IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

In re	)	Chapter 11
	)	
GENUITY INC.,	)	Nos. 02-43558 (PCB)
GENUITY SOLUTIONS INC.,	)	02-43550 (PCB)
BBN ADVANCED COMPUTERS INC.,	)	02-43551 (PCB)
BBN CERTIFICATE SERVICES INC.,	)	02-43552 (PCB)
BBN INSTRUMENTS CORPORATION,	)	02-43553 (PCB)
BBN TELECOM INC.,	)	02-43554 (PCB)
BOLT BERANEK AND NEWMAN CORPORATION,	)	02-43555 (PCB)
GENUITY BUSINESS TRUST,	)	02-43556 (PCB)
GENUITY EMPLOYEE HOLDINGS LLC,	)	02-43557 (PCB)
GENUITY INTERNATIONAL INC.,	)	02-43559 (PCB)
GENUITY INTERNATIONAL NETWORKS LLC,	)	02-43560 (PCB)
GENUITY INTERNATIONAL NETWORKS INC.,	)	02-43561 (PCB)
GENUITY TELECOM INC.,	)	02-43562 (PCB)
LIGHTSTREAM CORPORATION,	)	02-43563 (PCB)
NAP.NET, L.L.C.,	)	02-43564 (PCB)
	)	
Debtors.	)	Jointly Administered
	)	

SECOND AMENDED DISCLOSURE STATEMENT FOR DEBTORS' JOINT CONSOLIDATED PLAN OF LIQUIDATION, AS MODIFIED

ROPES & GRAY LLP
45 Rockefeller Plaza
New York, NY 10111
- and -
ROPES & GRAY LLP
One International Place
Boston, MA 02110-2624
(617) 951-7000

Attorneys for Debtors and Debtors-in-Possession

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

THE DEBTORS RESERVE THE RIGHT TO AMEND OR SUPPLEMENT THIS PROPOSED DISCLOSURE STATEMENT AT OR BEFORE THE HEARING TO CONSIDER THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT AND ITS RELATED DOCUMENTS ARE THE ONLY DOCUMENTS AUTHORIZED BY THE BANKRUPTCY COURT TO BE USED IN CONNECTION WITH THE SOLICITATION OF VOTES TO ACCEPT THE DEBTORS' JOINT CONSOLIDATED PLAN OF LIQUIDATION, AS MODIFIED, DATED SEPTEMBER 30, 2003 (AS MAY BE AMENDED, THE "PLAN"). NO REPRESENTATIONS HAVE BEEN AUTHORIZED BY THE COURT CONCERNING THE DEBTORS, THEIR BUSINESS OPERATIONS OR THE VALUE OF THEIR ASSETS, EXCEPT AS EXPLICITLY SET FORTH IN THIS DISCLOSURE STATEMENT.

THIS DISCLOSURE STATEMENT CONTAINS ONLY A SUMMARY OF THE PLAN. THE DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW AND ANALYSIS OF THE PLAN, BUT RATHER TO AID AND SUPPLEMENT SUCH REVIEW. THIS DISCLOSURE STATEMENT IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE MORE DETAILED PROVISIONS SET FORTH IN THE PLAN (WHICH IS INCLUDED AS EXHIBIT A TO THIS DISCLOSURE STATEMENT). IN THE EVENT OF A CONFLICT BETWEEN THE PLAN OR THE CONFIRMATION ORDER AND THE DISCLOSURE STATEMENT, THE PROVISIONS OF THE PLAN OR CONFIRMATION ORDER WILL GOVERN.

THE DEBTORS ENCOURAGE ALL HOLDERS OF CLAIMS AND INTERESTS TO REVIEW THE FULL TEXT OF THE PLAN AND TO READ CAREFULLY THIS ENTIRE DISCLOSURE STATEMENT, INCLUDING ALL EXHIBITS ANNEXED HERETO, BEFORE DECIDING WHETHER TO VOTE TO ACCEPT THE PLAN.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT WILL NOT, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AT ANY TIME SUBSEQUENT TO THE DATE HEREOF.

