**THIS IS NOT A SOLICIATION 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. THIS DISCLOSURE STATEMENT HAS BEEN SUBMITTED FOR APPROVAL BUT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT.**

**UNITED STATES BANKRUPTCY COURT**
**DISTRICT OF DELAWARE**

| | | |
|---|---|---|
| ***In re*** | : | **Chapter 11** |
| **SOUTHERN AIR HOLDINGS, INC., *et al.*,** | : | **Case No. 12-12690 (CSS)** |
| | : | **Jointly Administered** |
| **Debtors.** | : | |

**DISCLOSURE STATEMENT FOR THE SECOND AMENDED JOINT PLAN OF AFFILIATED DEBTORS PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE**

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-and-

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Dated: January 18, 2013



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THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT (THE "**DISCLOSURE STATEMENT**") IS INCLUDED HEREIN FOR PURPOSES OF SOLICITING ACCEPTANCES AND ELECTIONS WITH RESPECT TO THE SECOND AMENDED JOINT PLAN OF REORGANIZATION OF SOUTHERN AIR HOLDINGS, INC. AND ITS AFFILIATED DEBTORS AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN (AS DEFINED BELOW) OR IN CONNECTION WITH AN ELECTION PURSUANT TO THE PLAN. NO SOLICITATION OF VOTES TO ACCEPT THE PLAN MAY BE MADE EXCEPT PURSUANT TO SECTION 1125 OF TITLE 11 OF THE UNITED STATES CODE (THE "**BANKRUPTCY CODE**").

**THE VOTING DEADLINE TO ACCEPT OR REJECT THE PLAN IS NO LATER THAN 8:00 P.M. (EASTERN TIME) ON MARCH 5, 2013 (THE "BALLOT DATE"), UNLESS EXTENDED BY THE DEBTORS IN CONSULTATION WITH THE REQUIRED CONSENTING LENDERS AND THE REQUIRED DIP LENDERS. ANY EXECUTED BALLOT THAT IS TIMELY RECEIVED BUT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN OR INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE PLAN.**

HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS ARE ENCOURAGED TO READ AND CAREFULLY CONSIDER THE MATTERS DESCRIBED IN THIS DISCLOSURE STATEMENT. IF THE PLAN IS CONFIRMED BY THE BANKRUPTCY COURT AND THE EFFECTIVE DATE OCCURS, ALL HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS (INCLUDING, WITHOUT LIMITATION, THOSE HOLDERS OF CLAIMS OR EQUITY INTERESTS WHO DO NOT SUBMIT BALLOTS TO ACCEPT OR REJECT THE PLAN OR WHO ARE NOT ENTITLED TO VOTE ON THE PLAN) WILL BE BOUND BY THE TERMS OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

HOLDERS OF CLAIMS ENTITLED TO VOTE AND/OR TO MAKE CERTAIN ELECTIONS WITH RESPECT TO THE PLAN ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN **IN THEIR ENTIRETY** BEFORE VOTING TO ACCEPT OR REJECT THE PLAN OR MAKING ANY ELECTION WITH RESPECT THERETO, AND, WHERE POSSIBLE, CONSULT WITH COUNSEL OR OTHER ADVISORS PRIOR TO VOTING OR ELECTING. ALL HOLDERS OF CLAIMS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK FACTORS SET FORTH IN SECTION X OF THIS DISCLOSURE STATEMENT BEFORE VOTING TO ACCEPT OR REJECT THE PLAN AND BEFORE MAKING ANY ELECTION WITH RESPECT THERETO. A COPY OF THE PLAN IS ANNEXED HERETO AS EXHIBIT A. SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN AND THE EXHIBITS ANNEXED THERETO. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT DOES NOT IMPLY THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE SUCH DATE. IN THE EVENT OF ANY CONFLICT BETWEEN THE DESCRIPTIONS SET FORTH IN THIS DISCLOSURE STATEMENT AND THE TERMS OF THE PLAN, THE TERMS OF THE PLAN WILL GOVERN. IN THE EVENT OF ANY CONFLICT BETWEEN THE TERMS OF THE PLAN AND THE CONFIRMATION ORDER, THE TERMS AND PROVISIONS OF THE CONFIRMATION ORDER WILL GOVERN AND BE DEEMED A MODIFICATION OF THE PLAN; PROVIDED, HOWEVER, THAT UNDER NO CIRCUMSTANCES SHALL THE CONFIRMATION ORDER MODIFY THE ECONOMIC TERMS SET FORTH IN THE PLAN.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(b) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT NECESSARILY IN ACCORDANCE WITH OTHER NONBANKRUPTCY LAW.

CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE FORWARD LOOKING PROJECTIONS AND FORECASTS, BASED UPON CERTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON BY ANY PERSONS FOR ANY OTHER PURPOSE OTHER THAN BY HOLDERS OF CLAIMS ENTITLED TO VOTE FOR THE PURPOSE OF DETERMINING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN AND HOW TO MAKE CERTAIN ELECTIONS WITH RESPECT THERETO, AND NOTHING CONTAINED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR LEGAL EFFECTS OF THE PLAN ON HOLDERS OF CLAIMS OR EQUITY INTERESTS.

**THE DEBTORS, THE CONSENTING LENDERS, THE OAK HILL ENTITIES, AND THE CREDITORS' COMMITTEE SUPPORT CONFIRMATION OF THE PLAN AND RECOMMEND THAT HOLDERS OF CLAIMS IN ALL SOLICITED CLASSES VOTE TO ACCEPT THE PLAN. LETTERS FROM THE DEBTORS AND THE CREDITORS' COMMITTEE STATING THEIR SUPPORT AND THE REASONS FOR CONFIRMATION OF THE PLAN ARE ENCLOSED HEREWITH.**

**IRS CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH IRS CIRCULAR 230, HOLDERS OF CLAIMS AND PRECONFIRMATION EQUITY INTERESTS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. 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 PRECONFIRMATION 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 PRECONFIRMATION EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

**DISCLOSURE STATEMENT FOR THE SECOND AMENDED JOINT PLAN OF AFFILIATED DEBTORS PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE**

On September 28, 2012 (the "Petition Date"), Southern Air Holdings, Inc. ("Holdings"), Cargo 360, Inc. ("Cargo 360"), Southern Air Inc. ("Southern Air"), Air Mobility Inc. ("Air Mobility"), 21110 LLC, 21111 LLC, 21221 LLC, 21550 LLC, 21576 LLC, 21590 LLC, 21787 LLC, 21832 LLC, 23138 LLC, 24067 LLC, 46914 LLC, Aircraft 21255, LLC, Aircraft 21380, LLC, and CF6-50, LLC (collectively, the "Debtors"), each commenced with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") a voluntary case pursuant to chapter 11 of the Bankruptcy Code.

The Debtors submit this Disclosure Statement pursuant to section 1125 of the Bankruptcy Code in connection with the solicitation of acceptances and elections with respect to the *Second Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code*, dated January 18, 2013 (as further amended, modified or supplemented from time to time, the "Plan"). The Debtors believe the Plan is in the best interest of all parties in interest and represents the most expeditious means for the Debtors to successfully restructure their businesses under chapter 11.

Unless otherwise defined herein, capitalized terms used, but not defined, herein shall have the same meanings ascribed to them in the Plan. Attached as exhibits to this Disclosure Statement are copies of the following documents:

1. Plan – Exhibit A
2. Plan Support Agreement – Exhibit B
3. Disclosure Statement Order – Exhibit C
4. Liquidation Analysis – Exhibit D

All exhibits to this Disclosure Statement are incorporated into and are part of this Disclosure Statement as if set forth in full herein.

## I. INTRODUCTION

On January 18, 2013, the Debtors filed the Plan, the terms of which are summarized in greater detail in Section V hereof. The Debtors will solicit votes and elections with respect to the Plan from certain Creditors as set forth in more detail in Section XI hereof. Holders of Claims and Equity Interests are thus advised to carefully review the voting and election procedures for the Plan discussed in Section XI.

The purpose of this Disclosure Statement is to provide holders of Claims against the Debtors with adequate information regarding (i) the Debtors' history, businesses, and these Chapter 11 Cases, (ii) the Plan and alternatives to the Plan, (iii) the rights of holders of Claims and Equity Interests pursuant to the Plan, and (iv) other information necessary to enable holders of Claims entitled to vote on the Plan to make an informed judgment as to whether to vote to accept or reject and how to make elections with respect to the Plan.

On [January 29], 2013 after notice and a hearing, the Bankruptcy Court entered the Disclosure Statement Order approving this Disclosure Statement, in accordance with section 1125 of the

Bankruptcy Code, as containing adequate information of a kind and in sufficient detail to enable hypothetical reasonable investors typical of holders of Claims against the Debtors entitled to vote on the Plan to make an informed judgment in voting to accept or reject the Plan. However, the Bankruptcy Court has not passed on the merits of the Plan. No solicitation of votes on the Plan may be made except pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code. In voting on the Plan, holders of Claims against the Debtors should not rely on any information relating to the Debtors, other than the information contained in this Disclosure Statement, the Plan, and all exhibits hereto and thereto.

THIS DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN BY EACH HOLDER OF A CLAIM OR EQUITY INTEREST. THE DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT THAT REVIEW. THE DESCRIPTION OF THE PLAN IS A SUMMARY ONLY, WHICH IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE FULL TEXT OF THE PLAN, AND IF ANY INCONSISTENCY EXISTS BETWEEN THE TERMS AND PROVISIONS OF THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS AND PROVISIONS OF THE PLAN ARE CONTROLLING. HOLDERS OF CLAIMS AND EQUITY INTERESTS AND OTHER PARTIES IN INTEREST ARE CAUTIONED TO REVIEW THE PLAN AND ANY RELATED ATTACHMENTS FOR A FULL UNDERSTANDING OF THE PLAN'S PROVISIONS.

**THE DEBTORS SUPPORT CONFIRMATION OF THE PLAN AND RECOMMEND THAT HOLDERS OF CLAIMS IN ALL SOLICITED CLASSES VOTE TO ACCEPT THE PLAN.**

## II.
## GENERAL OVERVIEW OF THE PLAN

### A. Chapter 11 Overview

Chapter 11 is the chapter of the Bankruptcy Code primarily used for business reorganization. Asset sales, stock sales, and other disposition efforts, however, can also be conducted during a chapter 11 case or pursuant to a chapter 11 plan. Under chapter 11, a company endeavors to restructure its finances such that it maximizes recovery to its creditors and other stakeholders. Formulation of a chapter 11 plan is the primary purpose of a chapter 11 case. A chapter 11 plan sets forth and governs the treatment and rights to be afforded to creditors and stockholders with respect to their claims against and equity interests in the debtor. According to section 1125 of the Bankruptcy Code, acceptances of a chapter 11 plan may be solicited only after a written disclosure statement has been provided to each creditor or stockholder who is entitled to vote on the plan. To satisfy the disclosure requirements contained in section 1125 of the Bankruptcy Code, this Disclosure Statement is presented by the Debtors to holders of Claims against and Equity Interests in the Debtors.

### B. Significant Features of the Plan

#### 1. Oak Hill Leases and Oak Hill Lease Amendment

On the effective date of the Plan (the "Effective Date"), and in accordance with the order of the Bankruptcy Court confirming the Plan (the "Confirmation Order"), the Oak Hill Leases (as defined in Section III.D.2 hereof) shall be amended pursuant to the Oak Hill Lease Amendments, in accordance with the terms set forth in the Plan Support Agreement, and assumed (as amended) as executory contracts pursuant to section 365(a) of the Bankruptcy Code and in accordance with the terms of the Plan. Payments owed by the Debtors or Reorganized Debtors under the Oak Hill Leases may not be set off

against any payment (as described below) owing from the Oak Hill Entities[1] under (i) the Plan, (ii) that certain *Stipulation Pursuant to Sections 363 and 1110 of the Bankruptcy Code Regarding Oak Hill Entities and 777 Aircraft*, dated September 28, 2012, by and among Southern Air, certain of the Oak Hill Entities, and Wells Fargo Bank Northwest, N.A., as Owner Trustee, as approved by the Bankruptcy Court pursuant to an order, dated October 25, 2012 [Docket No. 219] (the "Oak Hill 1110 Stipulation"), see Section IV.B.3 infra, or (iii) the agreement to be executed on the Effective Date among Reorganized Southern Air and the Oak Hill Entities, setting forth the terms and conditions contained in the Oak Hill 1110 Stipulation for the Oak Hill Entities continued funding of certain payments (the "OHAA Funding Agreement").

**2. Oak Hill 1110 Stipulation/Supplemental Payment**

On the Effective Date, the Oak Hill 1110 Stipulation shall be terminated and of no further force or effect and the Secured OHAA Payment Obligations (as defined below) shall be fully satisfied and discharged as provided in the Plan. From and after the Effective Date, subject to the terms and conditions of the OHAA Funding Agreement, the Oak Hill Entities shall make the payments, and shall take the following actions:

**a. *12-Month Payment***

One or more of the Oak Hill Entities shall make monthly payments on the first (1st) Business Day of each month in the amount of $833,333.33 to Reorganized Southern Air, until such time as Reorganized Southern Air, together with Southern Air as its predecessor in interest, shall have received the aggregate amount of Ten Million Dollars ($10,000,000.00) of 12-Month Payments, taking into account all 12-Month Payments, received by Southern Air, as Reorganized Southern Air's predecessor in interest, prior to the Effective Date. From and after the Effective Date, and until payment of the final 12-Month Payment as provided below, the OHAA Escrow Account shall at all times be funded with at least the Cash in the amount of Eight Hundred Thirty-Three Thousand Three Hundred Thirty-Three Dollars and Thirty-Three Cents ($833,333.33) (the "OHAA Escrow Minimum Amount") and OHAA shall promptly fund additional amounts necessary, if any, to maintain the OHAA Escrow Minimum Amount if amounts in the OHAA Escrow Account are drawn upon to pay any Additional Monthly Payments due, subject to a cap of Ten Million Dollars ($10,000,000.00). The OHAA Escrow Minimum Amount shall be applied to fund the final 12-Month Payment of $833,333.33.

**b. *Additional Monthly Payments***

Within one (1) Business Day following OHAA's receipt of confirmation that Reorganized Southern Air has timely paid a monthly lease payment due under the applicable Oak Hill Leases, one or more of the Oak Hill Entities shall pay to Reorganized Southern Air $41,666.66, in four (4) separate installments of $41,666.66, representing one installment per Oak Hill Lease, in the aggregate amount of $166,666.66 per month ($2,000,000.00 per year), up to an aggregate amount of Ten Million Dollars ($10,000,000.00), taking into account all Additional Monthly Payments received by Southern Air,

[1] The "Oak Hill Entities" are Oak Hill Cargo 360, LLC ("Oak Hill Cargo 360"), Oak Hill Capital Partners II, L.P. ("OHCP II"), OH Aircraft Acquisition, LLC ("OHAA") and the entity designated by OHAA prior to the Effective Date, and qualified as a United States Citizen for all times and purposes relevant hereto, to receive distributions of Reorganized Southern Air Parent Common Stock or Oak Hill Warrants pursuant to the Plan ("OHAA Designee"). OHCP owns the direct and indirect membership interests in OHAA, which is the beneficial owner with respect to two (2) of the Oak Hill Leases and manages (and, upon the satisfaction of certain conditions, has the option to purchase the membership interests in) the entity that holds the beneficial interests with respect to the other two (2) Oak Hill Leases.

as Reorganized Southern Air's predecessor in interest, prior to the Effective Date. Reorganized Southern Air may draw on the OHAA Escrow Account for any missed Additional Monthly Payments. Additionally, on the Effective Date, OHAA shall create an escrow for the benefit of Reorganized Southern Air containing $500,000.00 as security for the remaining Additional Monthly Payments. If Reorganized Southern Air must draw upon such escrow in respect of any unpaid Additional Monthly Payments, then OHAA shall promptly replenish the escrow in the same amount. The final Additional Monthly Payment shall be made from such escrow account.

**c. *Supplemental Payment***

On the Effective Date, one or more of the Oak Hill Entities shall pay to Reorganized Southern Air Eight Hundred Seventy-Five Thousand Dollars ($875,000.00), which amount shall be included in the Creditor Cash and be distributed to holders of Allowed General Unsecured Claims in accordance with the provisions of the Plan.

**3. Boeing Credit**

Pursuant to the Oak Hill 1110 Stipulation, the Oak Hill Entities shall use commercially reasonable efforts to assist the Debtors to utilize, to the maximum extent possible, OHAA's deposit with The Boeing Company ("Boeing") in the amount of One Million Nine Hundred Twenty-Five Thousand Dollars ($1,925,000.00) (the "Boeing Credit"). On November 23, 2012, Boeing US Training and Flight Services LLC, an affiliate of Boeing, asserted a general unsecured claim, as reflected in proof of claim number 143, against Southern Air in the amount of $2,739,174.77 for services rendered prepetition. Also on November 23, 2012, Boeing Commercial Airplanes, an affiliate of Boeing, asserted a general unsecured claim, as reflected in proof of claim number 144, against Southern Air in the amount of $659,997.91 for goods delivered prepetition. The Debtors and Boeing are in discussions regarding the reconciliation of such claims. Additionally, the Oak Hill Entities, the Debtors, and Boeing are engaged in discussions with respect to the utilization of the Boeing Credit to offset the general unsecured claims asserted by Boeing's affiliates, as they may be reconciled. If, as of the Effective Date, the Oak Hill Entities' obligations with respect to the Boeing Credit remain outstanding, the Oak Hill Entities shall continue to use commercially reasonable efforts to assist the Reorganized Debtors to utilize, to the maximum extent possible, the Boeing Credit in satisfaction and discharge of Southern Air's obligations to Boeing; provided, however, that OHAA makes no representation as to, and assumes no liability with respect to, whether and to what extent Boeing may permit any such offset.

**4. Distribution to the Oak Hill Entities of Reorganized Southern Air Parent Common Stock and Oak Hill Warrants**

In consideration for the Oak Hill Lease Amendments, the satisfaction and discharge of the Debtors' obligations in accordance with the terms and conditions of the Oak Hill 1110 Stipulation (subject to the provisions of the interim order authorizing postpetition financing [Docket No. 77] ("Interim DIP Order") and the final order authorizing postpetition financing [Docket No. 223] ("Final DIP Order"), and including the 12-Month Payments, the Additional Monthly Payments and the Boeing Credit) (the "Secured OHAA Payment Obligations"), the Supplemental Payment and other good and valuable consideration arising from and related thereto, OHAA or OHAA Designee shall receive (i) shares of Reorganized Southern Air Parent Common Stock (as defined below), representing seventeen and one-half percent (17.5%) of the duly authorized common stock of Reorganized Southern Air Parent to be issued as of the Effective Date, distributable in shares of Class A-2 Common Stock, which shares shall not be subject to dilution by the Equity Payment (as defined below) (to the extent paid or otherwise discharged in shares of Reorganized Southern Air Parent Common Stock) or the Prepetition Lender Warrants, but shall be subject to dilution by the equity issued or issuable to Southern Management in

accordance with Section 28.2 of the Plan, and (ii) the Oak Hill Warrants. Subject to the terms and conditions thereof, (a) the Oak Hill Warrants shall have a term of ten (10) years from and after the Effective Date, be exercisable in two (2) equal tranches, the Oak Hill Tranche 1 Warrants vesting on a straight line basis upon the equity value of Reorganized Southern Air Parent reaching Eighty Million Dollars ($80,000,000.00) and continuing until such equity value reaches One Hundred Five Million Dollars ($105,000,000.00), with the shares of Reorganized Southern Air Parent Common Stock issued upon the exercise thereof in either Class A-2 Common Stock or Class B Common Stock, and the Oak Hill Tranche 2 Warrants exercisable at any time by payment in cash of Nine Million Four Hundred Thousand Dollars ($9,400,000.00), to the holders of Reorganized Southern Air Parent Common Stock (other than OHAA and OHAA Designee) or on a cashless basis upon the occurrence of certain enumerated events if the equity value of Reorganized Southern Air Parent reaches One Hundred Twenty-Five Million Dollars ($125,000,000.00), with the shares of Reorganized Southern Air Parent Common Stock issued upon the exercise thereof in Class A-2 Common Stock, and (b) the exercise of the Oak Hill Warrants shall not dilute the equity to be provided to the Oak Hill Entities or Southern Management pursuant to the Plan or any documents, instruments or agreements executed and delivered in connection with the Plan.

**5. Prepetition Lender Claims**

In satisfaction of the Prepetition Lender Claims, which, as of the Petition Date, exceeded Two Hundred Ninety-Five Million ($295,000,000.00)[2] and are secured by first priority liens against substantially all of the Debtors' assets, the Prepetition Lenders have agreed to exchange their Prepetition Lender Claims for a Pro Rata Share of (i) the Exit Term Loans (as described Section II.B.9 hereof) in the aggregate principal amount of Seventeen Million Five Hundred Thousand Dollars ($17,500,000.00), and (ii) a portion of the Reorganized Southern Air Parent Common Stock (representing eighty-two and one-half percent (82.5%) of the duly authorized common stock of the Reorganized Southern Air Parent, which is subject to dilution by the Management Equity and the Oak Hill Warrants), a portion of which may be issued in the form of the Prepetition Lender Warrants, to be distributed to each Prepetition Lender or its U.S. LLC Designee, as the case may be. As part of the settlements and compromises contained in the Plan and the Plan Support Agreement, the Consenting Lenders have also agreed to provide the Debtors with necessary debtor in possession financing, committing to provide up to Twenty-Five Million Dollars ($25,000,000.00) pursuant to the terms of the DIP Agreement, and to forego a portion of their recoveries to facilitate, among other things, payments to holders of Allowed General Unsecured Claims and holders of Allowed Convenience Claims to receive the Creditor Cash if such creditors vote to accept the Plan.

**6. OHCP II Proofs of Claim**

On the Effective Date, the proofs of claim filed by OHCP II, Claim Nos. 219 and 226 (which are duplicative) (together, the "OHCP II Proof of Claim"), shall be deemed withdrawn, with prejudice, by OHCP II without any further action by any party.

**7. Southern Management Equity Plan**

On the Effective Date, Southern Management[3] shall be allocated and shall receive (i) in the aggregate, a grant of Four Hundred Thousand (400,000) shares of Reorganized Southern Air Parent Common Stock, representing four percent (4%) of the shares of Reorganized Southern Air Parent

[2] Before taking into consideration the effect of the DIP Roll-Up Loan.

[3] "Southern Management" includes (i) Daniel J. McHugh, President and Chief Executive Officer, (ii) David Soaper, Chief Operating Officer, (iii) Jon E. Olin, General Counsel, and (iv) Oliver Gritz, Managing Director Europe.

Common Stock to be granted on the Effective Date, distributable in shares of either Class A-3 Common Stock or Class C-2 Common Stock, one percent (1%) of which shall be vested and be delivered on the Effective Date and three percent (3%) of which shall vest and be delivered in three (3) equal installments on the first three (3) subsequent anniversaries of the Effective Date ("Initial Grant"), and (ii) the Southern Management Warrants. Shares of Reorganized Southern Air Parent Common Stock issued pursuant to the Initial Grant shall be allocated and distributed among Southern Management in a manner and amount as determined by the Board of Directors of Holdings, as predecessor in interest to Reorganized Southern Air Parent, upon the recommendation of the Chief Executive Officer of Holdings, and shall vest immediately in connection with a change of control or a sale of substantially all of the assets of Reorganized Southern Air and certain other enumerated events to be agreed upon. Allocation of Southern Management Warrants shall be determined by the Board of Directors of Reorganized Southern Air Parent, upon the recommendations of the Chief Executive Officer of Reorganized Southern Air Parent, and accelerated vesting of the Southern Management Warrants shall be agreed upon by the Southern Management and the Board of Directors of Reorganized Southern Air Parent.

**8. DIP Lender Claims**

On the Effective Date, (i) all of the Debtors' outstanding obligations arising from or related to that certain Senior Secured Super-Priority Debtor-in-Possession Credit Agreement (the "DIP Agreement"), dated as of September 28, 2012, by and among Cargo 360, CIBC, as Administrative Agent, and the lenders party thereto (the "DIP Lenders"), the Interim DIP Order and the Final DIP Order ("DIP Lender Claims") shall be satisfied as follows: with respect to the DIP Lender Claims funded by the DIP Lenders, each DIP Lender shall be entitled to receive its Pro Rata Share of (a) Exit Term Loans in the original principal amount of Sixty-Two Million Five Hundred Thousand Dollars ($62,500,000.00), the repayment of which shall be pari passu in recovery to the indebtedness to the Exit Term Loans to be issued on account of Allowed Prepetition Lender Claims in accordance with Section 6.1 of the Plan; provided, however, that notwithstanding the foregoing, during the period from the Petition Date up to, but not including, the Effective Date, the Debtors shall use commercially reasonable efforts to enter into a financing facility so that the DIP New Money Loan, the DIP Roll-Up Loan, or both, are paid in full, in Cash; and (b) a payment, in Cash, equal to the greater of (1) five percent (5%) of the total equity value of the Reorganized Debtors, as set forth in Sections VIand VII herein,[4] and (2) five percent (5%) of the total equity value of the Reorganized Debtors pursuant to the transactions contemplated by the Plan, determined by the Bankruptcy Court as of the Effective Date and set forth in the Confirmation Order, and payable pursuant to the terms of the Plan (the "Equity Payment"); provided, however, at the election of the Debtors, and in their sole and absolute discretion, which election shall be announced prior to the commencement of the Confirmation Hearing, such Equity Payment may be satisfied and otherwise discharged through the delivery by Reorganized Southern Air Parent of shares of Reorganized Southern Air Parent Common Stock representing five percent (5%) of the duly authorized common stock of Reorganized Southern Air Parent to be issued as of the Effective Date to each DIP Lender or its respective U.S. LLC Designee, as the case may be, (ii) the Debtors shall be relieved of any and all other obligations with respect to the DIP Agreement, the Interim DIP Order, and the Final DIP Order, and (iii) all Liens and other encumbrances granted pursuant to the Interim DIP Order and the Final DIP Order, including, without limitation, and subject to the provision in Section 3.4 of the Plan, those granted in connection with the Secured OHAA Payment Obligations, with respect to the property and interests in property claimed by the Debtors shall be released.

[4] Based upon the projected Total Shareholders' Equity value of Twenty-Seven Million Five Hundred Thousand Dollars ($27,500,000.00), the midpoint in the equity value range determined by Zolfo Cooper, an Equity Payment in this amount would be One Million Seven Hundred and Fifty Thousand Dollars ($1,375,000.00). See infra Section VII.A.

### 9. Oak Hill Entities' Claims

On the Effective Date, in accordance with the terms and provisions of the Interim DIP Order and the Final DIP Order, (i) the Oak Hill Entities shall have an Allowed Claim against each Debtor for the Secured OHAA Payment Obligations, in the aggregate amount of the payments received by the Debtors pursuant to the Oak Hill 1110 Stipulation during the Chapter 11 Cases, to the extent permitted pursuant to the Interim DIP Order and the Final DIP Order, (ii) such Allowed Claim shall receive the treatment set forth in Section 2.1(d) of the Plan, in full and complete satisfaction and discharge thereof, and (iii) the Claims in respect of the Secured OHAA Payment Obligations shall not be subject to any avoidance, reductions, setoff, offset, recharacterization, subordination (whether equitable, contractual or otherwise), counterclaims, cross-claims, defenses, disallowance, impairment, objection, or any other challenges under any applicable law or regulation by any Person or Entity. Additionally, on November 27, 2012, OHCP II asserted the OHCP II Proof of Claim against Holdings in the amount of $2,381,356.86 for expenses incurred in connection with monitoring the Debtors' businesses, "including legal fees, insurance services, fees for various consulting and advisory services, and travel and meal expenses."

### 10. Exit Facility

On or before the Effective Date, the Debtors will create a Delaware limited liability corporation named Cargo 360, LLC ("Cargo LLC"), the membership interests of which shall be held by Cargo 360 or Reorganized Cargo 360, as the case may be. On the Effective Date, all of the capital stock in Southern Air and Air Mobility will be contributed to Cargo LLC. Also on the Effective Date, Cargo LLC will enter into a senior secured exit facility consisting of the Exit Revolving Credit Facility and the Exit Term Loans; provided, however, that notwithstanding the foregoing, the Debtors shall use commercially reasonable efforts to enter into a new money facility so that the DIP New Money Loans and the DIP Roll Up Loans, or both, are paid in full, in Cash. In that regard, the Debtors' bankruptcy consultant and special financial advisor, Zolfo Cooper, LLC ("Zolfo Cooper"), is pursuing potential sources of exit financing.

#### a. *Exit Revolving Credit Facility*

The revolving credit facility in the amount up to Twenty Million Dollars ($20,000,000.00), which facility shall be undrawn as of the Effective Date except to the extent that letters of credit issued and outstanding pursuant to the Prepetition Credit Agreement shall be rolled into or re-issued in accordance with the provisions of the Exit Credit Agreement.

#### b. *Exit Term Loans*

Term loans to be extended on the Effective Date in connection with (i) the satisfaction of the DIP Lender Claims in accordance with the provisions of Section 3.3 of the Plan, in the aggregate principal amount of Sixty-Two Million Five Hundred Thousand Dollars ($62,500,000.00), and (ii) distributions to be made on account of Allowed Prepetition Lender Claims, in accordance with the provisions of Section 6.1 of the Plan, in the aggregate original principal amount of Seventeen Million Five Hundred Thousand Dollars ($17,500,000.00), which term loans, to the extent provided by the DIP Lenders, shall mature on the fifth (5th) anniversary of the Effective Date and bear interest, payable quarterly in arrears, in cash, as follows: (a) LIBOR plus seven percent (7%) per annum, subject to a LIBOR floor of two percent (2%) per annum, or (b) Base Rate plus six percent (6%) per annum, subject to a Base Rate floor of three percent (3%) per annum; provided, however, Cargo LLC may elect, in its sole and absolute discretion, determined and announced to the Exit Agent on the Business Day prior to the beginning of each fiscal quarter, to reduce the cash interest by (y) three percent (3%) per annum for such fiscal quarter by increasing the principal amount of Exit Term Loans through the issuance of

additional promissory notes by an amount equal to six percent (6%) for such fiscal quarter or (z) in the event that, during the period from the Effective Date up to and including the three (3) month anniversary thereof, that certain Block Space Agreement, dated May 11, 2012, between Southern Air and Asiana Airlines, Inc. is not extended or modified and extended during the four (4) fiscal quarters following the non-extension of such agreement, an amount up to six percent (6%) per annum for such fiscal quarter by increasing the principal amount of the Exit Term Loans through the issuance of additional promissory notes in an amount equal to one hundred fifty percent (150%) of the cash interest so reduced in such fiscal quarter.

**11. Reorganized Southern Air Parent Common Stock**

Ten Million (10,000,000) shares of duly authorized common stock of Reorganized Southern Air Parent[5] shall be issued as of the Effective Date, comprised of Class A-1 Common Stock, Class A-2 Common Stock, Class A-3 Common Stock, Class B Common Stock, Class C-1 Common Stock, and Class C-2 Common Stock, each having a par value of $0.01 per share and, to the extent applicable, governed by the provisions of the Reorganized Debtors By-Laws, Reorganized Debtors Certificate of Incorporation, and the Reorganized Southern Air Parent Stockholders Agreement[6] (collectively, "Reorganized Southern Air Parent Common Stock"). Equity issuances of Reorganized Southern Air Parent Common stock to third parties following the Effective Date shall be either Class A-4 Common Stock or Class C-3 Common Stock, as applicable. A more detailed summary of each class of Reorganized Southern Air Parent Common Stock is provided in Section VIII.A hereof.

**12. Plan Supplement**

No later than ten (10) Business Days prior to the Ballot Date, the Debtors shall file with the Clerk of the Bankruptcy Court a separate volume, which will include, among other documents, forms of the following documents, which documents shall be consistent with the applicable terms of the Plan Support Agreement and in form and substance reasonably acceptable to the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities: (i) the Reorganized Debtors By-Laws, (ii) the Reorganized Debtors Plan Administration Agreement, (iii) the Reorganized Debtors Certificates of Incorporation, (iv) the Oak Hill Tranche 1 Warrants, (v) the Oak Hill Tranche 2 Warrants, (vi) the Reorganized Southern Air Parent Stockholders Agreement, (vii) the OHAA Funding Agreement, (viii) the Management Equity Plan, (ix) the Management Agreements, (x) the Prepetition Lender Warrants, (xi) the Southern Management Warrants, (xii) the Exit Credit Agreement, and (xiii) the Litigation Trust Agreement, including, without limitation, schedules and exhibits to the Litigation Trust Agreement; provided, however, that the consent rights of the Required DIP Lenders are solely with respect to the terms of the Exit Credit Agreement and the Reorganized Southern Air Parent Stockholders Agreement to the extent of the Equity Payment; and, provided, further, that with respect to the Exit Credit Agreement, the Oak Hill Entities shall have no consent rights to the extent that the terms and conditions of the Exit Credit Agreement are consistent with, or no less economically favorable to the Reorganized Debtors than, the provisions of the Plan Support Agreement.

[5] On or after the Effective Date, the Debtors, with the consent of the Requisite Lenders and the Oak Hill Entities, will determine whether the Reorganized Southern Air Parent is Reorganized Holdings or Reorganized Cargo 360.

[6] Southern Management shall not be party to the Reorganized Southern Air Parent Stockholders Agreement with respect to shares of Class A-3 Common Stock or Class C-2 Common Stock distributed and held in accordance with the provisions of Sections 28.2 and 28.3 of the Plan.

### 13. Substantive Consolidation

The Plan contemplates and is predicated upon the deemed substantive consolidation of the Debtors for the purpose of all actions pursuant to the Plan. Entry of the Confirmation Order shall constitute approval pursuant to section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of the Chapter 11 Cases for all purposes related to the Plan, including, without limitation, for purposes of voting, confirmation and distribution. Without in any way limiting the foregoing:

#### a. *Claims*

On and after the Effective Date, (i) no distributions will be made under the Plan on account of Intercompany Claims, (ii) all guarantees by any of the Debtors of the obligations of any other Debtor arising prior to the Effective Date will be deemed eliminated so that any Claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint and several liability of any of the Debtors will be deemed to be one obligation of the deemed consolidated Debtors and (iii) each and every Claim filed or to be filed in the Chapter 11 Cases of the Debtors will be deemed filed against the deemed consolidated Debtors and will be deemed a single Claim filed and obligation of the deemed consolidated Debtors

#### b. *Voting*

A Creditor's vote to accept the Plan will be deemed such Creditor's agreement to accept, as consideration for any and all Allowed Claims against any and all Debtors, the treatment specified in the Plan and, in the event the Bankruptcy Court does not approve the substantive consolidation of all or certain of the Debtors, the treatment of such Creditor's Claim pursuant to the Plan on a non-substantive consolidation basis.

#### c. *Non-Effect*

The substantive consolidation effected pursuant to Section 2.2 of the Plan will not affect (other than for purposes related to funding distributions under the Plan) (i) the legal and organizational structure of the Debtors, (ii) defenses to any causes of action or requirements for any third party to establish mutuality to assert a right of setoff, and (iii) distributions out of any insurance policies or proceeds of such policies.

#### d. *Quarterly Fees*

Notwithstanding the deemed substantive consolidation under the Plan, pursuant to Section 31.12 of the Plan, each and every Debtor will remain responsible for the payment of quarterly fees to the Office of the U.S. Trustee for the District of Delaware (the "U.S. Trustee") until the earlier of the time a particular case has been closed, converted or dismissed.

### 14. Treatment and Recovery of Claims and Interests:

The following table summarizes, assuming an Effective Date of March 31, 2013, (i) the treatment of Claims and Equity Interests under the Plan, (ii) which Classes are impaired by the Plan, (iii) which Classes are entitled to vote on the Plan, (iv) the estimated amount of Claims or Equity Interests in each Class; and (v) the estimated recoveries for holders of Claims and Equity Interests.

Substantive consolidation is appropriate for purposes of the Plan because Southern Air is the only entity in the Debtors' corporate structure with significant operating assets and liabilities, is the entity with operating revenues and expenses and is the entity that collects and disburses all cash within the Debtors' cash management system. Additionally, the assets held by Debtors other than Southern Air are negligible in value apart from significant intercompany receivables that predate, to a significant extent, the Debtors' management and lack sufficient documentation and support to be validated independently (and which might be equitably subordinated to the unaffiliated creditors at the entity obligated on the related intercompany payable). Moreover, the liabilities of Debtors other than Southern Air are comprised primarily of guarantees issued on behalf of Southern Air obligations and intercompany payables. Indeed, all of the Debtors' assets have been pledged as collateral to secure the Debtors' shared obligations under the Prepetition Credit Agreement (see Section III.D.1 hereof) and the DIP Agreement (see Sections II.B.8 and IV.B.4 hereof), and, even though Cargo 360 is the borrower under those credit agreements, it is Southern Air that has historically met all repayment obligations under those credit facilities. Accordingly, the Plan contemplates and is predicated upon the deemed substantive consolidation of the Debtors. Solely for purposes of the Plan: (i) all of the Debtors' assets and liabilities shall be treated as though they were merged, (ii) all guarantees of one Debtor's obligations by another of the Debtors shall be eliminated, and (iii) any claim filed against any of the Debtors shall be deemed filed against the Debtors collectively and shall constitute one claim against the consolidated Debtors.

The following summary table is qualified in its entirety by reference to the full text of the Plan, a copy of which is attached hereto as Exhibit A. For a more detailed summary of the terms and provisions of the Plan, see Section V below. A detailed discussion of the analysis underlying the estimated recoveries, including the assumptions underlying such analysis, is set forth in the Liquidation Analysis attached hereto as Exhibit D.

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| -- | Administrative Expense Claims | Either (i) paid in full, in Cash or (ii) satisfied and discharged in accordance with the terms and conditions of the agreements with respect to such Claim on the later of (a) the Effective Date and (b) the date on which such Claim becomes an Allowed Claim unless otherwise mutually agreed by the holder of such Claim and the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. | N/A | N/A | $3,632,000 | 100% |

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| -- | Priority Tax Claims | At the option and discretion of the Debtors, which option shall be exercised, in writing, on or prior to the commencement of the Confirmation Hearing, paid (i) in full, in Cash, on the Effective Date, (ii) in full, in Cash, in equal quarterly installments, commencing on the first (1st) Business Day following the Effective Date and ending on the fifth (5th) anniversary of the Petition Date, together with interest accrued thereon at the applicable non-bankruptcy rate as of the Confirmation Date, or (iii) by mutual agreement of the Claim holder and the Debtors or Reorganized Debtors, as the case may be, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. | N/A | N/A | $441,430 | 100% |
| -- | DIP Lender Claims | See summary in Section II.B.8 hereof. | N/A | N/A | $62,500,000 | 100% |
| -- | Oak Hill Entities' Claims | See summary in Section II.B.9 hereof. | N/A | N/A | $5,833,333 | 100% |
| 1 | Priority Non-Tax Claims | Unless otherwise mutually agreed upon by the holder of an Allowed Priority Non-Tax Claim and the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, each holder of such Claim shall receive Cash in an amount equal to such Claim on the later of the Effective Date and the date such Claim becomes an Allowed Claim, or as soon thereafter as is possible. | Unimpaired | Not entitled to vote | $374,561 | 100% |
| 2 | Prepetition Lender Claims | On the Effective Date, (a) the Prepetition Lender Claims shall be deemed Allowed Prepetition Lender Claims in the aggregate amount of not less than Two Hundred Ninety-Five Million, Eight Hundred and Six Thousand, Four Hundred and Sixty Dollars and Twenty-Five Cents ($295,806,460.25) (i) minus the amount of the DIP Roll-Up Loan and (ii) plus such fees, charges and expenses which may be due and owing in | Impaired | Entitled to vote | $258,306,460[7] | 10.4–17.5% |

[7] After taking into consideration the effect of the DIP Roll-Up Loan.

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| | | accordance with the terms and provisions of the Prepetition Credit Agreement, and (b) each holder of an Allowed Prepetition Lender Claim shall receive its Pro Rata Share of (1) Exit Term Loans in the aggregate original principal amount of Seventeen Million Five Hundred Thousand Dollars ($17,500,000.00) (2) the Prepetition Lender Reorganized Southern Air Parent Common Stock and the Prepetition Lender Warrants to be distributed to such Prepetition Lender or its respective U.S. LLC Designee, as the case may be, and (3) Litigation Trust Interests, solely to the extent that distributions of Cash to holders of Allowed General Unsecured Claims pursuant to Articles VIII and XVI of the Plan are, in the aggregate, equal to ten (10%) of such holders' Allowed General Unsecured Claims; provided, however, that the Debtors shall cause the face amount of any letters of credit issued and outstanding pursuant to the Prepetition Credit Agreement to be rolled into, or replaced by, a letter of credit issued pursuant to the Exit Revolving Credit Facility. | | | | |
| 3 | Other Secured Claims | On or after the Effective Date, the holders of Allowed Secured Claims shall receive one of the following distributions: (i) payment of such Claim in Cash; (ii) the sale or disposition proceeds of the property securing such Claim to the extent of the value of their respective interest in such property; (iii) the surrender to the holders of such Claims of the property securing such Claims; (iv) such other distributions as shall be necessary to satisfy the requirements of chapter 11 of the Bankruptcy Code, including, without limitation, the payment of interest with respect thereto, at the lesser of (a) the non-default rate set forth in the applicable contractual documentation and (b) the rate applicable pursuant to applicable non-bankruptcy law as determined by the Bankruptcy Court; or (v) such other treatment as may be agreed upon by the Debtors and the holder of such Claim. | Unimpaired | Not entitled to vote | $1,180,035 | 100% |

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| | | The manner and treatment of such Claim shall be determined by the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. | | | | |
| 4 | General Unsecured Claims | The holders of Allowed General Unsecured Claims shall not be entitled to receive any distribution or retain any property on account of such Claims, provided, however, that, pursuant to the compromises and settlements contained in the Plan, on the Effective Date, the Debtors shall deposit Two Million Five Hundred Thousand Dollars ($2,500,000.00) minus such amount of Cash necessary to be paid on account of Allowed Convenience Claims ("Creditor Cash") into the Litigation Trust and each holder of an Allowed General Unsecured Claim (other than an Allowed Prepetition Lender Deficiency Claim) shall receive on account of such Claim, and subject to the election described below, such holder's Pro Rata Share of Litigation Trust Interests.<br><br>Any holder of an Allowed General Unsecured Claim, other than a General Unsecured Claim that is a component of a larger General Unsecured Claim, portions of which may be held by such or any other holder of an Allowed Claim, whose Allowed Claim is more than Two Thousand Dollars ($2,000.00), and who elects to reduce the amount of such Allowed General Unsecured Claim to Two Thousand Dollars ($2,000.00), shall, at such holder's option, be entitled to receive, based on such Allowed General Unsecured Claim as so reduced, distributions in accordance with the treatment provided to Convenience Claims (see below). | Impaired | Entitled to vote | $94,556,859 | 2.4–2.6% |
| 5 | Convenience Claims | Paid in Cash, an amount equal to twenty-five percent (25%) of such Allowed Convenience Claim, on the later of the Effective Date and the date such Claim becomes an Allowed Claim, or as soon thereafter as is practicable. | Impaired | Entitled to vote | $127,507 | 25% |

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| 6 | General Liability Insured Litigation Claims | Unless otherwise mutually agreed upon by the holder of an Allowed General Liability Insured Litigation Claim and the Debtors, upon consultation with the Requisite Lenders and the Oak Hill Entities, or the Reorganized Debtors, as the case may be, each holder of an Allowed General Liability Insured Litigation Claim is entitled to proceed with the liquidation of such Claim, including any litigation pending as of the Petition Date and seek recovery from the applicable General Liability Insurance Carrier; provided, however, that, upon the settlement or resolution of the litigation underlying such Claim, the Claim shall be treated as a General Unsecured Claim to the extent any such settlement or judgment is not covered by insurance. | Impaired | Entitled to vote | -- | -- |
| 7 | Subordinated Claims | No distribution. | Impaired | Not entitled to vote | -- | 0% |
| 8 | Preferred Equity Interests | On the Effective Date, the Preferred Equity Interests will be deemed extinguished and the certificates and other documents representing such Equity Interests shall be deemed cancelled and of no force and effect. | Impaired | Not entitled to vote | $129,300,000 | 0% |
| 9 | Holdings Common Equity Interests | On the Effective Date, (a) at the election of the Debtors, with consent of the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, Holdings shall be merged into Cargo 360 and, as a result thereof, pursuant to operation of law, the Holding Equity Interests shall be extinguished, or (b) in the event such merger is not completed, the Holdings Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect. | Impaired | Not entitled to vote | -- | 0% |

| Class | Claim or Equity Interest | Treatment | Impaired or Unimpaired | Entitlement to Vote on the Plan | Estimated Amount of Claims | Approx. Percentage Recovery |
|---|---|---|---|---|---|---|
| 10-12 | Common Equity Interests (Corporations) | On the Effective Date, common Equity Interests in Classes 27, 28, and 29 shall be deemed unimpaired and the certificates and all other documents representing such Equity Interests shall be deemed in full force and effect. | Unimpaired | Not entitled to vote | -- | 0% |
| 13-26 | Common Equity Interests (LLCs) | On the Effective Date, (a) the common Equity Interests in Classes 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, and 43 shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (ii) the assets, if any, of 21110 LLC, 21111 LLC, 21221 LLC, 21550 LLC, 21576 LLC, 21590 LLC, 21787 LLC, 21832 LLC, 23138 LLC, 24067 LLC, 46914 LLC, CF6-50 LLC, Aircraft 21380 LLC, and Aircraft 21255 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances. | Impaired | Not entitled to vote | -- | 0% |
| -- | Intercompany Claims | On or as soon as practicable after the Effective Date, with the consent of the Requisite Lenders and the Oak Hill Entities, all Intercompany Claims will be either (a) reinstated to the extent determined to be appropriate by the Debtors or the Reorganized Debtors, as the case may be, or (b) adjusted, continued or capitalized, either directly or indirectly, in whole or in part. Any such transaction may be effected on or subsequent to the Effective Date without any further action by the equity holders of Reorganized Southern Air Parent. | -- | Not entitled to vote | $0 | -- |

## III.
## OVERVIEW OF THE DEBTORS' OPERATIONS

### A. The Debtors' Businesses

Southern Air, the United States Department of Transportation and Federal Aviation Administration-certificated, indirect subsidiary of Holdings, is an experienced provider of long-haul, wide-body air cargo transportation services. As of the Petition Date, Southern Air operated a fleet of eleven aircraft, including four Boeing 777 aircraft, four Boeing 747-400 aircraft, and three Boeing 747-

200 aircraft. The Debtors' corporate headquarters and operational control center, located in Norwalk, Connecticut, facilitates all aspects of flight operations for the Debtors' businesses. The Debtors conduct the majority of their operations in foreign airspace and utilize staff and maintenance bases located around the world to facilitate their international operations.

