written consent of the New Equity Investor, at any time prior to the entry of the Confirmation Order, to revoke and withdraw the Plan.

4. Intercompany Claims

Notwithstanding anything to the contrary contained in the Plan of Reorganization, Intercompany Claims will be adjusted and discharged to the extent determined appropriate by the Debtors, with the consent of the New Equity Investor, taking into account the economic condition of the applicable Reorganized Debtor.

5. Dissolution of the Committee

On date the Confirmation Order becomes a Final Order, the Committee will be dissolved and the members thereof will be released and discharged of and from all further authority, duties, responsibilities, and obligations related to and arising from and in connection with the Reorganization Cases, and the retention or employment of the Committee's attorneys, accountants, and other agents, if any, shall terminate other than for purposes of filing and prosecuting applications for final allowances of compensation for professional services rendered and reimbursement of expenses incurred in connection therewith.

6. Severability of Plan Provisions

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

Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable in accordance with its terms.

7. Governing Law

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent an exhibit to the Plan or Plan Supplement provides otherwise (in which case the governing law specified therein will be applicable to such exhibit), the rights, duties, and obligations arising under the Plan will be governed by, and construed and enforced in accordance with, the laws of the State of Connecticut without giving effect to the principles of conflict of laws.

8. Compliance with Tax Requirements

In connection with the consummation of the Plan, any party issuing any instrument or making any distribution under the Plan, including any party described in section 6.2 of the Plan, is to comply with all applicable withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions under the Plan will be subject to any such withholding or reporting requirements. Notwithstanding the above, each holder of an Allowed Claim that is to receive a distribution under the Plan will have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding, and other tax obligations, on account of such distribution. Any party issuing any instrument or making any distribution under the Plan has the right, but not the obligation, to not make a distribution until such holder has made arrangements satisfactory to such issuing or disbursing party for payment of any such tax obligations.

9. Expedited Tax Determination

The Debtors and the Reorganized Debtors are authorized to request an expedited determination of taxes under section 505(b) of the Bankruptcy Code for any or all returns filed for, or on behalf of, the Debtors for any and all taxable periods (or portions thereof) ending after the Petition Date through, and including, the Effective Date.

## VII.

## CERTAIN FACTORS AFFECTING THE DEBTORS

### A. Certain Bankruptcy Law Considerations

1. Risk of Non-Confirmation of the Plan of Reorganization

Although the Debtors 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 or that modifications of the Plan will

not be required for confirmation or that such modifications would not necessitate resolicitation of votes. Moreover, the failure of the Debtors to obtain a final and nonappealable Confirmation Order on or before June 1, 2009 may result in the revocation of the New Equity Investment Agreement by the New Equity Investor, which in turn may result in further modification of the Plan.

2. Non-Consensual Confirmation

In the event any impaired class of claims or equity interests does not accept a plan of reorganization, a bankruptcy court may nevertheless confirm such plan at the proponent's request if at least one impaired class has accepted the plan (with such acceptance being determined without including the vote of any "insider" in such class), and as to each impaired class that has not accepted the plan, the bankruptcy court determines that the plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired classes. See section IX.B.1 below, entitled "CONFIRMATION OF THE PLAN OF REORGANIZATION -- Requirements for Confirmation of the Plan of Reorganization – Requirements of Section 1129(b) of the Bankruptcy Code." Because Class 7 (Old Equity Interests) is deemed to reject the Plan, these requirements must be satisfied with respect to Class 7. The Debtors believe that the Plan satisfies these requirements, however, there can be no guarantee that the Bankruptcy Court will make such a finding.

3. Risk of Non-Occurrence of the Effective Date

Although the Debtors believe that the Effective Date will occur soon after the Confirmation Date, there can be no assurance as to such timing. If each of the conditions to consummation and the occurrence of the Effective Date has not been satisfied or duly waived on or before 30 days after the Confirmation Date, this could constitute an event of default under the New Equity Investment Agreement that could give rise to termination of the New Equity investment Agreement.

## B. Additional Factors To Be Considered

1. The Debtors Have No Duty to Update

The statements contained in this Disclosure Statement are made by the Debtors as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement after that date does not imply that there has been no change in the information set forth herein since that date. The Debtors have no duty to update this Disclosure Statement unless otherwise ordered to do so by the Bankruptcy Court.