HOLDERS OF CLAIMS AND INTERESTS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL OR TAX ADVICE. EACH SUCH HOLDER SHOULD, THEREFORE, CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL AND TAX ADVISORS AS TO ANY SUCH MATTERS CONCERNING THE SOLICITATION, THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY.

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

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THIS PROPOSED DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION UNDER BANKRUPTCY CODE SECTION 1125(b) FOR USE IN THE SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE CHAPTER 11 PLAN DESCRIBED HEREIN. THE FILING AND DISSEMINATION OF THIS DISCLOSURE STATEMENT ARE NOT INTENDED TO BE, NOR SHOULD BE CONSTRUED AS, A SOLICITATION OF VOTES ON THE PLAN. VOTES ON THE PLAN MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL BUT HAS NOT BEEN APPROVED BY THE COURT. THE DEBTORS RESERVE THE RIGHT TO AMEND OR SUPPLEMENT THIS PROPOSED DISCLOSURE STATEMENT AT OR BEFORE THE HEARING TO CONSIDER THIS DISCLOSURE STATEMENT.

Unless otherwise defined herein, all capitalized terms shall have the meanings given to them in the Debtors' Joint Consolidated Plan of Liquidation, As Modified, attached as Exhibit A. A Glossary of frequently used terms appears at the end of this Disclosure Statement.

I. INTRODUCTION

On November 27, 2002, Genuity Inc. ("Genuity Inc.") and its fourteen domestic subsidiaries (collectively, the "Debtors") commenced Chapter 11 cases under the Bankruptcy Code for the purpose of liquidating their assets and distributing the cash proceeds to creditors. At the time of filing, various Debtors had entered into an agreement to sell substantially all of their assets to certain affiliates of Level 3 Communications, Inc. (collectively, "Level 3"), subject to a higher and better offer at a public auction. No qualified competing bids were received, and the Bankruptcy Court approved the proposed sale to Level 3 on January 24, 2003. The sale of the Debtors' assets to Level 3 closed on February 4, 2003 (the "Level 3 Sale").

The Debtors are liquidating, not reorganizing, their businesses. The Debtors will not be conducting any business operations in the future and have proposed a Joint Consolidated Plan of Liquidation, As Modified (the "Plan"), which provides for the distribution of their assets to creditors. As a consequence of the Level 3 Sale, the Debtors' estates now consist almost solely of cash. Upon the confirmation and consummation of the Plan, most of this cash will be distributed to certain Holders of Claims and the remaining cash and unliquidated assets of the Debtors will vest in a liquidating trust established pursuant to the Plan for the benefit of certain creditors.

In accordance with Bankruptcy Code Section 1125, the Debtors are submitting this Disclosure Statement to Holders of Claims against the Debtors' estates for the purpose of soliciting acceptances of the Plan, which the Bankruptcy Court will consider for confirmation on November 17, 2003 at 10:30 a.m. prevailing Eastern time. This Disclosure Statement is intended to provide information required by Section 1125(b) of the Bankruptcy Code; that is, information of a kind and in sufficient detail to enable the creditors who are entitled to vote to make an informed decision to accept or reject the Plan.

Attached as exhibits to the Disclosure Statement are: (i) Exhibit A, a copy of the Plan, and (ii) Exhibit B, a copy of the order approving this Disclosure Statement and the procedures for voting on the Plan.

A. ***Overview of the Plan***

Chapter 11 is the chapter of the Bankruptcy Code primarily used for business reorganization. The fundamental purpose of a Chapter 11 case is to formulate a plan to restructure a debtor's finances so as to maximize recoveries to its creditors. With this purpose in mind, businesses sometimes use Chapter 11 as a means to conduct asset sales and other forms of liquidation. Whether the aim is reorganization or liquidation, 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 a debtor's bankruptcy estate.