As of the Petition Date, the Debtors employed approximately 611 full-time employees. For the twelve months ended July 31, 2012, the Debtors' unaudited and consolidated financial statements reflected total revenues of approximately $428.2 million and a net loss of $159.8 million. As of July 31, 2012, the Debtors' unaudited and consolidated financial statements reflected assets totaling approximately $206.9 million and liabilities totaling approximately $486.5 million.

The Debtors' fleet and operational network support two primary lines of business: Governmental air cargo transportation services and commercial air cargo transportation services.

**1. Governmental Air Cargo Services**

Southern Air provides air cargo transportation services to the United States government through participation in the Civil Reserve Air Fleet ("CRAF"), a program in which commercial air carriers pledge aircraft to the Department of Defense ("DOD") for exclusive government airlift service during times of national emergency in exchange for government airlift contracts during times of peace. The government places CRAF participants into one or more "segments" based on the characteristics and capability of the participant's fleet. CRAF participants typically form cooperative teams with other commercial air carriers to diversify fleet characteristics and capabilities and pool mobilization value ("MV") points, which allows them to bid on government contracts more efficiently and effectively. The Debtors belong to the "Patriot Team." The Debtors generate revenue from government services through the fulfillment of missions. The number of missions awarded to the Patriot Team depends on the number of MV points credited to the team under its contract with the United States Transportation Command (the "USTC"), which directly corresponds to the total number and type of aircraft the Patriot Team has committed to the CRAF program. Missions awarded to the Patriot Team under the USTC contract are allocated to individual team members in accordance with an allocation agreement among the Patriot Team members. The Debtors also provide air cargo transportation services to the United Kingdom Ministry of Defence under a charter services agreement with Chapman Freeborn Airchartering Limited.

Governmental services accounted for approximately 44.0% of the Debtors' revenue for the twelve months ended July 31, 2012. Missions awarded to Southern Air as a result of its participation in the CRAF program account for approximately 98.4% of such revenues.

**2. Commercial Air Cargo Services**

Southern Air also provides air cargo transportation services to a variety of commercial customers. The Debtors provide the bulk of their commercial services pursuant to aircraft, crew, maintenance, and insurance contracts ("ACMI Contracts"), in which the Debtors provide the customer with an aircraft and crew, and cover the cost of maintaining and insuring the aircraft, in exchange for a fee paid for each "block hour" of service provided to the customer. "Block hours" generally begin when an aircraft first moves under its own power for the purpose of conducting a flight and end when the aircraft comes to rest at the conclusion of the flight. In 2011, Southern Air entered into a profitable ACMI Contract with DHL Express ("DHL") for the use of the Boeing 777 aircraft operated by Southern Air (the "DHL Contract"). The DHL Contract is valid through March 31, 2015 and may be extended by the Debtors through March 31, 2018 on not less than twelve (12) months' notice to DHL; provided, however, that DHL may terminate the DHL Contract during the extended term on not less than twelve (12) months' notice; and provided, further, that, DHL may terminate the DHL Contract without any

notice period subject to certain conditions, none of which Southern Air believes will occur. The Debtors' relationship with DHL is the cornerstone of their commercial air cargo transportation business and flights for DHL are an increasingly significant component of the Debtors' overall business.

The Debtors also provide commercial services under crew, maintenance, and insurance contracts ("CMI Contracts") and on-demand charter contracts ("Charter Contracts"). CMI Contracts operate in the same manner as ACMI contracts, except that the customer, not the Debtors, provides the aircraft. Under Charter Contracts, the Debtors provide the customer with an aircraft and crew, and cover not only the cost of maintenance and insurance, but also all other necessary operating costs, including fuel, in exchange for an increased fee. Customers often prepay the Debtors for the services rendered under ACMI Contracts, CMI Contracts, and Charter Contracts.

Commercial air cargo transportation services accounted for approximately 56.0% of the Debtors' revenue for the twelve months ended July 31, 2012. Services for DHL are responsible for approximately 33.5% of such revenues.

### 3. Regulation of the Debtors' Businesses

The Debtors are subject to various federal, international, and local laws and regulations governing Southern Air's operations as an air carrier, including, without limitation: aviation safety, aviation security, economic authority, citizenship, consumer protection, environmental matters, and labor relations. The following is a brief summary of the regulatory environment in which the Debtors operate their businesses:

*United States Department of Transportation* ("DOT"). The DOT regulates economic issues affecting air transportation, such as certification and fitness of carriers, insurance requirements, consumer protection, wet lease arrangements, competitive practices and statistical reporting. The DOT has authority to investigate and institute proceedings to enforce its regulations and may assess civil penalties, suspend or revoke operating authority, and seek criminal sanctions. Southern Air holds DOT certificates of public convenience and necessity authorizing it to engage in (i) scheduled air transportation of property and mail between the United States and over 100 foreign countries, and (ii) charter air transportation of property and mail on a domestic and international (worldwide) basis.

*Federal Aviation Administration* ("FAA"). The FAA regulates flight operations and safety, including matters such as airworthiness and maintenance requirements for aircraft, pilot and mechanic training and certification, flight and duty time limitations, and air traffic control. The FAA requires each U.S. airline to obtain and hold an FAA air carrier certificate. This certificate, in combination with operations specifications issued to the airline by the FAA, authorizes the airline to provide commercial service using aircraft certificated by the FAA. Southern Air has and maintains in effect FAA certificates of airworthiness for all of its aircraft, and holds the necessary FAA authority to fly to all of the locations it currently serves. The FAA has the authority to investigate all matters within its purview and to modify, suspend, or revoke Southern Air's ability to provide air transportation, or to modify, suspend, or revoke FAA licenses issued to individual personnel for failure to comply with FAA regulations. The FAA can assess civil penalties for such failures and institute proceedings for the collection of monetary fines after notice and hearing. The FAA also has authority to seek criminal sanctions. The FAA can suspend or revoke Southern Air's authority to provide air transportation on an emergency basis, without notice and hearing, if, in the FAA's judgment, safety requires such action. A legal right to an independent, expedited review of such FAA action exists. Emergency suspensions or revocations have been upheld with few exceptions. The FAA monitors Southern Air's compliance with maintenance, flight operations and safety regulations on an ongoing basis, maintains a continuous

working relationship with Southern Air's operations and maintenance management personnel, and performs frequent spot inspections of Southern Air's aircraft, employees, and records.

The FAA also has authority to promulgate rules and regulations and to issue maintenance directives and other mandatory orders relating to, among other things, inspection, repair and modification of aircraft and engines, increased security precautions, aircraft equipment requirements, noise abatement, mandatory removal and replacement of aircraft parts and components, mandatory retirement of aircraft and operational requirements and procedures. Such rules, regulations and directives are normally issued with the opportunity to comment; however, they may be issued without advance notice or opportunity for comment if, in the FAA's judgment, safety requires such action.

*Security.* Within the United States, civil aviation security functions, including review and approval of the content and implementation of air carriers' security programs, cargo security measures, airport security, assessment and distribution of intelligence, threat response, and security research and development are the responsibility of the Transportation Security Administration ("TSA") of the Department of Homeland Security. The TSA possesses enforcement powers similar to the DOT and the FAA, as described above. In addition, the TSA has authority to issue regulations and, in cases of emergency, to do so without advance notice.

*Environmental.* The Debtors are subject to various federal, state and local laws and regulations relating to the protection of the environment and affecting matters such as aircraft engine emissions, aircraft noise emissions, and the discharge or disposal of materials and chemicals, which laws and regulations are administered by numerous state and federal agencies, including, for example, the Environmental Protection Agency ("EPA"). These agencies possess enforcement powers similar to the DOT and the FAA, as described above.

*Foreign Ownership*. To maintain Southern Air's DOT and FAA certificates, Southern Air, Cargo 360, and Holdings, must qualify continuously as citizens of the United States ("United States Citizens") within the meaning of the Transportation Code (as defined in Section VIII.C hereof). Thus, Southern Air, Cargo 360, and Holdings must be under the actual control of United States Citizens at all times, and must satisfy certain other requirements, including the requirement that the president and at least two-thirds of the board of directors and other managing officers must be United States Citizens, and that not more than 25% of the voting stock may be owned or controlled by non- United States Citizens. The amount of non-voting stock that may be owned or controlled by non-United States Citizens is limited as well. Foreign ownership restrictions are discussed in more detail in Section VIII.C hereof.

*Other Regulations.* Southern Air's operations may be subject to additional federal requirements under certain circumstances. For example, Southern Air's labor relations are covered under Title II of the Railway Labor Act of 1926, as amended, and are subject to the jurisdiction of the National Mediation Board. In addition, during a period of past fuel scarcity, air carrier access to jet fuel was subject to allocation regulations promulgated by the Department of Energy. Changes to the federal excise tax on air transportation have been proposed from time to time and may result in an increased tax burden for cargo airlines and their customers. Moreover, Southern Air is subject to workplace rules and regulations promulgated by the Occupational Safety and Health Administration, and the Department of Justice has jurisdiction over certain issues affecting competition among air carriers.

Southern Air is also subject to state, local and foreign laws, regulations and ordinances at locations where it operates and to the rules and regulations of various local authorities that operate the airports Southern Air serves. International air transportation, whether provided on a scheduled or charter basis, is subject to the laws, rules and regulations of the foreign countries to, from and over which the international flights operate. Foreign laws, rules and regulations governing air transportation are generally

similar, in principle, to the regulatory scheme of the United States described above, although in some cases foreign requirements are comparatively less onerous, while in others they are more onerous. Southern Air must comply with the laws, rules, and regulations of each country to, from, or over which it operates. International flights are also subject to U.S. Customs and Border Protection, Immigration and Agriculture requirements and the requirements of equivalent foreign governmental agencies.

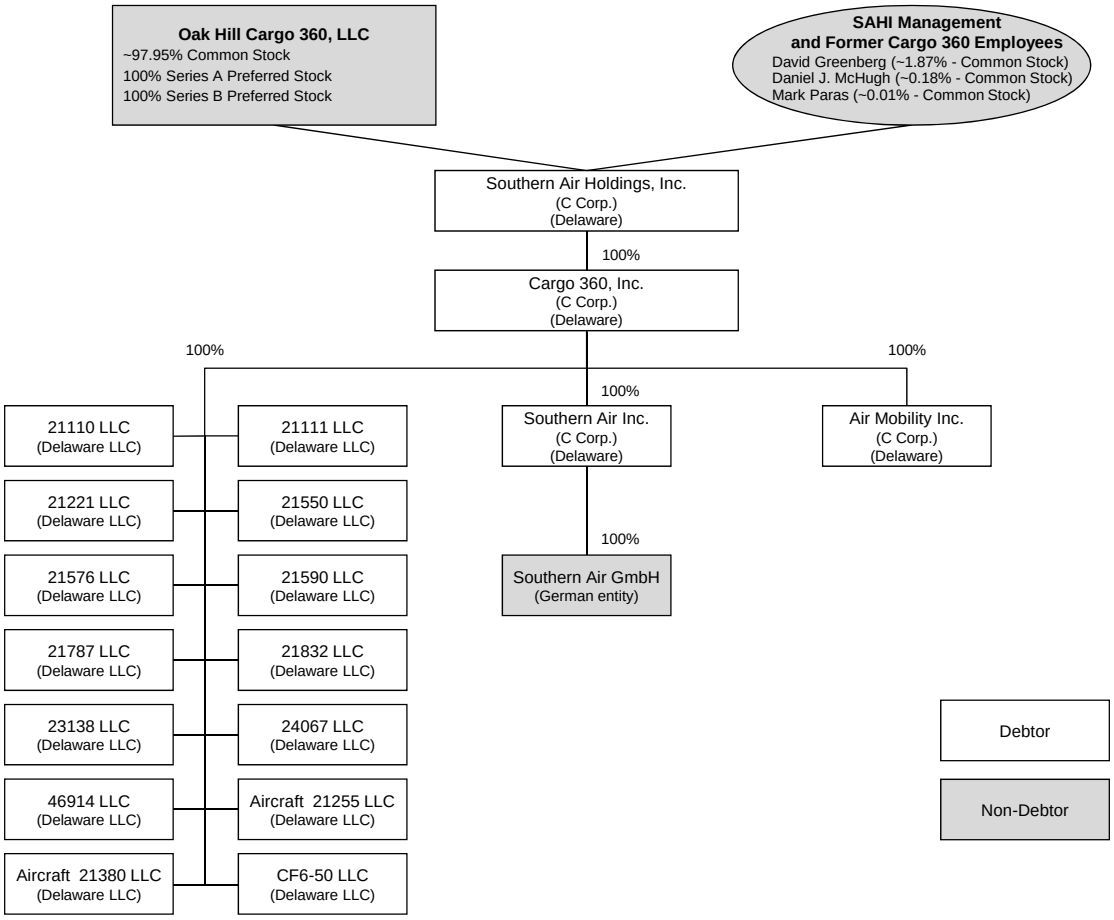
### B. The Debtors' Organizational Structure

The Debtors' origin dates back to 1947 and the creation of Southern Air Transport in Miami, Florida. Southern Air was incorporated in Delaware on March 4, 1999 and operates under an FAA Air Carrier Certificate, dated November 19, 1999. Southern Air continues the business started by Southern Air Transport, providing dependable international air cargo transportation services at competitive prices.

Holdings was incorporated in Delaware on July 19, 2007. In a series of transactions that took place on September 6, 2007, OHCP II acquired Southern Air through the merger of Southern Air and its existing subsidiaries with an OHCP II portfolio company named Cargo 360. As a result of the September 2007 transaction, Oak Hill Cargo 360 was the majority owner of Holdings, while the former owners of Southern Air held approximately 27% of the equity interests in Holdings, which Oak Hill Cargo 360 acquired on May 5, 2010. As of the Petition Date, Oak Hill Cargo 360 remained Holdings' controlling shareholder, owning approximately 97.95% of its issued and outstanding common stock, 100% of the issued and outstanding Series A preferred stock of Holdings, and 100% of the issued and outstanding Series B preferred stock of Holdings. Oak Hill Cargo 360 is wholly and indirectly owned by OHCP II and its affiliates. Before the Petition Date, as the controlling shareholder, Oak Hill Cargo 360 appointed three of the five members of the Holdings board of directors. Oak Hill Cargo 360 is not a debtor in these Chapter 11 Cases.

Today, the Debtors are headquartered at 117 Glover Avenue, Norwalk, Connecticut. Each of the other Debtors is a wholly-owned, direct or indirect subsidiary of Holdings and all of the Debtors are incorporated or organized in Delaware. The following chart illustrates the Debtors' organizational structure:

*[Remainder of page intentionally left blank]*




Because the Debtors are privately held corporations or limited liability companies with no publicly traded debt, they are not subject to the information disclosure requirements of the Securities Exchange Act of 1934, as amended. Accordingly, none of the Debtors file annual, quarterly, or current reports or any other information with the Securities and Exchange Commission ("SEC").

### C. Holdings' Directors and Officers

Holdings' board of directors is comprised of (i) Edward V. Dardani, Chairman of the Board, (ii) Robert L. Crandall, (iii) Gerald A. Grinstein, (iv) Daniel J. McHugh, and (v) Michael J. Warren. Holdings' officers are (a) Daniel J. McHugh, President and Chief Executive Officer, (b) Thomas R. Pilholski, Executive Vice President and Chief Financial Officer, and (c) Jon E. Olin, Senior Vice President, General Counsel, and Secretary. Each of the foregoing directors and officers served in such capacity prior to the Petition Date.

Pursuant to section 1129(a)(5) of the Bankruptcy Code, the identity and affiliations of each individual proposed to serve as a director, officer, or voting trustee of the Reorganized Debtors after the Effective Date (and, to the extent any such individual is an insider of the Debtors, the nature of any compensation of such individual) shall be disclosed prior to the Confirmation Hearing.

## D. The Debtors' Prepetition Indebtedness and Lease Obligations[8]

The Debtors' significant prepetition indebtedness includes secured financing obligations in the amount of approximately $295 million and trade debt in the amount of approximately $31.1 million. In addition, the Debtors are the lessee under a number of aircraft operating leases. The Debtors' secured debt and lease obligations are described below.

### 1. Prepetition Credit Agreement

As of the Petition Date, Cargo 360 was party to that certain Credit Agreement, dated September 6, 2007 (the "Prepetition Credit Agreement"), by and between Cargo 360, as borrower, various financial institutions and other persons from time to time parties thereto (the "Prepetition Lenders"), and CIBC, as a Prepetition Lender and the administrative agent (the "Prepetition Agent"). The Prepetition Credit Agreement, as amended, provides for (i) a revolving credit facility (the "Prepetition Revolver"), letters of credit, and swingline facilities in the maximum aggregate amount of $50 million and (ii) a term loan facility (the "Prepetition Term Loan") in the amount of $250 million. The Prepetition Revolver and swingline loans mature on January 6, 2015. Certain Prepetition Lenders agreed to extend the maturity date of their Prepetition Term Loans to September 6, 2015. The Prepetition Term Loans of the non-extending Prepetition Lenders mature on the original maturity date of September 6, 2013.

Each direct subsidiary of Cargo 360 is a guarantor of the Prepetition Credit Agreement pursuant to that certain Subsidiary Guaranty, dated September 6, 2007.[9] Holdings is a guarantor of the Prepetition Credit Agreement pursuant to that certain Holdings Guaranty and Pledge Agreement, dated September 6, 2007 (the "Holdings Guaranty and Pledge"). To secure the payment and performance of all obligations under the Prepetition Credit Agreement, Cargo 360 and each of its subsidiaries entered into that certain Pledge and Security Agreement, dated September 6, 2007, pursuant to which they granted CIBC, as Prepetition Agent, a continuing security interest in substantially all of their assets, subject to certain specific exclusions.[10] In addition, pursuant to the Holdings Guaranty and Pledge, Holdings granted CIBC, as Prepetition Agent, a continuing security interest in, among other things, all its equity interests in its subsidiaries.

### 2. Aircraft Operating Leases

#### a. *Boeing 777 Aircraft*

As of the Petition Date, Southern Air leased four Boeing 777F aircraft (the "777 Aircraft") pursuant to that certain (i) Aircraft Operating Lease Agreement, dated as of February 5, 2010, between Southern Air, as Lessee, and Wells Fargo Bank Northwest, N.A., solely in its capacity as owner trustee ("Owner Trustee"), as Lessor, with respect to Serial Number 37986, as amended and supplemented from time to time, (ii) Aircraft Operating Lease Agreement, dated as of February 5, 2010,

[8] The description herein of the Debtors' prepetition indebtedness and lease obligations is for informational purposes only and is qualified in its entirety by the actual terms of the Prepetition Credit Agreement, the relevant aircraft operating leases, and their respective related agreements.

[9] Southern Air, GmbH ("SA Germany"), a non-debtor subsidiary of Southern Air, is not party to the aforementioned Subsidiary Guaranty.

[10] SA Germany is not party to the aforementioned Pledge and Security Agreement; however, pursuant to the terms of the Pledge and Security Agreement, Southern Air pledged 65% of the capital securities it holds in any foreign subsidiary.

between Southern Air, as Lessee, and Owner Trustee, as Lessor, with respect to Serial Number 37987, as amended and supplemented from time to time, (iii) Aircraft Operating Lease Agreement, dated as of August 5, 2011, between Southern Air, as Lessee, and Owner Trustee, as Lessor, with respect to Serial Number 37988, as amended and supplemented from time to time, and (iv) Aircraft Operating Lease Agreement, dated as of August 5, 2011, between Southern Air, as Lessee, and Owner Trustee, as Lessor, with respect to Serial Number 37989, as amended and supplemented from time to time (collectively, the "Oak Hill Leases"). OHAA is the beneficial owner of two of the 777 Aircraft and manages (and, upon the satisfaction of certain conditions, has the option to purchase the membership interests in) the entity that holds the beneficial interests in the other two 777 Aircraft. As of the Petition Date, each of the Oak Hill Leases has a term of twelve years. In connection with the Plan and the Oak Hill 1110 Stipulation, the Oak Hill Leases shall be amended to reduce the term to five (5) years (see Section IV.B.3 hereof).

#### b. *Boeing 747-400 Aircraft*

As of the Petition Date, Southern Air leased four Boeing 747-400 aircraft pursuant to that certain: (i) Aircraft Operating Lease Agreement, dated July 2, 2012, between Southern Air and Owner Trustee, with Aquila Aircraft Leasing Limited, a company incorporated in Ireland, as the beneficial owner of the aircraft (the "DVB Lease"); (ii) Aircraft Operating Lease Agreement, dated December 21, 2011, between Southern Air and Owner Trustee, with Eagle Aircraft Leasing Limited, a company incorporated in the Cayman Islands, as the beneficial owner of the aircraft (the "KV Lease"); (iii) Lease Agreement, dated October 17, 2011, between Southern Air and Owner Trustee, with Aircastle Investment Holdings 2, a Bermuda company, as the beneficial owner of the aircraft (the "Aircastle 27068 Lease"); and (iv) Lease Agreement, dated October 7, 2011, between Southern Air and Owner Trustee, with Aircastle Investment Holdings 2, a Bermuda company, as the beneficial owner of the aircraft (the "Aircastle 27044 Lease" and together with the Aircastle 27068 Lease, the "Aircastle Leases"). As of the Petition Date, the DVB Lease had a term of two (2) years and each of the KV Lease, the Aircastle 27068 Lease and the Aircastle 27044 Lease had a term of eight (8) years. Since the Petition Date, the Debtors have advanced certain fleet restructuring goals (see Section IV.B.9 hereof), including a negotiated a settlement with respect to the Aircastle Leases (see Section IV.B.7 hereof). As a result, one of the Aircastle Aircraft (as defined below) has been returned and the other shall be subject to a limited two (2) year lease.

#### c. *Boeing 747-200 Aircraft*

As of the Petition Date, Southern Air owned certain Boeing 747-200 aircraft and leased certain other Boeing 747-200 aircraft pursuant to lease agreements with its affiliated Debtor Air Mobility. In exchange for use of the aircraft, Southern Air makes periodic non-cash lease payments to Air Mobility, which are then recorded as matching loss and gain entries in the general ledger for Southern Air and Air Mobility, respectively. As discussed in more detail below, Southern Air ceased operating Boeing 747-200 aircraft in December 2012.

## IV.
## OVERVIEW OF THE CHAPTER 11 CASES

### A. Significant Events Leading to Commencement of the Chapter 11 Cases

#### 1. Generally

The reduction of United States military personnel in Afghanistan, as well as the anticipated automatic and mandatory budget cuts pursuant to Congressional sequestration, led to an unexpected and significant reduction in DOD spending on air cargo transportation services in the second and third financial quarters of 2012. As a result of the sharp decline in government demand, revenues

generated by the Debtors' governmental air cargo business declined precipitously in the second and third financial quarters of 2012. The Debtors' revenue from governmental business in the second financial quarter of 2012 was approximately $44.9 million, roughly 34% less than anticipated for this period under the Debtors' 2012 budget. The Debtors' revenue from governmental business in 2012 was approximately $154.5 million, roughly 38% less than anticipated for this line of business in the Debtors' 2012 budget.

The Debtors' loss of significant revenues from its governmental air cargo business has been compounded by an already stagnant international freight market, which is a direct result of the worst global economy in decades and a generally negative economic outlook. Indeed, 2012 is expected to be the fifth consecutive year in which there is no net growth in demand for air cargo services. At the same time, excess air cargo capacity in the market for ACMI services (the "ACMI Market") has negatively affected demand, exerting downward pressure on rates and guaranteed block hours under ACMI Contracts.

As a result of the contraction in the Debtors' governmental business and the increasingly price-competitive nature of the Debtors' commercial business, the Debtors' air cargo capacity is underutilized. Moreover, these market forces have also reduced the rates lessors can charge under aircraft operating leases, leaving the Debtors to operate their business under aircraft leases that are generally above current market rates. Consequently, the Debtors' liquidity has rapidly eroded over the past several months due to the combined effect of fleet underutilization and above-market lease obligations.

**2. Financial Results**

On a consolidated basis, the Debtors' revenues increased from approximately $363.5 million in the twelve months ended July 31, 2011 to approximately $428.2 million in the twelve months ended July 31, 2012. Despite growth in the Debtors' top line, on a consolidated basis, the Debtors' net loss for the twelve months ended July 31, 2012 was approximately $159.8 million, an increase from a net loss of approximately $53.5 million in the twelve months ended July 31, 2011.

**3. Restructuring Initiatives – Operational**

Starting in 2010, Southern Air sought to reposition itself within the ACMI Market by modernizing and refocusing its fleet. This process began with the delivery of the first two Boeing 777 aircraft in 2010 and accelerated with the execution of long-term ACMI Contracts with DHL for the use of these aircraft in 2011. Southern Air's strategic plan involved restructuring its operations around a smaller, more cost and fuel efficient fleet that would perform reliable, low-cost, low-risk services to select customers, namely the government and DHL, which has identified Boeing 777 aircraft as its preferred air cargo platform. The recent decline in government demand, however, has increased the significance of Southern Air's positive relationship with DHL. Revenues from DHL-related services provide the foundation from which Southern Air can opportunistically pursue growth opportunities with select commercial customers and/or the government.

A critical step in the Debtors' operational restructuring has been the elimination of the less cost-efficient, less fuel-efficient, and less reliable Boeing 747-200 aircraft from its operating fleet. Even before the abrupt market changes and resulting deterioration of the Debtors' liquidity described above, Southern Air had planned to retire the last of the Boeing 747-200 aircraft from its operations by the second half of 2013. In light of recent events, however, Southern Air accelerated its retirement schedule and ceased flying all Boeing 747-200 aircraft in December 2012. Retiring the Boeing 747-200 aircraft dictates a reduction in the workforce previously devoted to the operation and maintenance of those aircraft. To that end, Southern Air began the corresponding downsizing of its labor force in late August 2012 and anticipates that this process will continue over the next few months.

### 4. Restructuring Initiatives – Financial

As the Debtors' financial performance continued to deteriorate and liquidity pressures worsened during the third financial quarter of 2012, it became evident that the Debtors' secured debt and certain lease obligations must be restructured to address the situation. To that end, the Debtors approached CIBC, the Prepetition Agent under the Prepetition Credit Agreement, to discuss the Debtors' financial condition and immediate liquidity issues and to explore potential restructuring scenarios. The Debtors also approached OHCP II, as the ultimate parent of both the Debtors and OHAA, to apprise them of the Debtors' situation and to explore potential restructuring scenarios. The Debtors quickly realized that an out-of-court restructuring was not feasible due to their rapidly deteriorating liquidity position, and determined that the best way to protect the interests of all stakeholders and preserve the value of their enterprise as a going-concern would be the commencement of cases under the Bankruptcy Code.

To pursue an orderly in-court restructuring, the Debtors needed an immediate infusion of liquidity to fund operations during the pendency of these Chapter 11 Cases. Thus, prior to the Petition Date, the Debtors and Zolfo Cooper surveyed various sources of postpetition debtor in possession financing. Together, the Debtors and Zolfo Cooper contacted four top-tier lenders who have historically been active in the debtor in possession financing market as well as two strategic sources of investment. Each of these parties declined to submit a proposal to provide financing in light of, among other things, the Debtors' current secured debt obligations, the limited amount of traditional asset-based loan collateral in the Debtors' operations, the current state of the ACMI Market, and the fact that the Prepetition Lenders likely would not consent to any debtor in possession financing facility that primed their prepetition liens (*i.e.*, a non-consensual priming fight would be required). Zolfo Cooper and the Debtors also inquired whether the parties were willing to provide debtor in possession financing on an unsecured or junior basis and all of the parties declined. Additionally, Zolfo Cooper and the Debtors considered other preliminary expressions of interest regarding alternative restructuring transactions, but ultimately determined that such transactions were not in the Debtors' best interests or viable under the circumstances.

The Debtors engaged in extensive arms' length and good faith negotiations with CIBC, certain Prepetition Lenders, and the Oak Hill Entities regarding a comprehensive financial restructuring that would bridge the Debtors' short-term lack of liquidity, amend certain provisions of the Oak Hill Leases, and significantly reduce the amount of debt on the Debtors' consolidated balance sheet. These negotiations led to the execution of the Plan Support Agreement, dated September 27, 2012, among the Debtors, the Consenting Lenders (as defined in the Plan Support Agreement), and the Oak Hill Entities, attached as Exhibit 1 to the *Declaration of Daniel J. McHugh in Support of the Debtors' Chapter 11 Petitions and First Day Relief* [Docket No. 14], whereby the parties agreed that, among other things: (i) the Debtors' financial restructuring would be effectuated through cases under chapter 11 of the Bankruptcy Code, (ii) the commencement of Chapter 11 Cases would be subject to the execution and delivery of the DIP Agreement, (iii) the Debtors would enter into and seek approval of the Oak Hill 1110 Stipulation, (iv) the Debtors would file the Plan and this Disclosure Statement within ten (10) business days after the Petition Date (as subsequently extended), (v) subject to certain conditions, the Consenting Lenders and the Oak Hill Entities would support approval of the Disclosure Statement and confirmation of the Plan, and will not support or vote to accept any plan of reorganization inconsistent with the Plan Support Agreement and the plan term sheet attached thereto; and (vi) the obligations under the Plan Support Agreement may be terminated in the event that certain milestones have not been achieved within a negotiated timeline.

## B. The Chapter 11 Cases

### 1. Commencement of the Chapter 11 Cases

On the Petition Date, the Debtors commenced the Chapter 11 Cases in the Bankruptcy Court to pursue an orderly in-court restructuring through a plan of reorganization. The Chapter 11 Cases were assigned to and are presided over by the Honorable Christopher S. Sontchi, United States Bankruptcy Judge. The Debtors continue to operate their businesses as debtors in possession in the ordinary course during the pendency of these Chapter 11 Cases.

### 2. "First-Day" Orders

Concurrent with the filing of their chapter 11 petitions, the Debtors filed a number of "first day" motions with the Bankruptcy Court requesting relief that would minimize any disruption to the Debtors' business operations and facilitate the Debtors' reorganization.

#### a. *Case Administration*

The Bankruptcy Court issued orders that, among other things, authorized the joint administration of the Debtors' cases and the retention of Kurtzman Carson Consultants, LLC ("KCC") as claims and noticing agent.

#### b. *Critical Obligations*

The Bankruptcy Court authorized the Debtors to, among other things:

- Honor certain prepetition wage, compensation, and benefit obligations owed to employees and honor prepetition obligations to independent contractors;
- Honor prepetition obligations to fuel suppliers, including payment of any prepetition amounts owed to fuel suppliers;
- Pay all or a portion of prepetition amounts owing to certain (i) vendors providing essential goods and services, (ii) foreign creditors providing, among other things, various goods, services, permits, and rights, (iii) claimants holding possessory liens on the Debtors' assets, and (iv) vendors on account of claims arising from the delivery of goods to the Debtors in the ordinary course of business within twenty (20) days before the Petition Date;
- Pay certain prepetition taxes to governmental taxing authorities; and
- Honor prepetition obligations and otherwise continue performing under the CRAF-related agreements and the prepaid customer contracts.

#### c. *Business Operations*

The Bankruptcy Court issued orders that, among other things, (i) authorized the Debtors to continue their cash management system and intercompany funding arrangements, (ii) authorized the Debtors to honor obligations under insurance policies, and (iii) prohibited the Debtors' utility service

providers from altering, refusing, or discontinuing service and established certain procedures for determining adequate assurance of payment.

### 3. The Oak Hill 1110 Stipulation

On September 28, 2012, the Debtors entered into the Oak Hill 1110 Stipulation, in which Southern Air agreed, pursuant to section 1110(a)(2) of the Bankruptcy Code, to perform all of its obligations under the Oak Hill Leases, without assuming such leases, and to cure all defaults under the Oak Hill Leases (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code). In return, the Oak Hill Entities agreed to make certain payments (as described in more detail in Section II.B.2 hereof), each subject to the terms and conditions set forth in the Oak Hill 1110 Stipulation and Oak Hill Funding Agreement, as applicable, including: (i) the 12-Month Payments (twelve (12) installments of $833,333.33 up to an aggregate $10,000,000.00), (ii) the Oak Hill Entities' use of commercially reasonable efforts to assist the Reorganized Debtors in applying the Boeing Credit, subject to Boeing's consent, against amounts owing by the Debtors or Reorganized Debtors, and (iii) the Additional Monthly Payments ($2,000,000.00 annually for five (5) years up to an aggregate $10,000,000.00). Additionally, the Interim DIP Order and Final DIP Order expressly provide that the Oak Hill Entities' payments actually received by the Debtors pursuant to the Oak Hill 1110 Stipulation during their Chapter 11 Cases, to the extent permitted pursuant to the Interim DIP Order and Final DIP Order, will constitute Allowed Claims of the Oak Hill Entities against the Debtors, ratable with, secured by the same collateral as, and with the same priority as the DIP Lender Claims. On October 25, 2012, the Bankruptcy Court entered its order [Docket No. 219] approving the Oak Hill 1110 Stipulation.

As set forth in the term sheet attached as Exhibit B to the Plan Support Agreement, the Oak Hill Leases shall be amended, as of the Effective Date, to, among other things, shorten the term of such leases to five (5) years (commencing on the Petition Date) and to modify the definitions of "change of control" to prevent default upon emergence. Additionally, the Oak Hill Leases may be modified to include various technical amendments to account for the shortened lease term, and other amendments reasonably required to implement the terms of the plan term sheet.

Per the Oak Hill 1110 Stipulation, the Debtors cured all outstanding payment defaults under the Oak Hill Leases (in an aggregate amount of $2,891,178.26) and have continued to perform all of their obligations under the Oak Hill Leases. To date, the Oak Hill Entities have made four (4) 12-Month Payments, totaling $3,333,333.32, and ten (10) Additional Monthly Payments, totaling $416,666.60 (of which $41,666.66 was deemed paid pursuant to the Interim DIP Order). As a result of the Oak Hill 1110 Stipulation, the Debtors will receive an aggregate total of $20,000,000.00 in payments from the Oak Hill Entities over the five (5) year term of the amended Oak Hill Leases. The Oak Hill 1110 Stipulation is structured to effectively alter the economic terms of the Oak Hill Leases in a manner that is consistent with OHAA's obligations as a borrower with respect to the 777 Aircraft. The significantly improved lease terms provided by the Oak Hill 1110 Stipulation and the resultant Oak Hill Leases as amended benefit the Debtors by reducing the cost associated with continued utilization of the 777 Aircraft, which are integral to the Debtors' business. Additionally, the much-needed liquidity provided pursuant to the Oak Hill 1110 Stipulation is part of the comprehensive restructuring negotiated among the Debtors, the Oak Hill Entities, and the Consenting Lenders, as reflected in the Plan.

### 4. DIP Agreement and Cash Collateral

On September 28, 2012, the Debtors entered into and filed a motion seeking approval of the DIP Agreement. The Debtors' financing pursuant to the DIP Agreement consists of a senior secured, super-priority term loan facility in an aggregate principal amount of Twenty-Five Million Dollars ($25,000,000.00) (the "DIP Facility"). Funds under the DIP Facility are to be funded on two occasions

and made available only after conditions to escrow withdrawal were met: Twelve and One-Half Million Dollars ($12,500,000.00) upon entry of the Interim DIP Order and Twelve and One-Half Million Dollars ($12,500,000.00) upon entry of the Final DIP Order. On October 2, 2012, the Debtors drew Ten Million Dollars ($10,000,000.00) against the DIP Facility. As of the date hereof, the Debtors have not made any subsequent draws against the DIP Facility.

Those Prepetition Lenders that committed to participate in the DIP Facility have the right to roll-up their pro rata share of Thirty-Seven and One-Half Million Dollars ($37,500,000.00) of the principal amount of the prepetition loans made to the Debtors under the Prepetition Credit Agreement. At the Debtors' election, interest under the DIP Facility (including roll-up loans) shall accrue: (a) on loans other than roll-up loans, either at a (i) fluctuating base rate plus 7.00% per annum, or (ii) LIBO Rate (with a 2.50% LIBOR floor) plus 8.00% per annum; and (b) on roll-up loans, either at a (i) fluctuating base rate plus 4.00% per annum, or (ii) LIBO Rate (with a 1.00% LIBOR floor) plus 5.00% per annum. Upon the occurrence and continuation of an event of default by the Debtors, the Debtors must pay the applicable rate plus a 2% per annum default premium on all amounts then outstanding. In addition, the DIP Agreement provides for certain Liens, which prime certain prepetition liens relating to the Prepetition Credit Agreement (excluding Liens, if any, on 1110 Collateral (as defined in the DIP Agreement). The majority of the Prepetition Lenders consented to the priming of their liens.

To address their working capital needs and fund their reorganization efforts, the Debtors require the use of cash collateral of the Prepetition Lenders (the "Cash Collateral"). The DIP Agreement, Oak Hill 1110 Stipulation, Interim DIP Order, and Final DIP Order authorize the Debtors to use Cash Collateral. In return, the Debtors provided the Prepetition Lenders with the following, as adequate protection for any diminution in value of their interests in the prepetition collateral: (i) grant of valid, perfected and enforceable security interests, (ii) grant of administrative expense claims, (iii) payment of all reasonable professional fees and expenses payable to the Prepetition Agent under the Prepetition Credit Agreement, and (iv) continued provision to the Prepetition Agent of financial and other reporting relating to the Debtors' businesses.

**5. Retention of Professionals**

On the Petition Date, the Debtors filed applications seeking authority to retain and employ (i) Weil, Gotshal & Manges LLP ("Weil"), as counsel to the Debtors; (ii) Young Conaway Stargatt & Taylor, LLP ("Young Conaway"), as co-counsel to the Debtors; (iii) Zolfo Cooper, as bankruptcy consultant and special financial advisor to the Debtors; and (iv) KCC, as both the claims and noticing agent and the administrative agent to the Debtors. On October 1, 2012, the Bankruptcy Court entered an order authorizing the retention and appointment of KCC as the claims and noticing agent in the Chapter 11 Cases [Docket No. 67]. On October 24, 2012, the Bankruptcy Court entered orders authorizing the retention of Young Conaway [Docket No. 196] and KCC as administrative agent [Docket No. 197]. Also on October 24, 2012, the Bankruptcy Court also entered orders authorizing the Debtors to retain certain professionals to assist with the operations of their business in the ordinary course [Docket No. 198] and approving certain procedures providing for the interim compensation and reimbursement for the services rendered by professionals [Docket No. 199]. On October 25, 2012, the Bankruptcy Court entered orders authorizing the retention of Zolfo Cooper [Docket No. 220], and Weil [Docket No. 221]. On December 12, 2012, the Bankruptcy Court entered an order [Docket No. 371] appointing Direct Fee Review, LLC as the fee examiner in the Chapter 11 Cases.

**6. Worthless Securities Deductions**

On October 24, 2012, the Bankruptcy Court entered an order [Docket No. 194], pursuant to sections 105(a) and 362 of the Bankruptcy Code, establishing certain procedures for and imposing

certain restrictions on claiming a worthless securities deduction under section 165(g) of the Internal Revenue Code of 1986, as amended (the "Tax Code"), by certain holders of Equity Interests with respect to the common stock, Series A preferred stock, and Series B preferred stock of Holdings.

**7. Aircastle Litigation**

Prior to the Petition Date, the Owner Trustee, as Lessor under the Aircastle Leases, and on behalf of Aircastle Investment Holdings 2 Limited, as the beneficial owner of Aircastle 27068 Aircraft and the Aircastle 27044 Aircraft (the "Aircastle Aircraft"), and Aircastle Advisor, LLC ("Aircastle"), the servicer and administrative agent under the Aircastle Leases, delivered notices purporting to terminate the Aircastle Leases. The Debtors contested the validity of such notices and the termination of the Aircastle Leases.

On the Petition Date, the Owner Trustee (i) commenced an adversary proceeding, Adv. Pro. No. 12-50901 (CSS) ("Adversary Proceeding"), by filing a complaint [Adv. Pro. Docket No. 1] (the "Complaint") alleging, based upon the asserted termination of the Aircastle Leases, the unlawful conversion of the Aircastle Aircraft and seeking injunctive relief against the continued operation of the Aircastle Aircraft by Southern Air, (ii) filed the *Plaintiff's Motion for a Temporary Restraining Order and a Preliminary Injunction* [Adv. Pro. Docket No. 3] seeking entry of orders temporarily restraining and preliminarily enjoining Southern Air from further operation of the Aircastle Aircraft, and (iii) filed, in the Debtors' chapter 11 cases, a *Motion for Relief from the Automatic Stay and to Compel Compliance with 11 U.S.C. § 1110(c)* [Docket No. 44] (the "Lift Stay Motion" and, collectively with the Adversary Proceeding, the "Lease Termination Litigation").

On October 1, 2012, the Debtors filed the *Response of Debtors in Opposition to Wells Fargo Bank Northwest, N.A.'s Motion for a Temporary Restraining Order and a Preliminary Injunction* [Adv. Pro. Docket No. 6], and the Bankruptcy Court held a hearing to consider the Owner Trustee's request for a temporary restraining order. At such time, the Bankruptcy Court denied the Owner Trustee's request and, on October 4, 2012, the Court entered its *Order Denying Wells Fargo Bank Northwest, N.A.'s Motion for a Temporary Restraining Order* [Adv. Pro. Docket No. 10].

On October 12, 2012, the Debtors, the Owner Trustee, and Aircastle (collectively, the "Parties") reached a preliminary understanding with respect to the Aircastle Leases and the Lease Termination Litigation (the "October Agreement"). As stated on the record, the Parties agreed that, among other things, (i) the Debtors would return the Aircastle 27044 Aircraft, in serviceable condition, to the Marana Aerospace Solutions facility in Marana, Arizona (the "Marana Facility") on or before October 22, 2012, and (ii) the Lease Termination Litigation would be suspended, with each party reserving all rights with respect to its position regarding such litigation, while the Debtors and Aircastle continued to negotiate Southern Air's continued utilization of the Aircastle 27068 Aircraft.

In accordance with the October Agreement, on October 21, 2012, the Debtors returned the Aircastle 27044 Aircraft, in serviceable condition, to the Marana Facility. In addition, on October 23, 2012, Aircastle took possession of all records, logs, and other documents related to the Aircastle 27044 Aircraft. On October 26, 2012, Aircastle remitted payment of $75,000.00 to Southern Air in connection with the ferry of the Aircastle 27044 Aircraft to the Marana Facility. Aircastle has contested the adequacy of the Debtors' redelivery under the Aircastle 27044 Lease and claimed that certain deficiencies exist.

Per the October Agreement, the Debtors and Aircastle continued to negotiate the terms for the ongoing utilization of the Aircastle 27068 Aircraft. As a result thereof, on November 30, 2012, the Debtors and Aircastle executed that certain Summary of Terms and Conditions (the "Aircastle

Agreement") which (i) provides that the Debtors will enter into a postepetiton lease for the Aircastle 27068 Aircraft on significantly improved economic terms (the "Postpetition Aircastle Lease") and (ii) resolves the Lease Termination Litigation and certain other issues between the Debtors and Aircastle. Pursuant to the Aircastle Agreement, following approval of such agreement by the Bankruptcy Court, Aircastle shall hold allowed general unsecured claims against Southern Air (as lessee under the Aircastle Leases) and against Holdings (as guarantor under the guarantees for such leases) in the amount of $19,677,704.92 in respect of the Aircastle 27044 Lease and $19,908,025.59 in respect of the Aircastle 27068 Lease (the "Early Termination Claims"). The Early Termination Claims will be paid at the same time and in the same manner as other general unsecured claims under the Plan and shall be deemed to have been voted in favor of the Plan. On December 28, 2012, the Bankruptcy Court entered an order [Docket No. 431] approving the Aircastle Agreement and authorizing the Debtors to execute and deliver the Postpetition Aircastle Lease.The Debtors are currently documenting the Postpetition Aircastle Lease.

**8. Other Section 1110 Agreements**

On November 15, 2012, the Debtors filed a motion [Docket No. 262], pursuant to section 1110(a)(2) of the Bankruptcy Code, in which the Debtors agreed to (a) subject to Bankruptcy Court approval, perform all obligations of Southern Air under, among others, the DVB Lease and the KV Lease, and (b) cure all defaults under such aircraft equipment leases (other than defaults of a kind specified in section 365(b)(2) of the Bankruptcy Code) within the time prescribed in section 1110(a)(2)(B) of the Bankruptcy Code. On December 10, 2012, the Bankruptcy Court entered an order [Docket No. 363] approving the Debtors' elections under section 1110 of the Bankruptcy Code.

**9. Fleet Modernization and Rationalization Strategy**

As discussed in more detail in Section IV.A hereof, the Debtors' fleet composition as of the Petition Date was the result of the Debtors' efforts, beginning in 2010, to reposition themselves within the ACMI Market by modernizing and refocusing their fleet. In addition to obtaining more modern aircraft, the Debtors decided to simplify their fleet structure and maintenance capabilities by equipping their fleet with engines manufactured by a single provider. The delivery of four (4) Boeing 777s in 2010–2011, marked the first step in executing this modernization strategy. As part of this strategy, the Debtors are also eliminating the less cost-efficient, less fuel-efficient, and less reliable Boeing 747-200s from their fleet and have ceased utilization of all 747-200s in December 2012. As the Debtors phase out their 747-200s, they have sought additional aircraft consistent with the fleet modernization strategy to meet existing and new customer demand.