2. No Representations Outside This Disclosure Statement Are Authorized

No representations concerning or related to the Debtors, the Reorganization Cases, or the Plan are authorized by the Bankruptcy Court or the Bankruptcy Code, other than as set forth in this Disclosure Statement. Any

representations or inducements made to secure your acceptance, or rejection, of the Plan that are other than as contained in, or included with, this Disclosure Statement should not be relied upon by you in arriving at your decision.

3. Projections and Other Forward Looking Statements Are Not Assured, and Actual Results Will Vary

Certain of the information contained in this Disclosure Statement is, by nature, forward looking, and contains estimates and assumptions which might ultimately prove to be incorrect, and contains projections which may be materially different from actual future experiences. There are uncertainties associated with any projections and estimates, and they should not be considered assurances or guarantees of the amount of funds or the amount of Claims in the various classes that might be allowed.

4. Claims Could Be More Than Projected

The Allowed amount of Claims in each class could be significantly more than projected, which in turn, could cause the value of distributions to be reduced substantially. If Administrative Expenses, Priority Tax Claims, Priority Non-Tax Claims, Secured Claims, Other Secured Claims, General Unsecured Claims, Subordinated Claims, and/or Convenience Claims exceed projections, it may impair the value of the (i) property to be distributed to the holders of the Allowed Class 1 Claims, (ii) the New Senior Notes to be issued to the holders of the Allowed Class 2 Claims, (iii) the New Holdings Preferred Stock to be issued to the holders of Allowed Class 3 Claims, (iv) anticipated recovery to the holders of the Allowed Class 4 Claims, (v) the Class 5 Notes to be issued to the holders of the Allowed Class 5 Claims, (vi) the anticipated recovery to the holders of Allowed Class 6 Claims, and (vii) the New Holdings Common Stock being issued to the holders of Contributing Claims.

5. No Legal or Tax Advice is Provided to You by this Disclosure Statement

The contents of this Disclosure Statement should not be construed as legal, business or tax advice. Each creditor or Equity Interest holder should consult his, her, or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Equity Interest.

This Disclosure Statement is not legal advice to you. This Disclosure Statement may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

6. No Admission Made

Nothing contained herein shall constitute an admission of, or be deemed evidence of, the tax or other legal effects of the Plan on the Debtors or on holders of Claims or Equity Interests.

7. Business Factors and Competitive Conditions

a. *General Economic Conditions*

The Debtors have assumed that the general economic conditions of the United States economy will be stable over the next several years. The stability of economic conditions is subject to many factors outside the Debtors' control, including interest rates, inflation, unemployment rates, consumer spending, war, terrorism and other such factors. Any one of these or other economic factors could have a significant impact on the operating performance of the Reorganized Debtors. There is no guarantee that economic conditions will improve in the near term.

b. *Business Factors*

The Debtors believe that they will succeed in implementing and executing their business plan and operational restructuring for benefits of all constituencies. However, there are risks that the goals of the Debtors' going-forward business plan and operational restructuring strategy will not be achieved. In such event, the Debtors may be forced to sell all or parts of their business, develop and implement further restructuring plans not contemplated herein or become subject to further insolvency proceedings.

c. *Competitive Conditions*

In addition to uncertain economic and business conditions, the Reorganized Debtors will likely face competitive pressures and other third party actions, including pressures from pricing and other promotional activities of competitors as well as new competition. The Reorganized Debtors' anticipated operating performance will be impacted by these and other unpredictable activities by competitors.

d. *Customers*

The Debtors believe that the majority of their customer relationships are strong. However, if the Debtors' customers delay or stop paying the Debtors for goods purchased or services rendered, assert unauthorized or inappropriate deductions against payments due to the Debtors, or refuse to continue to do business with the Debtors on customary, ordinary course, or continuing terms, the Debtors' businesses may be harmed. Additionally, the loss of a significant customer(s) could have a material adverse impact on operating performance.

e. *Other Factors*

Other factors that holders of Claims should consider are potential regulatory and legal developments that may impact the Reorganized Debtors. Although these and other such factors are beyond the Debtors' control and cannot be determined in advance, they could have a significant impact on the Reorganized Debtors' operating performance.