In formulating the Plan, the Debtors have conducted substantial legal and factual diligence and have engaged in discussions with the Creditors' Committee regarding the terms of a Chapter 11 plan and related issues. These discussions addressed, among other things, a variety of inter-creditor and debtor-creditor disputes, the possible substantive consolidation of the Debtors' estates, and the best means of facilitating an orderly and efficient distribution of assets to creditors. Simultaneously, the members of the Creditors' Committee engaged in negotiations among themselves regarding the resolution of these same issues and disputes. The Plan reflects agreements and compromises reached both as between the Debtors and the Creditors' Committee and among members of the Creditors' Committee. The Creditors' Committee fully supports the Plan, including the agreements and compromises contained therein.

The Plan is intended as a global compromise, predicated on the settlement of diverse disputes between different creditor constituencies, as well as between Debtors and combinations of Debtors and creditors. The Debtors believe that this global resolution is within the range of reasonableness, given the complex set of issues discussed with and within the Creditors' Committee, including (i) significant disputes over inter-creditor and debtor-creditor claims, (ii) the claims of Verizon Communications, Inc. and its affiliates (collectively, "Verizon"), (iii) the prospect of substantive consolidation, and (iv) the cost and delay that would be caused by litigation of these and other issues. A more detailed description of the settlement and these disputes can be found in Section IV of this Disclosure Statement. While litigating these various disputes to conclusion might result in different treatment of creditors than under the Plan, the Debtors and the Creditors' Committee believe that the Plan will expedite distributions to creditors and increase their recoveries by limiting the duration of these Chapter 11 Cases and avoiding the substantial costs of protracted litigation.

As an initial matter, the Plan contemplates and is predicated upon the substantive consolidation of all the Debtors only for the purposes of voting on, making distributions under, and administering the Plan. This means that the Debtors propose to satisfy the claims of all their respective creditors from a common pool comprised of their collective assets. The Plan divides the Claims against and Interests in the Debtors into Classes. Certain Claims — in particular, Administrative Claims and Priority Tax Claims — remain unclassified in accordance with Bankruptcy Code Section 1123(a)(1). The Plan

assigns all other Claims and Interests to one of seven Classes, which will receive distributions under the Plan, if any, as described below.

Class 1 consists of Priority Claims, which will be paid Cash in the full amount of their Allowed Claims. Class 2 consists of Miscellaneous Secured Claims (including the secured portion, pursuant to Bankruptcy Code Section 506(a) and (b), of any claims for real estate taxes that are secured by liens as a matter of applicable nonbankruptcy law), which shall either be paid Cash in the full amount of their Allowed Claims or given alternative treatment (such as return of collateral) that leaves them unimpaired. The Plan then divides the Claims of general unsecured creditors, who will not be paid in full, into three classes: Bank Group Claims (Class 3), General Unsecured Claims, which includes all unsecured claims other than Bank Group Claims and Verizon Investments Claims (Class 4), and Verizon Investments Claims (Class 5). The Bank Lenders, who hold Class 3 Claims, have direct claims against Genuity Inc. and claims arising from guaranties against Debtors Genuity Solutions and Genuity Telecom, while the Holders of Class 4 General Unsecured Claims ("General Unsecured Creditors") have claims only against a single Debtor, predominantly Genuity Solutions. Pursuant to a separate and independent agreement between the Bank Lenders and Verizon, Verizon has subordinated certain of its claims to the Bank Lenders; i.e., certain amounts that would otherwise have been payable to Verizon shall be paid instead to the Bank Lenders.