To this end, prior to the Petition Date, the Debtors entered into the DVB Lease, the KV Lease, and the Aircastle Leases, each for a Boeing 747-400 aircraft. As described above, the Bankruptcy Court approved the Debtors' section 1110 elections with respect to the DVB Lease and the KV Lease, and the Debtors' have sought approval of the continued utilization of the Aircastle 27068 Aircraft pursuant to the Postpetition Aircastle Lease. Additionally, on November 30, 2012, the Debtors filed a motion requesting authority to assume the DVB Lease, as amended [Docket No. 315].

Moreover, in January of 2012, the Debtors initiated negotiations to lease certain Boeing 747-400ERF aircraft from AWAS Aviation Services, Inc. ("AWAS") and Amentum Capital Limited ("Amentum"). The Boeing 747-400ERF model has superior range and load capacity to the Boeing 747-200 and 747-400 models, and the 747-400ERF aircraft offered by AWAS and Amentum are equipped with General Electric engines. Accordingly, these aircraft fit into the Debtors' long-term plan to modernize its active fleet to more effectively and efficiently meet customer demands. After commencing the Chapter 11 Cases, on October 19, 2012, the Debtors entered into an aircraft lease agreement for one (1) Boeing 747-400ERF from AWAS (the "AWAS Aircraft"), which was subsequently approved by the

Bankruptcy Court pursuant to an order, entered November 13, 2012 [Docket No. 209]. The Debtors accepted delivery of the AWAS Aircraft in December 2012. Additionally, on November 9, 2012, the Debtors entered into a letter of intent (the "Amentum LOI") for the lease of one (1) Boeing 747-400ERF from Amentum (the "Amentum Aircraft"). On November 15, 2012, the Debtors filed a motion seeking authority to execute and deliver the Amentum LOI and an aircraft operating lease consistent with the terms of the Amentum LOI [Docket No. 265] (the "Amentum LOI Motion"). The Debtors are currently negotiating and documenting such a lease for the Amentum Aircraft.

Pursuant to the DIP Credit Agreement, the Debtors developed an aircraft and equipment rationalization strategy that was reasonable acceptable to the Required Lenders (as defined in the DIP Credit Agreement). The foregoing actions with respect to the Debtors' aircraft fleet are consistent with the Debtors aircraft and equipment rationalization strategy.

**10. Rejection of Unexpired Leases of Nonresidential Real Property**

As part of their efforts to reduce operating expenses, the Debtors are in the process of vacating certain of their leased premises and exercising their administrative power to reject the unexpired leases of such nonresidential real property. Accordingly, on November 14, 2012, the Bankruptcy Court entered an order [Docket No. 254], pursuant to sections 105(a) and 365(a) of the Bankruptcy Code and Bankruptcy Rules 6006 and 9014, authorizing the rejection of the leases for nonresidential real property located at (i) 87 Glover Avenue, Norwalk, Connecticut 06850, (ii) 111 Glover Avenue, Norwalk, Connecticut 06850, and (iii) 18000 Pacific Highway South, Seattle, Washington 98188. On November 30, 2012, the Debtors filed a motion to reject the lease for nonresidential real property located at 79 Glover Avenue, Norwalk, Connecticut 06850 [Docket No. 307], and on December 7, 2012, the Debtors filed a motion to reject the leases for nonresidential real property located at (i) 58 Durham Street, Portsmouth, New Hampshire 03801 and (ii) 5214 Shapland Avenue, Chicago, Illinois 60018 [Docket No. 360].

On December 17, 2012, the Debtors filed a motion seeking entry of an order, pursuant to section 365(d)(4) of the Bankruptcy Code, extending the Debtors' time to assume or reject unexpired leases of nonresidential real property [Docket No. 399] (the "Section 365(d)(4) Motion"). On January 4, 2013, the Bankruptcy Court entered an order [Docket No. 451] granting the relief requested in the Section 365(d)(4) Motion, but adjourning a hearing on the relief sought in that motion until January 29, 2012 with respect to certain nonresidential real property lessors that filed an objection thereto.

In addition, Section 22.1 of the Plan provides that the Debtors shall reject all executory contracts and unexpired leases that (a) have not previously been assumed and assigned or rejected with the approval of the Bankruptcy Court, (b) are not, as of the Confirmation Date, the subject of a motion to assume or reject, (c) have not expired by their own terms on or prior to the Confirmation Date, or (d) are not listed on the schedule of assumed and assigned executory contracts and unexpired leases to be filed with the Bankruptcy Court prior to the Confirmation Hearing.

**11. Schedules and Bar Date**

On October 12, 2012, the Debtors filed their schedules of assets and liabilities, schedules of current income and expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs (together with any amendments, the "Schedules"). On October 24, 2012, the Debtors filed amended Schedules for the Southern Air and CF6-50, LLC.

On October 25, 2012, the Bankruptcy Court entered an order (the "Bar Date Order") establishing November 28, 2012 at 8:00 p.m. (Eastern Time) as the last date and time (the "Bar Date") for

each person or entity to file proofs of Claim based on prepetition Claims against any of the Debtors, and March 27, 2013 at 8:00 p.m. (Eastern Time) as the last date and time for Governmental Units (as defined in section 101(27) of the Bankruptcy Code) to file proofs of Claim based on prepetition Claims against any of the Debtors. In accordance with the Bar Date Order, the Debtors mailed a notice of the Bar Date and a proof of Claim form to all known holders of Claims. See Section IV.B.14 hereof for the Debtors' estimated amount of Claims and Equity Interests in each Class.

### 12. Collective Bargaining Agreement

In early 2006, Southern Air voluntarily recognized the Southern Air Crew Group (the "SACG")[11] as the collective bargaining representative of the pilots and flight engineers employed by Southern Air (the "Crewmembers"). The SACG was not affiliated with any national union and consisted entirely of Southern Air Crewmembers. On August 1, 2006, Southern Air and the SACG executed that certain collective bargaining agreement, as amended from time to time (the "Original CBA"),[12] which provided for, among other things, orderly collective bargaining relations, means for the prompt and equitable disposition of grievances, and a method for the establishment of fair wages, hours of service, and working conditions for all Crewmembers.

On December 3, 2009, a majority of the Crewmembers voted to merge SACG with the International Brotherhood of Teamsters (the "IBT") and, on February 24, 2010, in accordance with the Railway Labor Act, the National Mediation Board recognized the merger and revised its records to reflect the transfer to the IBT of the certification previously issued to SACG. IBT Local 1224 (the "Union") currently represents the Crewmembers.

In accordance with the terms of Original CBA, on June 23, 2011, the Union provided written notice to Southern Air of its intent to seek amendments to the collective bargaining agreement. The Union sought significant changes to virtually every section of the Original CBA and proposed additional sections covering retirement and benefits relating to missing and/or lost Crewmembers. In accordance with their obligations under the Railway Labor Act, Southern Air and the Union met in August 2011 and began negotiating amendments to the Original CBA. Prior to the Petition Date, Southern Air and the Union engaged in thirteen (13) bargaining sessions, most of which lasted three (3) to five (5) days and typically occurred once a month. During this process, Southern Air and the Union exchanged proposals on nine of the sections of the Original CBA and the Union proposed three (3) additional sections relating to (i) Crewmember benefits, (ii) hostile area flying, and (iii) the Union's general interactions with Southern Air. On the Petition Date, proposals had yet to be exchanged regarding several substantive sections of the Original CBA, including hours of service, scheduling, and Crewmember basing, compensation and benefits.

Subsequent to the filing of the Chapter 11 Cases, Southern Air and representatives of the Union met over four (4) straight days for focused, around-the-clock negotiation, during which Southern Air and the Union resolved all of the sections that had previously been proposed and agreed upon the terms contained in certain tentative agreements and letter agreements (collectively, the "Ratified Agreements"). On November 6, 2012 (the "Ratification Date"), the membership of the Union ratified the

[11] Pursuant to 45 U.S.C. § 151, *et seq.* (the "Railway Labor Act"), an air carrier may voluntarily recognize a group as the collective bargaining representative for a craft or class of employees upon a showing of majority support for that group. SACG was subsequently certified as the representative for the crewmembers by the National Mediation Board on September 12, 2007. See NMB Case No. R-7128 (2007).

[12] Southern Air and the SACG executed amendments to the Original CBA in January 2007, October 2007 and January 2008.

Ratified Agreements, including the tentative agreements and letters of agreement relating to (i) equipment freezes, displacements, furloughs and recalls and (ii) compensation of new Crewmembers. A motion to authorize (a) the execution and delivery of the Ratified Agreements and an amended collective bargaining agreement and (b) performance with respect thereto shall be filed in the near future.

### 13. Formation of the Creditors' Committee

Section 1102 of the Bankruptcy Code provides that, as soon as practicable after the commencement of a chapter 11 case, the United States trustee shall appoint an official committee of unsecured creditors. On October 12, 2012, the U.S. Trustee held a meeting to consider the formation of an unsecured creditors' committee. Based upon the limited interest of unsecured creditors, with only two questionnaires from asserted creditors having been submitted (and only one asserted creditor in attendance), the U.S. Trustee declined to form a creditors' committee. On October 19, 2012, after a second attempt to form a creditors' committee by certain parties, the U.S. Trustee filed its *Statement that Unsecured Creditors' Committee Has Not Been Appointed* [Docket No. 172], citing an insufficient response to the U.S. Trustee's communications regarding service on a committee. On November 21, 2012, however, the U.S. Trustee filed a notice [Docket No. 293] appointing a statutory committee of unsecured creditors for the Chapter 11 Cases (the "Creditors' Committee"). The Creditors' Committee is comprised of (i) Arrow Air Unsecured Creditor Trust, (ii) Williams Aerospace, LLC, and (iii) Aquinas Consulting, LLC. On December 4, 2012, the Creditors' Committee filed applications seeking authority to retain and employ Lowenstein Sandler PC ("Lowenstein"), as counsel [Docket No. 335], and Pachulski Stang Ziehl & Jones LLP ("Pachulski"), as co-counsel [Docket No. 337]. Shortly thereafter, on December 6, 2012, the Creditors' Committee filed an application seeking authority to retain and employ Mesirow Financial Consulting, LLC, as its financial advisor [Docket No. 351]. On December 18, 2012, the Bankruptcy Court entered orders authorizing the retention of Lowenstein as counsel to the Creditors' Committee [Docket No. 401] and Pachulski as co-counsel to the Creditors' Committee [Docket No. 402].

### 14. The Creditors' Committee Investigation

The Final DIP Order provides the Creditors' Committee a period of sixty (60) days from the date on which such committee is formed (the "Challenge Period") to investigate the accuracy of the stipulations regarding the claims and liens of Prepetition Lenders, the DIP Lenders, and the Oak Hill Entities set forth in Paragraph E of the Final DIP Order (collectively, the "Claims Stipulation") and to assert any claims or causes of action of the Debtors or their estates challenging the Claims Stipulation. On January 18, 2013, the Bankruptcy Court entered and order [Docket No. 469] approving the stipulation among the Debtors, the Prepetition Lenders, the DIP Lenders, the Oak Hill Entities, and the Creditors' Committee pursuant to which the parties agreed to extend the Challenge Period by an additional twenty-one (21) days, through and including February 10, 2013.

### 15. Avoidance Actions and Nonbankruptcy Litigation

Per the Debtor's Schedules, certain of the Debtors made payments to creditors within ninety (90) days prior to commencement of the Chapter 11 Cases in the aggregate amount of $98,809,626.12. As described in more detail Section V.N hereof, the Plan provides for the formation of a Litigation Trust for the sole purpose of liquidating and distributing its assets, in accordance with Treasury Regulation section 301.7701-4(d), which assets shall include the claims and causes of action pursuant to section 547 of the Bankruptcy Code designated by the Debtors and the Creditors' Committee in a schedule to be affixed to the Litigation Trust Agreement included as part of the Plan Supplement.

The Schedules also reflect the nonbankruptcy litigation claims known to the Debtors at this time. The Debtors believe that certain of the litigation claims identified in the Debtors' schedules are subject to applicable insurance policies.

## V.
## SUMMARY OF THE PLAN

This section of the Disclosure Statement summarizes the Plan, a copy of which is annexed hereto as Exhibit A. This summary is qualified in its entirety by reference to the Plan.

### A. Provisions for Payment of Administrative Expense Claims and Priority Tax Claims

**1. Administrative Expense Claims**. On the later to occur of (a) the Effective Date and (b) the date on which an Administrative Expense Claim shall become an Allowed Claim, the Disbursing Agent shall, unless otherwise mutually agreed by the holder of an Allowed Administrative Expense Claim and the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, (i) pay to each holder of an Allowed Administrative Expense Claim, in Cash, the full amount of such Allowed Administrative Expense Claim or (ii) satisfy and discharge such Allowed Administrative Expense Claim in accordance with the terms and conditions of the agreements with respect thereto.

**2. Treatment of Priority Tax Claims**. On the Effective Date, each holder of an Allowed Priority Tax Claim shall be entitled to receive distributions in an amount equal to the full amount of such Allowed Priority Tax Claim. At the option and discretion of the Debtors, which option shall be exercised, in writing, on or prior to the commencement of the Confirmation Hearing, such payment shall be made by the Disbursing Agent (a) in full, in Cash, on the Effective Date, (b) in accordance with section 1129(a)(9)(C) of the Bankruptcy Code, in full, in Cash, in equal quarterly installments, commencing on the first (1st) Business Day following the Effective Date and ending on the fifth (5th) anniversary of the commencement of the Chapter 11 Cases, together with interest accrued thereon at the applicable non-bankruptcy rate (including as calculated under applicable state law) as of the Confirmation Date, or (c) by mutual agreement of the holder of such Allowed Priority Tax Claim and the Debtors or Reorganized Debtors, as the case may be, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities.

**3. DIP Lender Claims.** On the Effective Date, (a) all outstanding DIP Lender Claims shall be satisfied as follows: with respect to the DIP Lender Claims funded by the DIP Lenders, each DIP Lender shall be entitled to receive its Pro Rata Share of (i) Exit Term Loans in the original principal amount of Sixty-Two Million Five Hundred Thousand Dollars ($62,500,000.00), the repayment of which shall be pari passu in recovery to the indebtedness to the Exit Term Loans to be issued on account of Allowed Prepetition Lender Claims in accordance with Section 6.1 of the Plan; provided, however, that, notwithstanding the foregoing, during the period from the Petition Date up to, but not including, the Effective Date, the Debtors shall use commercially reasonable efforts to enter into a financing facility so that the DIP New Money Loan, the DIP Roll-Up Loan, or both, are paid, in full, in Cash; and (ii) the Equity Payment; provided, however, at the election of the Debtors, and in their sole and absolute discretion, which election shall be announced prior to the commencement of the Confirmation Hearing, such Equity Payment may be satisfied and otherwise discharged through the delivery by Reorganized Southern Air Parent of shares of Reorganized Southern Air Parent Common Stock representing five percent (5%) of the duly authorized common stock of Reorganized Southern Air Parent to be issued as of the Effective Date to each DIP Lender or its respective U.S. LLC Designee, as the case may be, (b) the Debtors shall be relieved of any and all other obligations with respect to the DIP Agreement, the Interim DIP Order and the Final DIP Order and (c) all Liens and other encumbrances

granted pursuant to the Interim DIP Order and the Final DIP Order, including, without limitation, and subject to the provisions of Section 3.4 of the Plan, those granted in connection with the Secured OHAA Payment Obligations, with respect to the property and interests in property claimed by the Debtors shall be released.

**4. Oak Hill Entities' Claims.** On the Effective Date, in accordance with the terms and provisions of the Interim DIP Order and the Final DIP Order, (a) the Oak Hill Entities shall have an Allowed Claim against each Debtor for the Secured OHAA Payment Obligations, in the aggregate amount of the payments received by the Debtors pursuant to the Oak Hill 1110 Stipulation during the Chapter 11 Cases, to the extent permitted pursuant to the Interim DIP Order and the Final DIP Order, (b) such Allowed Claim shall receive the treatment set forth in Section 2.1(d) of the Plan, in full and complete satisfaction and discharge thereof and (c) the Claims in respect of the Secured OHAA Payment Obligations shall not be subject to any avoidance, reductions, setoff, offset, recharacterization, subordination (whether equitable, contractual or otherwise), counterclaims, cross-claims, defenses, disallowance, impairment, objection, or any other challenges under any applicable law or regulation by any Person or Entity. Additionally, on November 27, 2012, OHCP II asserted the OHCP II Proof of Claim.

**B. Classifications of Claims and Equity Interests**

**1. Claims and Equity Interests are classified as follows:**

**a.** ***Class 1*** ***– Priority Non-Tax Claims***

**b.** ***Class 2*** ***– Prepetition Lender Claims***

**c.** ***Class 3*** ***– Other Secured Claims***

**d.** ***Class 4*** ***– General Unsecured Claims***

**e.** ***Class 5*** ***– Convenience Claims***

**f.** ***Class 6*** ***– General Liability Insured Litigation Claims***

**g.** ***Class 7*** ***– Subordinated Claims***

**h.** ***Class 8*** ***– Preferred Equity Interests***

**i.** ***Classes 9 Through 26*** ***– Common Equity Interests***

**C. Provision for Treatment of Priority Non-Tax Claims (Class 1)**

**1. Treatment of Allowed Priority Non-Tax Claims (Class 1).** Unless otherwise mutually agreed upon by the holder of an Allowed Priority Non-Tax Claim and the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, each holder of an Allowed Priority Non-Tax Claim shall receive from the Disbursing Agent in full satisfaction, settlement, release, and discharge of, and in exchange for such Allowed Priority Non-Tax Claim, Cash in an amount equal to such Allowed Priority Non-Tax Claim on the later of the Effective Date and the date such Allowed Priority Non-Tax Claim becomes an Allowed Priority Non-Tax Claim, or as soon thereafter as is possible.

### D. Provision for Treatment of Prepetition Lender Claims (Class 2)

**1. Allowance and Treatment of Prepetition Lender Claims.** On the Effective Date, (a) the Prepetition Lender Claims shall be deemed Allowed Prepetition Lender Claims in the aggregate amount of not less than Two Hundred Ninety-Five Million, Eight Hundred Six Thousand, Four Hundred Sixty Dollars and Twenty-Five Cents ($295,806,460.25) (i) minus the amount of the DIP Roll-Up Loan and (ii) plus such fees, charges and expenses which may be due and owing in accordance with the terms and provisions of the Prepetition Credit Agreement, and (b) each holder of an Allowed Prepetition Lender Claim shall receive its Pro Rata Share of (1) Exit Term Loans in the aggregate original principal amount of Seventeen Million Five Hundred Thousand Dollars ($17,500,000.00), (2) the Prepetition Lender Reorganized Southern Air Parent Common Stock and the Prepetition Lender Warrants to be distributed to such Prepetition Lender or its respective U.S. LLC Designee, as the case may be, and (3) Litigation Trust Interests, solely to the extent that distributions of Cash to holders of Allowed General Unsecured Claims pursuant to Articles VIII and XVI of the Plan are, in the aggregate, equal to ten percent (10%) of such holders' Allowed General Unsecured Claims; provided, however, that the Debtors shall cause the face amount of any letters of credit issued and outstanding pursuant to the Prepetition Credit Agreement to be rolled into, or replaced by, a letter of credit issued pursuant to the Exit Revolving Credit Facility.

### E. Provision for Treatment of Other Secured Claims (Class 3)

**1. Treatment of Allowed Other Secured Claims.** On or after the Effective Date, in full satisfaction, settlement, release, and discharge of, and in exchange for, an Allowed Other Secured Claim, the holders of Allowed Other Secured Claims shall receive one of the following distributions: (a) the payment of such holder's Allowed Other Secured Claim in Cash; (b) the sale or disposition proceeds of the property securing an Allowed Other Secured Claim to the extent of the value of their respective interest in such property; (c) the surrender to the holders of the Allowed Other Secured Claims of the property securing such Claim; (d) such other distributions as shall be necessary to satisfy the requirements of chapter 11 of the Bankruptcy Code, including, without limitation, the payment of interest with respect thereto, at the lesser of (i) the non-default rate set forth in the applicable contractual documentation and (ii) the rate applicable pursuant to applicable non-bankruptcy law as determined by the Bankruptcy Court; or (e) such other treatment as may be agreed upon by the Debtors and such holder of the Allowed Other Secured Claim. The manner and treatment of Allowed Other Secured Claims shall be determined by the Debtors, upon consultation with the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities.

### F. Provisions for the Treatment of General Unsecured Claims (Class 4)

**1. Treatment of Allowed General Unsecured Claims.** The holders of Allowed General Unsecured Claims shall not be entitled to receive any distribution or retain any property on account of such Claims; provided, however, that, pursuant to the compromises and settlements contained in the Plan, on the Effective Date, the Debtors shall deposit the Creditor Cash into the Litigation Trust and each holder of an Allowed General Unsecured Claim (other than an Allowed Prepetition Lender Deficiency Claim) shall receive on account of such Allowed General Unsecured Claim, and subject to the provisions of Section 8.2 of the Plan, such holder's Pro Rata Share of Litigation Trust Interests. Notwithstanding anything in the Plan to the contrary, including, without limitation, the distributions to be made to a holder of an Allowed General Unsecured Claim pursuant to Section 8.1 and Article XVI of the Plan, the Cash that is distributable to such holder in excess of ten percent (10%) of such holder's Allowed General Unsecured Claim shall be deemed redistributed to holders of Allowed Prepetition Lender Claims.

**2. Allowed Claims of Two Thousand Dollars ($2,000.00) or More/Election to Be Treated as a Convenience Claim.** Notwithstanding the provisions of Section 8.1 of the Plan, any holder of an Allowed General Unsecured Claim, other than a General Unsecured Claim that is a component of a larger General Unsecured Claim, portions of which may be held by such or any other holder of an Allowed Claim, whose Allowed General Unsecured Claim is more than Two Thousand Dollars ($2,000.00), and who elects to reduce the amount of such Allowed General Unsecured Claim to Two Thousand Dollars ($2,000.00), shall, at such holder's option, be entitled to receive, based on such Allowed General Unsecured Claim as so reduced, distributions pursuant to Section 9.1 of the Plan. Such election must be made on the Ballot and be received by the Debtors on or prior to the Ballot Date. Any election made after the Ballot Date shall not be binding upon the Debtors unless the Ballot Date is expressly waived, in writing, by the Debtors; provided, however, that, under no circumstance may such waiver by the Debtors occur on or after the Effective Date.

**G. Provision for Treatment of Convenience Claims (Class 5)**

**1. Treatment of Convenience Claims.** On the later of the Effective Date and the date such Allowed Convenience Claim becomes an Allowed Claim, or as soon thereafter as is practicable, the Disbursing Agent shall pay to each holder of an Allowed Convenience Claim, in Cash, an amount equal to twenty-five percent (25%) of such Allowed Convenience Claim, in full satisfaction, settlement, release, and discharge of, and in exchange for such Allowed Convenience Claim.

**H. Provision for Treatment of Insured Litigation Claims (Class 6)**

**1. Treatment of Allowed General Liability Insured Litigation Claims.** Unless otherwise mutually agreed upon by the holder of an Allowed General Liability Insured Litigation Claim and the Debtors, upon consultation with the Requisite Lenders and the Oak Hill Entities, or the Reorganized Debtors, as the case may be, each holder of an Allowed General Liability Insured Litigation Claim shall be entitled, in full satisfaction, settlement, release, and discharge of, and in exchange for such Allowed General Liability Insured Litigation Claim, to proceed with the liquidation of such Claim, including any litigation pending as of the Petition Date and seek recovery from the applicable General Liability Insurance Carrier; provided, however, that, upon the settlement or resolution of the litigation underlying the Allowed General Liability Insured Litigation Claim, such Claim solely shall be treated as a General Unsecured Claim to the extent any such portion of the settlement or judgment is not covered by the General Liability Insurance Policy.

**I. Subordinated Claims (Class 7)**

**1. Treatment of Allowed Subordinated Claims.** Each holder of an Allowed Subordinated Claim shall not be entitled to receive any distribution for, or retain any property, on account of such Claim.

**J. Provisions for Treatment of Preferred Equity Interests (Class 8)**

**1. Treatment of Preferred Equity Interests.** On the Effective Date, the Preferred Equity Interests shall be deemed extinguished and the certificates and other documents representing such Equity Interests shall be deemed cancelled and of no force and effect.

**K. Provisions for Treatment of Common Equity Interests (Class 9-26)**

**1. Treatment of Holdings Equity Interests (Class 9).** On the Effective Date, (a) at the election of the Debtors, with the consent of the Requisite Lenders, the Required DIP Lenders

and the Oak Hill Entities, Holdings shall be merged into Cargo 360 and, as a result thereof, pursuant to operation of law, the Holdings Equity Interests shall be extinguished, or (b) in the event such merger is not completed, the Holdings Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect.

**2. Treatment of Cargo 360 Equity Interests (Class 10).** On the Effective Date, the Cargo 360 Equity Interests shall be deemed unimpaired and the certificates and all other documents representing such Equity Interests shall be deemed in full force and effect.

**3. Treatment of Southern Air Equity Interests (Class 11).** On the Effective Date, the Southern Air Equity Interests shall be deemed unimpaired and the certificates and all other documents representing such Equity Interests shall be deemed in full force and effect.

**4. Treatment of Air Mobility Equity Interests (Class 12).** On the Effective Date, the Air Mobility Equity Interests shall be deemed unimpaired and the certificates and all other documents representing such Equity Interests shall be deemed in full force and effect.

**5. Treatment of 21110 LLC Equity Interests (Class 13).** On the Effective Date, (a) the 21110 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21110 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**6. Treatment of 21111 LLC Equity Interests (Class 14).** On the Effective Date, (a) the 21111 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21111 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**7. Treatment of 21221 LLC Equity Interests (Class 15).** On the Effective Date, (a) the 21221 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21221 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**8. Treatment of 21550 LLC Equity Interests (Class 16).** On the Effective Date, (a) the 21550 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21550 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**9. Treatment of 21576 LLC Equity Interests (Class 17).** On the Effective Date, (a) the 21576 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21576 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**10. Treatment of 21590 LLC Equity Interests (Class 18).** On the Effective Date, (a) the 21590 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and

(b) the assets, if any, of 21590 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**11. Treatment of 21787 LLC Equity Interests (Class 19).** On the Effective Date, (a) the 21787 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21787 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**12. Treatment of 21832 LLC Equity Interests (Class 20).** On the Effective Date, (a) the 21832 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 21832 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**13. Treatment of 23138 LLC Equity Interests (Class 21).** On the Effective Date, (a) the 23138 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 23138 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**14. Treatment of 24067 LLC Equity Interests (Class 22).** On the Effective Date, (a) the 24067 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 24067 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**15. Treatment of 46914 LLC Equity Interests (Class 23).** On the Effective Date, (a) the 46914 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of 46914 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**16. Treatment of CF6-50 LLC Equity Interests (Class 24).** On the Effective Date, (a) the CF6-50 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of CF6-50 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**17. Treatment of Aircraft 21380 LLC Equity Interests (Class 25).** On the Effective Date, (a) the Aircraft 21380 LLC Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of Aircraft 21380 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

**18. Treatment of Aircraft 21255 LLC Equity Interests (Class 26).** On the Effective Date, (a) the Aircraft 21255 Equity Interests shall be deemed extinguished and the certificates and all other documents representing such Equity Interests shall be deemed cancelled and of no force and effect and (b) the assets, if any, of Aircraft 21255 LLC shall be distributed to Reorganized Southern Air free and clear of all liens, claims and encumbrances.

## L. Provision for Treatment of Intercompany Claims

**1. Treatment of Intercompany Claims.** On or as soon as practicable after the Effective Date, with the consent of the Requisite Lenders and the Oak Hill Entities, all Intercompany Claims will be either (a) reinstated to the extent determined to be appropriate by the Debtors or the Reorganized Debtors, as the case may be, or (b) adjusted, continued or capitalized, either directly or indirectly, in whole or in part. Any such transaction may be effected on or subsequent to the Effective Date without any further action by the equity holders of Reorganized Southern Air Parent.

## M. Provisions for Treatment of Disputed Claims Under the Plan

**1. Objections to Claims; Prosecution of Disputed Claims.** To the extent not objected to by the Debtors prior to the Effective Date, from and after the Effective Date, the Reorganized Debtors Plan Administrator shall object to the allowance of Claims filed with the Bankruptcy Court with respect to which they dispute liability, priority or amount, including, without limitation, objections to Claims which have been assigned and the assertion of the doctrine of equitable subordination with respect thereto. All objections, affirmative defenses and counterclaims shall be litigated to Final Order; provided, however, that the Reorganized Debtors Plan Administrator (within such parameters as may be established by the Board of Directors of the Reorganized Debtors), upon consultation with the Litigation Trustee, shall have the authority to file, settle, compromise or withdraw any objections to Claims. Unless otherwise ordered by the Bankruptcy Court, the Reorganized Debtors Plan Administrator shall file and serve all objections to Claims as soon as practicable, but, in each instance, not later than ninety (90) days following the Effective Date or such later date as may be approved by the Bankruptcy Court.

**2. Estimation of Claims.** Unless otherwise limited by an order of the Bankruptcy Court, the Reorganized Debtors Plan Administrator, may at any time request the Bankruptcy Court to estimate for final distribution purposes any contingent and/or liquidated claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Debtors or the Reorganized Debtors previously objected to such Claim, and the Bankruptcy Court will retain jurisdiction to consider any request to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. Unless otherwise provided in an order of the Bankruptcy Court, in the event that the Bankruptcy Court estimates any contingent and/or liquidated claim, the estimated amount shall constitute either the allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court; provided, however, that, if the estimate constitutes the maximum limitation on such Claim, the Debtors or the Reorganized Debtors Plan Administrator, as the case may be, may elect to pursue supplemental proceedings to object to any ultimate allowance of such Claim; and, provided, further, that the foregoing is not intended to limit the rights granted by section 502(j) of the Bankruptcy Code. All of the aforementioned Claims objection, estimation and resolution procedures are cumulative and not necessarily exclusive of one another.

## N. The Litigation Trust

**1. Litigation Trust Agreement.** On or before the Effective Date, the Debtors and the Litigation Trustee shall execute the Litigation Trust Agreement, and shall take all other necessary steps to establish the Litigation Trust and the Litigation Trust Interests therein, which shall be for the benefit of the Litigation Trust Beneficiaries, as provided in Section 8.1 and, in certain circumstances, Section 6.1 of the Plan, whether their Claims are Allowed before, on or after the Effective Date. The Litigation Trust Agreement may provide powers, duties, and authorities in addition to those explicitly stated in the Plan, but only to the extent that such powers, duties, and authorities do not affect the status of the Litigation Trust as a "liquidating trust" for United States federal income tax purposes. From and after

the Effective Date, any amendment, modification or supplement to the Litigation Trust Agreement, including, without limitation, the schedules and exhibits thereto, shall require the consent of the Reorganized Debtors, the Prepetition Agent and the Oak Hill Entities.

**2. Purpose of the Litigation Trust.** The Litigation Trust shall be established for the sole purpose of liquidating and distributing its assets, in accordance with Treasury Regulation section 301.7701-4(d), with no objective to continue or engage in the conduct of a trade or business.

**3. Litigation Trust Assets.** On the Effective Date, the Debtors shall transfer all of the Creditor Cash and the claims and causes of action pursuant to section 547 of the Bankruptcy Code designated by the Debtors and the Creditors' Committee in a schedule to be affixed to the Litigation Trust Agreement (the "Litigation Trust Assets")[13] to the Litigation Trust. The Litigation Trust Assets may be transferred subject to certain liabilities, as provided in the Plan or the Litigation Trust Agreement. Such transfer shall be exempt from any stamp, real estate transfer, mortgage reporting, sales, use or other similar tax, pursuant to section 1146(a) of the Bankruptcy Code. Upon delivery of the Litigation Trust Assets to the Litigation Trust, the Debtors and their predecessors, successors and assigns, and each other entity released pursuant to Article XXXI of the Plan shall be discharged and released from all liability with respect to the delivery of such distributions.

**4. Administration of the Litigation Trust.** The Litigation Trust shall be administered by the Litigation Trustee according to the Litigation Trust Agreement and the Plan. In the event of any inconsistency between the Plan and the Litigation Trust Agreement, the Litigation Trust Agreement shall govern.

**5. The Litigation Trustee.** In the event the Litigation Trustee dies, is terminated, or resigns for any reason, a successor shall be designated in accordance with the Litigation Trust Agreement; provided, however, that under no circumstance shall the Litigation Trustee be a director or officer with respect to any Affiliate of the Litigation Trust.

**6. Role of the Litigation Trustee.** In furtherance of and consistent with the purpose of the Litigation Trust and the Plan, and subject to the terms of the Confirmation Order, the Plan and the Litigation Trust Agreement, the Litigation Trustee shall, among other things, have the following rights, powers and duties: (i) to hold, manage, convert to Cash, and distribute the Litigation Trust Assets, including prosecuting and resolving the Claims belonging to the Litigation Trust, (ii) to hold the Litigation Trust Assets for the benefit of the Litigation Trust Beneficiaries, whether their Claims are Allowed on or after the Effective Date, (iii) in the Litigation Trustee's reasonable business judgment, to investigate, prosecute, settle and/or abandon rights, causes of action, or litigation that constitute Litigation Trust Assets, and (iv) to file all tax and regulatory forms, returns, reports, and other documents required with respect to the Litigation Trust.

**7. Transferability of Litigation Trust Interests.** The Litigation Trust Interests shall not be transferable or assignable except by will, intestate succession or operation of law.

**8. Cash.** The Litigation Trustee may invest Cash (including any earnings thereon or proceeds therefrom) as permitted by section 345 of the Bankruptcy Code; provided, however, that such investments are investments permitted to be made by a liquidating trust within the meaning of Treasury

[13] Notwithstanding the foregoing, and for the avoidance of doubt, "Litigation Trust Assets" shall not include claims, causes of action or objections against any Released Parties or their Related Persons.

Regulation section 301.7701-4(d), as reflected therein, or under applicable IRS guidelines, rulings, or other controlling authorities.

**9. Distribution of Litigation Trust Assets/Litigation Trust Claims Reserve.** The Litigation Trustee shall distribute to the holders of Allowed General Unsecured Claims on account of their Litigation Trust Interests, on or immediately after the Effective Date and on a quarterly basis thereafter, all unrestricted Cash on hand (including any Cash received from the Debtors on the Effective Date, and treating any permissible investment as Cash for purposes of Section 16.9 of the Plan, except (i) Cash reserved pursuant to the Litigation Trust Agreement to fund the activities of the Litigation Trust, which amount shall not exceed Twenty-Five Thousand Dollars ($25,000.00) on the Effective Date, but which may be increased thereafter in accordance with the provisions of the Litigation Trust Agreement, (ii) such amounts as are allocable to or retained on account of Disputed General Unsecured Claims in accordance with Section 16.9 of the Plan, and (iii) such additional amounts as are reasonably necessary to (A) meet contingent liabilities and to maintain the value of the Litigation Trust Assets during liquidation, (B) pay reasonable incurred or anticipated expenses (including, but not limited to, any taxes imposed on or payable by the Litigation Trust or in respect of the Litigation Trust Assets), or (C) as are necessary to satisfy other liabilities incurred or anticipated by the Litigation Trust in accordance with the Plan, or the Litigation Trust Agreement.

**a. *Amounts Retained on Account of Disputed Claims.***

From and after the Effective Date, and until such time as all Disputed Claims have been compromised and settled or determined by order of the Bankruptcy Court, the Litigation Trustee shall retain for the benefit of each holder of a Disputed Claim, Litigation Trust Interests (and the Cash attributable thereto), in an amount equal to the distributions which would have been made to the holder of such Disputed Claim if it were an Allowed Claim in an amount equal to the lesser of (i) the Disputed Claim Amount, (ii) the amount in which the Disputed Claim shall be estimated by the Bankruptcy Court pursuant to section 502 of the Bankruptcy Code for purposes of allowance, which amount, unless otherwise ordered by the Bankruptcy Court, shall constitute and represent the maximum amount in which such Claim may ultimately become an Allowed Claim or (iii) such other amount as may be agreed upon by the holder of such Disputed Claim and the Reorganized Debtors Plan Administrator. Any Cash retained for the benefit of a holder of a Disputed Claim shall be treated as a payment and reduction on account of such Disputed Claim for purposes of computing any additional amounts to be paid in Cash in the event the Disputed Claim ultimately becomes an Allowed Claim. Such Cash retained for the benefit of holders of Disputed Claims shall be either (x) held by the Litigation Trustee, in an interest-bearing account or (y) invested in interest-bearing obligations issued by the United States Government, or by an agency of the United States Government and guaranteed by the United States Government, and having (in either case) a maturity of not more than thirty (30) days, for the benefit of such holders pending determination of their entitlement thereto under the terms of the Plan. No payments or distributions shall be made with respect to all or any portion of any Disputed Claim pending the entire resolution thereof by Final Order.

**b. *Allowance of Disputed Claims.***

At such time as a Disputed Claim becomes, in whole or in part, an Allowed Claim, the Litigation Trustee shall distribute to the holder thereof the distributions, if any, to which such holder is then entitled under the Plan together, with any interest that has accrued on the amount of Cash, but only to the extent that such interest is attributable to the amount of the Allowed Claim. Such distribution, if any, shall be made as soon as practicable after an order or judgment of the Bankruptcy Court is entered allowing such Disputed Claim becomes a Final Order but in no event more than sixty (60) days thereafter

(net of any expenses, including any taxes imposed on or with respect to the Litigation Trust Claims Reserve relating to such Claim).

**10. Costs and Expenses of the Litigation Trust**. The reasonable costs and expenses of the Litigation Trust, including the fees and expenses of the Litigation Trustee and its retained professionals, shall be paid solely from the Litigation Trust Assets.

**11. Compensation of the Litigation Trustee**. The individual(s) serving as or comprising the Litigation Trustee shall be entitled to reasonable compensation in an amount consistent with that of similar functionaries in similar roles, the payment of which shall be subject to the approval of the Bankruptcy Court and be made solely from the assets of the Litigation Trust.

**12. Retention of Professionals/Employees by the Litigation Trustee.** The Litigation Trustee may retain and compensate attorneys, other professionals, and employees to assist in its duties as Litigation Trustee on such terms as the Litigation Trustee deems appropriate without Bankruptcy Court approval.

**13. Federal Income Tax Treatment of the Litigation Trust**

**a.** ***Litigation Trust Assets Treated as Owned by Creditors.*** For all United States federal income tax purposes, all parties (including, without limitation, the Debtors, the Litigation Trustee, and the Litigation Trust Beneficiaries) shall treat the transfer of the Litigation Trust Assets to the Litigation Trust as (1) a transfer of the Litigation Trust Assets (subject to any obligations relating to those assets) directly to the Litigation Trust Beneficiaries and, to the extent Litigation Trust Assets are allocable to Disputed Claims, to the Litigation Trust Claims Reserve, followed by (2) the transfer by such beneficiaries to the Litigation Trust of the Litigation Trust Assets (other than the Litigation Trust Assets allocable to the Litigation Trust Claims Reserve) in exchange for Litigation Trust Interests. Accordingly, the Litigation Trust Beneficiaries shall be treated for United States federal income tax purposes as the grantors and owners of their respective share of the Litigation Trust Assets (other than such Litigation Trust Assets as are allocable to the Litigation Trust Claims Reserve, discussed below). The foregoing treatment shall also apply, to the extent permitted by applicable law, for state and local income tax purposes.

**b.** ***Tax Reporting***

(i) The Litigation Trustee shall file tax returns for the Litigation Trust treating the Litigation Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a) and in accordance with Section 16.14 of the Plan. The Litigation Trustee also will annually send to each holder of a Litigation Trust Interest a separate statement regarding the receipts and expenditures of the Litigation Trust as relevant for U.S. federal income tax purposes and will instruct all such holders to use such information in preparing their U.S. federal income tax returns or to forward the appropriate information to such holder's underlying beneficial holders with instructions to utilize such information in preparing their U.S. federal income tax returns. The Litigation Trustee shall also file (or cause to be filed) any other statement, return or disclosure relating to the Litigation Trust that is required by any governmental unit.

(ii) As soon as practicable following the Effective Date, the Litigation Trustee will in good faith value Litigation Trust Assets, and shall make all such values available from time to time, to the extent relevant, and such values shall be used consistently by all parties to the Litigation Trust (including, without limitation, the Debtors, the Litigation Trustee, and Litigation Trust Beneficiaries) for all United States federal income tax purposes.

(iii) Allocations of Litigation Trust taxable income among the Litigation Trust Beneficiaries (other than taxable income allocable to the Litigation Trust Claims Reserve) shall be determined by reference to the manner in which an amount of cash representing such taxable income would be distributed (were such cash permitted to be distributed at such time) if, immediately prior to such deemed distribution, the Litigation Trust had distributed all its assets (valued at their tax book value, and other than assets allocable to the Litigation Trust Claims Reserve) to the holders of the Litigation Trust Interests, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Litigation Trust. Similarly, taxable loss of the Litigation Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a hypothetical liquidating distribution of the remaining Litigation Trust Assets. The tax book value of the Litigation Trust Assets for purpose of this paragraph shall equal their fair market value on the Effective Date, adjusted in accordance with tax accounting principles prescribed by the Tax Code, the applicable Treasury Regulations, and other applicable administrative and judicial authorities and pronouncements.

(iv) Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt by the Litigation Trustee of a private letter ruling if the Litigation Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Litigation Trustee), the Litigation Trustee shall (A) timely elect to treat any Litigation Trust Claims Reserve as a "disputed ownership fund" governed by Treasury Regulation section 1.468B-9, and (B) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes. All parties (including the Litigation Trustee, the Debtors, and the Litigation Trust Beneficiaries) shall report for United States federal, state and local income tax purposes consistently with the foregoing.

(v) The Litigation Trustee shall be responsible for payment, out of the Litigation Trust Assets, of any taxes imposed on the trust or its assets, including the Litigation Trust Claims Reserve. In the event, and to the extent, any Cash retained on account of Disputed Claims in the Litigation Trust Claims Reserve is insufficient to pay the portion of any such taxes attributable to the taxable income arising from the assets allocable to, or retained on account of, Disputed Claims (including any income that may arise upon the distribution of the assets of the Litigation Trust Claims Reserve), such taxes may be (i) reimbursed from any subsequent Cash amounts retained on account of Disputed Claims, or (ii) to the extent such Disputed Claims have subsequently been resolved, deducted from any amounts otherwise distributable by the Litigation Trustee as a result of the resolution of such Disputed Claims.

(vi) The Litigation Trustee may request an expedited determination of taxes of the Litigation Trust, including the Litigation Trust Claims Reserve, under section 505(b) of the Bankruptcy Code for all Tax Returns filed for, or on behalf of, the Litigation Trust for all taxable periods through the dissolution of the Litigation Trust.

**c.** ***Tax Withholdings by Litigation Trustee.*** The Litigation Trustee may withhold and pay to the appropriate Tax Authority all amounts required to be withheld pursuant to the Tax Code or any provision of any foreign, state or local tax law with respect to any payment or distribution to the holders of Litigation Trust Interests. All such amounts withheld and paid to the appropriate Tax Authority (or placed in escrow pending resolution of the need to withhold) shall be treated as amounts distributed to such holders of Litigation Trust Interests for all purposes of the Litigation Trust Agreement. The Litigation Trustee shall be authorized to collect such tax information from the holders of Litigation Trust Interests (including, without limitation, social security numbers or other tax identification numbers) as in its sole discretion the Litigation Trustee deems necessary to effectuate the Plan, the Confirmation Order, and the Litigation Trust Agreement. This identification

requirement generally applies to all holders, including those who hold their securities in street name. The Litigation Trustee may refuse to make a distribution to any holder of a Litigation Trust Interest that fails to furnish such information in a timely fashion, and until such information is delivered, and may treat such holder's Litigation Trust Interests as disputed; provided, however, that, if such information is not furnished to the Litigation Trustee within six (6) months of the original request to furnish such information, no further distributions shall be made to the holder of such Litigation Trust Interest; and, provided, further, that, upon the delivery of such information by a holder of a Litigation Trust Interest, the Litigation Trustee shall make such distribution to which the holder of the Litigation Trust Interest is entitled, without additional interest occasioned by such holder's delay in providing tax information; and, provided, further that, if the Litigation Trustee fails to withhold in respect of amounts received or distributable with respect to any such holder and the Litigation Trustee is later held liable for the amount of such withholding, such holder shall reimburse the Litigation Trustee for such liability (to the extent such amounts were actually distributed to such holder).

**d.** ***Dissolution.*** The Litigation Trustee and the Litigation Trust shall be discharged or dissolved, as the case may be, upon the earlier to occur of (i) all of the Litigation Trust Assets have been distributed pursuant to the Plan and the Litigation Trust Agreement, (ii) the Litigation Trustee determines, with the consent of the Litigation Trust Board, that the administration of any remaining Litigation Trust Assets is not likely to yield sufficient additional Litigation Trust proceeds to justify further pursuit, and (iii) all distributions required to be made by the Litigation Trustee under the Plan and the Litigation Trust Agreement have been made; provided, however, in no event shall the Litigation Trust be dissolved later than three (3) years from the Effective Date unless the Bankruptcy Court, upon motion within the six-month period prior to the third (3rd) anniversary (or within the six-month period prior to the end of an extension period), determines that a fixed period extension (not to exceed three (3) years, together with any prior extensions, without a favorable private letter ruling from the IRS or an opinion of counsel satisfactory to the Litigation Trustee and the Litigation Trust Board that any further extension would not adversely affect the status of the trust as a liquidating trust for United States federal income tax purposes) is necessary to facilitate or complete the recovery and liquidation of the Litigation Trust Assets. If at any time the Litigation Trustee determines, in reliance upon such professionals as the Litigation Trustee may retain, that the expense of administering the Litigation Trust so as to make a final distribution to its beneficiaries is likely to exceed the value of the assets remaining in the Litigation Trust, the Litigation Trustee may apply to the Bankruptcy Court for authority to (i) reserve any amount necessary to dissolve the Litigation Trust, (ii) donate any balance to a charitable organization (A) described in section 501(c)(3) of the Tax Code, (B) exempt from United States federal income tax under section 501(a) of the Tax Code, (C) not a "private foundation", as defined in section 509(a) of the Tax Code, and (D) that is unrelated to the Debtors, the Reorganized Debtors, the Litigation Trust, and any insider of the Litigation Trustee, and (iii) dissolve the Litigation Trust.