8. Access to Financing and Trade Terms

The Debtors' operations are dependent on the availability and cost of working capital financing and trade terms provided by vendors and may be adversely affected by any shortage or increased cost of such financing and trade vendor support. The Debtors' postpetition operations have been financed from operating cash flow and borrowings pursuant to the Postpetition Financing Agreement. The Debtors believe that substantially all of their needs for funds necessary to consummate the Plan and for post-Effective Date working capital financing will be met by projected operating cash flow, the New Equity Investment Agreement, and trade terms supplied by vendors. However, if the Reorganized Debtors require working capital and trade financing greater than that provided by such sources, they may be required either to (a) obtain other sources of financing or (b) curtail their operations. No assurance can be given, however, that any additional financing will be available, if at all, on terms that are favorable or acceptable to the Reorganized Debtors.

9. Lack of Trading Market

It is not contemplated that the 1145 Securities will be registered under the Securities Act or the Securities Exchange Act of 1934 as of the Effective Date nor is it contemplated that the 1145 Securities will be listed on a national securities exchange or the NASDAQ market system. Accordingly, it is not contemplated that there will be any trading market for such 1145 Securities and there can be no assurance that a holder of any of the 1145 Securities will be able to sell such interests in the future or as to the price at which any such sale may occur.

10. Restrictions on Transfer

Holders of 1145 Securities issued under the Plan ill be unable freely to transfer or to sell their securities except pursuant to (i) an effective registration of such securities under the Securities Act and under equivalent state securities or "blue sky" laws or (ii) pursuant to an available exemption from registration requirements. For a more detailed description of these matters, see section VI.D, above, entitled "THE PLAN OF REORGANIZATION – Securities Law Matters – Exemptions from Registration."

## C. Certain Tax Matters

For a summary of certain federal income tax consequences of the Plan to holders of claims and equity interests and to the Debtors, see section XII below, entitled "CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN."

## VIII.

## VOTING PROCEDURES AND REQUIREMENTS

### A. Voting Deadline

IT IS IMPORTANT THAT THE HOLDERS OF CLAIMS IN CLASS 2 (SECURED CLAIMS), CLASS 3 (OTHER SECURED CLAIMS), CLASS 4 (GENERAL UNSECURED CLAIMS), AND CLASS 5 (SUBORDINATED CLAIMS) TIMELY EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE PLAN OF REORGANIZATION. All known holders of Allowed Secured Claims, Allowed Other Secured Claims, Allowed General Unsecured Claims, Allowed Subordinated Claims, and Allowed Convenience Claims entitled to vote on the Plan have been sent a ballot together with this Disclosure Statement. Such holders should read the ballot carefully and follow the instructions contained therein. Please use only the ballot that accompanies this Disclosure Statement.

**IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR VOTE MUST BE RECEIVED BY THE VOTING AGENT AT THE ADDRESS SET FORTH BELOW BEFORE THE VOTING DEADLINE OF 4:00 P.M., EASTERN TIME, ON _____, 2009**.

**IF A BALLOT IS DAMAGED OR LOST, YOU MAY CONTACT THE DEBTORS' VOTING AGENT AT THE NUMBER SET FORTH BELOW.**

**ANY PROPERLY EXECUTED, TIMELY RECEIVED BALLOT THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN WILL BE COUNTED AS A VOTE TO ACCEPT THE PLAN.**

**ANY PROPERLY EXECUTED, TIMELY RECEIVED BALLOT THAT INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN WILL BE COUNTED AS A VOTE TO ACCEPT THE PLAN.**

**FAXED COPIES OF BALLOTS WILL NOT BE ACCEPTED.**

**IF YOU HAVE ANY QUESTIONS CONCERNING VOTING PROCEDURES, YOU MAY CONTACT THE VOTING AGENT AT:**

ZEISLER & ZEISLER P.C.
558 Clinton Avenue
Bridgeport, CT 06605

Attn: James Berman
(203) 368-4234

Additional copies of this Disclosure Statement are available upon request made to the Voting Agent, at the address set forth immediately above.

**B. Holders of Claims Entitled to Vote**

Class 2 (Secured Claims), Class 3 (Other Secured Claims), Class 4 (General Unsecured Claims), Class 5 (Subordinated Claims), and Class 6 (Convenience Claims) are the only classes of Claims under the Plan that are impaired and entitled to vote to accept or reject the Plan. Each holder of an Allowed Claim in Class 2 (Secured Claims), Class 3 (Other Secured Claims), Class 4 (General Unsecured Claims), Class 5 (Subordinated Claims), and Class 6 (Convenience Claims) entitled to vote may vote to accept or reject the Plan.