After distributions have been made to Classes 1 and 2, and after a reserve has been established for disputed or as yet unasserted Administrative Claims, Priority Tax Claims, Cure Claims, Priority Claims and Miscellaneous Secured Claims, the Plan generally provides for distributions to Classes 3 and 4 as follows (in each case, to the extent the Debtors have sufficient cash):

1. The first $514.2 million will be distributed on the Effective Date to the Bank Agent for the benefit of the Bank Lenders;

2. The next $70 million (the "Class B Tranche Amount") will be distributed to the Liquidating Trust (See Section VI), to be distributed for the benefit of General Unsecured Creditors after payment of certain expenses and the creation of reserves as described in the Liquidating Trust Agreement;

3. The next $116 million (the "Bank Tranche Amount") will be distributed to the Bank Agent for the benefit of the Bank Lenders; and

4. Thereafter, for each dollar of distributable cash, 68% will be distributed to Holders of Class A Beneficial Interests in the Liquidating Trust, and 32% will be distributed to the Class B Subtrust for the benefit of General Unsecured Creditors, after the payment of certain expenses and the creation of reserves as described in the Liquidating Trust Agreement; provided, however, that any distributions of such cash on the Effective Date in respect of the Class A Beneficial Interests shall be made directly to the Bank Agent, on behalf of the Bank Lenders.

The Holders of BBN Bonds Claims are members of Class 4, but because the BBN Bonds are contractually subordinated by the terms of the BBN Bonds Indenture, under

the Plan amounts that would otherwise be distributed to them will be distributed to certain other creditors.

Class 5 consists of all Verizon Investments Claims, Class 6 consists of Claims arising under Section 510(b) of the Bankruptcy Code, and Class 7 consists of all Interests in the Debtors. Members of Classes 5, 6 and 7 will receive no distribution under the Plan.

The following table briefly summarizes the classification, treatment and estimated recoveries of Claims and Interests under the Plan. The table also identifies those Classes entitled to vote on the Plan under the rules established by the Bankruptcy Code. The approximate recoveries to Holders of Class 3 and Class 4 Claims are based on preliminary estimations of the cash available for distribution under the Plan and the aggregate amount of Allowed Claims in all Classes. See Plan Recovery Analysis in Section VIII.B.2. The precise amounts that will be recovered by the Bank Lenders and the General Unsecured Creditors cannot be known with certainty at this time. While the Debtors have converted most of their assets to cash, additional funds may become available as and to the extent the Debtors litigate preference actions, are able to litigate and collect upon significant outstanding receivables, and liquidate any remaining non-cash assets. In addition, the resolution of disputes over cure claims, the status of alleged administrative, secured and priority claims, and proofs of claim will have a direct impact on the size of the unsecured creditor pool and the amount of funds available for distribution to unsecured creditors.

ALTHOUGH THE DEBTORS BELIEVE THAT THE ESTIMATED PERCENTAGE RECOVERIES SET FORTH BELOW ARE WITHIN THE RANGE OF REASONABLENESS AND CORRESPOND TO LEVELS OF RECOVERY CONTEMPLATED IN PLAN NEGOTIATIONS, ACTUAL DISTRIBUTIONS UNDER THE PLAN MAY VARY SIGNIFICANTLY FROM THESE ESTIMATES.

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Class	Allowed Claim or Interest	Treatment	Estimated Recovery	Status
N/A	Administrative Claims	Payment in full, in Cash, or in accordance with the terms and conditions of agreements relating to the obligations incurred in the ordinary course of business during the Chapter 11 Cases	100%	Unclassified and not entitled to vote
N/A	Priority Tax Claims	Payment in full, in Cash	100%	Unclassified and not entitled to vote
1	Priority Non-Tax Claims	Payment in full, in Cash	100%	Unimpaired; deemed to accept the Plan and not entitled to vote
2	Miscellaneous Secured Claims	At the option of the Debtors, (a) payment in full, in Cash, (b) legal, equitable and contractual rights associated with such claim left unaltered, (c) distribution of proceeds from the sale or other disposition of assets securing such claim, (d) provision of the indubitable equivalent of such claim or (e) such other treatment to which the Holder consents	100%	Unimpaired; deemed to accept the Plan and not entitled to vote
3	Bank Group Claims	(A) Cash in the amount of $514,200,000 plus the Bank Tranche Amount plus 68% of Residual Cash, if any and (B) the Class A Beneficial Interests in the Liquidating Trust	39–47%	Impaired; entitled to vote
4	General Unsecured Claims	Pro Rata Share of Class B Beneficial Interests in the Liquidating Trust, subject to the subordination provisions of the BBN Bonds Indenture	10–35%	Impaired; entitled to vote
5	Verizon Investments Claims	No distribution	0%	Impaired; deemed to reject the Plan and not entitled to vote
6	510(b) Claims	No distribution	0%	Impaired; deemed to reject the Plan and not entitled to vote
7	Interests in Debtors	No distribution	0%	Impaired; deemed to reject the Plan and not entitled to vote