**14. Indemnification of Litigation Trustee and Litigation Trust Board**. The Litigation Trustee or the individual(s) comprising the Litigation Trustee, as the case may be, the members of the Litigation Trust Board, and the Litigation Trustee's employees, agents and professionals, shall not be liable to the Litigation Trust Beneficiaries for actions taken or omitted in their capacity, except those acts arising out of their own willful misconduct or gross negligence, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all actions or inactions in their capacity, except for any actions or inactions involving willful misconduct or gross negligence. Any indemnification claim of the Litigation Trustee (and the other parties entitled to indemnification under this subsection) shall be satisfied solely from the Litigation Trust Assets and shall be entitled to a priority distribution therefrom, ahead of the Litigation Trust Interests and any other claim to or interest in such assets. The Litigation Trustee and the members of the Litigation Trust Board shall be entitled to rely, in good faith, on the advice of their retained professionals.

**15. Privileges and Obligation to Respond to Ongoing Investigations.** All attorney-work privileges, work product protections and other immunities or protections from disclosure held by the Debtors shall be transferred, assigned, and delivered to the Litigation Trust, without waiver, and shall vest in the Litigation Trustee solely in its capacity as such (and any other individual the Litigation Trustee, with the consent of the Litigation Trust Board, may designate, as well as any other individual designated in the Litigation Trust Agreement). Pursuant to Federal Rule of Evidence 502(d), no privileges shall be waived by disclosure to the Litigation Trustee and the Litigation Trust Board of the Debtors' information subject to attorney-client privileges, work product protections, or other immunities or protections from disclosure.

## O. Prosecution of Claims Held by the Debtors

**1. Prosecution of Claims.** From and after the Effective Date, except as otherwise expressly provided in the Plan, including, without limitation, Articles XVI and XXXI of the Plan, the Reorganized Debtors, as successor to the rights of the estates of the Debtors, shall have the sole and exclusive right to litigate (or abandon) any claims or causes of action that constituted Assets of the Debtors or Debtors in Possession, including, without limitation, any avoidance or recovery actions under sections 541, 544, 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code, any claims under the Shared Insurance Policies and any other causes of action, rights to payments of claims that may be pending on the Effective Date, to a Final Order, and may compromise and settle such claims, without further approval of the Bankruptcy Court.

## P. Acceptance or Rejection of Plan; Effect of Rejection by One or More Classes of Claims or Equity Interests

**1. Impaired Classes to Vote.** Each holder of a Claim or Equity Interest in an impaired Class, not otherwise deemed to have accepted or rejected the Plan in accordance with Article XVIX of the Plan, shall be entitled to vote separately to accept or reject the Plan.

**2. Acceptance by Class of Creditors.** An impaired Class of holders of Claims shall have accepted the Plan if the Plan is accepted by at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Allowed Claims of such Class that have voted to accept or reject the Plan, including Claims estimated for voting purposes.

**3. Cramdown.** In the event that any impaired Class of Claims or Equity Interests shall fail to accept, or be deemed to reject, the Plan in accordance with section 1129(a) of the Bankruptcy Code, the Debtors reserve the right to request, with the consent of the Requisite Lenders and the Oak Hill Entities, that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code or amend the Plan.

## Q. Identification of Claims and Equity Interests Impaired and Not Impaired by the Plan

**1. Impaired and Unimpaired Classes.** Claims in Classes 1, 3, 10, 11 and 12 are not impaired under the Plan. Claims and Equity Interests in Classes 2, 4 through 9 and 13 through 26 are impaired under the Plan.

**2. Impaired Classes Entitled to Vote on Plan.** The Claims in Classes 2 and 4 through 6 are impaired and receiving distributions pursuant to the Plan and are therefore entitled to vote to accept or reject the Plan.

**3. Claims and Equity Interests Deemed to Reject.** The Claims and Equity Interests in Classes 7 through 9 and 13 through 26 are not entitled to receive any distributions or retain their Equity Interests pursuant to the Plan, and are deemed to reject the Plan and are not entitled to accept or reject the Plan.

**4. Controversy Concerning Impairment**. In the event of a controversy as to whether any Class of Claims or Equity Interests is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy.

**R. <u>Provisions Regarding Distributions</u>**

**1. Distributions of Cash to Allowed Claims.** Unless otherwise provided in the Plan, on the Effective Date, the Disbursing Agent or the Litigation Trustee, as the case may be, shall distribute to each holder of an Allowed Administrative Expense Claim, Allowed Priority Claim or Allowed General Unsecured Claim (or cause to be distributed to each holder of a Disputed Claim in accordance with Section 16.9 of the Plan) the distributions set forth in Articles III, V, VIII and IX of the Plan.

**2. Sources of Cash for Distribution.** Except as otherwise provided in the Plan or the Confirmation Order, all Cash required for the payments to be made to Allowed Claims shall be from the Debtors' Cash, the DIP Agreement, the Oak Hill 1110 Stipulation and the Exit Facility.

**3. Timeliness of Payments.** Any payments or distributions to be made pursuant to the Plan shall be deemed to be timely made if made within fifteen (15) days after the date therefor specified in the Plan. Whenever any distribution to be made under the Plan shall be due on a day other than a Business Day, such distribution shall instead be made, without interest, on the immediately succeeding Business Day, but shall be deemed to have been made on the date due.

**4. Distributions by the Disbursing Agent:**

**a. *Payment by Check or Wire.*** All distributions to be made pursuant to the Plan shall be made by the Disbursing Agent at the direction of the Reorganized Debtors. The Disbursing Agent shall be deemed to hold all property to be distributed under the Plan in trust for the Persons entitled to receive the same. The Disbursing Agent shall not hold an economic or beneficial interest in such property.

**b. *Distributions:***

(i) All distributions of notes in connection with the Exit Term Loans and Reorganized Southern Air Parent Common Stock and the Prepetition Lender Warrants to the Prepetition Lenders or their respective U.S. LLC Designee, as the case may be, pursuant to Section 6.1 of the Plan shall be made by, or at the direction of, the applicable Disbursing Agent on behalf of Reorganized Cargo 360 or Cargo LLC, as the case may be;

(ii) All distributions of notes, Reorganized Southern Air Parent Common Stock or Cash, as applicable, in connection with the Exit Term Loans and the Equity Payment to the DIP Lenders or their respective U.S. LLC Designee, as the case may be, pursuant to Section 3.3(a) of the Plan shall be made by, or at the direction of, the applicable Disbursing Agent on behalf of Reorganized Cargo 360 or Cargo LLC, as the case may be;

(iii) All distributions of Reorganized Southern Air Parent Common Stock and Oak Hill Warrants to the Oak Hill Entities pursuant to Sections 2.1(d) and 3.4 of the Plan shall be made by, or at the direction of, the applicable Disbursing Agent on behalf of Reorganized Southern Air Parent;

(iv) All distributions of Reorganized Southern Air Parent Common Stock and Southern Management Warrants to Southern Management pursuant to Section 28.2 of the Plan shall be made by, or at the direction of, the applicable Disbursing Agent on behalf of Reorganized Southern Air Parent; and

(v) All distributions of Cash under the Plan shall be made by, or at the direction of, the applicable Disbursing Agent on behalf of the applicable Debtor.

**5. Manner of Payment under the Plan.** Unless the Entity receiving a payment agrees otherwise, any payment in Cash to be made pursuant to the Plan, at the election of the Disbursing Agent shall be made, by check drawn on a domestic bank or by wire transfer from a domestic bank; provided, however, that no Cash payments shall be made to a holder of an Allowed Claim until such time, if ever, as the amount payable thereto is equal to or greater than Ten Dollars ($10.00).

**6. Delivery of Distributions.** Subject to the provisions of Rule 9010 of the Bankruptcy Rules, and except as provided in Section 20.5 of the Plan, distributions and deliveries to holders of Allowed Claims shall be made at the address of each such holder as set forth on the Schedules filed with the Bankruptcy Court unless superseded by the address set forth on a proof of claim filed by such holder, or at the last known address of such a holder if no proof of claim is filed or if the Debtors have been notified in writing of a change of address.

**7. Undeliverable Distributions:**

**a.** ***Holding of Undeliverable Distributions.*** If any distribution to any holder is returned to the Reorganized Debtors as undeliverable, no further distributions shall be made to such holder unless and until the Reorganized Debtors are notified, in writing, of such holder's then-current address. Undeliverable distributions shall remain in the possession of the Reorganized Debtors until such time as a distribution becomes deliverable. All Entities ultimately receiving undeliverable Cash shall not be entitled to any interest or other accruals of any kind. Nothing contained in the Plan shall require the Reorganized Debtors to attempt to locate any holder of an Allowed Claim.

**b.** ***Failure to Claim Undeliverable Distributions.*** On or about the six (6) month anniversary of the Effective Date, the Reorganized Debtors shall file a list with the Bankruptcy Court setting forth the names of those Entities for which distributions have been made under the Plan and have been returned as undeliverable as of the date thereof. Any holder of an Allowed Claim that does not assert its rights pursuant to the Plan to receive a distribution within one (1) year from and after the Effective Date shall have its entitlement to such undeliverable distribution discharged and shall be forever barred from asserting any entitlement pursuant to the Plan against the Reorganized Debtors or their property. In such case, any consideration held for distribution on account of such Claim shall revert to the Disbursing Agent for purposes of calculating and distributing "Creditor Cash" to the extent such undeliverable distribution is on account of an Allowed General Unsecured Claim.

**8. Withholding and Reporting Requirements:**

**a.** ***Withholding Rights.*** In connection with the Plan and all instruments issued in connection therewith and distributed thereon, any party issuing any instrument or making any

distribution described in the Plan shall comply with all applicable withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions pursuant to the Plan and all related agreements shall be subject to any such withholding or reporting requirements. In the case of a non-Cash distribution that is subject to withholding, the distributing party may withhold an appropriate portion of such distributed property and sell such withheld property to generate Cash necessary to pay over the withholding tax. Any amounts withheld pursuant to the preceding sentence shall be deemed to have been distributed to and received by the applicable recipient for all purposes of the Plan. Notwithstanding the foregoing, each holder of an Allowed Claim or Equity Interest or any other Person that receives a distribution pursuant to the Plan shall have responsibility for any taxes imposed by any governmental unit, including, without limitation, income, withholding, and other taxes, on account of such distribution. Any party issuing any instrument or making any distribution pursuant to 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.

**b.** ***Forms.*** Any party entitled to receive any property as an issuance or distribution under the Plan shall be required to deliver to the Disbursing Agent or some other Person designated by the Debtors (which entity shall subsequently deliver to the Disbursing Agent any applicable Form W-8 or Form W-9 received) an appropriate Form W-9 or (if the payee is a foreign Person) Form W-8, unless such Person is exempt under the Tax Code and so notifies the Disbursing Agent.

**9. Time Bar to Cash Payments.** Checks issued by the Reorganized Debtors on account of Allowed Claims shall be null and void if not negotiated within ninety (90) days from and after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the Disbursing Agent by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of a voided check shall be made on or before the later of (a) the first (1st) anniversary of the Effective Date or (b) ninety (90) days after the date of issuance of such check, if such check represents a final distribution under the Plan on account of such Claim. After such date, all Claims in respect of voided checks shall be discharged and forever barred and all monies related thereto shall be remitted to the Disbursing Agent for purposes of calculating and distributing as "Creditor Cash," to the extent relating to General Unsecured Claims.

**10. Distributions After Effective Date.** Distributions made after the Effective Date to holders of Claims that are not Allowed Claims as of the Effective Date, but which later become Allowed Claims shall be deemed to have been made in accordance with the terms and provisions of Section 20.1 of the Plan.

**11. Setoffs.** Except with respect to the DIP Claims, the Prepetition Lender Claims, the Prepetition Lender Deficiency Claims and claims arising from or related to the Oak Hill 1110 Stipulation or the OHAA Funding Agreement, the Disbursing Agent may, pursuant to applicable bankruptcy or non-bankruptcy law, set off against any Allowed Claim and the distributions to be made pursuant to the Plan on account thereof (before any distribution is made on account of such Claim), the claims, rights and causes of action of any nature against the holder of such Allowed Claim; provided, however, that neither the failure to effect such a setoff nor the allowance of any Claim under the Plan shall constitute a waiver or release by the Debtors of any such claims, rights and causes of action that the Debtors may possess against such holder; and, provided, further, that nothing contained in the Plan is intended to limit the ability of any Creditor to effectuate rights of setoff or recoupment preserved or permitted by the provisions of sections 553, 555, 559 or 560 of the Bankruptcy Code or pursuant to the common law right of recoupment.

**12. Allocation of Plan Distributions Between Principal and Interest.** To the extent that any Allowed Claim entitled to a distribution under the Plan is comprised of indebtedness and

accrued but unpaid interest thereon, such distribution shall 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 or original issue discount. All of the parties (including, without limitation, the Debtors or the Reorganized Debtors) agree to report such transfers consistently with the foregoing for federal, state and local income tax purposes.

**13. Exemption from Securities Law.** To the fullest extent provided for in section 1145 of the Bankruptcy Code, the issuance of the Reorganized Southern Air Parent Common Stock and any other securities to be issued pursuant to the Plan, on account of, and in exchange for, Claims (including, without limitation, Administrative Expense Claims) against the Debtors, cash and/or property shall be exempt from registration pursuant to section 5 of the Securities Act of 1933 and any other applicable non-bankruptcy law or regulation.

**14. Issuance of Reorganized Southern Air Parent Common Stock, Prepetition Lender Warrants, Southern Management Warrants and Oak Hill Warrants.** On the Effective Date, Reorganized Southern Air Parent shall (a) issue Reorganized Southern Air Parent Common Stock, Southern Management Warrants, Oak Hill Warrants and Prepetition Lender Warrants, (b) distribute Reorganized Southern Air Common Stock and Prepetition Lender Warrants to the holders of Allowed Prepetition Lender Claims or their respective U.S. LLC Designee, as the case may be, in accordance with Sections 3.3(a) and 6.1 of the Plan; provided, however, that, if Reorganized Southern Air Parent is Holdings, Reorganized Southern Air Parent shall contribute Prepetition Lender Reorganized Southern Air Parent Common Stock and Prepetition Lender Warrants as a capital contribution to Cargo 360 in an amount equal to the shares of Reorganized Southern Air Parent Common Stock to be to be distributed by Reorganized Cargo 360 pursuant to the Plan to the holders of Allowed Prepetition Lender Claims or their respective U.S. LLC Designee, as the case may be, pursuant to Section 6.1(b) of the Plan, (c) distribute shares of Reorganized Southern Air Parent Common Stock to Southern Management pursuant to Section 28.2 of the Plan, and (d) distribute the Oak Hill Warrants and Reorganized Southern Air Parent Common Stock to OHAA or OHAA Designee pursuant to Sections 2.1(d) and 3.4 of the Plan. On the Effective Date, Reorganized Cargo 360 will distribute shares of Reorganized Southern Air Parent Common Stock and Prepetition Lender Warrants to the holders of Allowed Prepetition Lender Claims or their respective U.S. LLC Designee, as the case may be, pursuant to Section 6.1(b) of the Plan.

## S. Creditors' Committee

**1. Dissolution of the Creditors' Committee.** On the Effective Date, the Creditors' Committee shall be dissolved and the members thereof shall 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, and the retention or employment of the Creditors' Committee's attorneys, accountant 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; provided, however, that notwithstanding the foregoing, under no circumstances shall the aggregate amount of fees and expenses of the Creditors' Committee and its attorneys, accountants and other agents sought to be allowed in accordance with such applications be in excess of Four Hundred Ninety-Five Thousand Dollars ($495,000.00).

## T. Executory Contracts and Unexpired Leases

**1. Assumption and Assignment of Executory Contracts and Unexpired Leases.** On the Effective Date, the Debtors shall reject all executory contracts and unexpired leases that (i) have not previously been assumed and assigned or rejected with the approval of the Bankruptcy Court, (ii) are not as of the Confirmation Date the subject of a motion to assume or reject, (iii) have not expired by their

own terms on or prior to the Confirmation Date (iv) are not listed on the Schedule of "Assumed and Assigned Executory Contracts and Unexpired Leases" filed with the Bankruptcy Court, and served on parties whose executory contracts and unexpired leases are intended to be assumed, seven (7) days prior to the Ballot Date, which executory contracts and unexpired leases will be assumed and assigned to Reorganized Southern Air as of the Effective Date. Entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such assumptions and assignments and rejections pursuant to sections 365(a) and 1123 of the Bankruptcy Code. The Debtors or Reorganized Debtors, as applicable, reserve the right to modify and amend, upon consultation with the Requisite Lenders and the Oak Hill Entities, the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases to add or delete any executory contracts or unexpired leases therefrom or modify any cure amount at any time through and including fifteen (15) days after the Effective Date. The Debtors shall provide any amendments to the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases to the parties to the executory contracts and unexpired leases.

**a.** The Oak Hill Leases shall be included on the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases and, on the Effective Date, shall be assumed as amended in the form of the Oak Hill Lease Amendments pursuant to the Confirmation Order, and any and all defaults under the Oak Hill Leases outstanding on or before the Effective Date shall be cured (or waived, as set forth in the Oak Hill Lease Amendments) in accordance with section 365(b) of the Bankruptcy Code.

**b.** In the event of a dispute as to whether a contract or lease is executory or unexpired, the right of the Debtors or Reorganized Debtors to move to assume or reject such contract or lease shall be extended until the date that is thirty (30) days after the entry of a Final Order by the Court determining that the contract or lease is executory or unexpired. The deemed rejection provided for in Section 22.1 of the Plan shall not apply to such contract or lease.

**c.** If the Debtors or the Reorganized Debtors become aware after the Effective Date of the existence of an executory contract or unexpired lease that was not included in the Schedules, the right of the Reorganized Debtors to move to assume or reject such contract or lease shall be extended until the date that is thirty (30) days after the date on which the Debtors or the Reorganized Debtors become aware of the existence of such contract or lease. The deemed rejections provided for in Section 22.1 of the Plan shall not apply to any such contract or lease.

**2. Assumption of General Liability Insurance Policies.** On the Effective Date, the Reorganized Debtors shall assume and, to the extent the applicable coverage period extends beyond the Effective Date, all General Liability Insurance Policies and each General Liability Insurance Carrier providing insurance pursuant to a General Liability Insurance Policy shall continue to provide coverage to the Reorganized Debtors in accordance with the terms and provisions set forth therein, including, without limitation, remitting to the Reorganized Debtors such amounts of excess collateral or surplus premiums in accordance with the General Liability Insurance Policy.

**3. Cure of Defaults for Assumed Executory Contracts and Unexpired Leases.** The Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases shall designate the cure amount owing with respect to each such executory contract and unexpired lease to be assumed pursuant to Section 22.1 of the Plan. Except as otherwise provided in the Plan with respect to the Oak Hill Leases, any monetary amounts required as cure payments on each executory contract and unexpired lease to be assumed and assigned to Reorganized Southern Air pursuant to the Plan shall be satisfied, pursuant to section 365(b)(1) of the Bankruptcy Code, by payment by Reorganized Southern Air of the cure amount in Cash on the later of Effective Date or as soon as practicable after resolution of any dispute as to such cure amount, or on such other terms and dates as the parties to such executory contracts or

unexpired leases otherwise may agree. In the event of a dispute regarding (a) the amount of any cure payment, (b) the ability of Reorganized Southern Air 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 (c) any other matter pertaining to assumption arises, the cure payments required by section 365(b)(1) of the Bankruptcy Code shall be subject to the jurisdiction of the Bankruptcy Court and made following the entry of a Final Order resolving such dispute; provided, however, that any objections to the cure amount listed on the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases must be filed the later of (i) thirty (30) days after any amendment to the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases has been filed or (ii) thirty (30) days after the Effective Date. To the extent such dispute relates only to the cure amount, the Debtors may assume and assign such executory contract or unexpired lease prior to resolution thereof, provided that the Debtors reserve Cash in the amount sufficient to pay the full amount asserted by the non-Debtor party to the subject executory contract or unexpired lease (or such lesser amount as may be estimated by the Bankruptcy Court). Any party that fails to object in accordance with the provisions of Section 22.3 of the Plan, shall be forever barred, estopped, and enjoined from disputing the cure amount (including a cure amount of $0.00) and/or from asserting any Claim against the Debtors.

**4. Modifications, Amendments, Supplements, Restatements or Other Agreements:**

**a.** Unless otherwise provided by the Plan or by separate order of the Bankruptcy Court, each executory contract and unexpired lease that is assumed, whether or not such executory contract or unexpired lease relates to the use, acquisition or occupancy of real property, shall include (i) all modifications, amendments, supplements, restatements or other agreements made directly or indirectly by any agreement, instrument or other document that in any manner affects such executory contract or unexpired lease and (ii) all executory contracts or unexpired leases appurtenant to the premises, if any, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, powers, uses, reciprocal easement agreements and any other interests in real estate or rights in remedy related to such premises, unless any of the foregoing agreements has been or is rejected pursuant to an order of the Bankruptcy Court or is otherwise rejected as part of the Plan.

**b.** Modifications, amendments, supplements and restatements to pre-petition executory contracts and unexpired leases that have been executed by the Debtors during the Chapter 11 Cases and actions taken in accordance therewith, (i) do not alter in any way the pre-petition nature of the executory contracts and unexpired leases, or the validity, priority or amount of any Claims against the Debtors that may arise under the same, (ii) are not and do not create post-petition contracts or leases, (iii) do not elevate to administrative expense priority any Claims of the counterparties to the executory contracts and unexpired leases against any of the Debtors and (iv) do not entitle any entity to a Claim under any section of the Bankruptcy Code on account of the difference between the terms of any pre-petition executory contracts or unexpired leases and subsequent modifications, amendments, supplements or restatements.

**5. Rejection Damage Claims.** If the rejection of an executory contract or unexpired lease by the Debtors under the Plan results in damages to the other party or parties to such contract or lease, any claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtors, or its properties or agents, successors, or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon attorneys for the Debtors on or before thirty (30) days after the later to occur of (a) the Confirmation Date and (b) notice of an amendment to the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases.

**6. Indemnification and Reimbursement Obligations.** For purposes of the Plan, (a) the obligations of the Debtors to indemnify and reimburse their directors or officers that were directors or officers, respectively, on or subsequent to the Petition Date, shall be assumed by the Reorganized Debtors and (b) indemnification obligations of the Debtors arising from services as officers and directors during the period from and after the Petition Date shall be Administrative Expense Claims to the extent authorized by a Final Order, upon notice and a hearing. On or prior to the Effective Date, the Debtors shall purchase continuing director and officer insurance coverage for such directors and officers with a tail period of six (6) years for an aggregate premium of no greater than Two-Hundred Thousand Dollars ($200,000.00) unless otherwise agreed to by the Consenting Lenders and the Oak Hill Entities.

**7. Other Section 1110 Agreements.** On the earliest to occur of (a) the Effective Date, (b) the date upon which an executory contract or unexpired lease governed by section 1110 of the Bankruptcy Code is rejected or deemed rejected pursuant to an order of the Bankruptcy Court, and (c) such executory contract or unexpired lease expires or is terminated in accordance with the terms and provisions thereof, the Other Section 1110 Agreement relating thereto shall be terminated.

## U. Rights and Powers of Disbursing Agent

**1. Exculpation.** From and after the Effective Date, the Disbursing Agent, in its capacity as such, shall be exculpated by all Persons and Entities, including, without limitation, holders of Claims and other parties in interest, from any and all claims, causes of action and other assertions of liability arising out of the discharge of the powers and duties conferred upon such Disbursing Agent by the Plan or any order of the Bankruptcy Court entered pursuant to or in furtherance of the Plan, or applicable law, except for actions or omissions to act arising out of the gross negligence or willful misconduct of such Disbursing Agent. No holder of a Claim or other party in interest shall have or pursue any claim or cause of action against the Disbursing Agent for making payments in accordance with the Plan or for implementing the provisions of the Plan.

**2. Powers of the Disbursing Agent.** The Disbursing Agent shall be empowered to (a) take all steps and execute all instruments and documents necessary to effectuate the Plan, (b) make distributions contemplated by the Plan, (c) comply with the Plan and the obligations thereunder, and (d) exercise such other powers as may be vested in the Disbursing Agent pursuant to an 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 of the Plan.

**3. Fees and Expenses Incurred From and 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 from and after the Effective Date and any reasonable compensation and expense reimbursement claims, including, without limitation, reasonable fees and expenses of counsel, made by the Disbursing Agent, shall be paid from Creditor Cash without further order of the Bankruptcy Court within fifteen (15) days of submission of an invoice by the Disbursing Agent.

## V. The Reorganized Debtors Plan Administrator

**1. Appointment of Reorganized Debtors Plan Administrator.** On the Effective Date, compliance with the provisions of the Plan shall become the general responsibility of the Reorganized Debtors Plan Administrator pursuant to and in accordance with the provisions of the Plan and the Reorganized Debtors Plan Administration Agreement.

**2. Responsibilities of the Reorganized Debtors Plan Administrator.** In accordance with the Reorganized Debtors Plan Administration Agreement, the responsibilities of the

Reorganized Debtors Plan Administrator may include (a) facilitating the Reorganized Debtors' prosecution or settlement of objections to and estimations of Claims, (b) prosecution or settlement of claims and causes of action held by the Debtors and Debtors in Possession, (c) calculating and assisting the Disbursing Agent in implementing all distributions in accordance with the Plan, (d) filing all required tax returns and paying taxes and all other obligations on behalf of the Reorganized Debtors from funds held by the Reorganized Debtors, (e) periodic reporting to the Bankruptcy Court, of the status of the Claims resolution process, distributions on Allowed Claims and prosecution of causes of action, and (f) with the consent of the Requisite Lenders and the Oak Hill Entities, such other responsibilities as may be vested in the Reorganized Debtors Plan Administrator pursuant to the Plan, the Reorganized Debtors Plan Administration Agreement or Bankruptcy Court order or as may be necessary and proper to carry out the provisions of the Plan.

**3. Powers of the Reorganized Debtors Plan Administrator.** The powers of the Reorganized Debtors Plan Administrator may, without any further Bankruptcy Court approval in each of the following cases, include (a) the power to invest funds in, and withdraw, make distributions and pay taxes and other obligations owed by the Reorganized Debtors from funds held by the Reorganized Debtors Plan Administrator and/or the Reorganized Debtors in accordance with the Plan, (b) the power to compromise and settle claims and causes of action on behalf of or against the Reorganized Debtors and (c) with the consent of the Requisite Lenders and the Oak Hill Entities, such other powers as may be vested in or assumed by the Reorganized Debtors Plan Administrator pursuant to the Plan, the Reorganized Debtors Plan Administration Agreement or as may be deemed necessary and proper to carry out the provisions of the Plan.

**4. Compensation of the Reorganized Debtors Plan Administrator.** The Reorganized Debtors Plan Administrator (to the extent a Person or Entity other than a Reorganized Debtor) shall be entitled to receive reimbursement for actual out-of-pocket expenses and reasonable compensation for services rendered on behalf of the Reorganized Debtors in an amount and on such terms as may be reflected in the Reorganized Debtors Plan Administration Agreement.

**5. Termination of Reorganized Debtors Plan Administrator.** The duties, responsibilities and powers of the Reorganized Debtors Plan Administrator shall terminate pursuant to the terms of the Reorganized Debtors Plan Administration Agreement.

## W. Conditions Precedent to Confirmation and Effective Date of the Plan; Implementation Provisions

**1. Conditions Precedent to Confirmation of the Plan.** Confirmation of the Plan is subject to satisfaction of the following conditions precedent:

**a.** ***Entry of the Confirmation Order.*** The Clerk of the Bankruptcy Court shall have entered the Confirmation Order, in form and substance reasonably acceptable to the Debtors, the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities.

**b.** ***Plan Supplement.*** The Plan Supplement shall have been filed prior to the Confirmation Hearing.

**2. Conditions Precedent to Effective Date of the Plan.** The occurrence of the Effective Date and the substantial consummation of the Plan are subject to satisfaction of the following conditions precedent:

**a.** ***Entry of the Confirmation Order.*** The Clerk of the Bankruptcy Court shall have entered the Confirmation Order, in form and substance reasonably satisfactory to the Debtors, the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, and the effectiveness of the Confirmation Order shall have not otherwise been stayed.

**b.** ***Effective Date.*** The Effective Date shall occur on or before March 31, 2013.

**c.** ***Plan Support Agreement Still in Effect.*** The Plan Support Agreement shall not have terminated in accordance with its terms.

**d.** ***Exit Facility.*** The Exit Facility shall have been executed and delivered; provided, however, that, in the event that the Debtors obtain alternative financing with respect to their obligations in connection with the DIP New Money Loan, the DIP Roll-Up Loan, or both, the execution and delivery of such alternative documentation and the payment, in Cash, on account of such DIP Lender Claims shall be in accordance with the terms and provisions of the Plan.

**e.** ***Regulatory Approvals.*** The Reorganized Debtors shall have received the authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions or documents that are necessary to implement the Plan and that are required by law, regulations or order.

**f.** ***Consents.*** The Debtors shall have received all authorizations, consents, regulatory approvals, rulings, letters, no-action letters, opinions, or documents that are necessary to implement the Plan and that are required by law, regulation or order.

**g.** ***Restructuring Documents.*** Each of the Restructuring Documents (as defined in the Plan Support Agreement), including, without limitation, the documents included in the Plan Supplement, shall be (i) consistent with the applicable terms of the Plan Support Agreement (and contain no other provisions materially adverse to the Prepetition Lenders, the DIP Lenders or the Oak Hill Entities) and (ii) in form and substance reasonably acceptable to the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. Any conditions in such documents (other than the occurrence of the Effective Date or the certification by a Debtor that the Effective Date has occurred) shall have been satisfied or waived in accordance with the terms of such documents.

**h.** ***Issuance of Reorganized Southern Air Parent Common Stock and Warrants.*** The Reorganized Southern Air Parent Common Stock, the Oak Hill Warrants and the Prepetition Lender Warrants to be issued pursuant to the Plan shall be consistent with the applicable terms of the Plan Support Agreement (and contain no other provisions materially adverse to the Prepetition Lenders, the DIP Lenders or the Oak Hill Entities) and shall have been issued concurrently with the Effective Date.

**i.** ***Collective Bargaining.*** The Debtors shall have completed and received authorization for the execution and delivery of an extension of their collective bargaining agreement and/or similar union-related agreements, on terms satisfactory to the Requisite Lenders.

**j.** ***Execution of Documents; Other Actions.*** All other actions and documents necessary to implement the Plan shall have been effected or executed, including, but not limited to the Reorganized Debtors Plan Administrator Agreement, if applicable, and shall be consistent with the applicable terms of the Plan Support Agreement (and contain no other provisions materially adverse to the Prepetition Lenders, the DIP Lenders or the Oak Hill Entities).

**3. Waiver of Conditions Precedent.** To the extent practicable and legally permissible, each of the conditions precedent in Section 25.1 or 25.2 of the Plan, may be waived, in whole or in part, only with the approval of the Debtors, the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. Any such waiver of a condition precedent may be effected at any time by filing a notice thereof with the Bankruptcy Court.

**4. Effect of Failure of Conditions.** In the event that the Confirmation Order has been entered, but the Effective Date does not occur on or before March 31, 2013, or such other date as may be agreed upon, in writing, by the Debtors, the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, upon notification submitted by the Debtors to the Bankruptcy Court, for any reason other than the actions of the Consenting Lenders or the Oak Hill Entities that do not constitute a valid basis for termination of the Plan Support Agreement: (a) the Confirmation Order shall be deemed vacated; (b) no distributions under the Plan shall be made; (c) the Debtors and all holders of Claims and Equity Interests shall be restored to the *status quo ante* as of the day immediately preceding the Confirmation Date, as though the Confirmation Order had not been entered by the Bankruptcy Court; and (d) the Debtors' obligations with respect to the Claims and Equity Interests shall remain unchanged and nothing contained in the Plan shall constitute or be deemed a waiver or release of any Claims or Equity Interests by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any Person or Entity in any further proceedings involving the Debtors unless extended by an order of a court of competent jurisdiction.

**5. Vacatur of Confirmation Order.** If a Final Order denying confirmation of the Plan is entered, or if the Confirmation Order is vacated or deemed vacated, then the Plan shall be deemed null and void in all respects, and nothing contained in the Plan shall (a) constitute a waiver or release of any Claims against or Equity Interests in the Debtors, (b) prejudice in any manner the rights of the holder of any Claim against, or Equity Interest in, the Debtors, (c) prejudice in any manner any right, remedy or claim of the Debtors, or (d) be deemed an admission against interest by the Debtors or any other Person or Entity.

## X. Retention of Jurisdiction

**1. Retention of Jurisdiction.** The Bankruptcy Court shall retain and have exclusive jurisdiction over any matter arising under the Bankruptcy Code, arising in or related to the Chapter 11 Cases or the Plan, or that relates to the following:

**a.** to resolve any matters related to the assumption, assumption and assignment or rejection of any executory contract or unexpired lease to which a Debtor is a party or with respect to which a Debtor may be liable and to hear, determine and, if necessary, liquidate, any Claims arising therefrom, including those matters related to the amendment after the Effective Date of the Plan, to add any executory contracts or unexpired leases to the list of executory contracts and unexpired leases to be assumed;

**b.** to enter such orders as may be necessary or appropriate to implement or consummate the provisions of the Plan and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan, unless any such agreements or documents contain express enforcement and dispute resolution provisions to the contrary, in which case, such provisions shall govern;

**c.** to determine any and all motions, adversary proceedings, applications and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by the Reorganized Debtors prior to or after the Effective Date;

**d.** to ensure that distributions to holders of Allowed Claims are accomplished as provided in the Plan;

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

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

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

**i.** to hear and determine all applications for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date;

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

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

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

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

**n.** to enter a final decree closing the Chapter 11 Cases;

provided, however, that the foregoing is not intended to (1) expand the Bankruptcy Court's jurisdiction beyond that allowed by applicable law, (2) impair the rights of an Entity to (i) invoke the jurisdiction of a court, commission or tribunal with respect to matters relating to a governmental unit's police and regulatory powers and (ii) contest the invocation of any such jurisdiction; provided, however, that the invocation of such jurisdiction, if granted, shall not extend to the allowance or priority of Claims or the enforcement of any money judgment against the Debtors or the Reorganized Debtors, as the case may be, entered by such court, commission or tribunal, (3) impair the rights of an Entity to (i) seek the withdrawal of the reference in accordance with 28 U.S.C. § 157(d) and (ii) contest any request for the withdrawal of reference in accordance with 28 U.S.C. § 157(d) or (4) expand the Bankruptcy Court's jurisdiction, from and after the Effective Date, over any matter arising under or related to the Oak Hill Leases or the OHAA Funding Agreement, with jurisdiction over any such matters being determined in accordance with the respective provisions thereof.

## Y. Modification, Revocation, or Withdrawal of the Plan

**1. Modification of Plan.** The Debtors reserve the right, in accordance with the Bankruptcy Code and the Bankruptcy Rules, except in the event any amendment or modification would materially adversely affect the substance of the provisions set forth in the Plan or the Plan Support Agreement, to amend or modify the Plan, the Plan Supplement, or any exhibit to the Plan at any time prior to the entry of the Confirmation Order, subject in each case to the consent of the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities. Upon entry of the Confirmation Order, the Debtors may, with the consent of the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, upon order of the Bankruptcy Court, amend or modify the Plan, in accordance with section 1127(b) of the Bankruptcy Code, or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan, subject in each case to the terms of the Plan Support Agreement. A holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan as modified if the proposed modification does not materially and adversely change the treatment of the Claim of such holder.

**2. Revocation or Withdrawal:**

**a.** Subject to the terms of, and without prejudice to the rights of any party to the Plan Support Agreement, the Plan may be revoked or withdrawn prior to the Confirmation Date by the Debtors, acting jointly.

**b.** If the Plan is revoked or withdrawn prior to the Confirmation Date, or if the Plan does not become effective for any reason whatsoever, then the Plan shall be deemed null and void. In such event, nothing contained in the Plan shall be deemed to constitute a waiver or release of any claims by the Debtors or any other Entity, or to prejudice in any manner the rights of the Debtors or any other Entity in any further proceedings involving the Debtors.

## Z. Provision for Management

**1. Reorganized Debtors Directors.** From and after the Effective Date, the board of directors of the Reorganized Debtors shall be comprised of five (5) members: (a) the President and Chief Executive Officer of Reorganized Southern Air, (b) one member nominated by the Oak Hill Entity or Entities that receive Reorganized Southern Air Parent Common Stock pursuant to the Plan and (c) three (3) members nominated (in such manner as agreed to by the Consenting Lenders in order to comply with applicable non-bankruptcy law) by the Consenting Lenders. Except as set forth in the Plan, provisions regarding members of the Reorganized Debtors Board of Directors shall be as set forth in the Reorganized Debtors By-Laws, the Reorganized Debtors Certificate of Incorporation and the Reorganized Southern Air Parent Stockholders Agreement.

**2. Southern Management Equity Plan.** On the Effective Date, Southern Management shall be allocated and shall receive (a) in the aggregate, a grant of Four Hundred Thousand (400,000) shares of Reorganized Southern Air Parent Common Stock, representing four percent (4%) of the shares of Reorganized Southern Air Parent Common Stock to be granted on the Effective Date, distributable in shares of either Class A-3 Common Stock or Class C-2 Common Stock, one percent (1%) of which shall be vested and be delivered on the Effective Date and three percent (3%) of which shall vest and be delivered in three (3) equal installments on the first three (3) subsequent anniversaries of the Effective Date ("Initial Grant"), and (b) the Southern Management Warrants. Shares of Reorganized Southern Air Parent Common Stock issued pursuant to the Initial Grant shall be allocated and distributed among Southern Management in a manner and amount as determined by the Board of Directors of Holdings, as predecessor in interest to Reorganized Southern Air Parent, upon the recommendation of the

Chief Executive Officer of Holdings, and shall vest immediately in connection with a change of control or a sale of substantially all of the assets of Reorganized Southern Air and certain other enumerated events to be agreed upon. Allocation of Southern Management Warrants shall be determined by the Board of Directors of Reorganized Southern Air Parent, upon the recommendations of the Chief Executive Officer of Reorganized Southern Air Parent, and accelerated vesting of the Southern Management Warrants shall be agreed upon by the Southern Management and the Board of Directors of Reorganized Southern Air Parent.

**3. Management Agreements.** Subject to due diligence and consideration with respect to tax consequences, on the Effective Date, (a) each member of Southern Management and Reorganized Southern Air shall enter into a Management Agreement, for a term of three (3) years from and after the Effective Date, each containing customary and standard non-competition provisions, on economic terms to be agreed upon by the Requisite Lenders, the Required DIP Lenders, the Oak Hill Entities and members of Southern Management, but in no event on terms less favorable than in existence on the Business Day immediately preceding the Petition Date, and (b) existing employment agreements and related agreements between the Debtors and Southern Management, documents and instruments, including, without limitation, option agreements and promissory notes, with members of Southern Management shall be deemed cancelled and of no force and effect.

**AA. Articles of Incorporation and By-Laws of the Debtors; Corporate Action**

**1. Amendment of Articles of Incorporation/Charter.** On or prior to the Effective Date, the Debtors shall file the Reorganized Debtors Certificate of Incorporation and the Reorganized Debtors By-Laws under the general supervision of the Office of the Attorney General.

**2. Corporate Action.** On the Effective Date, the adoption of the Reorganized Debtors Certificate of Incorporation and the Reorganized Debtors By-Laws shall be authorized and approved in all respects, in each case without further action under applicable law, regulation, order, or rule, including, without limitation, any action by the stockholders of the Debtors or the Reorganized Debtors. The cancellation of all Equity Interests, and other matters provided under the Plan involving the corporate structure of the Reorganized Debtors or corporate action by the Reorganized Debtors shall be deemed to have occurred, be authorized, and shall be in effect without requiring further action under applicable law, regulation, order, or rule, including, without limitation, any action by the stockholders of the Debtors or the Reorganized Debtors. Without limiting the foregoing, from and after the Confirmation Date, the Debtors, and the Reorganized Debtors may take any and all actions deemed appropriate in order to consummate the transactions contemplated in the Plan.

**3. Issuance of Equity Interests in the Reorganized Debtors.** The issuance of Equity Interests in the Reorganized Southern Air Parent and, if Reorganized Southern Air Parent is Reorganized Holdings, the contribution of Prepetition Lender Reorganized Southern Air Parent Common Stock to Reorganized Cargo 360 as set forth in Section 20.4 of the Plan are authorized without the need for any further corporate action.

**4. Cancellation of Liens.** Except as otherwise provided in the Plan, upon the occurrence of the Effective Date, any Lien securing any Secured Claim that is satisfied in full and discharged under the Plan shall be deemed released, and the holder of such Secured Claim shall be authorized and directed to release any Collateral or other property of the Debtors (including any cash collateral) held by such holder and to take such actions as may be requested by the Reorganized Debtors, to evidence the release of such Lien, including the execution, delivery, and filing or recording of such releases as may be requested by the Reorganized Debtors.

**5. Merger of Holdings and Cargo 360.** The Debtors may, with the consent of the Requisite Lenders, the Required DIP Lenders and the Oak Hill Entities, cause Holdings to be merged with and into Cargo 360 without the need for any further corporate action, if the Debtors determine that Reorganized Southern Air Parent should be Reorganized Cargo 360.

## BB. Certain Tax Matters

**1. Exemption from Transfer Taxes.** Pursuant to section 1146(a) of the Bankruptcy Code, the creation of any mortgage, deed of trust, or other security interest, the issuance, transfer or exchange of any securities, instruments or documents the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, shall not be subject to any stamp, real estate transfer, mortgage recording or other similar tax. The Confirmation Order shall direct the appropriate federal, state and/or local governmental officials or agents to forgo the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

**2. Tax Cooperation.** The Reorganized Debtors shall cooperate with the Oak Hill Entities in good faith with respect to the tax reporting of the transactions contemplated by the Plan to minimize reporting of current taxable income to the Oak Hill Entities as a result of such transactions, with due regard to the impact of any tax reporting position on the Reorganized Debtors' current tax position and, to the extent appropriate to memorialize the terms of any such agreement, such terms to be incorporated in a document to be included in the Plan Supplement.

## CC. Miscellaneous Provisions

### 1. Discharge of Claims and Termination of Equity Interests

**a.** Except as expressly provided in the Plan or the Confirmation Order, all distributions and rights afforded under the Plan and the treatment of Claims and Equity Interests under the Plan shall be, and shall be deemed to be, in exchange for, and in complete satisfaction, settlement, discharge and release of, all Claims and any other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities of any nature whatsoever, and of all Equity Interests, or other rights of a holder of an Equity Interest, relating to any of the Debtors or the Reorganized Debtors or any of their respective assets, property and estates, or interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, and regardless of whether any property will have been distributed or retained pursuant to the Plan on account of such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, or Equity Interests or other rights of a holder of an equity security or other ownership interest, and upon the Effective Date, the Debtors and the Reorganized Debtors shall (i) be deemed to have received a discharge under section 1141(d)(1)(A) of the Bankruptcy Code and release from any and all Claims and any other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and any Equity Interests or other rights of a holder of an equity security or other ownership interest, of any nature whatsoever, including, without limitation, liabilities that arose before the Effective Date (including prior to the Petition Date), and all debts of the kind specified in sections 502(g), 502(h) or 502(i) of the Bankruptcy Code, whether or not (a) a Proof of Claim based upon such debt is filed or deemed filed under section 501 of the Bankruptcy Code, (b) a Claim based upon such debt is Allowed under section 502 of the Bankruptcy Code (or is otherwise resolved), or (c) the holder of a Claim based upon such debt voted to accept the Plan and (ii) terminate and cancel all rights of any equity security holder in any of the Debtors and all Equity Interests.

**b.** Except as expressly provided in the Plan or the Confirmation Order, all Persons shall be precluded from asserting against each of the Debtors, the Debtors' respective assets, property and Estates, the Reorganized Debtors and their respective Related Persons[14] any other or further Claims, or any other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities of any nature whatsoever, and all Equity Interests or other rights of a holder of an Equity Interest, relating to any of the Debtors or Reorganized Debtors or any of their respective assets, property and estates based upon any act, omission, transaction or other activity of any nature that occurred prior to the Effective Date. In accordance with the foregoing, except as expressly provided in the Plan or the Confirmation Order, the Confirmation Order shall constitute a judicial determination, as of the Effective Date, of the discharge of all such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and any Interests or other rights of a holder of an Equity Interest and termination of all rights of any such holder in any of the Debtors, pursuant to sections 524 and 1141 of the Bankruptcy Code, and such discharge shall void and extinguish any judgment obtained against the Debtors, the Reorganized Debtors or any of their respective assets, property and Estates at any time, to the extent such judgment is related to a discharged Claim, debt or liability or terminated right of any holder of any Equity Interest in any of the Debtors or terminated Equity Interest.