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

Under the Bankruptcy Code, acceptance of a plan of reorganization by a class of claims occurs when holders of at least two-thirds in dollar amount and more than one half in number of the allowed claims of that class that cast ballots for acceptance or rejection of the plan of reorganization vote to accept the plan. Thus, acceptance of the Plan by Class 2 (Secured Claims), Class 3 (Other Secured Claims), Class 4 (General Unsecured Claims), Class 5 (Subordinated Claims) , or Class 6 (Convenience Claims) will occur only if at least two-thirds in dollar amount and a majority in number of the holders of the Claims in the respective class that cast their ballots vote in favor of acceptance.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

**D. Voting Procedures**

1. Holders of Class 2 Claims (Secured Claims)

All holders of Allowed Secured Claims as of the Record Date should complete the enclosed ballot. To be counted, properly executed ballots must be returned to the Voting Agent so that they are received by the Voting Agent before the Voting Deadline.

2. Holders of Class 3 Claims (Other Secured Claims)

All holders of Allowed Other Secured Claims as of the Record Date should complete the enclosed ballot. To be counted, properly executed ballots must be returned

to the Voting Agent so that they are received by the Voting Agent before the Voting Deadline.

3. Holders of Class 4 (General Unsecured Claims)

All holders of Allowed General Unsecured Claims as of the Record Date should complete the enclosed ballot. To be counted, properly executed ballots must be returned to the Voting Agent so that they are received by the Voting Agent before the Voting Deadline.

4. Holders of Class 5 (Subordinated Claims)

All holders of Allowed Subordinated Claims as of the Record Date should complete the enclosed ballot. To be counted, properly executed ballots must be returned to the Voting Agent so that they are received by the Voting Agent before the Voting Deadline.

5. Holders of Class 6 (Convenience Claims)

All holders of Allowed Convenience Claims as of the Record Date should complete the enclosed ballot. To be counted, properly executed ballots must be returned to the Voting Agent so that they are received by the Voting Agent before the Voting Deadline.

6. Withdrawal of Ballot

Any voter that has delivered a valid ballot may withdraw its vote by delivering a written notice of withdrawal to the Voting Agent before the Voting Deadline. To be valid, the notice of withdrawal must (a) be signed by the party that signed the Ballot to be revoked and (b) be received by the Voting Agent before the Voting Deadline. The Debtors may contest the validity of any withdrawals.

Any holder that has delivered a valid ballot may change its vote by delivering to the Voting Agent a properly completed subsequent ballot so as to be received before the Voting Deadline. In the case where more than one timely, properly completed ballot is received, only the ballot that bears the latest date will be counted.

## IX.

## 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. As set forth in the Disclosure Statement Order, the Bankruptcy Court has scheduled the confirmation hearing for **[_____, 2009]**. The confirmation hearing may be

adjourned from time-to-time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the confirmation hearing or any subsequent adjourned confirmation hearing.

Any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules, 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' estate or property, the basis for the objection and the specific grounds therefore, and must be filed with the Bankruptcy Court, together with proof of service thereof, and served upon (i) Zeisler & Zeisler P.C., 558 Clinton Avenue, Bridgeport, CT 06605, Attorneys for the Debtors (Attention: James Berman, Esq.), (ii) Pepe & Hazard LLP, 30 Jelliff Lane, Southport, CT 06890-1436, Attorneys for the Committee (Attn: Kristin B. Mayhew and James C. Graham), and (iii) Office of the United States Trustee, District of Connecticut, 265 Church Street, Suite 1103, New Haven, CT 06510 so as to be received no later than 4:00 p.m. (Eastern Time) on **[_____, 2009.]**

Objections to confirmation of the Plan of Reorganization are governed by Bankruptcy Rule 9014. **UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY SERVED AND FILED, IT MAY NOT BE CONSIDERED BY THE BANKRUPTCY COURT.**

**B. Requirements for Confirmation of the Plan of Reorganization**

1. Requirements of Section 1129(a) of the Bankruptcy Code

(a) *General Requirements*

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 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 or officer of the Debtors, an affiliate of the Debtors participating in a Plan with the Debtors, or a successor to the Debtors under the Plan of Reorganization, 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. With respect to each class of claims or equity interests, each holder of an impaired claim or impaired equity interest either has accepted the Plan or will receive or retain under the Plan on account of such holder's claim or equity 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.

6) Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each class of claims or equity interests has either accepted the Plan or is not impaired under the Plan.

7) Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the Plan provides that administrative expenses and priority claims other than priority tax claims will be paid in full on the Effective Date and that priority tax claims will receive on account of such claims deferred Cash payments, over a period not exceeding six 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.

8) 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.

9) 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.

(b) *Best Interests Test*

As described above, the Bankruptcy Code requires that each holder of an impaired claim or equity interest either (a) accepts the Plan or (b) receives or retains under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on the Effective Date.

The first step in meeting this test 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 available would be the sum of the proceeds from the disposition of the Debtors' assets and the cash held by the Debtors at the time of the commencement of the chapter 7 case. The next step, is to reduce that total by the amount of any claims secured by such assets, the costs and expenses of the liquidation, and such additional administrative expenses and priority claims that may 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 shareholders in strict priority in accordance with section 726 of the Bankruptcy Code (see discussion below). Finally, taking into account the time necessary to accomplish the liquidation, the present value of such allocations may be 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 chapter 7 trustee in bankruptcy, as well as those that might be payable to attorneys and other professionals that such a trustee may engage, plus any unpaid expenses incurred by the Debtors during the chapter 11 case and allowed in the chapter 7 case, such as compensation for attorneys, financial advisors, appraisers, accountants and other professionals, and costs and expenses of members of any statutory committee of unsecured creditors appointed by the United States Trustee pursuant to section 1102 of the Bankruptcy Code and any other committee so appointed. Moreover, the deficiency claims of the Secured Lenders, would not be waived in a chapter 7 liquidation and additional claims would arise by reason of the breach or rejection of obligations incurred and executory contracts or leases entered into by the Debtors both prior to, and during the pendency of, the chapter 11 cases.

The foregoing types of claims, costs, expenses, fees and such other claims that may arise in a 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. Under the absolute priority rule, no junior creditor would receive any distribution until all senior creditors are paid in full, with interest, and no equity holder receives any distribution until all creditors are paid in full, with interest. The Debtors believe that in a chapter 7 case, holders of Old Equity Interests would receive no distributions of property. Accordingly, the Plan satisfies the rule of absolute priority.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in a chapter 11 case, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (ii) the erosion in value of assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail and (iii) substantial increases in claims which would be satisfied on a priority basis, the Debtors have determined that confirmation of the Plan will provide each creditor and equity holder with a recovery that is not less than it would receive pursuant to a liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

Moreover, the Debtors believe that the value of any distributions from the liquidation proceeds to each class of allowed claims in a chapter 7 case would be the same or less than the value of distributions under the Plan because such distributions in a chapter 7 case may not occur for a substantial period of time. In this regard, it is possible that distribution of the proceeds of the liquidation could be delayed for a year or more after the completion of such liquidation in order to resolve the claims and prepare for distributions. In the event litigation were necessary to resolve claims asserted in the chapter 7 case, the delay could be further prolonged and administrative expenses further increased.

**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 assets of the Debtors. The analysis is based upon 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.**

(c) *Liquidation Analysis*

The Debtors' chapter 7 liquidation analysis and assumptions are set forth in Exhibit 3 to this Disclosure Statement. The Liquidation Analysis demonstrates that under an orderly liquidation, the estimated gross liquidation proceeds would be in the range of approximately $2.1 million to $2.7 million. As of April 30, , 2009 the Postpetition Financing Obligations outstanding under the Postpetition Financing Agreement are expected to be approximately $352,500. As of April 30, 2009, the Prepetition Secured Obligations (defined as the the Prepetition Credit Agreement Obligations) are expected to total in approximately $9 million (including principal, interest, and other costs).

Following the payment of between approximately $2 million and $2.1 million in liquidation costs, approximately $162,000 to $812,000 would remain in assets available for distribution (using the low end and high end of recovery estimates). Even using the high end of the recovery estimates, the secured creditors, those holding Prepetition Credit Agreement Obligations and those holding Postpetition Financing Agreement Obligations, would only receive a recovery of approximately nine percent (9%) of their Claims. Moreover, this analysis demonstrates that there would be no assets left for any recovery to holders of Administrative Expense Claims, Priority Tax Claims, Priority Non-Tax Claims, General Unsecured Claims, Subordinated Claims or Convenience Claims.