The Plan is the product of negotiations between the Debtors and the Creditors' Committee and, independently, among members of the Creditors' Committee. As described above, the Plan represents a global resolution of numerous potential disputes, which the Debtors believe is within the range of reasonableness and in the best interest of creditors.

THE DEBTORS AND THE CREDITORS' COMMITTEE URGE YOU TO VOTE TO ACCEPT THE PLAN.

B. ***A Word on Financial Statements***

The Debtors have not provided audited financial statements with this Disclosure Statement. On June 13, 2003, the Debtors filed with the Securities and Exchange Commission audited financials for the one-year period ending December 31, 2002 (the "2002 Audited Financial Statements"). Those financial statements were prepared only because the Debtors were required to do so by the terms of the Level 3 Purchase Agreement (as defined below); Level 3 needed such financial statements to incorporate the results into its own financial reporting. The 2002 Audited Financial Statements were prepared, after consultation with both Level 3 and the Securities and Exchange Commission, on a "going-concern" basis and not on a "liquidation" basis; they were not prepared for use by creditors in the plan solicitation context. As a result, the Debtors do not believe that the 2002 Audited Financial Statements, on the whole, should be included in the solicitation materials for this liquidating plan. The Debtors have instead provided an analysis of plan recoveries, which is set forth in Section VIII.B.2.

C. ***Voting***

The Bankruptcy Code entitles only holders of impaired claims or equity interests who receive some distribution under a proposed plan to vote to accept or reject that plan. Holders of claims or equity interests that are unimpaired under a proposed plan are conclusively presumed to have accepted that plan and are not entitled to vote on it. Holders in classes of claims or equity interests that will receive no distribution under a proposed plan are conclusively presumed to reject that plan and are, therefore, also not entitled to vote on it.

Classes 1 and 2 under the Plan are unimpaired. As a result, Holders of Claims in those Classes are presumed to have accepted the Plan and are not entitled to vote.

Classes 3 and 4 are impaired and will receive distributions under the Plan; therefore, Holders of Claims in these Classes are entitled to vote to accept or reject the Plan.

Classes 5, 6 and 7 are impaired and will receive no distribution under the Plan. Deemed to have rejected the Plan, Holders of Claims and Interests in these Classes are not entitled to vote to accept or reject the Plan.

A BALLOT FOR ACCEPTANCE OR REJECTION OF THE PLAN IS BEING PROVIDED ONLY TO HOLDERS OF CLAIMS IN CLASSES 3 AND 4.

The Bankruptcy Court has fixed 5:00 p.m. (prevailing Eastern time) on September 23, 2003 as the "Voting Record Date." Only persons who hold Claims or Interests on the Voting Record Date are entitled to receive a copy of this Disclosure Statement and related materials. Only persons who hold Claims that are impaired under the Plan and are not deemed to have rejected the Plan are entitled to vote whether to accept the Plan.