**2. Injunction on Claims. Except as otherwise expressly provided in the Plan, the Confirmation Order or such other order of the Bankruptcy Court that may be applicable, all Persons or Entities, and each Related Person of such Persons or Entities, who have held, hold or may hold Claims or any other debt or liability that is discharged or Equity Interests or other right of equity interest that is terminated or cancelled pursuant to the Plan, or who have held, hold or may hold Claims or any other debt or liability that is discharged or released pursuant to Sections 31.1, 31.5 and 31.6 of the Plan, respectively, are permanently enjoined, from and after the Effective Date, from (a) commencing or continuing, directly or indirectly, in any manner, any action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) of any kind on any such Claim or other debt or liability or Equity Interest that is terminated or cancelled pursuant to the Plan against the Debtors, the Debtors in Possession or the Reorganized Debtors, the Debtors' estates, or their respective properties, assets or interests in properties, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtors, the Debtors in Possession or the Reorganized Debtors, the Debtors' estates, or their respective properties or interests in properties, (c) creating, perfecting, or enforcing any encumbrance of any kind against the Debtors, the Debtors in Possession or the Reorganized Debtors, the Debtors' estates, or their respective properties, assets or interests in properties, or its respective properties, assets or interests in properties, and (d) except to the extent provided, permitted or preserved by sections 553, 555, 556, 559 or 560 of the Bankruptcy Code or pursuant to the common law right of recoupment, asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Debtors, the Debtors in Possession or the Reorganized Debtors, or against their respective property or interests in property, with respect to any such Claim or other debt or liability that is discharged or Equity Interest or other right of equity interest that is terminated or cancelled pursuant to the Plan; provided, however, that such injunction shall not preclude the United States of America, any state or any of**

[14] "Related Persons" means, with respect to any Entity, such predecessors, successors and assigns (whether by operation of law or otherwise) and their respective present and former affiliates and each of their respective current and former members, partners, equity-holders, officers, directors, employees, managers, shareholders, partners, financial advisors, attorneys, accountants, investment bankers, consultants, agents and professionals, or other representatives, each acting in such capacity, and any Entity claiming by or through any of them (including their respective officers, directors, managers, shareholders, partners, employees, members and professionals); provided, however, that, for purposes of this definition, each "Related Person" must serve in any of the foregoing capacity at some point during the period from the Petition Date up to and including the Effective Date.

**their respective police or regulatory agencies from enforcing their police or regulatory powers; provided, further, that, except in connection with a properly filed proof of claim, the foregoing proviso does not permit the United States of America, any State or any of their respective police or regulatory agencies from obtaining any monetary recovery from the Debtors, the Debtors in Possession or the Reorganized Debtors or their respective property or interests in property with respect to any such Claim or other debt or liability that is discharged or Equity Interest or other right of equity interest that is terminated or cancelled pursuant to the Plan, including, without limitation, any monetary claim or penalty in furtherance of a police or regulatory power. Such injunction shall extend to all successors of the Debtors and Debtors in Possession, and their respective properties and interests in property. Notwithstanding anything to the contrary, including, without limitation, the terms of Article XXXI of the Plan, but subject to the provisions of Sections 2.1(a) and 3.4 of the Plan, the Plan shall not limit or impair any defenses (including, but not limited to, any rights of setoff preserved or permitted under the Bankruptcy Code or rights of recoupment under applicable law) that have been asserted.**

**3. Integral to Plan.** Each of the discharge, injunction and release provisions provided in Article XXXI of the Plan is an integral part of the Plan and is essential to its implementation. Each of the Debtors, the Reorganized Debtors and the Released Parties,[15] shall have the right to independently seek the enforcement of the discharge, injunction and release provisions set forth in Article XXXI of the Plan.

**4. Releases by the Debtors. Except as otherwise expressly provided in the Plan, the Interim DIP Order, the Final DIP Order or the Confirmation Order, on the Effective Date, for good and valuable consideration, to the fullest extent permissible under applicable law, each of the Debtors, the Debtors in Possession and the Reorganized Debtors, on their own behalf and as representatives of their respective estate, shall, and shall be deemed to, completely and forever release, waive, void, extinguish and discharge unconditionally, each of the Released Parties and each of their respective Related Persons (other than with respect to the Related Persons of the Lender Parties) of and from any and all Claims, obligations, suits, judgments, damages, debts, causes of action, rights, defenses, counterclaims, remedies and liabilities of any nature whatsoever held by, assertable on behalf of, or derivative of the Debtors, the Debtors in Possession, the Reorganized Debtors and their respective estates, whether liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise, against the Released Parties arising from or relating to the period prior to the Effective Date (including prior to the Petition Date) or that may be based, in whole or in part, upon or otherwise relate to any act, omission or transaction, event or other circumstance taking place, arising or existing on or prior to the Effective Date (including prior to the Petition Date), including, without limitation, in connection with or otherwise relating to any of the Debtors, the Debtors in Possession, the Reorganized Debtors, the Chapter 11 Cases, the Plan, the Disclosure Statement, the Plan Support Agreement, the Oak Hill 1110 Stipulation, the Oak Hill Leases, the DIP Agreement and the compromises and settlements embodied in the Plan, or any negotiations regarding or concerning such compromises or settlements.**

[15] "Released Parties" means, collectively, each of the Debtors and their Affiliates, each of the Reorganized Debtors, the Oak Hill Entities, the DIP Agent, the DIP Lenders, the Prepetition Agent, the Consenting Lenders, and, except with respect to the Lender Parties, each of their respective current and former (to the extent employed or serving at any time during the Chapter 11 Cases) direct and indirect members, direct and indirect partners, officers, shareholders, directors, employees, managers, attorneys, consultants, advisors and agents.

**5. Reciprocal Releases Among Released Parties. Except as otherwise expressly provided in the Plan or the Confirmation Order, on the Effective Date, for good and valuable consideration, to the fullest extent permissible under applicable law, each of the Released Parties and each of their respective Related Persons (other than with respect to the Related Persons of the Lender Parties), shall, and shall be deemed to, completely and forever release, waive, void, extinguish and discharge unconditionally each and all of the other Released Parties and each of their Related Persons (other than with respect to the Related Persons of the Lender Parties) of and from any and all Claims, obligations, suits, judgments, damages, debts, causes of action, rights, defenses, counterclaims, remedies, and liabilities of, on account of, in connection with, or in any way related to such Claim (including, without limitation, those arising under the Bankruptcy Code), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are or may be based in whole or part on, or otherwise relating to, any act, omission, transaction, event or other circumstance taking place, arising or existing on or before the Effective Date (including before the Petition Date) in connection with or related to any of the Debtors, the Debtors in Possession, the Reorganized Debtors, their respective assets, property and estates, the Chapter 11 Cases, the Plan, the Disclosure Statement, the Plan Support Agreement, the Oak Hill Leases, the Oak Hill 1110 Stipulation, the DIP Agreement, the compromises and settlements embodied in the Plan, or any negotiations regarding or concerning such compromises and settlements.**

**6. Voluntary Releases by Holders of Claims. Except as otherwise expressly provided in the Plan or the Confirmation Order, on the Effective Date, for good and valuable consideration, to the fullest extent permissible under applicable law, each Person that (a)(i) has held, currently holds or may hold a Claim or any other obligation, suit, judgment, damage, debt, right, remedy, defense, counterclaim, cause of action or liability of any nature whatsoever, (ii) submitted a Ballot, and (iii) elected to opt in to the releases contained in this paragraph by marking the appropriate box on the Ballot, or (b)(i) otherwise receives a distribution pursuant to the Plan and (ii) accepts such distribution, including, without limitation, by negotiation of any check drawn in accordance with Section 20.5 of the Plan, and each of their respective Related Persons (other than with respect to the Related Persons of the Lender Parties), shall, and shall be deemed to, completely and forever release, waive, void, extinguish and discharge unconditionally each and all of the Released Parties and each of their respective Related Persons from any and all Claims, obligations, suits, judgments, damages, debts, rights, remedies, defenses, counterclaims, causes of action and liabilities on account of, in connection with, or in any way related to such Claim (including, without limitation, those arising under the Bankruptcy Code), whether liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, known or unknown, foreseen or unforeseen, then existing or thereafter arising, in law, equity or otherwise that are or may be based in whole or part or otherwise relating to any act, omission, transaction, event or other circumstance taking place, arising or existing on or prior to the Effective Date (including prior to the Petition Date) in connection with or related to any of the Debtors, the Debtors in Possession, the Reorganized Debtors or their respective assets, property and estates, the Chapter 11 Cases, the Plan, the Disclosure Statement, the Plan Support Agreement, the Oak Hill 1110 Stipulation, the Oak Hill Leases, the DIP Agreement or the compromises and settlements embodied in the Plan or any negotiations regarding or concerning such compromises or settlements.**

**a.** United States Government.

(i) Notwithstanding anything contained in the Plan or Confirmation Order to the contrary, with respect to the United States, its agencies, departments or agents, nothing shall:

(i) discharge, release or otherwise preclude (A) any liability of the Debtors arising on or after the Confirmation Date (defined for purposes of this section, including clause (C) below, as the date the Confirmation Order becomes final and non-appealable), (B) with respect to the Debtors, any liability that is not a Claim against a Debtor, (C) any valid right of setoff or recoupment, or (D) any liability of the Debtors arising under environmental or criminal laws as the owner or operator of property that such Debtor owns or operates after the Confirmation Date; or (ii) limit or expand the scope of the discharge to which the Debtors are entitled under the Bankruptcy Code. The discharge and injunction provisions contained in the Plan and Confirmation Order are not intended and shall not be construed to bar the United States from, subsequent to the Effective Date, pursuing any police or regulatory action.

(ii) Nothing in the Plan or Confirmation Order shall provide to any Person or Entity (other than a Debtor) any exculpation, release, discharge, preclusion of, or injunction against (i) any liability or other obligation owed by such Person or Entity to the United States, its agencies or departments (ii) or any Claim, cause of action, or other right held by the United States, its agencies or departments.

(iii) Nothing in the Plan or Confirmation Order shall be deemed to have determined, or to bind the United States with respect to the determination of, the federal tax treatment of any item, distribution, person or entity, or the tax liability of any person or entity, including, but not limited to, the Debtors; provided, however, that the foregoing shall not affect the rights, claims, defenses and obligations of the United States or the Debtors under the Plan or otherwise with respect to the allowance, disallowance or treatment of Claims of the United States (including, without limitation, in accordance with the order of the Bankruptcy Court with respect to the filing of proofs of claim and any stipulations between the Internal Revenue Service or the United States and the Debtors), nor shall it affect any right of any Debtor or successor to a Debtor to request a determination of tax liability pursuant to section 505(b) of the Bankruptcy Code, or any defenses or objections of the United States with respect to a request for a determination of taxes by any person or entity pursuant to section 505(b) of the Bankruptcy Code.

**7. Injunction Related to Releases. Except as provided in the Plan or the Confirmation Order, as of the Effective Date, (a) all Entities that hold, have held, or may hold a Claim or any other obligation, suit, judgment, damage, debt, right, remedy, causes of action or liability of any nature whatsoever, or any Equity Interest or other right of a Holder of an equity security or other ownership interest, relating to any of the Debtors, the Reorganized Debtors, the Released Parties, or any of their respective assets, property and estates, that is released pursuant to Sections 31.4, 31.5 or 31.6 of the Plan, (b) all other parties in interest, and (c) each of the Related Persons of each of the foregoing entities, are, and shall be, permanently, forever and completely stayed, restrained, prohibited, barred and enjoined from taking any of the following actions, whether directly or indirectly, derivatively or otherwise, on account of or based on the subject matter of such discharged or released Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and of all Equity Interests or other rights of a holder of an equity security or other ownership interest: (i) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding (including, without limitation, any judicial, arbitral, administrative or other proceeding) in any forum; (ii) enforcing, attaching (including, without limitation, any prejudgment attachment), collecting, or in any way seeking to recover any judgment, award, decree, or other order; (iii) creating, perfecting or in any way enforcing in any matter, directly or indirectly, any Lien; (iv) setting off, seeking reimbursement or contributions from, or subrogation against, or otherwise recouping in any manner, directly or indirectly, any amount against any liability or obligation owed to any Entity released under Sections 31.4, 31.5 or 31.6 of the Plan; and (v) commencing or continuing in any manner, in any place of any judicial, arbitration or administrative proceeding in any forum, that**

**does not comply with or is inconsistent with the provisions of the Plan or the Confirmation Order; provided, that this provision shall not apply to the rights of the Debtors, or the Reorganized Debtors to take any action with respect to any of or all the General Liability Insurance Policies.**

**8. Exculpation.** None of the Released Parties, the members of the Creditors' Committee and the professionals retained by the Creditors' Committee shall have or incur any liability to any Entity for any act taken or omitted to be taken in connection with the Chapter 11 Cases, the formulation, preparation, dissemination, implementation, confirmation or approval of the Plan or any compromises or settlements contained therein, this Disclosure Statement or any contract, instrument, release or other agreement or document provided for or contemplated in connection with the consummation of the transactions set forth in the Plan; provided, however, that the foregoing provisions of Section 31.8 of the Plan shall not affect the liability of any Entity that otherwise would result from any such act or omission to the extent that such act or omission is determined in a Final Order to have constituted gross negligence or willful misconduct. Any of the foregoing parties in all respects shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

**9. Deemed Consent.** By submitting a Ballot or opt out notice and not electing to withhold consent to the releases of the applicable Released Parties set forth in Section 31.6 of the Plan by marking the appropriate box on the Ballot or opt out notice, each holder of a Claim shall be deemed, to the fullest extent permitted by applicable law, to have specifically consented to the releases set forth in Section 31.6 of the Plan.

**10. No Waiver.** Notwithstanding anything to the contrary contained in the Plan, the releases and injunctions set forth therein shall not, and shall not be deemed to, limit, abridge or otherwise affect the rights of the Reorganized Debtors, the Prepetition Lenders, the DIP Lenders or the Oak Hill Entities to enforce, sue on, settle or compromise the rights, claims and other matters expressly retained by any of them or to enforce the terms of the Plan, the Confirmation Order, the Plan Support Agreement, the Oak Hill 1110 Stipulation, the Oak Hill Leases, the OHAA Funding Agreement or any documents included in the Plan Supplement or executed for purposes of implementing the Plan.

**11. Supplemental Injunction. Notwithstanding anything contained in the Plan to the contrary, all Persons, including Persons acting on their behalf, who currently hold or assert, have held or asserted, or may hold or assert, any Claims or any other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities of any nature whatsoever, and all Equity Interests, or other rights of a holder of an equity security or other ownership interest, against any of the Released Parties based upon, attributable to, arising out of or relating to any Claim against or Equity Interest in any of the Debtors, whenever and wherever arising or asserted, whether in the U.S. or anywhere else in the world, whether sounding in tort, contract, warranty or any other theory of law, equity or admiralty, shall be, and shall be deemed to be, permanently stayed, restrained and enjoined from taking any action against any of the Released Parties for the purpose of directly or indirectly collecting, recovering or receiving any payment or recovery with respect to any such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests or other rights of a Holder of an equity security or other ownership interest, arising prior to the Effective Date (including prior to the Petition Date), including, but not limited to:**

**a. Commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests, or other rights of a Holder of an equity security or other ownership interest, against any of the Released Parties or the assets or property of any Released Party;**

**b. Enforcing, attaching, collecting or recovering, by any manner or means, any judgment, award, decree or order against any of the Released Parties or the assets or property of any Released Party with respect to any such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests or other rights of a holder of an equity security or other ownership interest;**

**c. Creating, perfecting or enforcing any Lien of any kind against any of the Released Parties or the assets or property of any Released Party with respect to any such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests or other rights of a Holder of an equity security or other ownership interest;**

**d. Except as otherwise expressly provided in the Plan or the Confirmation Order, asserting, implementing or effectuating any setoff, right of subrogation, indemnity, contribution or recoupment of any kind against any obligation due to any of the Released Parties or against the property of any Released Party with respect to any such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests or other rights of a Holder of an equity security or other ownership interest; and**

**e. Taking any act, in any manner, in any place whatsoever, that does not conform to, or comply with, the provisions of the Plan, or the Confirmation Order relating to such Claims or other obligations, suits, judgments, damages, debts, rights, remedies, causes of action or liabilities, and all Equity Interests or other rights of a holder of an equity security or other ownership interest;**

**provided, however, that the Debtors' compliance with the formal requirements of Bankruptcy Rule 3016(c) shall not constitute an admission that the Plan provides for an injunction against conduct not otherwise enjoined under the Bankruptcy Code.**

**12. Payment of Statutory Fees and Filing of Quarterly Reports.** All fees payable pursuant to section 1930 of title 28 of the United States Code, and, if applicable, any interest payable pursuant to section 3717 of title 31 of the United States Code, as determined by the Bankruptcy Court, shall be paid on the Effective Date or thereafter as and when they become due and owing. From and after the Effective Date, the Reorganized Debtors shall file post-confirmation quarterly reports (and any pre-confirmation monthly operating reports not filed as of the Effective Date) in conformity with the guidelines of the Office of the United States Trustee, until entry of an order closing the Chapter 11 Cases in accordance with the provisions of Section 31.19 of the Plan.

**13. Retiree Benefits.** From and after the Effective Date, pursuant to section 1129(a)(13) of the Bankruptcy Code, the Reorganized Debtors shall assume and pay all retiree benefits (within the meaning of section 1114 of the Bankruptcy Code) and contribute to the Pension Plans the amount necessary to satisfy the minimum funding standards under sections 302 and 303 of ERISA, 29 U.S.C. §§ 1082 and 1083, and sections 412 and 430 of the Internal Revenue Code, 26 U.S.C. §§ 412 and 430, if any, relating to the Pension Plans, at the level established in accordance with subsection (e)(1)(B) or (g) of section 1114 of the Bankruptcy Code, at any time prior to the Confirmation Date, and for the duration of the period during which the Debtors have obligated themselves to provide such benefits; provided, however, that the Reorganized Debtors may modify such benefits to the extent permitted by applicable law.

**14. Preservation of Insurance.** Nothing in the Plan, the Plan Documents or the Confirmation Order, including the discharge and release of Debtors, shall diminish or impair the enforceability of any of the General Liability Insurance Policies that may be obligated to provide, coverage for Debtors or other Entities.

**15. Post-Effective Date Fees and Expenses.** From and after the Effective Date, the Reorganized Debtors shall, in the ordinary course of business and without the necessity for any approval by the Bankruptcy Court, retain such professionals and pay the reasonable professional fees and expenses incurred by the Reorganized Debtors related to implementation and consummation of the Plan.

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

**17. Governing Law.** Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent that an exhibit to the Plan or any document to be entered into in connection with the Plan provides otherwise, the rights, duties and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with, the Bankruptcy Code and, to the extent not inconsistent therewith, the laws of the Delaware, without giving effect to principles of conflicts of laws.

**18. Notices.** All notices, requests, and demands in connection with the Plan to be effective shall be in writing, including by facsimile transmission, and, unless otherwise expressly provided in the Plan, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

(a) If to the Debtors, to:

Southern Air Holdings, Inc.
117 Glover Avenue
Norwalk, Connecticut 06850
Attention: Daniel J. McHugh
Facsimile: 203-840-3238

With a copy given in like manner, to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attention: Brian S. Rosen, Esq.
Facsimile: 212-310-8007

– and –

Young Conaway Stargatt & Taylor, LLP
1000 North King Street
Wilmington, Delaware 19801
Attention: M. Blake Cleary, Esq.
Facsimile: 302-576-3187

(b) If to the Consenting Lenders or the DIP Lenders, to:

Canadian Imperial Bank of Commerce
New York Branch
425 Lexington Avenue
New York, New York 10017
Attention: E. Lindsay Gordon
Facsimile: 212-856-4135

With a copy given in like manner, to:

Milbank Tweed Hadley & McCloy LLP
1 Chase Manhattan Plaza
New York, New York 10005
Attention: Matthew Barr, Esq.
Samuel A. Khalil, Esq.
Lauren C. Cohen, Esq.
Facsimile: 212-530-5219

(c) If to the Oak Hill Entities, to:

Oak Hill Capital Management
65 East 55th Street
New York, New York 10022
Attention: John Monsky, Esq.
Facsimile: 212-527-8454

With a copy given in like manner, to:

Paul Weiss Rifkind Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019
Attention: Stephen J. Shimshak, Esq.
Kelley A. Cornish, Esq.
Alice B. Eaton, Esq.
Facsimile: 212-757-3990

(d) If to the Oak Hill Entities, to:

Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey 07068
Attention: S. Jason Teele, Esq.
Facsimile: 973-597-2400

**19. Closing of Cases.** The Reorganized Debtors shall, promptly upon the full administration of the Chapter 11 Cases, file with the Bankruptcy Court all documents required by Bankruptcy Rule 3022 and any applicable order of the Bankruptcy Court.

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

**21. Inconsistencies.** To the extent of any inconsistencies between the information contained in this Disclosure Statement and the terms and provisions of the Plan, the terms and provisions contained in the Plan shall govern.

## VI.
## FINANCIAL INFORMATION AND PROJECTIONS

### A. Projected Financial Information

The Debtors believe that the Plan meets the feasibility requirement set forth in section 1129(a)(11) of the Bankruptcy Code (see Section XII hereof), as confirmation is not likely to be followed by liquidation or the need for further financial reorganization of the Debtors or any successor under the Plan. In connection with the development of the Plan and for the purposes of determining whether such Plan would satisfy this feasibility standard, the Debtors analyzed their ability to satisfy their financial obligations while maintaining sufficient liquidity and capital resources. The Debtors prepared financial projections (the "Projections") for the period from April 1, 2013 through December 31, 2015 (the "Projection Period"), as set forth below.

The Debtors do not, as a matter of course, publish their business plans or strategies, projections or anticipated financial position. Accordingly, the Debtors do not anticipate that they will, and disclaim any obligation to, furnish updated business plans or Projections to holders of Claims or other parties in interest after the Confirmation Date, or to include such information in documents required to be filed with the SEC or otherwise make such information public, unless required to do so by the SEC or other regulatory body pursuant to the provisions of the Plan.

In connection with the planning and development of the Plan, the Projections were prepared by the Debtors with the assistance of Zolfo Cooper, the Debtors' financial advisor, to present the anticipated impact of the Plan. The Projections assume that the Plan will be implemented in accordance with its stated terms. The Projections are based on forecasts of key economic variables and may be significantly impacted by, among other factors, a deterioration in global economic conditions, underutilized aircraft, loss of one or more aircraft for an extended period of time, loss of a significant customer, changes in the CRAF program that may result in a loss of United States military business, effects of government regulation (FAA and foreign regulatory rules), adverse tax implications and liquidity issues due to financial leverage. Consequently, the estimates and assumptions underlying the Projections are inherently uncertain and are subject to material business, economic, and other uncertainties. Therefore, such Projections, estimates and assumptions are not necessarily indicative of

current values or future performance, which may be significantly less or more favorable than set forth herein. The Projections included herein were prepared in January 2013.

The Projections should be read in conjunction with the significant assumptions, qualifications and notes set forth below.

THE DEBTORS PREPARED THE PROJECTIONS WITH THE ASSISTANCE OF THEIR PROFESSIONALS. THE DEBTORS DID NOT PREPARE SUCH PROJECTIONS TO COMPLY WITH THE GUIDELINES FOR PROSPECTIVE FINANCIAL STATEMENTS PUBLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS AND THE RULES AND REGULATIONS OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION. EXCEPT FOR PURPOSES OF THE DISCLOSURE STATEMENT, THE DEBTORS DO NOT PUBLISH PROJECTIONS OF THEIR ANTICIPATED FINANCIAL POSITION OR RESULTS OF OPERATIONS.

MOREOVER, THE PROJECTIONS CONTAIN CERTAIN STATEMENTS THAT ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE STATEMENTS ARE SUBJECT TO A NUMBER OF ASSUMPTIONS, RISKS, AND UNCERTAINTIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE DEBTORS, INCLUDING THE IMPLEMENTATION OF THE PLAN, THE CONTINUING AVAILABILITY OF SUFFICIENT BORROWING CAPACITY OR OTHER FINANCING TO FUND OPERATIONS. HOLDERS OF CLAIMS AND INTERESTS ARE CAUTIONED THAT THE FORWARD-LOOKING STATEMENTS SPEAK AS OF THE DATE MADE AND ARE NOT GUARANTEES OF FUTURE PERFORMANCE. ACTUAL RESULTS OR DEVELOPMENTS MAY DIFFER MATERIALLY FROM THE EXPECTATIONS EXPRESSED OR IMPLIED IN THE FORWARD-LOOKING STATEMENTS, AND THE DEBTORS UNDERTAKE NO OBLIGATION TO UPDATE ANY SUCH STATEMENTS.

THE PROJECTIONS, WHILE PRESENTED WITH NUMERICAL SPECIFICITY, ARE NECESSARILY BASED ON A VARIETY OF ESTIMATES AND ASSUMPTIONS WHICH, THOUGH CONSIDERED REASONABLE BY THE DEBTORS, MAY NOT BE REALIZED AND ARE INHERENTLY SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC, INDUSTRY, REGULATORY, LEGAL, MARKET, AND FINANCIAL UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE REORGANIZED DEBTORS' CONTROL. THE DEBTORS CAUTION THAT NO REPRESENTATIONS CAN BE MADE OR ARE MADE AS TO THE ACCURACY OF THE PROJECTIONS OR TO THE REORGANIZED DEBTORS' ABILITY TO ACHIEVE THE PROJECTED RESULTS. SOME ASSUMPTIONS INEVITABLY WILL BE INCORRECT. MOREOVER, EVENTS AND CIRCUMSTANCES OCCURRING SUBSEQUENT TO THE DATE ON WHICH THE DEBTORS PREPARED THESE PROJECTIONS MAY BE DIFFERENT FROM THOSE ASSUMED, OR, ALTERNATIVELY, MAY HAVE BEEN UNANTICIPATED, AND THUS THE OCCURRENCE OF THESE EVENTS MAY AFFECT FINANCIAL RESULTS IN A MATERIALLY ADVERSE OR MATERIALLY BENEFICIAL MANNER. EXCEPT AS OTHERWISE PROVIDED IN THE PLAN OR THIS DISCLOSURE STATEMENT, THE DEBTORS AND REORGANIZED DEBTORS, AS APPLICABLE, DO NOT INTEND AND UNDERTAKE NO OBLIGATION TO UPDATE OR OTHERWISE REVISE THE PROJECTIONS TO REFLECT EVENTS OR CIRCUMSTANCES EXISTING OR ARISING AFTER THE DATE THE DISCLOSURE STATEMENT IS INITIALLY FILED OR TO REFLECT THE OCCURRENCE OF UNANTICIPATED EVENTS. THEREFORE, THE PROJECTIONS MAY NOT BE RELIED UPON AS A GUARANTEE OR OTHER ASSURANCE OF THE ACTUAL RESULTS THAT WILL OCCUR. IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, HOLDERS OF CLAIMS MUST MAKE THEIR OWN DETERMINATIONS AS TO THE

REASONABLENESS OF SUCH ASSUMPTIONS AND THE RELIABILITY OF THE PROJECTIONS AND SHOULD CONSULT WITH THEIR OWN ADVISORS.

The Projections should be read in conjunction with the assumptions, qualifications, and explanations set forth in this Disclosure Statement, the Plan, and the Plan Supplement for the Plan, in their entirety, and the historical consolidated financial statements (including the notes and schedules thereto) and other financial information as submitted to the court in the Debtors' Monthly Operating Reports filed with the Bankruptcy Court.

## B. Projected Statement of Operations (Unaudited) ($ in Thousands)

| | Apr. - Dec. 2013 | Jan. - Dec. 2014 | Jan. - Dec. 2015 |
|---|---|---|---|
| Revenue | | | |
| ACMI | $151,776 | $203,603 | $205,039 |
| Military Charters, Commercial Charters and Other | 56,906 | 75,874 | 75,874 |
| **Total Revenue** | **208,682** | **279,477** | **280,913** |
| Cost of Goods Sold | | | |
| Crew | 27,009 | 34,865 | 35,403 |
| Maintenance | 20,196 | 25,758 | 26,328 |
| Insurance | 2,972 | 3,600 | 3,400 |
| Fuel | 28,049 | 37,398 | 37,398 |
| System Operations | 4,072 | 5,328 | 5,370 |
| Commissions | 3,064 | 4,086 | 4,086 |
| Nav, Ground, Landing Costs | 2,851 | 3,802 | 3,802 |
| Total Cost of Goods Sold | 88,213 | 114,836 | 115,787 |
| **Gross Profit** | **120,469** | **164,641** | **165,126** |
| S,G&A | 8,409 | 10,555 | 10,065 |
| Aircraft Lease Expense | 73,602 | 96,476 | 96,476 |
| Depreciation | 7,222 | 9,252 | 9,750 |
| Net Interest | 5,788 | 7,664 | 7,601 |
| **Income Before Income Taxes** | **25,449** | **40,695** | **41,234** |
| Provision for Income Taxes | 10,179 | 16,278 | 16,493 |
| **Net Income** | **$15,269** | **$24,417** | **$24,740** |

*[Remainder of page intentionally left blank]*

## C. Projected Balance Sheets (Unaudited) ($ in Thousands)

*Fresh Start Accounting*

| ASSETS | Estimated 3/31/2013 | Reorganization Adjustments | Fresh Start Adjustments | Restated 3/31/2013 |
|---|---|---|---|---|
| Current Assets | | | | |
| Cash | $5,556 | - | ($1,625) (h) | $3,931 |
| Accounts Receivable | 7,400 | - | - | 7,400 |
| Prepaid Expenses | 4,491 | - | - | 4,491 |
| Total Current Assets | 17,447 | - | (1,625) | 15,822 |
| Long term Assets | | | | |
| Aircraft and Facility Deposits | 10,267 | - | - | 10,267 |
| Fixed Assets | 53,090 | - | (38,769) (i) | 14,321 |
| Deferred Tax Asset/(Liability) | (9,165) | 12,905 (a) | - | 3,740 |
| Maintenance Reserve Account | 41,196 | - | (4,809) (j) | 36,387 |
| OHAA Receivable | - | 10,787 (b) | - | 10,787 |
| Intangibles | 74,540 | - | (26,999) (k) | 47,541 |
| Total Long Term Assets | 169,928 | 23,692 | (70,578) | 123,043 |
| Total Assets | $187,376 | $23,692 | ($72,203) | $138,865 |
| LIABILITIES & EQUITY | | | | |
| Current Liabilities | | | | |
| DIP Financing | $62,500 | ($62,500) (c) | - | - |
| OHAA Secured Payment Obligations | 5,833 | (5,833) (d) | | - |
| Accounts Payable | 7,647 | - | - | 7,647 |
| Prepaid Revenue | 7,608 | - | - | 7,608 |
| Accrued Expenses | 10,032 | 6,079 (e) | - | 16,110 |
| Total Current Liabilities | 93,620 | (62,254) | - | 31,365 |
| New Revolver | - | - | - | - |
| New Term Loan | - | 80,000 (f) | - | 80,000 |
| Total Long Term Liabilities | - | 80,000 | - | 80,000 |
| Liabilities Subject to Compromise | 355,987 | (355,987) (g) | - | - |
| Total Liabilities | 449,607 | (338,241) | - | 111,365 |
| SHAREHOLDERS' EQUITY | | | | |
| Total Shareholders' Equity | (262,231) | 361,934 | (72,203) | 27,500 |
| Total Liabilities & Equity | $187,376 | $23,692 | ($72,203) | $138,865 |

(a) Adjustment to account for deferred tax asset at emergence. Assumes $2,000,000.00 of net operating losses available per year over 15 years at a 40% tax rate discounted at 20%.

(b) Reflects the present value of future payments by the Oak Hill Entities.

(c) Reflects repayment of DIP financing and issuance of Exit Term Loans.

(d) Reflects exchange of OHAA Secured Payment Obligations for equity distribution.

(e) Increase due primarily to accrue for the treatment of administrative and priority claims pursuant to the Plan.

(f) Exit Term Loan to satisfy $62,500,000.00 of DIP financing and $17,500,000.00 for Prepetition Lender Claims.

(g) Reflects partial payment of prepetition liabilities with residual being recorded as debt forgiveness.

(h) Reflects allocation to satisfy amounts to Allowed General Unsecured Claims ($2,500,000.00 less $875,000.00 payment from the Oak Hill Entities).

(i) Reflects write-down of fixed assets to fair market value. Includes write-down of classic fleet assets.

(j) Reflects adjustment for maintenance reserves relating to aircraft leases being rejected or returned.

(k) Represents adjustment that would be made to allocate intangibles based on reorganization value. For purposes of the Projections, the Debtors assumed an enterprise value of $107,500,000.00, approximately $27,500,000.00 of which is attributable to shareholder equity.

*Projected Balance Sheets (reflecting fresh start accounting)*

| | Mar. 2013 | Dec. 2013 | Dec. 2014 | Dec. 2015 |
|---|---|---|---|---|
| ASSETS | | | | |
| Current Assets | | | | |
| Cash | $3,931 | $9,742 | $23,867 | $37,460 |
| Accounts Receivable | 7,400 | 6,896 | 7,031 | 7,170 |
| Prepaid Expenses | 4,491 | 4,491 | 4,491 | 4,491 |
| Total Current Assets | 15,822 | 21,129 | 35,389 | 49,121 |
| Long term Assets | | | | |
| Aircraft and Facility Deposits | 10,267 | 10,702 | 10,992 | 10,992 |
| Fixed Assets | 14,321 | 13,750 | 13,511 | 14,263 |
| Deferred Tax Asset/(Liability) | 3,740 | (6,439) | (22,717) | (39,210) |
| Maintenance Reserve Account | 36,387 | 58,251 | 87,494 | 116,244 |
| OHAA Receivable | 10,787 | 4,716 | 3,124 | 1,797 |
| Intangibles | 47,541 | 47,541 | 47,541 | 47,541 |
| Total Long Term Assets | 123,043 | 128,521 | 139,945 | 151,627 |
| **Total Assets** | **$138,865** | **$149,650** | **$175,334** | **$200,748** |
| LIABILITIES & EQUITY | | | | |
| Current Liabilities | | | | |
| Accounts Payable | $7,647 | $7,647 | $7,647 | $7,647 |
| Prepaid Revenue | 7,608 | 7,608 | 7,608 | 7,608 |
| Accrued Expenses | 16,110 | 11,197 | 12,057 | 12,057 |
| Total Current Liabilities | 31,365 | 26,451 | 27,311 | 27,311 |
| Revolver | - | - | - | - |
| Term Loan | 80,000 | 80,000 | 80,000 | 80,000 |
| Total Long Term Liabilities | 80,000 | 80,000 | 80,000 | 80,000 |
| **Total Liabilities** | **111,365** | **106,451** | **107,311** | **107,311** |
| SHAREHOLDERS' EQUITY | | | | |
| Total Shareholders' Equity | 27,500 | 43,199 | 68,023 | 93,436 |
| **Total Liabilities & Equity** | **$138,865** | **$149,650** | **$175,334** | **$200,748** |

## D. Projected Statement of Cash Flow (Unaudited)

| | Apr. - Dec. 2013 | Jan. - Dec. 2014 | Jan. - Dec. 2015 |
|---|---|---|---|
| Net Income | $15,269 | $24,417 | $24,740 |
| Depreciation | 7,222 | 9,252 | 9,750 |
| Change in Accounts Receivable | 504 | (135) | (139) |
| Change in Prepaid Expenses | - | - | - |
| Change in Accounts Payable | - | - | - |
| Change in Prepaid Revenue | - | - | - |
| Change in Other Accrued Expenses | (4,914) | 860 | - |
| Change in Aircraft and Facility Deposits | (435) | (290) | - |
| Change in Deferred Tax | 10,179 | 16,278 | 16,493 |
| **Total Cash from Operations** | **27,825** | **50,382** | **50,844** |
| Capital Expenditures | (6,650) | (9,014) | (10,502) |
| Maintenance Reserve Payments | (21,864) | (29,243) | (28,750) |
| **Total Cash from Investing** | **(28,514)** | **(38,257)** | **(39,252)** |
| Borrowings (Payments) on Revolver | - | - | - |
| Borrowings (Payments) on Term Loan | - | - | - |
| OHAA Payments | 6,500 | 2,000 | 2,000 |
| **Total Cash from Financng** | **6,500** | **2,000** | **2,000** |
| Net Increase (Decrease) in Cash | 5,811 | 14,125 | 13,592 |
| Cash at Beginning of Period | 3,931 | 9,742 | 23,867 |
| **Cash at End of Period** | **$9,742** | **$23,867** | **$37,460** |

## E. Assumptions to the Projections

### 1. Revenue

- Assumes seven aircraft fleet with an additional eighth aircraft in service during the first half of 2013.
  - Four 777Fs are operated with DHL at 450 hours per month with 3.5% annual escalation occurring in March of every year.
  - Three 747s placed as follows:
    - One with AMC West Coast at 288 hours per month; and
    - Two ACMI services at 375 and 350 hours per month.
  - Additional 747 utilized to cover checks for other aircraft and provide additional service during the first half of 2013.
- Seven aircraft remain in service throughout the projection period except for scheduled aircraft maintenance checks.

**2. Cost of Goods Sold**

- Crew costs are based on the estimated number of employees per aircraft with various assumptions for salary, benefits, travel time and training. Crew costs also include crew overhead costs and reflect the recently negotiated labor agreement.

- Maintenance costs are based on the estimated number of mechanics per aircraft with various assumptions for salary, benefits and travel time. Maintenance costs also include overhead costs and costs associated with various spare parts, third party contracting and logistics required per aircraft.

- Insurance costs are based on current insurance premiums as adjusted for the current aircraft fleet's valuation.

- Fuel costs are incurred with flying for the U.S. military and are incorporated into the military's rate paid per hour.

- Systems operations include costs for personnel, ground services and navigation and communication systems required for aircraft operations. Also includes the cost of loadmasters.

- Commission cost mainly represents commissions paid to participate in the CRAF program for military business.

- Navigation, ground and landing costs are primarily incurred due to flying for the U.S. military and are incorporated into the customer's rate paid per hour.

**3. SG&A**

- SG&A mainly includes corporate overhead including executive management salary and benefits, professional fees, rent and utilities.

**4. Aircraft Lease Expense**

- Includes monthly aircraft lease payments based on the Company's estimate of renegotiated lease rates.

**5. Depreciation**

- Reflects the periodic expensing of the recorded cost of capitalized rotables, airframe C-checks and other parts and equipment.

**6. Net Interest**

- Interest on Exit Term Loan is LIBOR + 7% with a 2% LIBOR floor; assumed paid in cash.

- Letters of credit fee of LIBOR + 7.5% with a 2% LIBOR floor (assumes $4,000,000.00 letters of credit outstanding).

- Assumes 0.5% interest income on Cash.

**7. Taxes**

- Financial statement tax provision based on 40% tax rate. Timing difference and utilization of NOLs result in no cash tax payments through 2015.

**8. Working Capital**

- Working capital items are essentially cash neutral and based on operations of a seven aircraft fleet and a stable customer mix.

**9. Capital Expenditures**

- Capital expenditures are estimated per aircraft and mainly consist of costs of rotables, airframe C-checks and other parts and equipment.

**10. Maintenance Reserve Payments**

- Maintenance reserve payments are contractually required prepayments for planned major maintenance with aircraft lessors. These payments mainly include engine costs, airframe D-checks and landing gear costs and are generally based on monthly flight hours and engine cycles.

**11. Oak Hill Entities' Payments**

- Represents six of the 12-Month Payments of $833,333.33 from the Oak Hill Entities in 2013, pursuant to the Oak Hill Funding Agreement, and subject to the terms and conditions contained therein.

- Also includes the Additional Monthly Payments, which totals $2,000,000.00 per year from the Oak Hill Entities through Projection Period, pursuant to the Oak Hill Funding Agreement, and subject to the terms and conditions contained therein.

## VII.
## VALUATION ANALYSIS

### A. Estimated Reorganization Valuation of the Debtors

The Debtors have been advised by Zolfo Cooper with respect to the reorganization value of the Debtors on a going concern basis.

Solely for purposes of the Plan, the estimated range of a reorganization value of the Reorganized Debtors was assumed to be approximately $95 million to $120 million (with a midpoint estimate of approximately $107.5 million) as of an assumed Effective Date of March 31, 2013. Zolfo Cooper's estimate of a range of reorganization values does not constitute an opinion as to fairness from a

financial point of view of the consideration to be received under the Plan or of the terms and provisions of the Plan.

**THE ASSUMED RANGE OF THE REORGANIZATION VALUE, AS OF AN ASSUMED EFFECTIVE DATE OF MARCH 31, 2013, REFLECTS WORK PERFORMED BY ZOLFO COOPER ON THE BASIS OF INFORMATION IN RESPECT OF THE BUSINESS AND ASSETS OF THE DEBTORS AVAILABLE TO ZOLFO COOPER AS OF JANUARY 2013. IT SHOULD BE UNDERSTOOD THAT, ALTHOUGH SUBSEQUENT DEVELOPMENTS MAY AFFECT ZOLFO COOPER'S CONCLUSIONS, ZOLFO COOPER DOES NOT HAVE ANY OBLIGATION TO UPDATE, REVISE OR REAFFIRM ITS ESTIMATE.**

Based upon the assumed combined range of the reorganization value of the Reorganized Debtors of between $95 million and $120 million and assumed net debt of $80 million (after assuming no excess cash available after payment of bankruptcy costs and distributions to creditors), Zolfo Cooper has employed an imputed estimate of the range of equity value for the Reorganized Debtors between approximately $15 million and $40 million, with a midpoint estimate of $27.5 million.

The assumed range of reorganization value was based on the Projections for the period from April 1, 2013 through December 31, 2015 as set forth previously.

In connection with the planning and development of the Plan, the Projections were prepared by the Debtors with the assistance of Zolfo Cooper to present the anticipated impact of the Plan. The Projections assume that the Plan will be implemented in accordance with its stated terms. The Projections are based on forecasts of key economic variables and may be significantly impacted by, among other factors, a deterioration in global economic conditions, underutilized aircraft, loss of one or more aircraft for an extended period of time, loss of a significant customer, changes in the CRAF program that may result in a loss of business with the United States government, the effects of government regulation (both domestic and foreign), adverse tax implications, and liquidity issues due to financial leverage. Consequently, the estimates and assumptions underlying the Projections are inherently uncertain and are subject to material business, economic, and other uncertainties. Therefore, such Projections, estimates and assumptions are not necessarily indicative of current values or future performance, which may be significantly less or more favorable than set forth herein. The Projections included herein were prepared in January 2013.

**ZOLFO COOPER DID NOT INDEPENDENTLY VERIFY MANAGEMENT'S PROJECTIONS IN THE BUSINESS PLAN IN CONNECTION WITH ZOLFO COOPER'S ESTIMATES OF THE REORGANIZATION VALUE AND EQUITY VALUE, AND NO INDEPENDENT VALUATIONS OR APPRAISALS OF DEBTORS WERE SOUGHT OR OBTAINED IN CONNECTION HEREWITH. ESTIMATES OF THE REORGANIZATION VALUE AND EQUITY VALUE DO NOT PURPORT TO BE APPRAISALS OR NECESSARILY REFLECT THE VALUES THAT MAY BE REALIZED IF ASSETS ARE SOLD AS A GOING CONCERN, IN LIQUIDATION, OR OTHERWISE. IN THE CASE OF THE REORGANIZED DEBTORS, THE ESTIMATES OF THE REORGANIZATION VALUE PREPARED BY ZOLFO COOPER REPRESENT THE HYPOTHETICAL REORGANIZATION VALUE OF THE REORGANIZED DEBTORS. SUCH ESTIMATES WERE DEVELOPED SOLELY FOR PURPOSES OF THE FORMULATION OF THE PLAN AND THE ANALYSIS OF IMPLIED RELATIVE RECOVERIES TO CREDITORS THEREUNDER. SUCH ESTIMATES REFLECT COMPUTATIONS OF THE RANGE OF THE ESTIMATED REORGANIZATION VALUE OF THE REORGANIZED DEBTORS THROUGH THE APPLICATION OF VARIOUS VALUATION TECHNIQUES AND DO NOT PURPORT TO REFLECT OR CONSTITUTE APPRAISALS, LIQUIDATION VALUES OR ESTIMATES OF THE ACTUAL MARKET**

**VALUE THAT MAY BE REALIZED THROUGH THE SALE OF ANY SECURITIES TO BE ISSUED PURSUANT TO THE PLAN, WHICH MAY BE SIGNIFICANTLY DIFFERENT THAN THE AMOUNTS SET FORTH HEREIN.**

**THE VALUE OF AN OPERATING BUSINESS IS SUBJECT TO NUMEROUS UNCERTAINTIES AND CONTINGENCIES WHICH ARE DIFFICULT TO PREDICT AND WILL FLUCTUATE WITH CHANGES IN FACTORS AFFECTING THE FINANCIAL CONDITION AND PROSPECTS OF SUCH A BUSINESS. AS A RESULT, THE ESTIMATE OF THE RANGE OF THE REORGANIZATION ENTERPRISE VALUE OF THE REORGANIZED DEBTORS SET FORTH HEREIN IS NOT NECESSARILY INDICATIVE OF ACTUAL OUTCOMES, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN THOSE SET FORTH HEREIN. BECAUSE SUCH ESTIMATES ARE INHERENTLY SUBJECT TO UNCERTAINTIES, NEITHER THE DEBTORS, ZOLFO COOPER, NOR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR THEIR ACCURACY. IN ADDITION, THE VALUATION OF NEWLY ISSUED SECURITIES IS SUBJECT TO ADDITIONAL UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT. ACTUAL MARKET PRICES OF SUCH SECURITIES AT ISSUANCE WILL DEPEND UPON, AMONG OTHER THINGS, PREVAILING INTEREST RATES, CONDITIONS IN THE FINANCIAL MARKETS, THE ANTICIPATED INITIAL SECURITIES HOLDINGS OF PREPETITION CREDITORS, SOME OF WHICH MAY PREFER TO LIQUIDATE THEIR INVESTMENT RATHER THAN HOLD IT ON A LONG-TERM BASIS, AND OTHER FACTORS WHICH GENERALLY INFLUENCE THE PRICES OF SECURITIES.**

### B. Valuation Methodology

Zolfo Cooper performed a variety of analyses and considered a variety of factors in preparing the valuations of the Reorganized Debtors. While several generally accepted valuation techniques for estimating the Debtors' enterprise values were considered, Zolfo Cooper primarily relied on two methodologies: discounted cash flow analysis and comparable public company analysis. Zolfo Cooper also considered precedent transactions; however, it was determined that there were not enough transactions involving companies comparable to the Debtors within a reasonable time period to make this valuation approach relevant to an estimate of the Debtors' enterprise value. In addition, there are challenges in the application of precedent transactions analysis due to the absence of a useful and reliable last twelve months performance. In preparing its valuation estimate, Zolfo Cooper performed a variety of analyses and considered a variety of factors, some of which are described herein. The following summary does not purport to be a complete description of the analyses and factors undertaken to support Zolfo Cooper's conclusions. The preparation of a valuation is a complex process involving various determinations as to the most appropriate analyses and factors to consider, as well as the application of those analyses and factors under the particular circumstances. As a result, the process involved in preparing a valuation is not readily summarized.