*(d) Feasibility*

The Bankruptcy Code requires a debtor to demonstrate that confirmation of a plan of reorganization is not likely to be followed by the liquidation or the need for further financial reorganization of a debtor unless so provided by the plan of reorganization. For purposes of determining whether the Plan meets this requirement, the

Debtors have analyzed their ability to meet their financial obligations as contemplated thereunder. Based upon their analysis, the Debtors believe they will be able to make all payments required to be made pursuant to the Plan and that they will need no further financial reorganization.

2. Requirements of Section 1129(b) of the Bankruptcy Code

The Bankruptcy Court may confirm the Plan over the rejection or deemed rejection of the Plan by a class of claims or equity interests if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such class.

(a) *No Unfair Discrimination*

This test applies to classes of claims or equity interests that are of equal priority and are receiving different treatment under a plan of reorganization. The test does not require that the treatment be the same or equivalent, but that such treatment be "fair."

(b) *Fair and Equitable Test*

This test applies to classes of different priority (e.g., unsecured versus secured) 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.

(c) *Secured Claims*

Each holder of an impaired secured claim either (i) retains its liens on the property (or if sold, on the proceeds thereof) 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 the plan, of at least the allowed amount of such claim or (ii) receives the "indubitable equivalent" of its allowed secured claim.

(d) *Unsecured Claims*

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

(e) *Equity Interests*

Either (i) each equity interest holder will receive or retain under the plan of reorganization 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 both the "no unfair discrimination" requirement and the "fair and equitable" requirement notwithstanding that Class 7 (Old Equity Interests) is deemed to reject the Plan, because as to Class 7, there is no class of equal priority receiving more favorable treatment and no class that is junior to such a dissenting class will receive or retain any property on account of the claims or equity interests in such class. In the event that Class 4 (General Unsecured Claims) and/or Class 5 (Subordinated Claims) rejects the Plan, the Debtors believe that the Plan satisfies both the "no unfair discrimination" requirement and the "fair and equitable" requirement because as to such classes, there is no class of equal priority receiving more favorable treatment and no class that is junior to such a dissenting class will receive or retain any property on account of the claims or equity interests in such class.

## X.

## FINANCIAL INFORMATION

The consolidated pro forma unaudited balance sheets for each of the two fiscal years ended June 30, 2007 and June 30, 2008 and the related pro forma unaudited consolidated statements of operations and pro forma unaudited consolidated statements of cash flows of the Debtors are contained in Exhibit 2 to this Disclosure Statement, and the full text of which is incorporated herein by reference. This financial information is provided to permit the holders of claims and equity interests to better understand the Debtors' historical business performance and the impact of the Reorganization Cases on the Debtors' business.

## XI.

## ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN OF REORGANIZATION

If the Plan is not confirmed and consummated, the alternatives to the Plan include (i) liquidation of the Debtors under chapter 7 of the Bankruptcy Code and (ii) an alternative chapter 11 plan of reorganization.

### A. Liquidation Under Chapter 7

If no plan can be confirmed, the Debtors' chapter 11 cases may be converted to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed to liquidate the assets of the Debtors for distribution in accordance with the priorities established by the Bankruptcy Code. In a chapter 7 liquidation, the Debtors believe that there would be no distribution to the holders of Administrative Claims, General Unsecured Claims, Subordinated Claims, Convenience Claims or the holders of Equity Interests.

A discussion of the effects that a chapter 7 liquidation would have on the recovery of holders of claims and equity interests and the Debtors' liquidation analysis are set forth in section IX.B.1(b) above, entitled "CONFIRMATION OF THE PLAN OF REORGANIZATION -- Requirements for Confirmation of the Plan of Reorganization -- Requirements of Section 1120(a) of the Bankruptcy Code -- Best Interests Test." The Debtors believe that liquidation under chapter 7 would result in smaller distributions being made to creditors than those provided for in the Plan – and likely no distributions to any creditors other than the secured creditors – because of (a) the loss of any all going concern value (since the Debtors could not continue to operate), (b) the likelihood that the assets of the Debtors would have to be sold or otherwise disposed of in a less orderly fashion over a shorter period of time, (c) additional administrative expenses involved in the appointment of a trustee and (d) 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 of Reorganization is not confirmed, the Debtors or any other party in interest could attempt to formulate a different chapter 11 plan of reorganization. Such a plan of reorganization might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of its assets. With respect to an alternative plan, the Debtors have explored various alternatives in connection with the formulation and development of the Plan. The Debtors believe that the Plan, as described herein, enables creditors and equity holders to realize the most value under the circumstances. In a liquidation after Confirmation, the Debtors' assets might be sold in an orderly fashion over a more extended period than in a liquidation under chapter 7, possibly resulting in