The ballots (the "Ballots") have been specifically designated for the purpose of soliciting votes on the Plan from each Class entitled to a vote. Accordingly, in voting on

the Plan, please use only the Ballot sent to you with this Disclosure Statement. Please complete and sign your Ballot and return it in the enclosed, pre-addressed envelope to the Debtors' Balloting Agent:

If by Regular Mail:	**If by Hand or Overnight Delivery**:
Genuity Inc., et al. c/o DONLIN, RECANO & COMPANY, INC. P. O. Box 2034 Murray Hill Station New York, New York 10156-0701	Genuity Inc., et al. c/o DONLIN, RECANO & COMPANY, INC. 419 Park Avenue South New York, New York 10016 Telephone: (212) 481-1411

ALL PROPERLY COMPLETED BALLOTS RECEIVED BY THE BALLOTING AGENT PRIOR TO 5:00 P.M. (PREVAILING EASTERN TIME) ON NOVEMBER 4, 2003 (THE "VOTING DEADLINE") WILL BE COUNTED FOR PURPOSES OF DETERMINING WHETHER EACH CLASS OF IMPAIRED CLAIMS ENTITLED TO VOTE ON THE PLAN HAS ACCEPTED THE PLAN. ANY BALLOTS RECEIVED AFTER THE VOTING DEADLINE WILL NOT BE COUNTED, NOR WILL ANY BALLOTS RECEIVED BY FACSIMILE BE ACCEPTED.

IF THE INSTRUCTIONS ON YOUR BALLOT REQUIRE YOU TO RETURN THE BALLOT TO A BANK, BROKER, NOMINEE OR OTHER INTERMEDIARY, YOU MUST DELIVER IT TO THEM IN SUFFICIENT TIME FOR THEM TO PROCESS AND DELIVER IT PRIOR TO THE VOTING DEADLINE.

D. ***Confirmation Hearing***

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for **November 17, 2003 at 10:30 a.m. prevailing Eastern time** before The Honorable Prudence Carter Beatty in Room 701 of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York (the "Confirmation Hearing"). The Confirmation Hearing may be adjourned from time to time without notice except as given at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed on or before **November 7, 2003 at 5:00 p.m. prevailing Eastern time** in the manner described in the Notice accompanying this Disclosure Statement.

II. GENERAL BACKGROUND

A. *Description of the Debtors' Former Business*

Prior to the commencement of these Chapter 11 Cases, the Debtors and their non-Debtor affiliates and subsidiaries (the "Non-Debtor Subsidiaries" and, together with the Debtors, the "Genuity Inc. Group") were leading providers of internetworking services to business enterprises and telecommunications service providers. Genuity Inc. is the non-operating parent corporation of the Genuity Inc. Group. Genuity Inc. had three primary operating subsidiaries that are Debtors in these cases: Genuity Solutions Inc. ("Genuity Solutions"), Genuity Telecom Inc. ("Genuity Telecom"), and Genuity International Inc. ("Genuity International"). Genuity Solutions provided managed internet services through a global fiber optic network. Genuity Telecom was a common carrier that offered high-bandwidth, high-speed, fiber optic network services for voice and data applications. Genuity International held certain international network assets. See Figure 1 for the organizational chart of the principal entities in the Genuity Inc. Group (all are Debtors in these cases except for Integra S.A., which is in a separate liquidation proceeding in France).