#### 1. Discounted Cash Flow Approach

The discounted cash flow ("DCF") valuation methodology relates the value of an asset or business to the present value of expected future cash flows to be generated by that asset or business. The DCF methodology is a "forward looking" approach that discounts the expected future cash flows by a theoretical or observed discount rate. The expected future cash flows have two components: the present value of the projected unlevered after-tax free cash flows for a determined period and the present value of the terminal value of cash flows (representing business value beyond the time horizon of the projections). Zolfo Cooper's DCF valuation is based on the Projections. Zolfo Cooper employed a 17.5% to 22.5% weighted average cost of capital. The terminal value was calculated by using a multiple of the terminal

year (2015) earnings before interest, taxes, depreciation and amortization less capital expenditures and maintenance expenditures ("Adjusted EBITDA").

Because the Debtors' projections reflect significant assumptions made by the Debtors' management concerning anticipated results, the assumptions and judgments used in the Projections may or may not prove correct and, therefore, no assurance can be provided that projected results are attainable or will be realized. Zolfo Cooper cannot and does not make any representations or warranties as to the accuracy or completeness of the Debtors' projections. Zolfo Cooper separately valued the Oak Hill Entities' payments and included this amount in the DCF valuation. This amount represents approximately $14 million through September 2017 before any adjustment for present value. Note that the Projections assume no income tax due to timing differences and utilization of NOLs.

**2. Comparable Public Company Analysis**

A comparable public company analysis estimates value based on a comparison of the target company's financial statistics with the financial statistics of public companies that are similar to the target company. It establishes a benchmark for asset valuation by deriving the value of "comparable" assets, standardized using a common variable such as revenues, earnings and cash flows. The analysis includes a detailed multi-year financial comparison of each company's income statement, balance sheet and cash flow statement. In addition, each company's performance, profitability, margins, leverage and business trends are also examined. Based on these analyses, a number of financial multiples and ratios are calculated to gauge each company's relative performance and valuation.

A key factor to this approach is the selection of companies with relatively similar business and operational characteristics to the target company. Criteria for selecting comparable companies include, among other relevant characteristics, similar lines of businesses, business risks, target market segments, growth prospects, maturity of businesses, market presence, size and scale of operations. The selection of truly comparable companies is often difficult and subject to interpretation; however, the underlying concept is to develop a premise for relative value, which, when coupled with other approaches, presents a foundation for determining firm value. The selection of appropriate comparable companies is difficult because there are no public, "pure-play" competitors to the Debtors. While a number of publicly traded companies were analyzed, Zolfo Cooper focused on Atlas Air Worldwide Holdings Inc. as the primary comparable.

Zolfo Cooper has utilized the mean consensus of analyst estimates for 2012 and 2013 earnings before interest, taxes, depreciation and amortization ("EBITDA"). These metrics were reduced for capital expenditures to create Adjusted EBITDA. Zolfo Cooper employed an Adjusted EBITDA multiple range of 4.5x – 5.5x for 2013 (the one (1) year forward period) as applied to the Debtors' 2014 Adjusted EBITDA, discounted it back three-fourths (0.75) of a year and then added in the present value of the Oak Hill Entities' payments. For purposes of the DCF, Zolfo Cooper employed an Adjusted EBITDA multiple range of 5.5x – 6.5x for 2012. These multiples were then applied to the Debtors' forecasted terminal year Adjusted EBITDA.

**THE ESTIMATES OF THE REORGANIZATION VALUE AND EQUITY VALUE DETERMINED BY ZOLFO COOPER REPRESENT ESTIMATED REORGANIZATION VALUES AND DO NOT REFLECT VALUES THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS. THE IMPUTED ESTIMATE OF THE RANGE OF THE REORGANIZATION EQUITY VALUE OF REORGANIZED DEBTORS ASCRIBED IN THE ANALYSIS DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET TRADING VALUE. ANY SUCH TRADING VALUE MAY BE MATERIALLY DIFFERENT FROM THE IMPUTED ESTIMATE OF THE**

**REORGANIZATION EQUITY VALUE RANGE FOR THE REORGANIZED DEBTORS ASSOCIATED WITH ZOLFO COOPER'S VALUATION ANALYSIS.**

## VIII.
## TRANSFER RESTRICTIONS AND CONSEQUENCES UNDER FEDERAL SECURITIES AND TRANSPORTATION LAWS

Pursuant to the Plan, Reorganized Southern Air Parent will issue Reorganized Southern Air Parent Common Stock, the Oak Hill Warrants, the Southern Management Warrants, and the Prepetition Lender Warrants (collectively with the Reorganized Southern Air Parent Common Stock purchasable upon exercise of the Oak Hill Warrants, the Southern Management Warrants and the Prepetition Lender Warrants, the "Reorganized Equity Consideration"). The Reorganized Equity Consideration will be subject to certain transfer and ownership restrictions, as described below.

### A. Reorganized Southern Air Parent Common Stock

On or after the Effective Date, the Debtors, with the consent of the Requisite Lenders and the Oak Hill Entities, will determine whether the Reorganized Southern Air Parent is Reorganized Holdings or Reorganized Cargo 360. Reorganized Southern Air will remain a wholly-owned indirect subsidiary of the Reorganized Southern Air Parent. Equity ownership of the Reorganized Southern Air Parent shall be structured to comply with federal laws and DOT regulations that restrict ownership of United States certificated air carriers to United States Citizens (as described in more detail in Section VIII.C hereof). Specifically, as of the Effective Date, Reorganized Southern Air Parent Common Stock will be comprised of Class A-1 Common Stock, Class A-2 Common Stock, Class A-3 Common Stock, Class B Common Stock, Class C-1 Common Stock, and Class C-2 Common Stock. Reorganized Southern Air Parent Common Stock distributed to third parties following the Effective Date shall be either Class A-4 Common Stock or Class C-3 Common Stock, as applicable. Each class is described in more detail below, which summary is qualified in its entirety by the Plan and the applicable exhibits to the Plan Supplement. Each Person receiving shares of Reorganized Southern Air Parent Common Stock (other than shares to be distributed to and held by Southern Management in accordance with the provisions of Sections 28.2 and 28.3 of the Plan), Southern Management Warrants, Oak Hill Warrants, and Prepetition Lender Warrants will be party to the Reorganized Southern Air Parent Stockholders Agreement.

#### 1. Class A-1 Common Stock

Class A-1 Common Stock shall be authorized and issued as of the Effective Date and shall be distributed on the Effective Date or thereafter as practicable, in accordance with the terms and provisions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent that the recipient thereof qualifies as a United States Citizen, to holders of Allowed Prepetition Lender Claims as contemplated under the Plan. Certain holders of Allowed Prepetition Lender Claims may elect to form a limited liability company to directly hold such Person's Pro Rata Share of the Reorganized Southern Air Common Stock to be distributed to such Person in order to qualify such Prepetition Lender or DIP Lender, as the case may be, to receive Class A-1 Common Stock (a "U.S. LLC Designee").

#### 2. Class A-2 Common Stock

Class A-2 Common Stock shall be authorized and issued as of the Effective Date and shall be distributed on the Effective Date or thereafter as practicable, in accordance with the terms and provisions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of

Incorporation, and solely to the extent that the recipient thereof qualifies as a United States Citizen, to (a) OHAA or OHAA Designee with respect to the shares of Reorganized Southern Air Parent Common Stock transferred as of the Effective Date in accordance with the Plan, and (b) OHAA or OHAA Designee with respect to the shares of Reorganized Southern Air Parent Common Stock purchased upon exercise of the Oak Hill Tranche 1 Warrants (upon certain circumstances) and the Oak Hill Tranche 2 Warrants.

**3. Class A-3 Common Stock**

Class A-3 Common Stock shall be authorized and issued as of the Effective Date and shall be distributed on the Effective Date or thereafter as practicable, in accordance with the terms and provisions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent that the recipient thereof qualifies as a United States Citizen, to members of Southern Management in accordance with the Section 28.2 of the Plan.

**4. Class A-4 Common Stock**

Class A-4 Common Stock shall be authorized and issued as of the Effective Date and shall be distributed on the Effective Date or thereafter, in accordance with the terms and conditions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent that the recipient thereof qualifies as a United States Citizen, upon equity issuances of Reorganized Southern Air Parent Common Stock to third parties following the Effective Date.

**5. Class B Common Stock**

Class B Common Stock shall be authorized and issued as of the Effective Date or thereafter, in accordance with the terms and conditions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent the recipient thereof qualifies as a United States Citizen, to OHAA or OHAA Designee with respect to the shares of Reorganized Southern Air Parent Common Stock purchased upon exercise of the Oak Hill Tranche 1 Warrants upon certain circumstances.

**6. Class C-1 Common Stock**

Class C-1 Common Stock shall be authorized and issued as of the Effective Date or thereafter, in accordance with the terms and conditions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent the recipient thereof does not qualify as a United States Citizen, to holders of Allowed Prepetition Lender Claims with respect to shares of Reorganized Southern Air Parent Common Stock to be distributed in accordance with the Plan.

**7. Class C-2 Common Stock**

Class C-2 Common Stock shall be authorized and issued as of the Effective Date or thereafter, in accordance with the terms and provisions of the Reorganized Debtors By-Laws and the Reorganized Debtors Certificate of Incorporation, and solely to the extent that the recipient thereof does not qualify as a United States Citizen, to members of Southern Management in accordance with the Section 28.2 of the Plan.

**8. Class C-3 Common Stock**

Class C-3 Common Stock shall be authorized and issued as of the Effective Date or thereafter, in accordance with the terms and provisions of the Reorganized Debtors By-Laws and the

Reorganized Debtors Certificate of Incorporation, and solely to the extent that the recipient thereof does not qualify as a United States Citizen, upon equity issuances of Reorganized Southern Air Parent Common Stock to third parties following the Effective Date.

### B. Transfer Restrictions Under Certificate of Incorporation and Certain Agreements

The Reorganized Southern Air Parent Stockholders Agreement, Reorganized Southern Air Parent Certificate of Incorporation, Oak Hill Warrants, Southern Management Warrants and Prepetition Lenders Warrants contain certain restrictions on the ability of holders of Reorganized Equity Consideration to transfer such Reorganized Equity Consideration. The summary of these documents contained herein is qualified in its entirety by the Plan and the applicable exhibits to the Plan Supplement. The Reorganized Southern Air Parent Stockholders Agreement, Reorganized Southern Air Parent Certificate of Incorporation, Oak Hill Warrants, Southern Management Warrants and Prepetition Lender Warrants require, among other things, that transferors of Reorganized Equity Consideration provide reasonable advance written notice to Reorganized Southern Air Parent of the terms of the transfer thereof and, in the case of Reorganized Southern Air Parent Common Stock, a joinder by the transferee to the Reorganized Southern Air Parent Stockholders Agreement. Transfers of Reorganized Equity Consideration will also be restricted in order to preserve certain tax attributes, to avoid the need to register and file reports and other information under the Securities Exchange Act of 1934, and to ensure the transferee's and Reorganized Southern Air Parent's compliance with applicable securities and airline regulatory law, including any restrictions on ownership and control of U.S. airlines by foreign persons (a more detailed summary of which is provided below). Transferors of Reorganized Southern Air Parent Common Stock other than to certain permitted transferees will also be required to comply with (i) certain drag-along obligations in the event of the sale or other disposition of all or substantially all of the assets of Reorganized Southern Air Parent on a consolidated basis or at least fifty and one-tenth percent (50.1%) of the outstanding capital stock of Reorganized Southern Air Parent, (ii) a right of first offer in favor of stockholders holding at least three percent (3%) of the outstanding equity of Reorganized Southern Air Parent, where the proposed transferee would, following such transfer, beneficially own more than twenty percent (20%) of the outstanding equity of Reorganized Southern Air Parent, and (iii) a tag-along right in favor of other stockholders on transfers that would result in a change of control of Reorganized Southern Air Parent (to the extent any drag-along rights have not been exercised in connection with such transfer). The Reorganized Southern Air Parent Stockholders Agreement shall also include, among other things, certain access and information rights for stockholders, including, certain information rights for minority stockholders that exceed a minimum ownership threshold and certain preemptive rights on debt and equity issuances.

In addition to any legends required by applicable federal and state securities laws, all certificates for shares of Reorganized Southern Air Parent Common Stock will bear a legend substantially to the effect of the following:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE (THESE "SECURITIES") WERE ORIGINALLY ISSUED IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENT OF SECTION 5 OF THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), PROVIDED BY SECTION 1145 OF THE BANKRUPTCY CODE, 11 U.S.C. § 1145. THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE ACT OR ANY STATE SECURITIES LAW, AND TO THE EXTENT THE HOLDER OF THE SECURITIES IS AN "UNDERWRITER," AS DEFINED IN SECTION 1145(B)(1) OF THE BANKRUPTCY CODE, THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION

STATEMENT UNDER THE ACT OR AN EXEMPTION FROM REGISTRATION THEREUNDER.

THESE SECURITIES ARE SUBJECT TO VARIOUS CONDITIONS, INCLUDING CERTAIN RESTRICTIONS RELATING TO COMPLIANCE WITH U.S. AIRLINE FOREIGN OWNERSHIP RESTRICTIONS AND TO SALE, DISPOSITION OR TRANSFER AS SET FORTH IN THE CORPORATION'S CERTIFICATE OF INCORPORATION, AS AMENDED (THE "CERTIFICATE OF INCORPORATION"), AND THE STOCKHOLDERS' AGREEMENT, DATED AS OF [_____ __], 2013 AMONG THE CORPORATION AND THE STOCKHOLDERS NAMED THEREIN, AS IT MAY BE AMENDED FROM TIME TO TIME (THE "STOCKHOLDERS' AGREEMENT"). NO REGISTRATION OR TRANSFER OF THESE SECURITIES WILL BE MADE ON THE BOOKS OF THE CORPORATION UNLESS AND UNTIL SUCH RESTRICTIONS SHALL HAVE BEEN COMPLIED WITH. THE CORPORATION WILL FURNISH WITHOUT CHARGE TO EACH HOLDER OF RECORD OF THESE SECURITIES A COPY OF THE CERTIFICATE OF INCORPORATION AND STOCKHOLDERS' AGREEMENT, CONTAINING THE ABOVE-REFERENCED RESTRICTIONS ON TRANSFERS OF STOCK, UPON WRITTEN REQUEST TO THE CORPORATION AT ITS PRINCIPAL PLACE OF BUSINESS.

**C. Foreign Ownership Restrictions Under Title 49 of the United States Code**

Title 49 of the United States Code, as amended from time to time, and as interpreted by the DOT (the "Transportation Code"), requires that United States certificated air carriers, such as Southern Air, continuously qualify as a United States Citizen. With respect to air carriers organized as corporations, section 40102(a)(15)(C) of the Transportation Code defines the term "citizen of the United States" to mean:

> [A] corporation or association organized under the laws of the United States or a State, the District of Columbia, or a territory or possession of the United States, of which the president and at least two-thirds of the board of directors and other managing officers are citizens of the United States, which is under the actual control of citizens of the United States, and in which at least 75 percent of the voting interest is owned or controlled by persons that are citizens of the United States.

49 U.S.C. § 40102(a)(15)(C). When determining whether an air carrier is a United States Citizen, the DOT goes "up the chain" of ownership, applying the same definition of United States Citizen for each participating entity. The DOT has accepted a number of means for meeting this requirement, and each air carrier's ownership is evaluated on a case-by-case basis.

Although section 40102(a)(15) of the Transportation Code does not address nonvoting stock, as a matter of general policy, the DOT has permitted up to 49% of the total equity (voting and nonvoting) to be held by non-United States Citizens, where the foreign investment comes from countries with liberal bilateral air service agreements with the United States. The DOT interprets whether an air carrier is under the actual control of United States Citizens on a case-by-case basis, examining the totality of the circumstances.

Holders of Class A-1 Common Stock, Class A-2 Common Stock, Class A-3 Common Stock, and Class A-4 Common Stock (collectively "Class A Common Stock") will be restricted to United

States Citizens. Holders of Class A Common Stock may be required to certify or otherwise demonstrate citizenship in a form satisfactory to Reorganized Southern Air and to the DOT as a condition of holding Class A Common Stock. As noted above, holders of Allowed Prepetition Lender Claims entitled to receive Reorganized Southern Air Common Stock may elect to form a U.S. LLC Designee to hold their Pro Rata Share of Reorganized Southern Air Common Stock in order to qualify to receive Class A-1 Common Stock. Each share of Class A Common Stock will be entitled to vote. Class A Common Stock will be generally freely transferable, subject to the restrictions set forth in the Reorganized Southern Air Parent Stockholders Agreement,[16] the Reorganized Debtors Certificate of Incorporation, and the Reorganized Debtors By-Laws, as described above; however, to maintain Class A status, a transferee must furnish to Holdings acceptable proof of U.S. citizenship. In the event the board of directors determines that any Class A Common Stock has been transferred to a non-United States Citizen, such shares shall automatically convert into Class C Common Stock, with the rights discussed below.

Holders of Class B Common Stock will be restricted to United States Citizens. Holders of Class B Common Stock may be required to complete a certification of citizenship in a form satisfactory to Reorganized Southern Air and to the DOT as a condition of holding Class B Common Stock. Class B Common Stock will be nonvoting, except with respect to certain material corporate actions. Class B Common Stock will be generally freely transferable, subject to the restrictions set forth in the Reorganized Southern Air Parent Stockholders Agreement, the Reorganized Debtors Certificate of Incorporation, and the Reorganized Debtors By-Laws, as described above; however, to maintain Class B status, a transferee must furnish to Holdings acceptable proof of U.S. citizenship. In the event the board of directors determines that any Class B Common Stock has been transferred to a non-United States Citizen, such shares shall automatically convert into Class C Common Stock, with the rights discussed below.

Ownership of Class C-1 Common Stock, Class C-2 Common Stock, and Class C-3 Common Stock (collectively "Class C Common Stock") will be open to non-United States Citizens. Class C Common Stock will be generally freely transferable, subject to the restrictions set forth in the Reorganized Southern Air Parent Stockholders Agreement,[17] the Reorganized Debtors Certificate of Incorporation, and the Reorganized Debtors By-Laws, as described above; however, overall ownership restrictions such as those discussed above will be imposed in the Reorganized Southern Air Parent Stockholders Agreement to prevent excessive foreign ownership on a combined voting and non-voting basis. Holders of Class C Common Stock will be entitled to one-vote-per-share, provided that the number of shares of Class C Common Stock outstanding, as a percentage of the total outstanding shares of voting stock of Holdings, does not exceed twenty-five percent (25%)—with a similar limitation applicable to votes actually cast at any stockholders' meeting. In the event the twenty-five percent (25%) threshold would be exceeded, the one-vote-per-share status of each share of Class C Common Stock shall decrease proportionately so that the total number of votes cast by Class C shareholders cannot exceed twenty-five percent (25%) of all shares voted.

Through the combined effect of the foregoing safeguards, Reorganized Southern Air Parent, and thus Reorganized Southern Air, should continuously maintain its status as a United States Citizen. In conjunction with their reorganization, the Debtors must undergo a fitness review and approval

[16] Southern Management shall not be party to the Reorganized Southern Air Parent Stockholders Agreement with respect to shares of Class A-3 Common Stock distributed and held in accordance with the provisions of Sections 28.2, and 28.3 of the Plan.

[17] Southern Management shall not be party to the Reorganized Southern Air Parent Stockholders Agreement with respect to shares of Class C-2 Common Stock distributed and held in accordance with the provisions of Sections 28.2, and 28.3 of the Plan.

by the DOT, which will include a review of the citizenship of Reorganized Southern Air and Reorganized Southern Air Parent and those parties expected to receive Reorganized Southern Air Common Stock pursuant to the Plan. On an ongoing basis, the DOT reviews the economic fitness of air carriers upon the occurrence of certain events, including upon substantial changes in ownership. In the event that Southern Air or Reorganized Southern Air, as applicable, is not a United States Citizen, it will lose its eligibility to hold its DOT and FAA authorizations, which are subject to revocation. In the event Reorganized Southern Air Parent does not qualify a United States Citizen, Reorganized Southern Air automatically would be deemed a non-United States Citizens.

### D. General Application of Section 1145 to New Equity Interests; Transfer Restrictions Under the Securities Laws

To the maximum extent provided by section 1145 of the Bankruptcy Code and applicable non-bankruptcy laws, rules and regulations, the offer and sale under the Plan of the Reorganized Equity Consideration will be exempt from registration under the Securities Act, the rules and regulations promulgated thereunder, and applicable state and local securities laws and regulations.

#### 1. Transfer Restrictions Under the Securities Laws

Section 1145 of the Bankruptcy Code generally exempts from registration under the Securities Act the offer or sale, under a chapter 11 plan of reorganization, of a security of a debtor, of an affiliate participating in a joint plan with the debtor, or of a successor to a debtor under a plan, if such securities are offered or sold in exchange for a claim against, or equity interest in, such debtor or affiliate or principally in such exchange and partly for cash. The offer and sale of Reorganized Equity by the Reorganized Southern Air Parent pursuant to the Plan to certain purchasers and holders of Claims against the Debtors will be based on the exemption provided by section 1145 from the registration requirements of the Securities Act, the rules and regulations promulgated thereunder, and applicable state and local securities laws and regulations. Accordingly, the Reorganized Equity Consideration may be resold without registration under the Securities Act pursuant to the exemption provided by Section 4(1) of the Securities Act, unless the holder is an "underwriter," as that term is defined in section 1145(b) of the Bankruptcy Code, with respect to the Reorganized Equity Consideration. In addition, the Reorganized Equity Consideration generally may be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of the several states. However, recipients of the Reorganized Equity Consideration issued under the Plan are advised to consult with their own legal advisors as to the availability of any such exemption from registration under state law in any given instance and as to any applicable requirements or conditions to such availability.

Section 1145(b) of the Bankruptcy Code defines "underwriter" for purposes of the Securities Act as one who (i) purchases a claim with a view to distribution of any security to be received in exchange for the claim other than in ordinary trading transactions, (ii) offers to sell securities issued under a plan for the holders of such securities, (iii) offers to buy securities issued under a plan from Persons receiving such securities, if the offer to buy is made with a view to distribution, or (iv) is a control Person of the issuer of the securities, within the meaning of Section 2(a)(11) of the Securities Act. For purposes of the Securities Act, the term "control," which includes the terms "controlling," "controlled by," and "under common control with," is defined by Rule 405 under the Securities Act as "the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract, or otherwise."

For Persons deemed to be "underwriters" who receive the Reorganized Equity Consideration pursuant to the Plan, including control Person underwriters (collectively, the "Restricted Holders"), resales of the Reorganized Equity Consideration will not be exempt under section 1145 of the

Bankruptcy Code from registration under the Securities Act. Restricted Holders may, however, be able, under certain conditions described below, to sell their Reorganized Equity Consideration without registration pursuant to the safe harbor resale provisions of Rule 144 under the Securities Act, or any other applicable exemption under the Securities Act.

Generally, Rule 144 provides that Persons selling securities received in a transaction not involving a public offering or who are "affiliates" of an issuer will not be deemed to be underwriters if certain conditions are met. The term "affiliate" is defined by Rule 405 under the Securities Act to mean "a person that directly, or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with," the issuer. These conditions vary depending on whether the seller is a holder of restricted securities or a control Person of the issuer and whether the security to be sold is an equity security or a debt security. Depending on the relevant facts and circumstances, the conditions include required holding periods, the requirement that current public information with respect to the issuer be available, a limitation as to the amount of securities that may be sold within a three-month period, the requirement that the securities be sold in a "brokers transaction" or in a transaction effected directly with a "market maker" and that notice of the resale be filed with the SEC. The Debtors cannot assure, however, that adequate current public information will exist with respect to Reorganized Holdings at all times and, therefore, that the safe harbor provisions of Rule 144 under the Securities Act will ever be available to exempt resales.

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A RECIPIENT OF REORGANIZED EQUITY CONSIDERATION MAY BE AN UNDERWRITER OR AN AFFILIATE OF REORGANIZED HOLDINGS, THE DEBTORS MAKE NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN NEW SECURITIES TO BE DISTRIBUTED PURSUANT TO THE PLAN. ACCORDINGLY, THE DEBTORS RECOMMEND THAT POTENTIAL RECIPIENTS OF REORGANIZED SOUTHERN AIR PARENT COMMON STOCK CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH REORGANIZED SOUTHERN AIR PARENT COMMON STOCK.

### 2. Listing and SEC Reporting

As of the Effective Date, neither the Reorganized Southern Air Parent Common Stock nor the Oak Hill Warrants, Southern Management Warrants or Prepetition Lender Warrants will be listed for trading on any national securities exchange or other organized trading market. Consequently, the liquidity of the Reorganized Equity Consideration will be limited as of the Effective Date. The future liquidity of any trading markets for any class or type of Reorganized Equity Consideration will depend, among other things, upon the number of holders of such class or type of the Reorganized Equity Consideration, whether such class or type of Reorganized Equity Consideration is listed for trading on a national securities exchange, or other organized trading market at some future time, and whether Reorganized Holdings begins to file reports with the SEC pursuant to the Exchange Act. In this regard, Reorganized Holdings is deemed to be a successor to Holdings for the purposes of the Exchange Act and will not be subject to the reporting requirements of the Exchange Act.

## IX.
## 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 holders of certain Claims. This discussion does not address the U.S. federal income tax consequences to (i) holders of Claims who are unimpaired or

otherwise entitled to payment in full in cash under the Plan, (ii) holders of Equity Interests in Holdings, (iii) the DIP Lenders, or (iv) Oak Hill Cargo 360 and its members.

The discussion of U.S. federal income tax consequences below is based on the Tax Code, Treasury regulations, judicial authorities, published positions of the Internal Revenue Service ("IRS") and other applicable authorities, all as in effect on the date of this document and all of which are subject to change or differing interpretations (possibly with retroactive effect). The U.S. federal income tax consequences of the contemplated transactions are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or any other tax authority, or an opinion of counsel, with respect to any of the tax aspects of the contemplated transactions, and the discussion below is not binding upon the IRS or such other authorities. Thus, no assurance can be given that the IRS or such other authorities would not assert, or that a court would not sustain, a different position from any discussed herein.

This summary does not address foreign, state or local tax consequences of the contemplated transactions, nor does it purport to address the U.S. federal income tax consequences of the transactions that may be relevant to a holder of Claims in light of its special circumstances or to special classes of taxpayers (*e.g.*, holders of Prepetition Lender Claims using U.S. LLC Designees, foreign taxpayers, small business investment companies, regulated investment companies, real estate investment trusts, controlled foreign corporations, passive foreign investment companies, banks and certain other financial institutions, insurance companies, tax-exempt organizations, retirement plans, holders that are, or hold Claims through, partnerships or other pass-through entities for U.S. federal income tax purposes, U.S. persons whose functional currency is not the U.S. dollar, dealers in securities or foreign currency, traders that mark-to-market their securities, expatriates and former long-term residents of the United States, persons subject to the alternative minimum tax, and persons holding Claims that are part of a straddle, hedging, constructive sale or conversion transaction). In addition, this discussion does not address U.S. federal taxes other than income taxes, nor does it apply to any person that acquires any of the Exit Term Loans, Prepetition Lender Reorganized Southern Air Parent Common Stock, or the Prepetition Lender Warrants in the secondary market. This discussion does not address tax consequences to the holders of the Allowed Prepetition Lender Claims with respect to the portion of their claims, if any, rolled up into the DIP Roll-Up Loan and thereby converted into the DIP Roll-Up Loan.

This discussion assumes that the Lenders Claims, the General Unsecured Claims, the Exit Term Loans, the Prepetition Lender Reorganized Southern Air Parent Common Stock, and the Prepetition Lender Warrants are held as "capital assets" (generally, property held for investment) within the meaning of section 1221 of the Tax Code, and that except for the Prepetition Lender Warrants, the various debt and other arrangements to which the Debtors are parties will be respected for U.S. federal income tax purposes in accordance with their form. The Debtors intend to treat the Prepetition Lender Warrants as stock for U.S. federal income tax purposes and the remainder of this discussion assumes that such treatment is correct.

Pursuant to the Plan, a limited liability company will be formed on or before the Effective Date as a wholly-owned subsidiary of Reorganized Cargo 360, and to which all the stock in Southern Air and Air Mobility, Inc. will be contributed on the Effective Date. It is intended, and the following discussion assumes, that such limited liability company will be treated as a disregarded entity for U.S. federal income tax purposes and as such, any assets and liabilities of such limited liability company will be treated as assets and liabilities of Reorganized Cargo 360.

***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 your individual circumstances.***

**INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE: TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, HOLDERS OF CLAIMS AND PRECONFIRMATION 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 PRECONFIRMATION 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 PRECONFIRMATION EQUITY INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

### A. Consequences to the Debtors

For U.S. federal income tax purposes, the Debtors are members of an affiliated group of corporations (or limited liability companies that are "disregarded entities" wholly owned by members of such group), of which Holdings is the common parent, which files a single consolidated U.S. federal income tax return (the "Southern Air Group"). The Southern Air Group has reported net operating loss ("NOL") carryforwards in excess of Two Hundred Twenty Million Dollars ($220,000,000.00) for U.S. federal income tax purposes as of the end of 2011. The Southern Air Group expects to incur further operating losses during 2012. The amount of any such NOL carryforwards and other losses, and the extent to which any limitations might apply, remains subject to audit and adjustment by the IRS.

As discussed below, in connection with the Plan, the amount of the Southern Air Group's NOL carryforwards may be significantly reduced, and certain other tax attributes of the Southern Air Group (such as tax basis in assets) may also be reduced. In addition, the subsequent utilization of any NOL carryforwards and other losses remaining following the Effective Date may be severely restricted.

If the Reorganized Southern Air Parent is Holdings, the Southern Air Group will not terminate for U.S. federal consolidated return filing purposes on the Effective Date. If, on the other hand, Cargo 360 is the Reorganized Southern Air Parent and Holdings is not merged with and into Cargo 360, upon the issuance of the Prepetition Lender Reorganized Southern Air Parent Common Stock and the Prepetition Lender Warrants the Southern Air Group will terminate for U.S. federal consolidated return filing purposes on the Effective Date. In such event, after the Effective Date, Reorganized Cargo 360 will be the common parent of a new affiliated group of corporations of which the remaining Debtors (other than Holdings) will be members. Alternatively, if the Reorganized Southern Air Parent is Cargo 360 and Holdings is merged with and into Cargo 360 on the Effective Date, it is possible that the Southern Air Group would not be considered to terminate on the Effective Date.

In any event, we expect that a consolidated U.S. federal income tax return will be filed by the continuing Reorganized Debtors after the Effective Date. Accordingly, references to the Southern Air Group in the remainder of this discussion refer, as applicable, to the reorganized Southern Air Group.

#### 1. Cancellation of Debt

In general, the Tax Code provides that a debtor in a bankruptcy case must reduce certain of its tax attributes – such as NOL carryforwards and current year NOLs, capital loss carryforwards, tax credits, and tax basis in assets – by the amount of any cancellation of debt ("COD") incurred pursuant to a confirmed chapter 11 plan. The amount of COD income incurred is generally the amount by which the indebtedness discharged exceeds the value of any consideration given in exchange therefor. Certain

statutory or judicial exceptions may apply to limit the amount of COD incurred for U.S. federal income tax purposes. If advantageous, the debtor can elect to reduce the basis of depreciable property prior to any reduction in its NOL carryforwards or other tax attributes. Where the debtor joins in the filing of a consolidated U.S. federal income tax return, applicable Treasury regulations require, in certain circumstances, that the tax attributes of the consolidated subsidiaries of the debtor and other members of the group must also be reduced. Any reduction in tax attributes in respect of COD income generally does not occur until after the determination of the debtor's income or loss for the taxable year in which the COD is incurred.

The Debtors expect to incur substantial COD as a result of the implementation of the Plan, with the result that there will be substantial reductions in the tax attributes of the Southern Air Group. The amount of COD incurred will depend primarily on the fair market value of the Prepetition Lender Reorganized Southern Air Parent Common Stock (including the Prepetition Lender Warrants) and the issue price of the Exit Term Loans (see "—Consequences to Holders of Claims—Ownership and Disposition of the Exit Term Loans—OID and Issue Price" below) being issued on the Effective Date. It is anticipated that, as a result of the implementation of the Plan, significant amount of the Southern Air Group's consolidated NOL carryforwards will be reduced and that certain other tax attributes of the Southern Air Group may also be reduced.

**2. Potential Limitations on NOL Carryforwards and Other Tax Attributes**

Following the Effective Date, any remaining NOL carryforwards and certain other tax attributes (including current year NOLs) allocable to periods prior to the Effective Date (collectively, "Pre-Change Losses") will be subject to limitation. Any section 382 limitations apply in addition to, and not in lieu of, the use of attributes or the attribute reduction that results from the COD arising in connection with the Plan. The Debtors believe that there will be tax attributes remaining after the Effective Date to which section 382 of the Tax Code would apply because it is expected that the amount of NOLs would exceed the amount of COD.

Under section 382 of the Tax Code, if a corporation (or consolidated group) undergoes an "ownership change" and the corporation does not qualify for (or elects out of) the special bankruptcy exception discussed below, the amount of its Pre-Change Losses that may be utilized to offset future taxable income is subject to an annual limitation. The issuance of the Prepetition Lender Reorganized Southern Air Parent Common Stock (including the Prepetition Lender Warrants) pursuant to the Plan will constitute an "ownership change" of the Southern Air Group for these purposes.

In general, the amount of the annual limitation to which a corporation that undergoes an ownership change will be subject is equal to the product of (i) the fair market value of the stock of the corporation *immediately before* the ownership change (with certain adjustments) multiplied by (ii) the "long term tax exempt rate" in effect for the month in which the ownership change occurs (*e.g.*, 2.84% for ownership changes occurring in January 2013). As discussed below, this annual limitation often may be increased in the event the corporation (or consolidated group) has an overall "built-in" gain in its assets at the time of the ownership change. For a corporation (or consolidated group) in bankruptcy that undergoes an ownership change pursuant to a confirmed bankruptcy plan, the fair market value of the stock of the corporation is generally determined immediately *after* (rather than before) the ownership change after giving effect to the discharge of creditors' claims, but subject to certain adjustments; in no event, however, can the stock value for this purpose exceed the pre-change gross value of the corporation's assets.

Any portion of the annual limitation that is not used in a given year may be carried forward, thereby adding to the annual limitation for the subsequent taxable year. However, if the

corporation does not continue its historic business or use a significant portion of its historic assets in a new business for at least two (2) years after the ownership change, or if certain shareholders claim worthless stock deductions and continue to hold their stock in the corporation at the end of the taxable year, the annual limitation resulting from the ownership change is reduced to zero, thereby precluding any utilization of the corporation's Pre-Change Losses, absent any increases due to recognized built-in gains discussed below. Generally, NOL carryforwards expire after twenty (20) years.

Accordingly, the impact of an ownership change of the Southern Air Group pursuant to the Plan depends upon, among other things, the amount of Pre-Change Losses remaining after the reduction of attributes due to the COD, the value of both the stock and assets of the Southern Air Group at such time, the continuation of its respective business, and the amount and timing of future taxable income.

**a. *Built In Gains and Losses***

Section 382 of the Tax Code can operate to limit the deduction of certain "built-in" losses recognized subsequent to the date of the ownership change. If a loss corporation (or consolidated group) has a net unrealized built-in loss at the time of an ownership change (taking into account most assets and items of "built-in" income, gain, loss and deduction), then any built-in losses recognized during the following five (5) years (up to the amount of the original net unrealized built-in loss) generally will be treated as Pre-Change Losses and similarly will be subject to the annual limitation. Conversely, if the loss corporation (or consolidated group) has a net unrealized built-in gain at the time of an ownership change, any built-in gains recognized (or, according to an IRS notice, treated as recognized) during the following five (5) years (up to the amount of the original net unrealized built-in gain) generally will increase the annual limitation in the year recognized, such that the loss corporation (or consolidated group) would be permitted to use its Pre-Change Losses against such built-in gain income in addition to its regular annual allowance. In general, a loss corporation's (or consolidated group's) net unrealized built-in gain or loss will be deemed to be zero unless the actual value is greater than the lesser of (i) Ten Million Dollars ($10,000,000.00) or (ii) fifteen percent (15%) of the fair market value of its assets (with certain adjustments) before the ownership change. It is unknown whether the Southern Air Group would be in a net unrealized built-in-gain or loss position as of the Effective Date.

**b. *Special Bankruptcy Exception***

An exception to the foregoing annual limitation rules generally applies where "qualified creditors" and existing shareholders of a debtor receive, in respect of their claims or equity interests, at least fifty percent (50%) of the vote and value of the stock of the reorganized debtor (or a controlling corporation if also in bankruptcy) pursuant to a confirmed chapter 11 plan. Generally, qualified creditors are creditors who (i) held their claims continuously for at least eighteen (18) months at the time the bankruptcy petition is filed and thereafter or (ii) hold claims incurred in the ordinary course of the debtor's business and held those claims continuously since they were incurred. Under this exception, a debtor's Pre-Change Losses are not limited on an annual basis but, instead, are required to be reduced by the amount of any interest deductions claimed during (at least) the three taxable years preceding the effective date of the reorganization, and during the part of the taxable year prior to and including the reorganization, in respect of all debt converted into stock in the reorganization. Moreover, if this exception applies, any further ownership change of the debtor within a two-year period after the consummation of the chapter 11 plan will preclude the debtor's utilization of any Pre-Change Losses at the time of the subsequent ownership change against future income. Although it is unclear and depends on a number of factors, the Debtors may qualify for this exception. In such event, the Debtors may, if they so desire, elect not to have the exception apply and instead remain subject to the annual limitation described above.

### 3. Alternative Minimum Tax

In general, a U.S. federal alternative minimum tax ("AMT") is imposed on a corporation's alternative minimum taxable income at a twenty percent (20%) rate to the extent that such tax exceeds the corporation's regular U.S. federal income tax. For purposes of computing taxable income for AMT purposes, certain tax deductions and other beneficial allowances are modified or eliminated. In particular, even though a corporation otherwise might be able to offset all of its taxable income for regular tax purposes by available NOL carryforwards, only ninety percent (90%) of a corporation's (or consolidated group's) taxable income for AMT purposes may be offset by available NOL carryforwards (as computed for AMT purposes). Accordingly, usage of the Debtors' NOLs by the Debtors may be subject to limitations for AMT purposes in addition to any other limitations that may apply.

In addition, if a corporation (or group) undergoes an ownership change and is in a net unrealized built-in loss position (as determined for AMT purposes) on the date of the ownership change, the corporation's (or group's) aggregate tax basis in its assets is reduced for certain AMT purposes to reflect the fair market value of such assets as of the change date.

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

## B. Consequences to Holders of Certain Claims

As used in this section of the Disclosure Statement, the term "U.S. Holder" means a beneficial owner of Claims, Exit Term Loans, Prepetition Lender Reorganized Southern Air Parent Common Stock, or Prepetition Lender Warrants that is for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary jurisdiction over its administration and one or more U.S. persons have authority to control all of its substantial decisions, or if the trust has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

If a partnership or other entity taxable as a partnership for U.S. federal income tax purposes holds Claims, Exit Term Loans, Prepetition Lender Reorganized Southern Air Parent Common Stock, or Prepetition Lender Warrants, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding any of such instruments, you should consult your own tax advisor.

### 1. Consequences to Holders of Allowed Prepetition Lender Claims

#### a. *Exchanges of Claims Under the Plan*

Pursuant to the Plan, and in satisfaction of their respective Claims, each holder of the Allowed Prepetition Lender Claims will receive from Reorganized Cargo 360 its share of (a) the Exit Term Loans in the aggregate original principal amount of Seventeen and One-Half Million Dollars ($17,500,000.00), (b) the Prepetition Lender Reorganized Southern Air Parent Common Stock (including the Prepetition Lender Warrants), and (c) the Litigation Trust Interests. In connection with the foregoing, the Plan provides that, if Reorganized Southern Air Parent is Reorganized Holdings, Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) to be distributed to the holders of Allowed Prepetition Lender Claims is first contributed by Reorganized Holdings to Cargo 360 and then distributed by Cargo 360 to the applicable holders of the Allowed Prepetition Lender Claims.

The U.S. federal income tax consequences of the Plan to a U.S. Holder of the Allowed Prepetition Lender Claims will depend, in part, on whether such Claims constitute "securities" for U.S. federal income tax purposes, and if so, whether any Exit Term Loans received in exchange therefor also constitute "securities" for U.S. federal income tax purposes or the Reorganized Southern Air Parent is Reorganized Cargo 360 (such that the exchange would qualify for "recapitalization" treatment under the Tax Code).

The term "security" is not defined in the Tax Code or in the Treasury regulations issued thereunder and has not been clearly defined by judicial decisions. The determination of whether a particular debt obligation constitutes a "security" depends on an overall evaluation of the nature of the debt, including whether the holder of such debt obligation is subject to a material level of entrepreneurial risk and whether a continuing proprietary interest is intended or not. One of the most significant factors considered in determining whether a particular debt is a security is its original term. In general, debt obligations issued with a weighted average maturity at issuance of less than five (5) years do not constitute securities for U.S. federal income tax purposes, whereas debt obligations with a weighted average maturity at issuance of ten (10) years or more constitute securities for U.S. federal income tax purposes. Additionally, the IRS has ruled that new debt obligations with a term of less than five years issued in exchange for and bearing the same terms (other than interest rate) as securities should also be classified as securities for this purpose, since the new debt represents a continuation of the holder's investment in the corporation in substantially the same form. U.S. Holders of the Allowed Prepetition Lender Claims are urged to consult their own tax advisors regarding the appropriate status for U.S. federal income tax purposes of their Allowed Prepetition Lender Claims and any Exit Term Loans to be received in exchange therefor.

In order for an exchange to qualify as a "recapitalization" for U.S federal income tax purposes, a holder must exchange stock or securities of the exchanging company for stock or securities of exchanging company. Thus, if the Allowed Prepetition Lender Claims do not constitute securities for U.S. federal income tax purposes or if the Exit Term Loan do not constitute securities for U.S. federal income tax purposes and the Prepetition Lender Reorganized Southern Air Parent Common Stock (and the Prepetition Lender Warrants) is stock of Reorganized Holdings (rather than Reorganized Cargo 360), the exchange of Allowed Prepetition Lender Claims for Exit Term Loans and Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) will not qualify as a recapitalization and would be treated as a fully taxable transaction, with the consequences described below in "—Fully Taxable Exchange." If, on the other hand, the Allowed Prepetition Lender Claims constitute securities for U.S. federal income tax purposes and either the Exit Term Loans constitute securities for U.S. federal income tax purposes or the Prepetition Lender Reorganized Southern

Air Parent Common Stock (and the Prepetition Lender Warrants) is stock of Reorganized Cargo 360, then such exchange will be treated as a "recapitalization" for U.S. federal income tax purposes, with the consequences described below in "—Potential Recapitalization Treatment."

*Fully Taxable Exchange*. If the exchange of an Allowed Prepetition Lender Claim pursuant to the Plan is a fully taxable exchange, the exchanging U.S. Holder generally should recognize gain or loss in an amount equal to the difference, if any, between (i) the sum of the fair market value of any Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants), the "issue price" of any Exit Term Loans (see "—Ownership and Disposition of Exit Term Loans—OID and Issue Price" below), and the fair market value of its undivided interest in the Litigation Trust Assets, other than any exchange consideration received in respect of a Claim for accrued but unpaid interest, and (ii) the U.S. Holder's adjusted tax basis in the Claim exchanged (other than any basis attributable to accrued but unpaid interest). *See* "—Character of Gain or Loss" below. In addition, a U.S. Holder of a Claim will have interest income to the extent of any exchange consideration allocable to accrued but unpaid interest not previously included in income. *See* "—Payment of Accrued Interest" below.

U.S. Holders of the Allowed Prepetition Lender Claims are urged to consult their own tax advisors regarding the possible application of (or ability to elect out of) the "installment method" of reporting any gain that may be recognized by such holders in respect of such Claims.

Generally, a U.S. Holder's adjusted tax basis in an Allowed Prepetition Lender Claim will be equal to the cost of the Claim to such U.S. Holder, increased by any original issue discount ("OID") previously included in income. If applicable, a U.S. Holder's tax basis in a Claim will also be (i) increased by any market discount previously included in income by such U.S. Holder pursuant to an election to include market discount in gross income currently as it accrues, and (ii) reduced by any cash payments received on the Claim other than payments of qualified stated interest, and by any amortizable bond premium which the U.S. Holder has previously deducted and by the amount of any bad debt deduction claimed with respect to such Claim.

In the case of a taxable exchange, a U.S. Holder's tax basis in any Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants), Exit Term Loans, and its undivided interest in the Litigation Trust Assets will equal the amount taken into account in respect of such stock, loans, or interest in determining the U.S. Holder's gain or loss. The U.S. Holder's holding period in such stock, loans, or interest received should begin on the day following the exchange date.