somewhat greater (but indeterminate) recoveries than would be obtained in chapter 7. 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; though any savings may be reduced by the costs of professionals such as investment bankers if such were utilized. Although preferable to a chapter 7 liquidation, the Debtors believe that any alternative 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.

In connection with the orderly liquidation alternative, the Debtors note that the Committee has filed a plan which calls for the hiring of a Chief Restructuring Officer and an investment banker, establishes a trust for the administration of certain litigation matters, and contemplates the sale of the Debtors' operating businesses by an investment banker (with a minimum fee of $500,000, and with an additional fee of 10% of any sale proceeds).

The Committee's plan would result in significantly higher administrative expenses and operating costs. For example, the Committee proposes to hire a Chief Restructuring Officer (CRO) on a part-time basis at compensation ($60,000 per month) which is more than 150% of than the combined salaries of the two full-time officers of the Debtors (Rodney A. Bienvenu, Jr. and Ernest C. Mysogland) that the Committee propose be replaced. In addition, the Committee would establish a trust for the oversight of litigation matters at further administrative expense, while the Debtors would manage such matters without such increased cost.

Even ignoring the increased costs which would result from the Committee's plan, the Committee's plan to sell all the operating businesses would result in significantly less value to the creditors than the Plan proposed by the Debtors. Indeed, the Committee's stated minimum sale prices for the operating businesses would not be sufficient to pay all currently accrued Administrative Expenses and all Allowed Secured Claims, which would result in no recovery for the holders of General Unsecured Claims or Subordinated Claims. Even if sales proceeds were significantly higher than the minimum price proposed by the Committee, the Debtors' Plan would result in a recovery to the holders of General Unsecured Claims far in excess of the recovery that would be realized under the Committee's plan. Furthermore, the Committee proposes an inferior 15% recovery for Convenience Claims, payable six months after Confirmation, as opposed to the 20% recovery offered by the Debtors' Plan, which would be payable on the Effective Date.

In short, the Debtors believe their Plan is superior to the Committee's Plan as the Debtors' Plan would result in definite recovery to the creditors including the holders of General Unsecured Claims, and enhanced recovery to the holders of Convenience Claims, whereas under the Committee's plan any recovery is subject to significant risk, delay and indeterminate, if any, value.

## XII.

## CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion summarizes certain U.S. federal income tax consequences of the implementation of the Plan to the Debtors and to the holders of Class 4 Claims, Class 5 Claims and Class 6 Claims. The following summary does not address the U.S. federal income tax consequences to holders whose Claims are unimpaired or otherwise entitled to payment in full in Cash under the Plan (*e.g.*, Administrative Expense Claims, Priority Non-Tax Claims, and Secured Claims), the holder of Class 3 Claims, or holders of Old Equity Interests that are extinguished without a distribution in exchange therefor.

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 (the "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 U.S. federal income tax consequences described below.

The U.S. 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 generally does not address foreign, state or local tax consequences of the Plan, nor does it address the U.S. federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, persons not holding their Claims as capital assets, financial institutions, tax-exempt organizations, persons holding Claims who are not the original holders of those Claims or who acquired such Claims at an acquisition premium, and persons who have claimed a bad debt deduction in respect of any Claims).