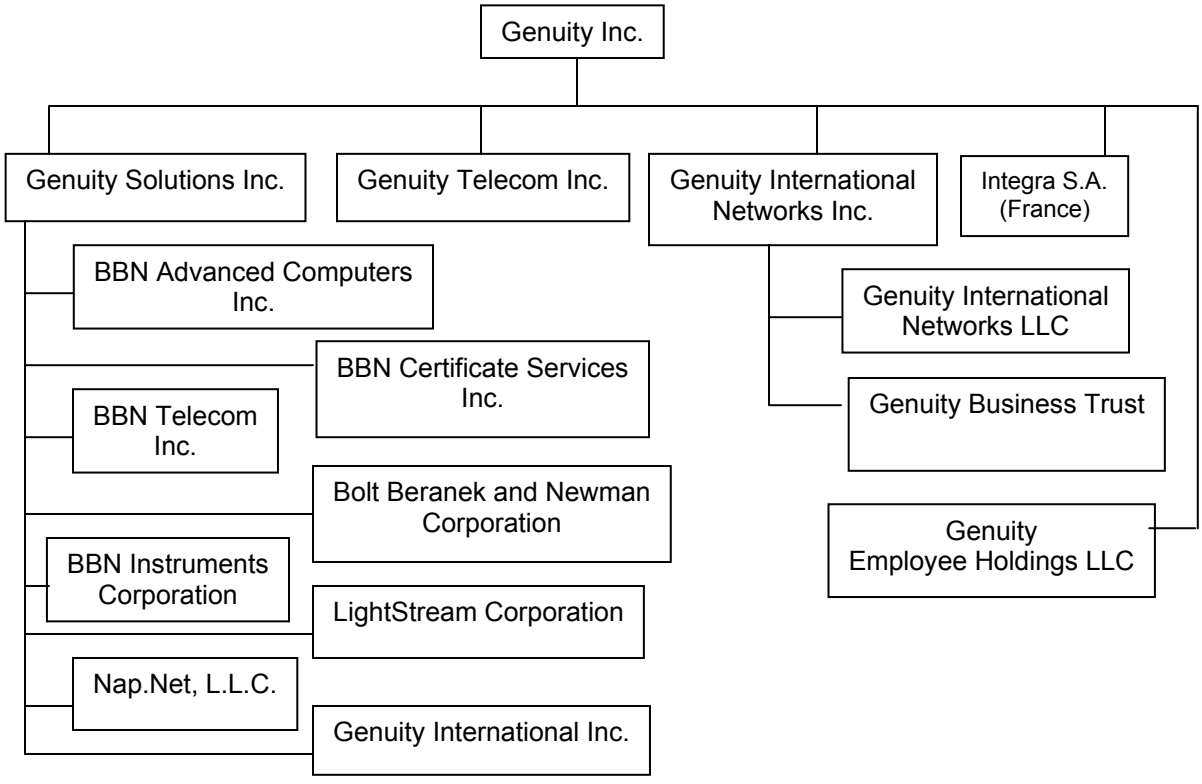

Figure 1. Genuity Inc. Group Organizational Chart

The Genuity Inc. Group was one of the leading Internet backbone providers in the world, a status commonly referred to as a Tier 1 Internet backbone provider. Tier 1 Internet backbone providers have the network scale and on-network traffic to offer their customers connectivity to virtually all addresses on the Internet, either directly through their Internet backbone or through cost-free, high-speed private connections to other Tier

1 Internet backbones. The Genuity Inc. Group's communication infrastructure included a global fiber optic network consisting of:

- Broadband fiber optic cable in the United States;
- Points of presence ("POPs") — locations where the Genuity Inc. Group provided Internet access to end users;
- Secure data centers with redundant fiber connections to the network and backup power sources, with eight in the United States and ten in Europe; and
- Undersea and international fiber optic cable capacity.

Through this global network, the Genuity Inc. Group offered comprehensive suites of managed Internet infrastructure services, including dedicated and broadband access, Web hosting and content delivery, and value-added services such as Voice over IP ("VoIP") and managed Internet security services. Historically, the Genuity Inc. Group derived the majority of its revenues — approximately 75% — from providing Internet access through dial-up, dedicated and digital subscriber lines and VoIP. Approximately 5% of revenues came from international services, with the remainder divided among Web hosting and content delivery, value-added e-Business services and communications transport services. In 2001, the Genuity Inc. Group recognized over $1.22 billion in revenue on a consolidated basis and had approximately 4,400 employees worldwide.