Notwithstanding the foregoing, in the event that Reorganized Southern Air Parent is Reorganized Holdings, it is possible that the IRS may attempt to treat a holder's receipt of Prepetition Lender Reorganized Southern Air Parent Common Stock (and Prepetition Lender Warrants) in satisfaction of a portion of its Allowed Prepetition Lender Claims as part of a non-recognition transaction (regardless of whether the Allowed Prepetition Lender Claims constitute securities for U.S. federal income tax purposes). If so treated, such a holder would not be required or permitted to recognize any gain or loss on the transaction in respect of the portion of the Allowed Prepetition Lender Claims treated as exchanged for Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants). In the case of a holder that does not recognize gain or loss, the holder's tax basis in its Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) should continue to reflect the unrecognized gain or loss. In addition, the holder's holding period in the Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) should, in whole or in part, include its holding period in its Claims. However, the Debtors believe, and the discussion herein assumes, that, in the event that Reorganized

Southern Air Parent is Reorganized Holdings, the satisfaction of the Claims with Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) (*i.e.*, stock of Reorganized Holdings) should be taxable consideration with respect to which gain and loss (or in the case of a recapitalization transaction, gain only) may be recognized as described above. Holders of Claims are urged to consult their tax advisors regarding the income tax consequences of the exchange of such Claims for Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants).

*Recapitalization Treatment*. The classification of an exchange as a recapitalization for U.S. federal income tax purposes generally serves to defer the recognition of any gain or loss by the U.S. Holder. However, if an exchange qualifies as a recapitalization, a holder that would otherwise have taxable gain on the exchange should generally still be required to recognize that gain to the extent, if any, that the U.S. Holder receives consideration that is neither stock nor securities of the exchanging company (*i.e.*, Cargo 360).

If the exchange of an Allowed Prepetition Lender Claim qualifies as a recapitalization, the exchanging U.S. Holder generally will not recognize any loss upon the exchange; but a U.S. Holder will recognize any gain to the extent of (a) the fair market value of the Prepetition Lender Reorganized Southern Air Parent Common Stock (including the Prepetition Lender Warrants) received if it is stock of Reorganized Holdings (rather than Reorganized Cargo 360), (b) the fair market value of the Exit Term Loans received if they do not constitute securities for U.S. federal income tax purposes, and (c) the fair market value of its undivided interest in the Litigation Trust Assets (other than, in each case, to the extent allocable to accrued and unpaid interest). Although subject to uncertainty, the "issue price" of the Exit Term Loans should be treated as their fair market value for purposes of this gain recognition provision. Each holder is urged to consult its own tax advisor regarding use of the issue price as the fair market value of the Exit Term Loans for purposes of gain recognition, and the possible application of (or ability to elect out of) the "installment method" of reporting any such gain. A U.S. Holder will also have interest income to the extent of any exchange consideration allocable to accrued but unpaid interest not previously included in income. *See* "—Payment of Accrued Interest" below.

In a recapitalization exchange, a U.S. Holder's tax basis and holding period in any Exit Term Loans and Reorganized Southern Parent Common Stock will depend on whether the Exit Term Loans constitute securities for U.S. federal income tax purposes or the Prepetition Lender Reorganized Southern Air Parent Common Stock (and the Prepetition Lender Warrants) is stock of Reorganized Cargo 360.

If both the Exit Term Loans constitute securities for U.S. federal income tax purposes and the Prepetition Lender Reorganized Southern Air Parent Common Stock (and the Prepetition Lender Warrants) is stock of Reorganized Cargo 360, (i) the aggregate tax basis in any Exit Term Loans and Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) received will equal the U.S. Holder's aggregate adjusted tax basis in any Allowed Prepetition Lender Claims exchanged therefore, increased by any interest income recognized in the exchange (with the basis generally allocated between the Exit Term Loans and Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) based on their relative fair market values) and the amount of any other gain recognized and decreased by the fair market value of the undivided interests in the Litigation Trust Assets received, and (ii) a U.S. Holder's holding period in the Exit Term Loans and the Prepetition Lender Reorganized Southern Air Parent Common Stock (including Prepetition Lender Warrants) received will include the U.S. Holder's holding period in the Allowed Prepetition Lender Claims exchanged therefore, except to the extent of any exchange consideration received in respect of accrued but unpaid interest.

If either the Exit Term Loans do not constitute securities for U.S. federal income tax purposes or the Prepetition Lender Reorganized Southern Air Parent Common Stock (or Prepetition Lender Warrants) is stock of Reorganized Holdings (*i.e.*, "boot" in the reorganization), a U.S. Holder will have basis in such boot equal to its issue price in the case of Exit Term Loans or its fair market value in the case of the Prepetition Lender Reorganized Southern Air Parent Common Stock (including the Prepetition Lender Warrants), and its holding period should begin on the day following the exchange date. In such case, (i) U.S. Holder's aggregate tax basis in the nonrecognition exchange property received (*i.e.*, the Exit Term Loans if treated as securities for U.S. federal income tax purposes or the Prepetition Lender Reorganized Southern Air Parent Common Stock and Prepetition Lender Warrants if stock in Reorganized Cargo 360) will equal the U.S. Holder's aggregate adjusted tax basis in the Allowed Prepetition Lender Claims exchanged therefor, increased by any gain or interest income recognized in the exchange, and reduced by the fair market value of the boot (which, for this purpose, if the boot is the Exit Term Loans, is likely their issue price as discussed above), and (ii) a U.S. Holder's holding period in the nonrecognition exchange property received will include the U.S. Holder's holding period in the Allowed Prepetition Lender Claims, except to the extent of such considerations received in respect of accrued but unpaid interest.

The consequences to U.S. Holders of the receipt of the Litigation Trust Interests are discussed in "—Ownership of Litigation Trust Interests" below.

*Character of Gain or Loss.* Subject to the discussion in "—Ownership of Litigation Trust Interests" below, except to the extent that any consideration received pursuant to the Plan is received in satisfaction of accrued but unpaid interest during its holding period (see "—Payment of Accrued Interest" below), where gain or loss is recognized by a U.S. Holder in respect of the satisfaction and exchange of its Claim, such gain or loss will be capital gain or loss except to the extent any gain is recharacterized as ordinary income pursuant to the market discount rules discussed below. A reduced tax rate on long-term capital gain may apply to non-corporate U.S. Holders. The deductibility of capital loss is subject to significant limitations.

Under these rules, any gain recognized on the exchange of Claims (other than in respect of a Claim for accrued but unpaid interest) generally will be treated as ordinary income to the extent of the market discount accrued (on a straight line basis or, at the election of the U.S. Holder, on a constant interest basis) during the U.S. Holder's period of ownership, unless the U.S. Holder elected to include the market discount in income as it accrued. If a U.S. Holder of Claims did not elect to include market discount in income as it accrued and thus, under the market discount rules, was required to defer all or a portion of any deductions for interest on debt incurred or maintained to purchase or carry its Claims, such deferred amounts would become deductible at the time of the exchange, up to the amount of gain that the U.S. Holder recognizes in the exchange.

In the case of an exchange of Allowed Prepetition Lender Claims that qualifies as a recapitalization, the Tax Code indicates that any accrued market discount in respect of such Claims in excess of the gain recognized in the exchange should not be currently includible in income under Treasury regulations to be issued. However, such accrued market discount should carry over to any non-recognition property received in exchange therefor (*i.e.*, to any Exit Term Loans received in the exchange, if such Exit Term Loans constitutes securities for U.S. federal income tax purposes and to any Prepetition Lender Reorganized Southern Air Parent Common Stock (and Prepetition Lender Warrants) if it is stock of Reorganized Cargo 360). In addition, any Exit Term Loans received in an exchange for the Allowed Prepetition Lender Claims that qualifies as a recapitalization will be treated as acquired at a market discount if the issue price of such loans exceeds the adjusted tax basis for such loans by more than a *de minimis* amount. Any gain recognized by a U.S. Holder upon a subsequent disposition (or repayment) of such exchange consideration would be treated as ordinary income to the extent of any accrued market

discount not previously included in income plus the market discount that has accrued on the Exit Term Loans that constitute securities for U.S. federal income tax purposes. To date, specific Treasury regulations implementing this rule have not been issued.

*Payment of Accrued Interest.* In general, to the extent that any consideration received pursuant to the Plan by a U.S. Holder of a Claim is received in satisfaction of accrued interest during its holding period, such amount will be taxable to the U.S. Holder as interest income (if not previously included in the U.S. Holder's gross income). Conversely, a U.S. Holder generally incurs a deductible loss to the extent any accrued interest claimed or amortized OID was previously included in its gross income and is not paid in full. However, the IRS has privately ruled that a holder of a "security" of a corporate issuer, in an otherwise tax-free exchange, could not claim a current deduction with respect to any unpaid OID. Accordingly, it is also unclear whether, by analogy, a U.S. Holder of a Claim that does not constitute a security would be required to recognize a capital loss, rather than an ordinary loss, with respect to previously included OID that is not paid in full.

The Plan provides that consideration received in respect of a Claim is allocable first to the principal amount of the Claim (as determined for U.S. federal income tax purposes) and then, to the extent of any excess, to the remainder of the Claim, including any Claim for accrued but unpaid interest (in contrast, for example, to a pro rata allocation of a portion of the exchange consideration received between principal and interest, or an allocation first to accrued but unpaid interest). See Section 20.12 of the Plan. There is no assurance that the IRS will respect such allocation for U.S. federal income tax purposes. You are urged to consult your own tax advisor regarding the allocation of consideration and the deductibility of accrued but unpaid interest for U.S. federal income tax purposes.

**b. *Disposition of Prepetition Lender Reorganized Southern Air Parent Common Stock and Prepetition Lender Warrants***

Unless a non-recognition provision applies, and subject to the discussion above with respect to the carryover of market discount (see "—Exchanges of Claims under the Plan—Character of Gain or Loss") and the discussion of possible ordinary income treatment below, U.S. Holders generally will recognize capital gain or loss upon the sale or exchange of the Prepetition Lender Reorganized Southern Air Parent Common Stock (or Prepetition Lender Warrants) in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Prepetition Lender Reorganized Southern Air Parent Common Stock (or Prepetition Lender Warrants) and the sum of the cash plus the fair market value of any property received from such disposition. Any such gain or loss generally should be long-term if the U.S. Holder's holding period for its Prepetition Lender Reorganized Southern Air Parent Common Stock (or Prepetition Lender Warrants) is more than one year at that time. A reduced tax rate on long-term capital gain may apply to non-corporate U.S. Holders. The deductibility of capital loss is subject to significant limitations.

Notwithstanding the above, any gain recognized by a U.S. Holder upon a subsequent taxable disposition of the Prepetition Lender Reorganized Southern Air Parent Common Stock (or Prepetition Lender Warrants) (or any stock or property received for it in a later tax-free exchange) received in exchange for the Allowed Prepetition Lender Claims will be treated as ordinary income for U.S. federal income tax purposes to the extent of (i) any bad debt deductions (or additions to a bad debt reserve) claimed with respect to the Allowed Prepetition Lender Claims and any ordinary loss deductions incurred upon satisfaction of the Allowed Prepetition Lender Claim, less any income (other than interest income) recognized by the U.S. Holder upon satisfaction of the Allowed Prepetition Lender Claim, and (ii) with respect to a cash-basis U.S. Holder, in addition to (i), any amounts which would have been included in its gross income if the U.S. Holder's Allowed Prepetition Lender Claim had been satisfied in full but which was not included by reason of the cash method of accounting.

### c. *Ownership and Disposition of Exit Term Loans*

*Stated Interest*. A U.S. Holder of the Exit Term Loans will be required to include stated interest on the Exit Term Loans in income in accordance with the U.S. Holder's regular method of accounting for U.S. federal income tax purposes to the extent such stated interest is "qualified stated interest." Stated interest is "qualified stated interest" if it is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually.

Cargo 360 will have the option to pay payment-in-kind ("PIK") interest for a portion of the interest payable on the Exit Term Loans, instead of paying in cash. Accordingly, such portion of the interest is not qualified stated interest, even if actually paid in cash. Moreover, the payment of PIK interest is not treated as a payment on the Exit Term Loans for U.S. federal income tax purposes. Instead, the Exit Term Loans and any additional notes issued in respect of PIK interest thereon are treated as a single debt instrument under the OID rules.

*OID and Issue Price*. The Exit Term Loans will be treated as being issued with OID because of the option to pay PIK interest for a portion of the interest on the Exit Term Loans. The OID on the Exit Term Loans equals the amount by which their "stated redemption price at maturity" exceeds their "issue price." A debt instrument's "stated redemption price at maturity" includes all principal and interest payable over the term of the debt instrument, other than qualified stated interest. The portion of the interest payable on the Exit Term Loans that Cargo 360 may elect to pay as PIK interest will be included in the stated redemption price at maturity and taxed as part of OID.

The "issue price" of the Exit Term Loans depends on whether, at any time during the thirty-one (31) day period ending fifteen (15) days after the exchange date, the Allowed Prepetition Lender Claims exchanged (in whole or in part) therefor are traded on an established market.

Pursuant to applicable Treasury regulations, an "established market" need not be a formal market. Rather, a debt is generally considered to be traded on an established market whenever a price quotation for such debt is available from a broker, dealer or pricing service (including a price provided only to certain customers or to subscribers) or the sales price for an executed purchase or sale reasonably available. However, a debt will *not* be treated as traded in an established market if the outstanding stated principal amount of the issue does not exceed One Hundred Million Dollars ($100,000,000.00). Pursuant to the Plan, the outstanding stated principal amount of the Exit Term Loans will be Eighty Million Dollars ($80,000,000.00). Accordingly, the Exit Term Loans would not be treated as traded in an established market, whereas the Allowed Prepetition Lender Claims could be treated as traded on an established market depending on the circumstances.

If the Allowed Prepetition Lender Claims are treated as traded on an established market for U.S. federal income tax purposes, the issue price of the Exit Term Loans will equal the fair market value of the Allowed Prepetition Lender Claims exchanged therefor on the Effective Date (with appropriate adjustments for the stock received). The amount of the Exit Term Loans' OID will include the excess of its stated principal amount over its issue price. If the Allowed Prepetition Lender Claims are not traded on an established market, the issue price for the Exit Term Loans should be the stated principal amount of such loans.

It is uncertain whether the Allowed Prepetition Lender Claims are traded on an established market. In general, the Debtors' determination of issue price will be binding on all holders of Allowed Prepetition Lender Claims, other than a holder that explicitly discloses its inconsistent treatment in a statement attached to its timely filed tax return for the taxable year in which the exchange occurs. There can be no assurance, however, that the IRS will not successfully assert a contrary position.

A U.S. Holder of the Exit Term Loans generally must include OID in gross income as it accrues over the term of the note in accordance with a constant yield-to-maturity method, regardless of whether the U.S. Holder is a cash or accrual method taxpayer, and regardless of whether and when the U.S. Holder receives cash payments of interest on the Exit Term Loans. Accordingly, a U.S. Holder could be treated as receiving interest income in advance of a corresponding receipt of cash. Any OID that a U.S. Holder includes in income will increase the tax basis of the U.S. Holder in its Exit Term Loans. A U.S. Holder will not be required to include separately in income cash payments received on the Exit Term Loans to the extent such payments constitute payments of previously accrued OID, and such payments will reduce its tax basis in its Exit Term Loans by the amount of such payments.

The amount of OID includible in income for a taxable year by a U.S. Holder of the Exit Term Loans generally will equal the sum of the "daily portions" of the total OID on the note for each day during the taxable year (or portion thereof) on which such holder held the note. Generally, the daily portion of the OID is determined by allocating to each day during an accrual period a ratable portion of the OID on such Exit Term Loans that is allocable to the accrual period in which such day is included. The amount of OID allocable to each accrual period generally will be an amount equal to the product of the "adjusted issue price" of the Exit Term Loans at the beginning of such accrual period and its "yield to maturity." The "adjusted issue price" of the Exit Term Loans at the beginning of any accrual period will equal the issue price, increased by the total OID accrued for each prior accrual period, less any cash payments made on such bond on or before the first day of the accrual period (other than in respect of qualified stated interest). The "yield to maturity" of the Exit Term Loans will be computed on the basis of a constant annual interest rate and compounded at the end of each accrual period.

For purposes of determining the yield to maturity, the Treasury regulations require Cargo 360 and each U.S. Holder to assume that Cargo 360 will make the election to pay PIK interest only if such election results in decreasing the yield of the Exit Term Loans. Pursuant to this assumption, it is expected that it will generally be assumed that the Cargo 360 will pay interest in cash and not exercise the option to pay PIK interest, although it is possible that Cargo 360 would be assumed to pay PIK interest instead of cash (if the issue price of the Exit Term Loans is at a substantial discount to their face value). *These assumptions are made solely for such U.S. federal income tax purposes and do not constitute a representation by Cargo 360 regarding the elections it will make regarding the payment of interest on the Exit Term Loans.*

If Cargo 360, in fact, pays interest in cash or in PIK notes consistent with the assumptions described above, a U.S. Holder will not be required to adjust such holder's OID inclusions.

If it is assumed that Cargo 360 will not elect to pay PIK interest, each payment made in cash under the Exit Term Loans will be treated first as a payment of any accrued OID that has not been allocated to prior payments and second as a payment of principal. A U.S. Holder generally will not be required to include separately in income cash payments received on the Exit Term Loans to the extent such payments constitute payments of previously accrued OID or payments of principal. If, for any interest period, Cargo 360 exercises its option to pay interest in the form of PIK interest, a U.S. Holder's OID calculation for future periods will be adjusted by treating the Exit Term Loans as if it had been retired and then reissued for an amount equal to its adjusted issue price on the date of the payment of PIK interest, and re-calculating the yield to maturity of the reissued bond by treating the amount of PIK interest paid for that interest period as a payment that will be made on the maturity date of such bond.

If, on the other hand, it is assumed that Cargo 360 will pay PIK interest but it in fact pays interest in cash, a U.S. Holder's OID calculation for future period will be adjusted by treating the note as if it had been retired and then reissued for an amount equal to its adjusted issue price. Such cash payment

would be treated as a prepayment of a portion of the Exit Term Loans and may result in gain or loss to a U.S. Holder.

*The rules regarding the determination of issue price and OID are complex, and the OID rules described above may not apply in all cases. Accordingly, you should consult your own tax advisor regarding the determination of the issue price of the Exit Term Loans and the possible application of the OID rules.*

*Acquisition and Bond Premium.* The amount of OID includible in a U.S. Holder's gross income with respect to the Exit Term Loans will be reduced if the note is acquired (or deemed to be acquired) at an "acquisition premium." A debt instrument is acquired at an "acquisition premium" if the holder's tax basis in the debt is greater than the adjusted issue price of the debt at the time of the acquisition, but is less than or equal to the stated principal amount of the debt. A U.S. Holder may have an "acquisition premium" only if an exchange qualifies as a recapitalization (*i.e.*, if both the Allowed Prepetition Lender Claims and the Exit Term Loans in exchange therefor constitute securities for U.S. federal income tax purposes). Otherwise, a U.S. Holder's initial tax basis in the Exit Term Loans will equal the issue price of the loan.

If a U.S. Holder has acquisition premium, the amount of any OID includible in its gross income in any taxable year with respect to its Exit Term Loans will be reduced by an allocable portion of the acquisition premium (generally determined by multiplying the annual OID accrual with respect to such Exit Term Loans by a fraction, the numerator of which is the amount of the acquisition premium, and the denominator of which is the total OID). Alternatively, if a U.S. Holder is willing to treat all stated interest as OID, such holder may elect to recompute the OID accruals by treating its acquisition as a purchase at original issue and applying the constant yield method. Such an election may not be revoked without the consent of the IRS.

If a U.S. Holder has a tax basis in any of the Exit Term Loans received that exceeds the stated principal amount of such loans, the Exit Term Loans will be treated as having "bond premium." A U.S. Holder may have bond premium only if an exchange qualifies as a recapitalization (*i.e.*, both the Allowed Prepetition Lender Claims and the Exit Term Loans in exchange therefor constitute securities for U.S. federal income tax purposes). A U.S. Holder may elect to amortize any bond premium over the period from its acquisition of such Exit Term Loans to the maturity date of such Exit Term Loans but not in excess of the stated interest; if the Exit Term Loans are treated as having OID, the U.S. Holder will not include any of the OID in income. If such bond premium is amortized, the amount of stated interest on the Exit Term Loans that must be included in the U.S. Holder's gross income for each period ending on an interest payment date or at the maturity date, as the case may be, will (except as Treasury regulations may otherwise provide) be reduced by the portion of any bond premium allocable to such period based on the Exit Term Loans' yield to maturity. The U.S. Holder's tax basis in the Exit Term Loans will be reduced by a like amount. If such an election to amortize bond premium is not made, a U.S. Holder will receive a tax benefit from the premium only in computing such holder's gain or loss upon the sale or other taxable disposition of the Exit Term Loans, including the repayment of principal.

An election to amortize bond premium will apply to amortizable bond premium on all debt instruments the interest on which is includible in the U.S. Holder's gross income and that are held at, or acquired after, the beginning of the U.S. Holder's taxable year as to which the election is made. The election may be revoked only with the consent of the IRS.

*Sale, Redemption or Repurchase*. Subject to the discussion above (see "—Exchanges of Claims under the Plan—Character of Gain or Loss") and below with respect to market discount, U.S. Holders generally will recognize capital gain or loss upon the sale, redemption (including

at maturity) or other taxable disposition of Exit Term Loans in an amount equal to the difference between the U.S. Holder's adjusted tax basis in the Exit Term Loans and the sum of the cash plus the fair market value of any property received from such disposition (other than amounts attributable to accrued but unpaid stated interest on the Exit Term Loans, which will be taxable as ordinary income for U.S. federal income tax purposes to the extent not previously so taxed). Generally, a U.S. Holder's adjusted tax basis in the Exit Term Loans will be equal to its initial tax basis (as determined above), increased by any OID previously included in income and reduced by cash payments received on the Exit Term Loans other than payments of qualified stated interest. If applicable, a U.S. Holder's adjusted tax basis in the Exit Term Loans also will be (i) increased by any market discount previously included in income by such U.S. Holder pursuant to an election to include market discount in gross income currently as it accrues, and (ii) reduced by any amortizable bond premium which the U.S. Holder has previously deducted. A U.S. Holder of the Exit Term Loans should be allocated between the original Exit Term Loans and any additional notes issued in respect of PIK interest thereon in proportion to their relative principal amounts. A U.S. Holder's holding period in any additional notes issued in respect of PIK interest would likely be identical to such holder's holding period for the Exit Term Loans in respect of which the additional notes are issued.

The gain or loss will generally be treated as capital gain or loss except to the extent the gain is treated as accrued market discount in which case it is treated as ordinary income. *See* "—Exchanges of Claims under the Plan—Character of Gain or Loss" above. Any capital gain or loss generally should be long-term if the U.S. Holder's holding period for its Exit Term Loans is more than one year at the time of disposition. A reduced tax rate on long-term capital gain may apply to non-corporate U.S. Holders. The deductibility of capital loss is subject to significant limitations.

**2. Consequences to Holders of Allowed General Unsecured Claims**

Pursuant to the Plan, and in complete and final satisfaction of their respective Claims, holders of the Allowed General Unsecured Claims will receive their pro rata share of the Litigation Trust Interests.

In general, each holder of such an Allowed General Unsecured Claim should recognize gain or loss in an amount equal to the difference between (i) the fair market value of its undivided interest in the Litigation Trust Assets received by the holder in satisfaction of the Claim (other than any amount received in respect of a Claim for accrued but unpaid interest) and (ii) the holder's adjusted tax basis in the Claim (other than any basis attributable to accrued but unpaid interest). For a discussion of the tax consequences of any Claim for accrued but unpaid interest, see "—Payment of Accrued Interest" above.

Subject to the discussion in "—Ownership of Litigation Trust Interests" below, where gain or loss is recognized by a holder in respect of its Allowed General Unsecured 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, among others, the tax status of the holder, whether the Claim constitutes a capital interest in the hands of the holder and how long it has been held, whether the Claim was acquired at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction. All holders of Allowed General Unsecured Claims should consult their tax advisors as to tax consequences of the distributions in respect of such Claims.

The consequences to U.S. Holders of the receipt of Litigation Trust Interests are discussed in "—Ownership of Litigation Trust Interests" below.

### 3. Ownership of Litigation Trust Interests

As discussed below (see "—Tax Treatment of Litigation Trust and Holders of Litigation Trust Interests"), the Litigation Trust has been structured to qualify as a "grantor trust" for U.S. federal income tax purposes. Accordingly, each holder of an Allowed Claim receiving a Litigation Trust Interest will be treated for U.S. federal income tax purposes as directly receiving, and as a direct owner of, its respective share of the Litigation Trust Assets (consistent with its economic rights in the trust). Pursuant to the Plan, the Litigation Trustee will in good faith value the Litigation Trust Assets, and all parties to the Litigation Trust (including holders of Claims receiving Litigation Trust Interests) must consistently use such valuation for all U.S. federal income tax purposes.

A holder's tax basis in its undivided interest in the Litigation Trust Assets will equal the fair market value of such interest, and the holder's holding period generally will begin the day following the Effective Date.

After the Effective Date, a holder's share of any collections received on the assets of the Litigation Trust (other than as a result of the subsequent disallowance of Disputed Claims, or the redistribution among holders of Allowed Claims of undeliverable distributions) should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Claim but should be separately treated as amounts realized in respect of such holder's ownership interest in the underlying assets of the Litigation Trust. *See* "—Tax Treatment of Litigation Trust and Holders of Litigation Trust Interests," below.

In the event of a subsequent disallowance of a Disputed General Unsecured Claim, it is possible that a holder of a previously Allowed Claim may be taxed as such Disputed Claims or dispute are resolved and the holder effectively becomes entitled to an increased share of the assets held in the Litigation Trust. The imputed interest provisions of the IRC may apply to treat a portion of such increased share or any additional distributions (*e.g.*, the redistribution among holders of Allowed Claims of undeliverable distributions) as imputed interest. In addition, it is possible that any loss realized by a holder in satisfaction of an Allowed Claim may be deferred until all Disputed General Unsecured Claims are determined and such holder's share can no longer increase, and with respect to certain claims, that a portion of any gain realized may be deferred under the "installment method" of reporting. Holders are urged to consult their tax advisors regarding the possibility for deferral, and the ability to elect out of the installment method of reporting any gain realized in respect of their Claims.

### 4. Tax Treatment of Litigation Trust and Holders of Litigation Trust Interests

Classification of the Litigation Trust. The Litigation Trust is intended to qualify as a "liquidating trust" for U.S. federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for U.S. federal income tax purposes as a "grantor trust" (i.e., a pass-through type entity). However, merely establishing a trust as a liquidating trust does not ensure that it will be treated as a grantor trust for U.S. federal income tax purposes. The IRS, in Revenue Procedure 94-45, 1994-2 C.B. 684, set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Litigation Trust has been structured with the intention of complying with such general criteria. Pursuant to the Plan, and in conformity with Revenue Procedure 94-45, all parties (including, without limitation, the Debtors, the Litigation Trustee, and the Litigation Trust Beneficiaries) are required to treat, for U.S. federal income tax purposes, the Litigation Trust as a grantor trust of which the Litigation Trust Beneficiaries are the owners and grantors (this treatment differs from the treatment of the Litigation Trust Claims Reserves, discussed below). The following discussion assumes that the Litigation Trust will be so respected for U.S. federal income tax purposes. However, no ruling has been requested from the IRS and no opinion of counsel has been requested concerning the tax

status of the Litigation Trust as a grantor trust. Accordingly, there can be no assurance that the IRS would not take a contrary position. If the IRS were to challenge successfully the classification of the Litigation Trust, the U.S. federal income tax consequences to the Litigation Trust, the Litigation Trust Beneficiaries and the Debtors could vary from those discussed herein (including the potential for an entity-level tax on income of the Litigation Trust).

General Tax Reporting by the Litigation Trust and the Litigation Trust Beneficiaries. For all U.S. federal income tax purposes, all parties (including, without limitation, the Debtors, the Litigation Trustee, and the Litigation Trust Beneficiaries) must treat the transfer of the Litigation Trust Assets to the Litigation Trust in accordance with the terms of the Plan. Pursuant to the Plan, the Litigation Trust Assets (other than any assets allocated to the Litigation Trust Claims Reserve, discussed below) are treated, for U.S. federal income tax purposes, as having been transferred, subject to any obligations relating to those assets, directly to the Litigation Trust Beneficiaries, followed by the transfer by such beneficiaries to the Litigation Trust of such assets in exchange for Litigation Trust Interests. Accordingly, all parties must treat the Litigation Trust as a grantor trust of which the holders of the Litigation Trust Interests are the owners and grantors, and treat the Litigation Trust Beneficiaries as the direct owners of an undivided interest in the Litigation Trust Assets (other than any assets allocated to the Litigation Trust Claims Reserve), consistent with their economic interests therein, for all U.S. federal income tax purposes.

Pursuant to the Plan, as soon as practicable following the Effective Date, the Litigation Trustee shall provide the Litigation Trustee with a good-faith valuation of the Litigation Trust Assets as of the Effective Date. The Litigation Trustee shall make all such value available from time to time, to the extent relevant, and such values shall be used consistently by all parties to the Litigation Trust (including, without limitation, the Debtors, the Litigation Trustee, and Litigation Trust Beneficiaries) for all U.S. federal income tax purposes.

Allocations of taxable income of the Litigation Trust (other than income allocable to the Litigation Trust Claims Reserve, discussed below) among the Litigation Trust Beneficiaries shall be determined by reference to the manner in which an amount of cash equal to such income would be distributed (were such cash permitted to be distributed at such time) if, immediately prior to such deemed distribution, the Litigation Trust had distributed all its assets (valued at their tax book value, and other than assets allocable to the Litigation Trust Claims Reserve) to the Litigation Trust Beneficiaries, adjusted for prior income and loss and taking into account all prior and concurrent distributions from such Trust. Similarly, taxable loss of the Litigation Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining assets of the Litigation Trust. The tax book value of the assets of the Litigation Trust for this purpose shall equal their fair market value on the Effective Date, adjusted in accordance with tax accounting principles prescribed by the IRC, the applicable Treasury regulations, and other applicable administrative and judicial authorities and pronouncements. The effect of the above described allocation is to allocate taxable income or loss (i.e., the tax impact of receipts and expenditures) in a partnership-type fashion, due to the varying tiers of beneficiaries in the Litigation Trust.

Taxable income or loss allocated to each Litigation Trust Beneficiary will be treated as income or loss with respect to such Litigation Trust Beneficiary's Litigation Trust Interests, and not as income or loss with respect to its prior Allowed Claim. The character of any income and the character and ability to use any loss will depend on the particular situation of such Litigation Trust Beneficiary.

The U.S. federal income tax obligations of a holder with respect to its Litigation Trust Interest are not dependent on the Litigation Trust distributing any cash or other proceeds. Thus, a holder may incur a U.S. federal income tax liability with respect to its allocable share of Litigation Trust income

even if the Litigation Trust does not make a concurrent distribution to the holder. In general, other than in respect of cash retained on account of Disputed General Unsecured Claims and distributions resulting from undeliverable distributions (the subsequent distribution of which still relates to a holder's Allowed Claim), a distribution of cash by the Litigation Trust will not be separately taxable to a Litigation Trust Beneficiary since such beneficiary is already regarded for federal income tax purposes as owning the underlying assets (and was taxed at the time the cash was earned or received by such Trust). Holders are urged to consult their tax advisors regarding the appropriate federal income tax treatment of any subsequent distributions of cash originally retained by the Litigation Trust on account of Disputed General Unsecured Claims.

The Litigation Trustee will comply with all applicable governmental withholding requirements (see Section 16.13(3) of the Plan). Thus, in the case of any Litigation Trust Beneficiaries that are not U.S. persons, the Litigation Trustee may be required to withhold up to thirty percent (30%) of the income or proceeds allocable to such persons, depending on the circumstances (including whether the type of income is subject to a lower treaty rate). Significantly, as discussed above, a Litigation Trust Beneficiary is treated for federal income tax purposes as holding an undivided interest in the underlying assets of the Litigation Trust. Accordingly, any amounts received by either of the Litigation Trust, the economic benefit of which inures to a Litigation Trust Beneficiary on the basis described above with respect to the allocation of income, is treated as received by the beneficiary in respect of the underlying asset, and not in respect of its Allowed Claim. As indicated above, the foregoing discussion of the U.S. federal income tax consequences of the Plan does not generally address the consequences to non-U.S. Holders; accordingly, such holders should consult their tax advisors with respect to the U.S. federal income tax consequences of the Plan, including owning an interest in the Litigation Trust.

The Litigation Trust Interests will not be transferable, other than in certain limited circumstances. The Litigation Trustee will file with the IRS returns for the Litigation Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). Except as discussed below with respect to the Litigation Trust Claims Reserve, the Litigation Trustee will annually send to the holders of record of Litigation Trust Interests a separate statement regarding the receipts and expenditures of the Litigation Trust as relevant for U.S. federal income tax purposes and will instruct all such holders to use such information in preparing their U.S. federal income tax returns or to forward the appropriate information to such holder's underlying beneficial holders with instructions to utilize such information in preparing their U.S. federal income tax returns.

*Tax Reporting for Assets Allocable to Disputed General Unsecured Claims and Distributions from the Litigation Trust Claims Reserve.* Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt by either of the Litigation Trustee of an IRS private letter ruling if the Litigation Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Litigation Trustee), the Litigation Trustee will (A) elect to treat any assets allocable to, or retained on account of, Disputed General Unsecured Claims (i.e., the Litigation Trust Claims Reserve) as a "disputed ownership fund" governed by Treasury Regulation section 1.468B-9, and (B) to the extent permitted by applicable law, report consistently with the foregoing for state and local income tax purposes. All parties (including, without limitation, the Debtors, the Litigation Trustee and the Litigation Trust Beneficiaries) will be required to report for tax purposes consistent with such treatment.

Accordingly, the Litigation Trust Claims Reserve will be a separate taxable entity for U.S. federal income tax purposes, and all actual and constructive distributions from such reserve will be taxable to such reserve as if sold at fair market value. Any actual or constructive distributions from the Litigation Trust Claims Reserves to holders of allowed claims (including to previously Allowed Claims in the event a Disputed General Unsecured Claim is disallowed) is treated for U.S. federal income tax

purposes as if received directly from the Debtors on the original Claim in respect of which the Litigation Trust Interest was issued. Thus, a holder must be careful to differentiate between the tax treatment of actual or constructive distributions from the Litigation Trust Claims Reserve and the tax treatment of distributions out of assets of the Litigation Trust to which the holder is already considered the direct owner for U.S. federal income tax purposes (discussed above).

The Litigation Trustee will be responsible for payment, out of the assets of the Litigation Trust of any Taxes imposed on the Litigation Trust or its assets, including the Litigation Trust Claims Reserve. To the extent any Cash retained with respect to a Disputed General Unsecured Claim is insufficient to pay the portion of any Taxes attributable to the income arising from the assets allocable to, or retained on account of, the Disputed General Unsecured Claim (including any income incurred in connection with the distribution of such assets), such Taxes may be reimbursed from any subsequent Cash amounts retained on account of Disputed General Unsecured Claims, or to the extent such Disputed General Unsecured Claims have subsequently been resolved, deducted from any amounts otherwise distributable by the Litigation Trustee as a result of the resolution of such Disputed General Unsecured Claims.

#### 5. Information Reporting and Backup Withholding

Payments of interest (including accruals of OID) or dividends and any other reportable payments, possibly including amounts received pursuant to the Plan and payments of proceeds from the sale, retirement or other disposition of the exchange consideration, may be subject to "backup withholding" (currently at a rate of twenty-eight percent (28%)) if a recipient of those payments fails to furnish to the payor certain identifying information, and, in some cases, a certification that the recipient is not subject to backup withholding. Backup withholding is not an additional tax. Any amounts deducted and withheld should generally be allowed as a credit against that recipient's U.S. federal income tax, provided that appropriate proof is timely provided under rules established by the IRS. Furthermore, certain penalties may be imposed by the IRS on a recipient of payments who is required to supply information but who does not do so in the proper manner. Backup withholding generally should not apply with respect to payments made to certain exempt recipients, such as corporations and financial institutions. Information may also be required to be provided to the IRS concerning payments, unless an exemption applies. You should consult your own tax advisor regarding your qualification for exemption from backup withholding and information reporting and the procedures for obtaining such an exemption.

Treasury regulations generally require disclosure by a taxpayer on its U.S. federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, certain transactions that result in the taxpayer's claiming a loss in excess of certain thresholds. You are urged to consult your own tax advisor regarding these regulations and whether the contemplated transactions under the Plan would be subject to these regulations and require disclosure on your tax return.

## X.
## CERTAIN FACTORS TO BE CONSIDERED

### A. Certain Bankruptcy Law Considerations

#### 1. General

While the Debtors believe that the Chapter 11 Cases will be of short duration and will not be materially disruptive to their businesses, the Debtors cannot be certain that this will be the case. Although the Plan is designed to minimize the length of the bankruptcy proceeding, it is impossible to

predict with certainty the amount of time that one or more of the Debtors may spend in bankruptcy or to assure parties in interest that the Plan will be confirmed. Even if confirmed on a timely basis, bankruptcy proceedings to confirm the Plan could have an adverse effect on the Debtors' businesses. Among other things, it is possible that bankruptcy proceedings could adversely affect the Debtors' relationships with their key customers and employees. The proceedings will also involve additional expense and may divert some of the attention of the Debtors' management away from the operation of the businesses.

**2. Risk of Non-Confirmation of the Plan**

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 to the Plan will not be required for confirmation or that such modifications would not necessitate re-solicitation of votes. Moreover, the Debtors can make no assurances that they will receive the requisite acceptances to confirm the Plan, and even if all Voting Classes voted in favor of the Plan or the requirements for "cramdown" are met with respect to any Class that rejected the Plan, the Bankruptcy Court, which may exercise substantial discretion as a court of equity, may choose not to confirm the Plan. If the Plan is not confirmed, it is unclear what distributions holders of Claims or Equity Interests ultimately would receive with respect to their Claims or Equity Interests in a subsequent plan of reorganization.

**3. Non-Consensual Confirmation**

In the event that any impaired class of Claims or Equity Interests does not or is deemed not to 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. Should any other Class vote to reject the Plan, then these requirements must be satisfied with respect to those Classes as well. The Debtors believe that the Plan satisfies these requirements.

**4. 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 the timing of the Effective Date. If the conditions precedent to the Effective Date set forth in the Plan have not occurred or have not been waived as set forth in Article XXV of the Plan, then the Confirmation Order may be vacated, in which event no distributions would be made under the Plan, the Debtors and all holders of Claims or Equity Interests would be restored to the status quo as of the day immediately preceding the Confirmation Date, and the Debtors' obligations with respect to Claims and Equity Interests would remain unchanged.

**5. Conversion into Chapter 7 Cases**

If no plan of reorganization can be confirmed, or if the Bankruptcy Court otherwise finds that it would be in the best interest of Creditors and Equity Interest holders, these Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code, pursuant to which a trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. See Section XIII hereof, as well as the Liquidation Analysis attached hereto as Exhibit D, for a discussion of the effects that a chapter 7 liquidation would have on the recoveries of holders of Claims and Equity Interests.

## B. Additional Factors Affecting the Value of the Reorganized Debtors

### 1. Claims Could Be More than Projected

There can be no assurance that the estimated Allowed amount of Claims in certain Classes will not be significantly more than projected, which in turn, could cause the value of distributions to be reduced substantially. Inevitably, some assumptions will not materialize, and unanticipated events and circumstances may affect the ultimate results. Therefore, the actual amount of Allowed Claims may vary from the Debtors' Projections and feasibility analysis, and the variation may be material.

### 2. Projections and Other Forward-Looking Statements Are Not Assured, and Actual Results May 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.

### 3. Use of the Boeing Credit Is Not Assured

Pursuant to the Plan, the Oak Hill 1110 Stipulation, and the Oak Hill Funding Agreement, the Oak Hill Entities are only obligated to use commercially reasonable efforts to assist the Reorganized Debtors in the utilization of the Boeing Credit in satisfaction and discharge of Southern Air's obligations to Boeing. Although the Oak Hill Entities, the Debtors and Boeing are currently engaged in discussions with respect to the utilization of the Boeing Credit to offset the general unsecured claims asserted by Boeing's affiliates, the Oak Hill Entities have made no representation as to, and assume no liability with respect to, whether and to what extent Boeing may permit any such offset.

## C. Risks Relating to the Debtors' Business and Financial Condition

### 1. Post-Effective Date Indebtedness May Adversely Affect the Reorganized Debtors

Following the Effective Date, the Reorganized Debtors will have outstanding indebtedness of approximately Eighty Million Dollars ($80,000,000.00) under the Exit Term Loans, with the ability to incur an additional Twenty Million Dollars ($20,000,000.00) under the Exit Revolving Credit Facility. The Reorganized Debtors' ability to service their debt obligations will depend, among other things, on their future operating performance, which depends partly on economic, financial, competitive, and other factors beyond the Reorganized Debtors' control. The Reorganized Debtors may not be able to generate sufficient cash from operations to meet their debt service obligations as well as fund necessary capital expenditures and investments in sales and marketing. In addition, if the Reorganized Debtors need to refinance their debt, obtain additional financing or sell assets or equity, they may not be able to do so on commercially reasonable terms, if at all.

### 2. Loss of Key Executives Could Disrupt the Reorganized Debtors' Business

The Debtors' businesses depend upon the continued efforts, relationships, and expertise of the Debtors' executive officers. The Debtors believe that the unique combination of skills and experience possessed by the Debtors' executive officers would be difficulty to replace and their loss could

have a material adverse effect on the Reorganized Debtors, including impairing the Reorganized Debtors' ability to execute the Reorganized Debtors' business strategy.

**3. Fixed Operating Expenses May Reduce Profitability**

To maintain the Debtors' level of operations, a substantial portion of the Debtors' costs, such as aircraft lease payments and crew costs are fixed or semi-fixed. Operating revenues from the Debtors' business are directly affected by their ability to maintain high utilization of their aircraft at favorable rates. The utilization of the Debtors' aircraft and their ability to obtain favorable rates, at levels required to satisfy the fixed and semi-fixed costs of operation, are affected by many factors, including, without limitation, global demand for air cargo transport services, global economic conditions, military requirements, fuel costs, and the deployment by the Debtors' current and future customers of the Debtors' aircraft, which may cause the Debtors' revenues to vary significantly over time. The Debtors are particularly vulnerable to reductions in demand due to their relatively high fixed-cost structure, which is difficult to adjust to match decreases in demand. Accordingly, if the Debtors' revenues for a particular period fall below expectations, the Debtors may be unable to proportionately reduce their operating expenses for that period.

**4. Unpredictability and Variability in Government Demand**

Despite the Debtors' fixed award for certain routine government missions, the government's demand for the Debtors' air cargo transportation services can be difficult to predict. The Debtors inability to precisely forecast demand may hinder their ability to optimize the use of their aircraft fleet. If the Debtors anticipate significant government demand that does not materialize, the Debtors may not be able to reallocate their aircraft for use by commercial customers. The failure to reallocate the Debtors' aircraft to commercial use and the resulting reduction in aircraft utilization could have an adverse effect on the Debtors' businesses, financial condition, and results of operations.

**5. Governmental Revenues Are Sensitive to CRAF Team Arrangements**

As described in Section III hereof, the Debtors' revenue from governmental air cargo services is directly affected by the number and type of aircraft its CRAF team has pledged to the CRAF program. The Debtors' government business could be materially and adversely affected by the formation of competing CRAF teaming arrangements, an increase by carriers from other teams in their commitment of aircraft to the CRAF program, and the withdrawal of, or failure to renew a future teaming agreement with, any of the Debtors' current CRAF team members. If any of the Debtors' CRAF team members were to cease or reduce its operations or dispose of aircraft previously pledged to the CRAF program, the aggregate number of aircraft pledged to the CRAF program by the Debtors' CRAF team could be reduced. Such events could reduce the number of MV points allocated to the Debtors' CRAF team and, consequently, the team's allocation of government business to the Debtors would likely decrease. Moreover, if the military substantially reduces the amount of business it awards the Debtors' CRAF team or if the team reduces the military missions it awards to the Debtors, the Debtors may not be able to replace the lost business and, consequently, the Debtors' business, financial condition and results of operations could be materially and adversely affected.

**6. Loss of Commercial Customers**

The Debtors depend on a limited number of significant customers for their commercial cargo business. There is a risk that the Debtors' customers may not renew their ACMI Contracts on favorable terms, or at all. Entering into ACMI Contracts with new customers may require a long sales cycle. Because the Debtors generally lease their aircraft pursuant to relatively long-term operating leases,

the Debtors may be forced to maintain aircraft in their fleet while the aircraft produce little or no revenue. If the Debtors' ACMI Contracts are not renewed or can only be renewed on less favorable terms, and if the Debtors are not able to obtain other business in a timely manner or at all, then the Debtors' business, financial condition and results of operations could be materially and adversely affected.

**7. The Debtors' Depend on a Limited Number of Customers**

The Debtors depend on a limited number of customers for their commercial air cargo transportation business. In particular, the Debtors' relationship with DHL is the cornerstone of their commercial air cargo transportation business and flights for DHL are an increasingly significant component of the Debtors' overall business. There is a risk that the Debtors' customers, including DHL, may not renew their ACMI Contracts on favorable terms or at all. Should this occur, the Debtors' commercial business, overall financial condition and results of operations could be materially and adversely affected.

**8. Competitive Nature of Business**

The Debtors' commercial business is in an increasingly price competitive market, resulting in underutilization of the Debtors' air cargo capacity prior to the Petition Date. In addition, the Reorganized Debtors will compete with other air cargo carriers that may have significant capital for attractive investment and development opportunities. The ability of the Reorganized Debtors to realize their business strategies and capitalize on competitive strengths is dependent on their ability to effectively modernize and refocus their fleet of aircraft, maintain good relationships with customers and vendors, and remain well capitalized. The failure to achieve any of the foregoing could adversely affect the ability of the Reorganized Debtors to compete effectively in the ACMI Market.