***Accordingly, the following summary of certain U.S. federal income tax consequences is for informational purposes only and is not a substitute for careful tax planning and advice based upon the individual circumstances pertaining to a holder of a Claim.***

***IRS Circular 230 Notice: To ensure compliance with IRS Circular 230, holders of Claims and Equity Interests are hereby notified that: (A) any discussion of federal tax issues contained or referred to in this Disclosure Statement is not intended or written to be used, and cannot be used, by holders of Claims or Equity Interests for the purpose of avoiding penalties that may be imposed on them under the Tax Code; (b) such discussion is written in connection with the promotion or marketing by the Debtors of the transactions or matters addressed herein; and (c) holders of Claims and Equity Interests should seek advice based on their particular circumstances from an independent tax advisor.***

**A. Consequences to Holders of Class 4, Class 5 or Class 6 Claims**

Pursuant to the Plan, the holders of Allowed General Unsecured Claims (Class 4) and the holders of Allowed Convenience Claims (Class 6) will receive a Cash distribution in satisfaction and discharge of their Claims, and the holders of Allowed Subordinated Claims (Class 5) will receive Class 5 Notes and may receive distribution of Cash pursuant to the Class 5 Liquidation Proceeds.

The following discussion does not necessarily apply to holders who have Claims in more than one class relating to the same underlying obligation (such as where the underlying obligation serves as the basis for a primary Claim against one Debtor and a secondary liability or guarantee claim against another Debtor). Such holders should consult their tax advisors regarding the effect of such dual status obligations on the federal income tax consequences of the Plan to them.

In general, each holder of an Allowed General Unsecured Claim, an Allowed Convenience Claim or an Allowed Subordinated Claim should recognize gain or loss in an amount equal to the difference between (x) the amount of Cash received by the holder in satisfaction of its Claim (other than any Claim for accrued but unpaid interest) and (y) the holder's adjusted tax basis in its Claim (other than any basis attributable to accrued but unpaid interest). Pursuant to the Plan, distributions to any holder of an Allowed General Unsecured Claim, Allowed Convenience Claim or Allowed Subordinated Claim will be allocated first to the original principal amount of such Claim as determined for federal income tax purposes and then, to the extent the consideration exceeds such amount, to any portion of such Claim representing accrued original issue discount ("OID") or accrued but unpaid interest. However, there is no assurance that the IRS would respect such allocation for federal income tax purposes. In general, to the extent that an amount received by a holder of debt is received in satisfaction of accrued interest or 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 will generally recognize a loss to the extent any accrued interest was previously included in its gross income and is not paid in full. Each holder is urged to consult its tax advisor regarding the allocation of consideration and the deductibility of losses realized in respect of Allowed General Unsecured Claims, Allowed Convenience Claims or Allowed Subordinated Claims for federal income tax purposes.

Where gain or loss is recognized by a holder of an Allowed General Unsecured Claim, Allowed Convenience Claim or Allowed Subordinated Claim, 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 originally issued at a discount or a premium, whether the Claim was acquired at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction in respect of that Claim.

**B. Information Reporting and Withholding**

All distributions to holders of Claims under the Plan are subject to any applicable tax withholding, including employment tax withholding. Under U.S. federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then applicable withholding 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 a United States person that is not subject to backup withholding. 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. Certain persons are exempt from backup withholding, including, in certain circumstances, corporations and financial institutions.

In addition, from an information reporting perspective, Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, the following: (1) certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds; and (2) 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.

***The foregoing summary has been provided for informational purposes only. All holders of Claims receiving a distribution under the Plan are urged to consult their tax advisors concerning the federal, state, local and foreign tax consequences applicable under the Plan.***

## XIII.

## CONCLUSION

The Debtors believe that confirmation and implementation of the Plan is in the best interests of all creditors, and urge holders of impaired Claims in Class 2, Class 3, Class 4, Class 5 and Class 6 entitled to vote on the Plan to vote to accept the Plan and to evidence such acceptance by returning their ballots so that they will be received no later than 4:00 p.m. (Eastern Time) on the Voting Deadline.

Dated: March 9, 2009

Respectfully submitted,

HALO TECHNOLOGY HOLDINGS, INC.
HTH EMP, INC. F/K/A EMPAGIO, INC.
PROCESS SOFTWARE, LLC
TENEBRIL, INC.
KENOSIA CORPORATION
DAVID CORPORATION
ACUITREK, INC.
REVCAST, INC.
REVCAST ENTERPRISES, LLC
PROFITKEY INTERNATIONAL, LLC
6043577 CANADA, INC.
WARP SOLUTIONS, INC.

By: /s/_____
Name: Ernest C. Mysogland
Title: Executive Vice President and Chief Legal Officer