**9. Declining Global Economic Activity and Exposure to Currency Volatility**

The Debtors' commercial business is highly dependent on overall global economic conditions. The downturn in the global economy has decreased and may continue to decrease the volume of world trade and materially and adversely affect demand for the Debtors' air cargo transportation services. The Debtors cannot predict the effect or duration of any economic slowdown or the timing or strength of any subsequent economic recovery. In addition, even though the Debtors price their services and receive payments in U.S. Dollars, certain of the Debtors' customers' revenues are denominated in other currencies. Any significant devaluation in such currencies relative to the U.S. Dollar could have a material adverse effect on such customers' ability to pay the Debtors or on their level of demand for the Debtors' services, which could have a material adverse effect on the Debtors' business, financial condition and results of operations. Inversely, if there is a significant decline in the value of the U.S. Dollar against other currencies, the demand for some of the products the Debtors transport may also decline.

**10. Fuel Price Volatility**

The price of aircraft fuel is unpredictable and has been increasingly volatile over the past few years. Although the Debtors' ACMI Contracts generally require the customer to pay for aviation fuel (directly or indirectly), if fuel costs increase significantly, the Debtors' customers may reduce the volume and frequency of cargo shipments or find less costly alternatives for cargo delivery. In addition, the Debtors' working capital position may be adversely affected by significant increases in fuel costs, which could affect the Debtors liquidity, as a result of the timing of reimbursement under contracts in which the Debtors' customers reimburse fuel costs.

### 11. Aircraft Maintenance Costs Will Increase as the Fleet Ages

The Debtors have a small fleet of aircraft. Consequently, if an aircraft becomes unavailable because of unscheduled maintenance, repairs, or for other reasons, it is likely that no replacement aircraft will be available from the Debtors' fleet, and it is possible that the Debtors may suffer financial and reputational damage as a result. In general, the cost to maintain aircraft increases as they age. FAA regulations require additional maintenance inspections for older aircraft and the FAA could suspend or restrict the use of certain of the Debtors' aircraft in the event of any actual or perceived mechanical problems. The Debtors also need to comply with other programs that require enhanced inspections of aircraft, including airworthiness directives, which typically increase as an aircraft ages and vary by aircraft or engine type depending on the individual characteristics of each aircraft or engine.

### 12. Future Laws and Regulations Are Unknown

The United States Congress, the DOT, the FAA, the EPA, and other governmental agencies that regulate the Debtors' industry have under consideration, and in the future may consider and adopt, new laws, regulations, interpretations, and policies regarding a wide variety of matters that could affect, directly or indirectly, the Debtors operations, ownership and profitability. Similarly, foreign governments and governmental authorities that regulate the Debtors' industry may consider and adopt new statutes, regulations, and/or policies. The Debtors cannot predict what other matters might be considered in the future by domestic or foreign governmental bodies, nor can they judge what impact, if any, the implementation of any of these proposals or changes might have on their businesses.

### 13. Potential Adverse FAA Regulations

The Debtor's business may potentially be affected by a new set of FAA regulations that could adversely affect the Debtors' operations. On September 14, 2010, the FAA issued a notice of proposed rulemaking ("NPRM") regarding flight and duty regulations for all passenger and cargo commercial carriers. That NPRM's proposals could have adversely affected the Debtors' operations, and thus the Debtors', along with several other industry participants, submitted extensive comments suggesting to the FAA that it should exclude unscheduled cargo carriers from its proposed rulemaking.

On December 21, 2011, the FAA issued its final rule, which excluded all cargo carriers, and thus did not adversely affect the Debtors. The Independent Pilots Association filed a legal challenge to the rule, claiming that at least scheduled cargo carriers should be included, and the FAA is now in the process of reconsidering the scope of its rule. There has been no indication that the FAA would decide to include unscheduled cargo carriers such as the Debtors in its revised rule, but should it decide to do so, it is possible that the revised rule could adversely affect the Debtors' operations.

### 14. Factors Beyond the Debtors' Control

The Debtors' business is affected by factors beyond the Debtors' control, including air traffic congestion at airports, adverse weather conditions, hazards arising from the operation of the Debtors' aircraft, natural disasters, volcanoes, and earthquakes. Delays increase costs, which in turn affect profitability. During periods of fog, snow, rain, storms, or other adverse atmospheric conditions, flights may be cancelled or significantly delayed. Cancellations or delays due to atmospheric conditions or traffic control problems could materially and adversely affect the Debtors' business, financial condition, and results of operations.

## D. Certain Factors Relating to Securities to Be Issued Under the Plan

### 1. No Current Public Market for Securities

There is currently no market for the Reorganized Equity Consideration to be issued pursuant to the Plan, and there can be no assurance as to the development or liquidity of any market for any of the Reorganized Equity Consideration. If a trading market does not develop or is not maintained, holders of Reorganized Equity Consideration may experience difficulty in reselling such securities or may be unable to sell them at all. Even if such a market were to exist, such securities could trade at prices higher or lower than the estimated value set forth in this Disclosure Statement depending upon many factors, including, without limitation, prevailing interest rates, markets for similar securities, industry conditions and the performance of, and investor expectations for, the Reorganized Debtors. Furthermore, Persons to whom the Reorganized Equity Consideration is issued pursuant to the Plan may prefer to liquidate their investments rather than hold such securities on a long-term basis. Accordingly, any market that does develop for such securities may be volatile.

### 2. Potential Dilution

The ownership percentage represented by Reorganized Equity Consideration distributed on the Effective Date under the Plan will be subject to dilution from the Management Equity and any other shares of Reorganized Southern Air Parent Common Stock that may be issued post-emergence and the conversion of any options, warrants, convertible securities, exercisable securities or other securities that may be issued post-emergence. In the future, similar to all companies, additional equity financings or other share issuances by the Reorganized Debtors could adversely affect the value of the Reorganized Equity Consideration.

### 3. U.S. Citizenship Subject to DOT Review

In conjunction with their reorganization, the Debtors must undergo a fitness review and approval by the DOT, which will include a review of the citizenship of Reorganized Southern Air and Reorganized Southern Air Parent. On an ongoing basis, the DOT reviews the economic fitness of air carriers upon the occurrence of certain events, including upon substantial changes in ownership. In the event that Southern Air or Reorganized Southern Air, as applicable, is not a United States Citizen, it will lose its eligibility to hold its DOT and FAA authorizations, which are subject to revocation. In the event Reorganized Southern Air Parent does not qualify as a United States Citizen, Reorganized Southern Air automatically would be deemed a non-United States Citizen.

### 4. Reorganized Southern Air Common Stock Ownership

As noted above, certain holders of Allowed Prepetition Lender Claims may elect to form a U.S. LLC Designee to hold such Person's Pro Rata Share of the Reorganized Southern Air Common Stock to be distributed to such Person under the Plan in order to qualify such Prepetition Lender or DIP Lender, as the case may be, to receive Class A-1 Common Stock. Accordingly, at this time it is not possible to know what percentage of holders of Allowed Prepetition Lender Claims will hold Class A-1 Common Stock or Class C-1 Common Stock.

Additionally, DOT regulations require that no more than twenty-five percent (25%) of the voting stock of Reorganized Southern Air may be owned or controlled by non-United States Citizens and, conversely, that at least seventy-five percent (75%) of the voting stock of Reorganized Southern Air must be owned and controlled by United States Citizens. Holders of Allowed Prepetition Lender Claims that do not qualify for Class A-1 Common Stock will automatically receive Class C-1 Common Stock.

The voting rights of individual holders of Allowed Prepetition Lender Claims that do not qualify to receive Class A-1 Common Stock may be limited to the extent of voting restriction of Class C Common Stock. Holders of Class C Common Stock will be entitled to one vote per share, provided that the number of shares of Class C Common Stock outstanding, as a percentage of the total outstanding shares of voting stock of Holdings, does not exceed twenty-five percent (25%)—with a similar limitation applicable to votes actually cast at any stockholders' meeting. In the event that the twenty-five percent (25%) threshold would be exceeded, the one-vote-per-share status of each share of Class C Common Stock shall decrease proportionately so that the total number of votes cast by holders of Class C Common Stock cannot exceed twenty-five percent (25%) of all shares voted.

## E. Additional Factors

### 1. Debtors Could Withdraw Plan

Subject to the terms of, and without prejudice to the rights of any party to the Plan Support Agreement, the Plan may be revoked or withdrawn prior to the Confirmation Date by the Debtors, acting jointly.

### 2. 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.

### 3. No Representations Outside this Disclosure Statement Are Authorized

No representations concerning or related to the Debtors, these Chapter 11 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 those contained in, or included with, this Disclosure Statement should not be relied upon in making the decision to accept or reject the Plan.

### 4. No Legal or Tax Advice Is Provided 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 their own legal counsel and accountant as to legal, tax and other matters concerning their 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.

### 5. No Admission Made

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

### 6. Certain Tax Consequences

For a discussion of certain U.S. federal income tax considerations to the Debtors and certain holders of Claims in connection with the implementation of the Plan, see Section IX hereof.

## XI.
## VOTING AND ELECTION PROCEDURES AND REQUIREMENTS

### A. Solicitation of Votes with Respect to the Plan

### 1. Classes Entitled to Vote

The Debtors will solicit votes on the Plan from holders of Claims in the following Classes (the "Voting Classes"):

| Class | Description |
|---|---|
| Class 2 | Prepetition Lender Claims |
| Class 4 | General Unsecured Claims |
| Class 5 | Convenience Class Claims |
| Class 6 | General Liability Insured Litigation Claims |

**WITH RESPECT TO THE FOREGOING CLASSES, EXCEPT AS DESCRIBED BELOW, IN CONNECTION WITH SOLICITATION OF VOTES ON THE PLAN, ANY AND ALL PRIOR VOTES ON THE PLAN WILL BE DISREGARDED.**

Before voting to accept or reject the Plan, each eligible holder of a Claim in a Voting Class should carefully review the Plan attached to this Disclosure Statement as Exhibit A and described in Section V hereof. All descriptions of the Plan set forth in this Disclosure Statement are subject to the terms and conditions of the Plan. Furthermore, all descriptions of the voting procedures set forth in this Disclosure Statement are explained in detail on the Ballots.

### 2. Classes Not Entitled to Vote

The Plan does not impair certain Claims and provides for no recovery to certain other Claims and Equity Interests. Pursuant to sections 1126(f) and (g) of the Bankruptcy Code, the holders of such Claims and Equity Interests are deemed to either assume or reject the Plan and, accordingly, are not entitled to vote. The Debtors will not solicit votes on the Plan from holders of Claims and Equity Interests in the following Classes (the "Non-Voting Classes"):

| Class | Description | Impairment | Acceptance/Rejection |
|---|---|---|---|
| Class 1 | Priority Non-Tax Claims | Unimpaired | Deemed to accept |
| Class 3 | Other Secured Claims | Unimpaired | Deemed to accept |
| Class 7 | Subordinated Claims | Impaired | Deemed to reject |

| Class | Description | Impairment | Acceptance/Rejection |
|---|---|---|---|
| Class 8 | Preferred Equity Interests | Impaired | Deemed to reject |
| Class 9 | Holdings Common Equity Interests | Impaired | Deemed to reject |
| Classes 10–12 | Common Equity Interests (Corporations) | Unimpaired | Deemed to accept |
| Classes 13–26 | Common Equity Interests (LLCs) | Impaired | Deemed to reject |

### 3. Holders of Disputed Claims Are Not Entitled to Vote

If the Debtors have filed an objection to or request for estimation of a Claim on or before the date set for determining which creditors hold Claims (the "Record Date"), such Claim is temporarily disallowed, except as may be ordered by the Bankruptcy Court before the Ballot Date; provided, however, that, if the Debtors' objection seeks to reclassify or reduce the amount of such Claim, then such Claim is temporarily allowed for voting purposes in the reduced amount and/or as reclassified, except as may be ordered by the Bankruptcy Court before the Ballot Date.

### 4. Ballots

If your Claim is not classified in one of the Voting Classes, you are **not** entitled to vote on the Plan and you will not receive a Ballot with respect to such Claim. If your Claim is in a Voting Class and you are otherwise eligible to vote on the Plan, you will receive a Ballot with respect to such Claim. If you receive a Ballot, you should read your Ballot and follow the listed instructions carefully. Please use only the Ballot that accompanies this Disclosure Statement. **You must complete and return such Ballot by March 5, 2013 at 8:00 p.m. (Eastern Time) even if you previously returned a Ballot in connection with the Plan**.

If you are a holder of a Claim in one of the Voting Classes and did not receive a Ballot, received a damaged or illegible Ballot, or lost your Ballot, or if you are a party in interest and have any questions concerning this Disclosure Statement, any exhibit hereto, the Plan, or the voting procedures in respect thereof, please contact the voting agent (the "Voting Agent") at:

Southern Air Ballot Processing Center
c/o KCC
2335 Alaska Avenue
El Segundo, California 9024
Phone: 877-634-7163
Email: southernairinfo@kccllc.com

## B. Voting and Election Procedures and Requirements

Voting and election procedures and requirements are explained in greater detail on the Ballots and in Disclosure Statement Order. **If you receive a Ballot, you should read your Ballot and follow the listed instructions carefully**.

The Debtors believe that prompt confirmation and implementation of the Plan is in the best interests of the Debtors, all holders of Claims, and the Debtors' chapter 11 estates. **THE DEBTORS RECOMMEND THAT HOLDERS OF CLAIMS IN ALL VOTING CLASSES VOTE TO ACCEPT THE PLAN.**

**HOLDERS OF CLAIMS IN THE VOTING CLASSES MAY, AMONG OTHER ELECTIONS, ELECT TO GRANT THE VOLUNTARY RELEASES CONTAINED IN SECTION 30.6 OF THE PLAN. TO MAKE THIS ELECTION ON THEIR BALLOT, THE HOLDER MUST CHECK THE BOX INDICATING SUCH ELECTION ON THEIR BALLOT. IF A HOLDER OF A CLAIM IN A VOTING CLASS SUBMITS THEIR BALLOT WITHOUT CHECKING THE BOX INDICATING THEIR ELECTION TO GRANT THE VOLUNTARY RELEASES, THEN SUCH HOLDER WILL NOT HAVE CONSENTED TO SUCH RELEASES, EVEN IF THEY VOTE TO ACCEPT THE PLAN.**

**TO BE COUNTED, BALLOTS MUST BE RECEIVED NO LATER THAN 8:00 P.M. (EASTERN TIME) ON MARCH 5, 2013 (THE "BALLOT DATE"). ANY EXECUTED BALLOT THAT IS TIMELY RECEIVED BUT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN OR INDICATES BOTH AN ACCEPTANCE AND REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE PLAN.**

It is important that holders of Claims exercise their right to vote to accept or reject the Plan. **Even if you do not vote to accept the Plan, you may be bound by it, if, among other things, it is accepted by the requisite holders of Claims.** The amount and number of votes required for confirmation of the Plan are computed, in part, on the basis of the total amount of holders of Claims actually voting to accept or reject the Plan.

Your Claims may be classified in multiple Classes, in which case you will receive a separate Ballot for each Class of Claim. For detailed voting instructions, and the names and addresses of the persons you may contact if you have questions regarding the voting procedures, please refer to your Ballot.

## XII.
## CONFIRMATION OF THE PLAN

### A. The Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court to hold a confirmation hearing upon appropriate notice to all required parties. The confirmation hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the continuation date made at the confirmation hearing, at any subsequent continued confirmation hearing, or pursuant to a notice filed on the docket for these Chapter 11 Cases.

### B. Objections To Confirmation

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to the confirmation of a plan. Any objection to confirmation of the Plan must be in writing, must conform to the Bankruptcy Rules and the Local Rules, must set forth the name of the objector, the nature and amount of Claims held or asserted by the objector against the Debtors' estates or properties, the basis for the objection and the specific grounds therefore, and must be filed with the Bankruptcy Court, with a copy to

the chambers of the United States Bankruptcy Judge appointed to these Chapter 11 Cases, together with proof of service thereof, and served upon:

(a) ***The Debtors*** at:
Southern Air Holdings, Inc.
117 Glover Avenue
Norwalk, CT 06850
Attn: Jon E. Olin, Esq.

(b) ***Office of the U.S. Trustee*** at:
Office of the U.S. Trustee for the District of Delaware
844 King Street, Suite 2207, Lockbox 35
Wilmington, Delaware 19899-0035
Attn: Jane M. Leamy, Esq.

(c) ***Counsel to the Debtors*** at:
Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York 10153
Attn: Brian S. Rosen, Esq.

(d) ***Co-Counsel to the Debtors*** at:
Young Conaway Stargatt & Taylor, LLP
Rodney Square
1000 North King Street
Wilmington, DE 19801
Attn: M. Blake Cleary, Esq.

(e) ***Counsel to the Creditors' Committee*** at:
Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey 07068
Attn: S. Jason Teele, Esq.

(d) ***Co-Counsel to the Creditors' Committee*** at:
Pachulski Stang Ziehl & Jones LLP
919 North Market Street, 17th Floor
P.O. Box 8705
Wilmington, Delaware 19899-8705
Attn: Bradford J. Sandler, Esq.

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

## C. Requirements for Confirmation of the Plan

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

#### a. *General Requirements.*

At the Confirmation Hearing, the Bankruptcy Court will determine whether the confirmation requirements specified in section 1129(a) of the Bankruptcy Code have been satisfied, including, without limitation, whether:

(i) The Plan complies with the applicable provisions of the Bankruptcy Code;

(ii) The Debtors have complied with the applicable provisions of the Bankruptcy Code;

(iii) The Plan has been proposed in good faith and not by any means forbidden by law;

(iv) 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 these Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any such payment made before 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;

(v) 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 Reorganized Debtors, an affiliate of the Debtors participating in a Plan with the Debtors, or a successor to the Debtors under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests holders of Claims and Equity Interests and with public policy, and the Debtors have disclosed the identity of any insider that will be employed or retained by the Reorganized Debtors, and the nature of any compensation for such insider;

(vi) With respect to each Class of Claims or Equity Interests, each holder of an impaired Claim or impaired Equity Interest has either 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 of the Plan, that is not less than the amount such holder would receive or retain if the Debtors were liquidated on the Effective Date of the Plan under chapter 7 of the Bankruptcy Code. See the discussion of the "Best Interests Test" below for further detail;

(vii) Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (as discussed further below), each Class of Claims either accepted the Plan or is not impaired under the Plan;

(viii) 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 either payment in full on the Effective Date or deferred cash payments over a period not exceeding five (5) years after the Petition Date, of a value, as of the Effective Date of the Plan, equal to the allowed amount of such Claims;

(ix) 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;

(x) 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. See the discussion of "feasibility" below for further detail; and

(xi) All fees payable under section 1930 of title 28, as determined by the Bankruptcy Court at the Confirmation Hearing, have been paid or the Plan provides for the payment of all such fees on the Effective Date of the Plan.

**b. *Best Interests Test***

As noted above, with respect to each impaired class of claims and equity interests, confirmation of a plan requires that each such holder either (i) accept the plan or (ii) receive or retain under the plan property of a value, as of the effective date of the plan, 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. This requirement is referred to as the "best interests test."

This test requires the bankruptcy court to determine what the holders of allowed claims and allowed equity interests in each impaired class would receive from a liquidation of the debtor's assets and properties in the context of a liquidation under chapter 7 of the Bankruptcy Code. To determine if a plan is in the best interests of each impaired class, the value of the distributions from the proceeds of the liquidation of the debtor's assets and properties (after subtracting the amounts attributable to the aforesaid claims) is then compared with the value offered to such classes of claims and equity interests under the plan.

The Debtors believe that under the Plan all holders of impaired Claims and Equity Interests will receive property with a value not less than the value such holder would receive in a liquidation under chapter 7 of the Bankruptcy Code. The Debtors' belief is based primarily on (i) consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to holders of impaired Claims and Equity Interests and (ii) the liquidation analysis attached hereto as Exhibit D.

The Debtors believe that any liquidation analysis is speculative, as it is necessarily premised on assumptions and estimates which are inherently subject to significant uncertainties and contingencies, many of which would be beyond the control of the Debtors. The liquidation analysis provided in Exhibit D is solely for the purpose of disclosing to holders of Claims and Equity Interests the effects of a hypothetical chapter 7 liquidation of the Debtors, subject to the assumptions set forth therein.

There can be no assurance as to values that would actually be realized in a chapter 7 liquidation nor can there be any assurance that a Court will accept the Debtors' conclusions or concur with such assumptions in making its determinations under section 1129(a)(7) of the Bankruptcy Code.

#### c. *Feasibility*

Also as noted above, section 1129(a)(11) of the Bankruptcy Code requires that a debtor demonstrate that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared the Projections provided in Section VI hereof. Based upon such Projections, the Debtors believe that they will have sufficient resources to make all payments required pursuant to the Plan and that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization. Moreover, Section X hereof sets forth certain risk factors that could impact the feasibility of the Plan.

#### d. *Equitable Distribution of Voting Power*

On or before the Effective Date, pursuant to and only to the extent required by section 1123(a)(6) of the Bankruptcy Code, the organizational documents for the Debtors shall be amended as necessary to satisfy the provisions of the Bankruptcy Code and shall include, among other things, pursuant to section 1123(a)(6) of the Bankruptcy Code, (i) a provision prohibiting the issuance of non-voting equity securities and (ii) a provision setting forth an appropriate distribution of voting power among classes of equity securities possessing voting power.

### 2. Additional Requirements for Non-Consensual Confirmation

In the event that any impaired Class of Claims or Equity Interests does not accept or is deemed to reject the Plan, the Court may still confirm the Plan at the request of the Debtors if, as to each impaired Class of Claims or Equity Interests that has not accepted the Plan, the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such Classes of Claims or Equity Interests, pursuant to section 1129(b) of the Bankruptcy Code. Both of these requirements are in addition to other requirements established by case law interpreting the statutory requirements.

Pursuant to the Plan, holders of Claims in Class 7 and Equity Interests in Classes 9 and 13 through 26 will not receive a distribution and are thereby deemed to reject the Plan. However, the Debtors submit that they satisfy the "unfair discrimination" and "fair and equitable" tests, as discussed in further detail below.

#### a. *Unfair Discrimination Test*

The "no unfair discrimination" test applies to Classes of Claims or Equity Interests that are of equal priority and are receiving different treatment under the Plan. A chapter 11 plan does not discriminate unfairly, within the meaning of the Bankruptcy Code, if the legal rights of a dissenting Class are treated in a manner consistent with the treatment of other Classes whose legal rights are substantially similar to those of the dissenting Class and if no Class of Claims or Equity Interests receives more than it legally is entitled to receive for its Claims or Equity Interests. This test does not require that the treatment be the same or equivalent, but that such treatment is "fair."

The Debtors believe that the Plan satisfies the "unfair discrimination" test. Claims of equal priority are receiving comparable treatment and such treatment is fair under the circumstances.

**b. *Fair and Equitable Test***

The "fair and equitable" test applies to Classes of different priority and status (*e.g.*, secured versus unsecured) and includes the general requirement that no Class of Claims receive more than 100% of the allowed amount of the Claims in such Class. As to dissenting Classes, the test sets different standards depending on the type of Claims in such Class: The Debtors believe that the Plan satisfies the "fair and equitable" test as further explained below.

(i) Secured Creditors

The Bankruptcy Code provides that each holder of an impaired secured Claim either (i) retains its liens on the property to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date, of at least the allowed amount of such claim, or (ii) has the right to credit bid the amount of its claim if its property is sold and retains its liens on the proceeds of the sale (or if sold, on the proceeds thereof) or (iii) receives the "indubitable equivalent" of its allowed secured claim. The Plan provides that holders of impaired secured Claims in Class 2 will receive their Pro Rata Share of (a) Exit Term Loans in the aggregate original principal amount of $17,500,000.00 and (b) The Prepetition Lender Reorganized Southern Air Parent Common Stock and the Prepetition Lender Warrants. Accordingly, the Plan satisfies the "fair and equitable test with respect to secured Claims.

(ii) Unsecured Creditors

The Bankruptcy Code provides that either (i) each holder of an impaired unsecured claim receives or retains under the plan of reorganization property of a value equal to the amount of its allowed claim or (ii) the holders of claims and equity interests that are junior to the claims of the dissenting class will not receive any property under the plan of reorganization. The Plan provides that the holders of Claims in Classes 4 through 7 will receive less than a value equal to the amount of the holder's Claim, but no holder of Subordinated Claim or an Equity Interest will receive a distribution under the Plan. Accordingly, the Plan meets the "fair and equitable" test with respect to unsecured Claims.

(iii) Equity Interests

With respect to a class of equity interests, either (i) each holder of an equity interest 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 equity interests that are junior to any dissenting class of equity interests will not receive any property under the plan of reorganization. Pursuant to the Plan, no holders of an Equity Interest will receive a distribution. Accordingly, the Plan meets the "fair and equitable" test with respect to Equity Interests.

## XIII.
## ALTERNATIVES TO THE PLAN

The Debtors have evaluated several alternatives to the Plan. After studying these alternatives, the Debtors have concluded that the Plan is the best alternative and will maximize recoveries to parties in interest, assuming confirmation and consummation of the Plan. If the Plan is not confirmed and consummated, the alternatives to the Plan are (i) the preparation and presentation of an alternative plan of reorganization, (ii) a sale of some or all of the Debtors' assets pursuant to section 363 of the Bankruptcy Code, or (iii) a liquidation under chapter 7 of the Bankruptcy Code.

### A. Alternative Plan of Reorganization

If the Plan is not confirmed, the Debtors (or if the Debtors' exclusive period in which to file a plan of reorganization has expired, any other party in interest) could attempt to formulate a different plan. Such a plan might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of its assets. The Debtors, however, submit that the Plan, as described herein, enables their creditors to realize the most value under the circumstances.

### B. Sale Under Section 363 of the Bankruptcy Code

If the Plan is not confirmed, the Debtors could seek from the Bankruptcy Court, after notice and a hearing, authorization to sell their assets under section 363 of the Bankruptcy Code. Holders of Claims in Classes 2 and 3 would be entitled to credit bid on any property to which their security interest is attached, and to offset their Claims against the purchase price of the property. In addition, the security interests in the Debtors' assets held by holders of Claims in Classes 2 and 3 would attach to the proceeds of any sale of the Debtors' assets. After these Claims are satisfied, the remaining funds could be used to pay holders of Claims in Classes 4, 5, and 6. Upon analysis and consideration of this alternative, the Debtors do not believe a sale of its assets under section 363 of the Bankruptcy Code would yield a higher recovery for holders of Claims than the Plan.

### C. Liquidation Under Chapter 7 or State Law

If no plan can be confirmed, these Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution to their creditors in accordance with the priorities established by the Bankruptcy Code. The effect that a chapter 7 liquidation would have on the recovery of holders of allowed Claims and Equity Interests is set forth in Liquidation Analysis.

As noted in Section XIII of this Disclosure Statement, the Debtors believe that liquidation under chapter 7 would result in smaller distributions to creditors than those provided for in the Plan because of the delay resulting from the conversion of the cases and the additional administrative expenses associated with the appointment of a trustee and the trustee's retention of professionals who would be required to become familiar with the many legal and factual issues in the Debtors' Chapter 11 Cases.

## XIV.
## CONCLUSION

The Debtors believe the Plan is in the best interests of all stakeholders and urge the holders of Claims in Classes 2, 4, 5 and 6 to vote in favor thereof.

Dated: January 18, 2013
Wilmington, Delaware

Respectfully submitted,

SOUTHERN AIR HOLDINGS, INC.
AND ITS AFFILIATED DEBTORS

By: */s/ Daniel J. McHugh*
Name: Daniel J. McHugh
Title: President and Chief Executive Officer

**Exhibit A**

**Plan**

**(not attached)**

**Exhibit B**

**Plan Support Agreement**

**(not attached)**

**Exhibit C**

**Disclosure Statement Order (excluding exhibits)**

**(not attached)**

# Exhibit D

## Liquidation Analysis

# EXHIBIT D

# LIQUIDATION ANALYSIS OF THE DEBTORS

## INTRODUCTION

Often called the "best interests" test, section 1129(a)(7) of the Bankruptcy Code requires that the Bankruptcy Court find, as a condition to confirmation of the Plan, that each holder of a Claim or Equity Interest in each impaired Class: (i) has accepted the Plan; or (ii) will receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the amount that such Person would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To make these findings, the Bankruptcy Court must: (1) estimate the cash proceeds (the "Liquidation Proceeds") that a chapter 7 trustee would generate if the Debtors' Chapter 11 Case were converted to a chapter 7 case on the Assumed Effective Date (defined below) and the assets of the Debtors' Estate were liquidated; (2) determine the distribution (the "Liquidation Distribution") that each non-accepting holder of a Claim or Equity Interest would receive from the Liquidation Proceeds under the priority scheme dictated in chapter 7; and (3) compare each holder's Liquidation Distribution to the distribution under the Plan ("Plan Distribution") that such holder would receive if the Plan were confirmed and consummated.

Note that this analysis assumes the liquidation of all Debtor entities. Liquidation Proceeds are the aggregate asset proceeds of all Debtor entities. Creditor Claims are the aggregate amount of Claims across all Debtor entities, excluding intercompany claims. Duplicate claims arising from the same liability have been eliminated.

To assist the Bankruptcy Court in making the findings required under section 1129(a)(7) of the Bankruptcy Code, the Debtors' management, together with Zolfo Cooper, the Debtors' bankruptcy consultant and special financial advisor, prepared this Liquidation Analysis.

The Liquidation Analysis presents both "Low" and "High" estimates of Liquidation Proceeds representing a range of management's assumptions relating to the costs incurred during the liquidation and the proceeds realized. It is assumed that the Debtors would cease operations immediately and the liquidation would be performed over a period of just three months. The projected date of conversion to a hypothetical chapter 7 liquidation (the "Assumed Effective Date") is March 31, 2013 and the liquidation will be largely completed by June 30, 2013. It is assumed that the chapter 7 trustee would enter into an agreement with the Debtors' DIP Lenders and Prepetition Lenders to wind-down operations and sell the remainder of the Debtors' assets on a piecemeal basis.

The chapter 7 trustee would apply the Liquidation Proceeds to satisfy the DIP Lender Claims, Secured OHAA Payment Obligations and Prepetition Lender Claims, the costs and expenses of the liquidation, including wind-down costs and chapter 7 trustee fees (the "Liquidation Costs"), and such additional Administrative Expense Claims, Priority Tax Claims, and Priority Non-Tax Claims that are estimated to be incurred in a chapter 7 liquidation. Any remaining net Liquidation Proceeds would then be allocated to holders of Allowed Claims and Equity Interests

in accordance with the priorities set forth in section 726 of the Bankruptcy Code. The Liquidation Analysis provides for low and high recovery percentages for Claims and Equity Interests upon the trustee's application of the Liquidation Proceeds.

For purposes of the Liquidation Analysis, the Debtors' estimates of Allowed Claims contained in the Liquidation Analysis references specific Claims estimates, even though the Debtors' estimates of projected recoveries under the Plan to holders of Allowed Claims and Equity Interests are based on ranges of Allowed Claims and Equity Interests. Therefore, the Debtors' estimate of Allowed Claims set forth in the Liquidation Analysis should not be relied on for any other purpose, including determining the value of any distribution to be made on account of Allowed Claims and Equity Interests under the Plan. NOTHING CONTAINED IN THE LIQUIDATION ANALYSIS IS INTENDED TO BE OR CONSTITUTES A CONCESSION OR ADMISSION OF THE DEBTORS. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASES COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE LIQUIDATION ANALYSIS.

The Liquidation Analysis is based on numerous estimates and assumptions that, although developed and considered reasonable by the Debtors, are inherently subject to significant business, economic, regulatory and competitive uncertainties and contingencies beyond the control of the Debtors and their management and advisors. Accordingly, while the information contained in the Liquidation Analysis is necessarily presented with numerical specificity, the Debtors cannot assure you that the values assumed would be realized or the Claims levels assumed would not change if the liquidating Debtors were in fact liquidated, nor can assurance be made that the Bankruptcy Court would accept this analysis or concur with these assumptions in making its determination under section 1129(a) of the Bankruptcy Code.

# DETAILED LIQUIDATION ANALYSIS

The following table provides detailed calculations of recoveries under a chapter 7 liquidation and should be read in conjunction with the accompanying notes.

*($ in Thousands)*

| | | As of | RECOVERY ANALYSIS | |
|---|---|---|---|---|
| **Liquidation Proceeds:** | **Note** | **3/31/2013** | **LOW** | **HIGH** |
| Cash | **1** | $ 5,556 | $ 5,556 | $ 5,556 |
| *% Recovery* | | | *100.0%* | *100.0%* |
| Accounts receivable | **2** | 7,400 | - | - |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Prepaid expenses | **3** | 4,491 | - | - |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Property and equipment | **4** | 53,090 | 4,550 | 8,575 |
| *% Recovery* | | | *8.6%* | *16.2%* |
| Prepaid maintenance deposits and other assets | **5** | 41,196 | - | - |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Aircraft lease deposits | **6** | 10,267 | - | - |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Intangibles | **7** | 74,540 | - | - |
| *% Recovery* | | | *0.0%* | *0.0%* |
| **Estimated Gross Liquidation Proceeds** | | $196,541 | 10,106 | 14,131 |
| *% Recovery* | | | *5.1%* | *7.2%* |
| **Less Cost of Wind-Down:** | | | | |
| Wind-down Costs | **8** | | $603 | $603 |
| Chapter 7 Trustee fees | **9** | | 303 | 424 |
| Chapter 7 Professional Fees | **10** | | 1,250 | 1,250 |
| **Estimated Net Liquidation Proceeds Available for Creditors** | | | **$7,950** | **$11,854** |
| **Estimated Recoveries:** | | | | |
| **DIP Lender Claims** | **11** | | $ 62,500 | $ 62,500 |
| *% Recovery* | | | *11.6%* | *17.3%* |
| **Secured OHAA Payment Obligations** | **12** | | $ 5,833 | $ 5,833 |
| *% Recovery* | | | *11.6%* | *17.3%* |
| Proceeds in excess of DIP Lender Claims and Secured OHAA Payment Obligations | | | $0 | $0 |
| **Prepetition Lender Claims** | **13** | | $ 258,306 | $ 258,306 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over Prepetion Lender Claims | | | $0 | $0 |
| **Administrative Expense Claims** | | | 12,632 | 12,632 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over Administrative Expense Claims | | | $0 | $0 |
| **Priority Tax Claims** | | | 441 | 441 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over Priority Tax Claims | | | $0 | $0 |
| **Priority Non-Tax Claims** | | | 375 | 375 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over Priority Non-Tax Claims | | | $0 | $0 |
| **Other Secured Claims** | | | 1,180 | 1,180 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over Other Secured Claims | | | $0 | $0 |
| **General Unsecured Claims** | | | | |
| Aircraft lease rejection claims | **14** | | $ 136,523 | $ 136,523 |
| Real Property lease rejection claims | | | 2,598 | 2,598 |
| Other | **15** | | 62,605 | 52,605 |
| Total | | | $ 201,726 | $ 191,726 |
| *% Recovery* | | | *0.0%* | *0.0%* |
| Proceeds in excess over General Unsecured Claims | | | $0 | $0 |
| **Preferred and Common Equity Interests** | | | | |
| *% Recovery* | | | *0.0%* | *0.0%* |

## NOTES TO DETAILED LIQUIDATION ANALYSIS

1. *Cash*

   The estimated cash balance as of March 31, 2013 is $5.6 million. Cash is assumed to be recovered at 100%.

2. *Accounts Receivable*

   No recovery from accounts receivable is assumed due to (i) rights of setoff against amounts due from Southern Air to its customers for fuel and (ii) damage claims arising from the significant disruption to customers due to Southern Air ceasing its operations.

3. *Prepaid Expenses*

   Prepaid expenses consist primarily of prepaid aircraft rent, prepaid insurance and prepaid trip costs. Prepaid expenses are assumed to have no liquidation value.

4. *Property and Equipment*

   Property and equipment consist of aircraft, engines and related equipment, machinery and equipment, leasehold improvements and rotable parts. Estimated recovery values in a liquidation scenario as of March 31, 2013 range from $4.6 million - $8.6 million.

5. *Prepaid Maintenance Deposits and Other Assets*

   The Company makes monthly deposits with lessors for planned major aircraft maintenance. In the event of liquidation, the aircraft are presumed to be returned to the lessors and the lessors would contractually retain any maintenance deposits.

6. *Aircraft Lease Deposits*

   It is assumed that no recovery from aircraft lease deposits occurs per the terms of the applicable leases.

7. *Intangibles*

   Intangible assets consist of customer relationships, the Southern Air trade name and the Southern Air airline operating certificate. Management believes it will be very difficult for a chapter 7 trustee to realize any meaningful value from the intangible assets; consequently, this analysis assumes no realization from the liquidation of the intangible assets.

8. *Wind-Down Costs*

To maximize recoveries on remaining assets, minimize the amount of Claims, and generally ensure an orderly liquidation, the chapter 7 trustee will need to retain a number of individuals currently employed by the Debtors during the chapter 7 liquidation process. These individuals will primarily be responsible for maintaining the Debtors' assets, providing historical knowledge and insight to the chapter 7 trustee regarding the Debtors' businesses, and concluding the administrative wind-down of the business.

Wind-down costs also include other expenses required to manage the liquidation (occupancy, utilities, maintenance, etc.).

9. *Chapter 7 Trustee Fees*

It is assumed that the chapter 7 trustee fees are paid in accordance with limits established by section 326 of the Bankruptcy Code. Fees are estimated to be 3% of total gross proceeds.

10. *Chapter 7 Professional Fees*

Professional fees include the cost of attorneys, accountants and other professionals retained by the chapter 7 trustee. Professional fees are based on historical monthly average run rates and stepped down over the course of three months as operations are wound down and distributions are made.

11. *DIP Lender Claims*

Includes $25 million of DIP funding and $37.5 million of roll-up of Prepetition Lender Claims. Recovery is pari passu with the Secured OHAA Payment Obligations.

12. *Secured OHAA Payment Obligations*

Includes estimated payments made from the Oak Hill Entities through March 31, 2013 pursuant to the Oak Hill 1110 Stipulation, the Interim DIP Order and the Final DIP Order. Recovery is pari passu with the DIP Lender Claims.

13. *Prepetition Lender Claims*

As of the Petition Date, approximately $295.8 million, including accrued interest and fees, was outstanding under the Prepetition Credit Agreement. This amount was reduced by the roll-up of $37.5 million of Prepetition Lender Claims into the DIP Lender Claims. Note that the claim amount is reflected as a single claim against the consolidated Debtors. In the event that substantive consolidation, as described elsewhere in this disclosure statement is not applied, the prepetition lenders may be entitled to the full amount of the claim against each of the Debtors.

*14. Aircraft Lease Rejection Claims*

In a liquidation scenario, the Debtors will reject all of its leased aircraft. The claim amount for the two Aircastle Leases is equal to the agreed amount per Aircastle Settlement. The claim amount for the remaining aircraft is estimated as the present value (using a 12% discount rate) of each lessor's loss in cash flow over the term of the lease. The estimated claim calculation is based on the assumption that the aircraft is idle for 6 months prior to initiation of a new lease at management's estimate of market rent. This analysis reflects the Company's assumptions and such assumptions have not been agreed by any lessor or any other party-in-interest. Note that each rejection claim amount is reflected as a single claim against the consolidated Debtors. In the event that substantive consolidation, as described elsewhere in this disclosure statement is not applied, each lessor may be entitled to the full amount of the claim against two Debtors.

15. *Other General Unsecured Claims*

The lower estimate of other general unsecured claims is based primarily on scheduled and filed claims. Ultimate resolution of claim amounts may differ from the amounts reflected. The higher estimate of other general unsecured claims is equal to the lower estimate plus $10 million.

## ESTIMATED RECOVERIES PURSUANT TO THE PLAN

For purposes of comparison, the following table illustrates estimated recoveries under the Plan at enterprise values for the Reorganized Debtors at $95 million and $120 million and estimated General Unsecured Claims at $104.6 million and $94.6 million (the "Estimated Recovery Table").

For purposes of the Estimated Recovery Table, the Debtors' estimate of Allowed Claims is for illustrative purposes only. Therefore, the Debtors' estimate of Allowed Claims set forth in the Estimated Recovery Table should not be relied on for any other purpose, including determining the value of any distribution to be made on account of Allowed Claims and Equity Interests under the Plan. NOTHING CONTAINED IN THE ESTIMATED RECOVERY TABLE IS INTENDED TO BE OR CONSTITUTES A CONCESSION OR ADMISSION OF THE DEBTORS. THE ACTUAL AMOUNT OF ALLOWED CLAIMS IN THE CHAPTER 11 CASES COULD MATERIALLY DIFFER FROM THE ESTIMATED AMOUNTS SET FORTH IN THE ESTIMATED RECOVERY TABLE.

The Estimated Recovery Table is based on numerous estimates and assumptions that, although developed and considered reasonable by the Debtors, are inherently subject to significant business, economic, regulatory and competitive uncertainties and contingencies beyond the control of the Debtors and their management and advisors. Accordingly, while the information contained in the Estimated Recovery Table is necessarily presented with numerical specificity, the Debtors cannot assure you that the values assumed would be realized or the Claims levels

assumed will not change. The following table provides estimates of recoveries under the Plan and should be read in conjunction with the accompanying notes:

| **Estimated Recoveries:** *(in thousands of dollars)* | **Note** | **Lower Estimate** | **Higher Estimate** |
|---|---|---|---|
| Total enterprise value | **1** | $ 95,000 | $ 120,000 |
| Portion of enterprise value allocated pursuant to the Plan to (a) fee to the DIP Lenders (the "Equity Payment") (b) Oak Hill and (c) Management | | (3,225) | (9,675) |
| Value available after above allocation | | 91,775 | 110,325 |
| **DIP Lender Claims:** | | | |
| Estimated amount of claims | | 62,500 | 62,500 |
| Estimated recovery | | 62,500 | 62,500 |
| *% Recovery* | | *100.0%* | *100.0%* |
| Value after DIP Lender Claims | | 29,275 | 47,825 |
| **Prepetition Lender Claims:** | | | |
| Estimated amount of claims | **2** | 258,306 | 258,306 |
| Estimated recovery (excluding cash allocated to holders of Convenience Claims and General Unsecured Claims) | | 26,775 | 45,325 |
| *% Recovery* | | *10.4%* | *17.5%* |
| Cash allocated to holders of Convenience Claims and General Unsecured Claims | | 2,500 | 2,500 |
| **Convenience Class Claims:** | | | |
| Estimated amount of claims | **3** | 128 | 128 |
| Estimated recovery | | 32 | 32 |
| *% Recovery* | | *25.0%* | *25.0%* |
| Value available after convenience class claims | | 2,468 | 2,468 |
| **General Unsecured Claims:** | | | |
| Estimated amount of claims | **4** | 104,557 | 94,557 |
| Estimated recovery | | 2,468 | 2,468 |
| *% Recovery* | | *2.4%* | *2.6%* |
| Estimated amount available for subordinated claims and equity | | $ - | $ - |

## 1. NOTES TO TABLE OF ESTIMATED RECOVERIES

*1. Total Enterprise Value*

Total enterprise value excludes an estimated $4.5 million in cash distributed to allowed administrative and priority claims. Secured claims, other than the prepetition lender claims, in an estimated amount of $1.2 million are assumed to be satisfied through the secured party retaining the applicable collateral.

*2. Prepetition Lender Claims*

Prepetition lender claims reflect the $295.8 million amount owed reduced by $37.5 million rolled into the DIP loan. Note that the claim amount is reflected as a single claim against the consolidated Debtors. In the event that substantive consolidation, as described elsewhere in this disclosure statement is not applied, the prepetition lenders may be entitled to the full amount of the claim against each of the Debtors.

*3. Convenience Class Claims*

Convenience class claims include each estimated allowed unsecured claim equal to $2,000 or less.

*4. General Unsecured Claims*

General unsecured claims consist of the following:

- Estimated aircraft lease termination claims of approximately $39.6 million arising from the termination of two, long-term aircraft leases. Note that each rejection claim amount is reflected as a single claim against the consolidated Debtors. In the event that substantive consolidation, as described elsewhere in this disclosure statement is not applied, each lessor may be entitled to the full amount of the claim against two Debtors.
- Estimate real property rejection claims of approximately $2.4 million.
- Trade claims in the higher recovery estimate of approximately $52.6 million is based primarily on scheduled and filed claims. Ultimate resolution of claim amounts may differ from the amounts reflected. For purposes of the lower recovery estimate, this amount has been increased by $10 million to $62.6 million.

The following shows a comparison of estimated recoveries under the Plan vs. under a liquidation of the Debtors:

*($ in Thousands)*

| | PLAN | | LIQUIDATION | |
|---|---|---|---|---|
| | LOW | HIGH | LOW | HIGH |
| **Estimated Recoveries:** | | | | |
| **DIP Lender Claims** | 100.0% | 100.0% | 11.6% | 17.3% |
| **Secured OHAA Payment Obligations** | 100.0% | 100.0% | 11.6% | 17.3% |
| **Prepetition Lender Claims** | 10.4% | 17.5% | 0.0% | 0.0% |
| **Administrative Expense Claims** | 100.0% | 100.0% | 0.0% | 0.0% |
| **Priority Tax Claims** | 100.0% | 100.0% | 0.0% | 0.0% |
| **Priority Non-Tax Claims** | 100.0% | 100.0% | 0.0% | 0.0% |
| **Other Secured Claims** | 100.0% | 100.0% | 0.0% | 0.0% |
| **General Unsecured Claims** | 2.4% | 2.6% | 0.0% | 0.0% |
| **Convenience Claims** | 25.0% | 25.0% | NA | NA |
| **General Liability and Insured Litigation Claims** | -- | -- | -- | -- |
| **Subordinated Claims** | 0.0% | 0.0% | 0.0% | 0.0% |
| **Preferred Equity Interests** | 0.0% | 0.0% | 0.0% | 0.0% |
| **Holdings Common Equity Interests** | 0.0% | 0.0% | 0.0% | 0.0% |
| **Common Equity Interests (Corporations)** | 0.0% | 0.0% | 0.0% | 0.0% |
| **Common Equity Interests (LLCs)** | 0.0% | 0.0% | 0.0% | 0.0% |