B. *The Debtors' Formation*

1. The Bell Atlantic/GTE Merger and the Genuity Business Plan

The present corporate and capital structures of the Genuity Inc. Group are a by-product of the June 2000 merger between Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE"), which resulted in the creation of Verizon Communications Inc. In July 1998, Bell Atlantic and GTE announced an agreement to merge with one another. At the time, Bell Atlantic, one of the regional Baby Bell telephone companies, dominated the local telephone market in the northeastern United States. GTE had long been a national telecommunications company with a variety of local telephone properties through which it provided wireless, long-distance and other services. In 1997 GTE had acquired BBN Corporation ("BBN"), a Massachusetts telecommunications company that originally developed the ARPANET — the computer network that was the precursor to the Internet — for the United States government. GTE held and operated this Internet business primarily within a wholly-owned intermediate-level holding company subsidiary, GTE Internetworking Inc. ("GTE Internetworking"). In turn, GTE Internetworking owned all of the stock of BBN, which continued in the role of an operating company.

In early 1999, GTE Internetworking developed a business plan for the expansion of the GTE/BBN Internet businesses. As merger planning between GTE and Bell Atlantic progressed, the parties decided that the merged company would, as part of its overall business strategy, enter into direct competition with AT&T, Sprint, UUNet (a subsidiary of MCI Worldcom) and others to provide data transmission and Internet backbone services. Accordingly, the merged GTE and Bell Atlantic would require

construction of a far larger telecommunications network than GTE Internetworking had originally been contemplating. The two companies developed this new, expanded business plan through the summer and fall of 1999, in order to start construction of the expanded network as soon as they consummated their merger. The companies planned to spend $11-13 billion in capital within five years to build its business and network with over 500 POPs. In early 2000 the GTE board of directors approved this business plan for the GTE Internetworking business.

2. Regulatory Hurdles and the IPO/Spin-Out Structure with the Verizon Option to Reacquire Genuity Inc.

In the course of the merger negotiations between GTE and Bell Atlantic, some regulatory obstacles to the transaction began to arise. In particular, the companies were having difficulty meeting the requirements of the Telecommunications Act of 1996, which prohibited the regional Baby Bells, such as Bell Atlantic, from owning long-distance assets until they received approvals from numerous state regulators based on their having opened up their local telephone service monopolies to effective competition (the "271 Approvals"). Federal Communications Commission ("FCC") regulations classified the Internet backbone assets of GTE Internetworking and certain services provided by GTE Internetworking as long-distance assets. As a result, without some regulatory relief, the merged company would not be permitted to own the GTE Internetworking Internet business.

Following extended discussions with the FCC, GTE and Bell Atlantic developed a corporate structure (the "Genuity IPO Spin-Out") to address this problem. They proposed to the FCC that GTE Internetworking would conduct an initial public offering of stock, giving the public more than 90% of the voting equity securities in the corporation, which was renamed Genuity Inc. Initially, Verizon would retain less than 10% of the voting stock of Genuity Inc., but could regain control of the company if and when it had obtained 271 Approvals in the former Bell Atlantic territory. The FCC approved this structure.

The post-merger corporate structure approved by the FCC contemplated three classes of stock as set forth in the Genuity Inc. Certificate of Incorporation (the "Genuity Inc. Charter"). Initially, only Class A and Class B stock were issued; no Class C stock was issued. The Class A stock was ordinary common stock held by the public, which, at the outset and on an undiluted basis, represented 90.5% of the voting rights in Genuity Inc., including the right to elect all but one member of the Genuity Inc. board of directors. This Class A stock was issued in the Genuity IPO Spin-Out. Class B stock was held entirely by subsidiaries of Verizon and represented 9.5% of the voting interests in Genuity Inc. Class B shareholders had consent rights over many major corporate actions and also had the right to elect one Board member.

The Class B shares held by Verizon subsidiaries also gave Verizon certain conversion rights (collectively, the "Verizon Option"). Pursuant to the Genuity Inc. Charter, so long as Verizon or its affiliates were Class B stockholders, they had the right to convert their Class B shares into Class C shares of Genuity Inc. Class C shareholders voted with Class A shareholders on all matters but were entitled to cast five votes per share, rather than the single vote per share allocated to Class A and Class B stockholders.

The conversion ratio for Class B to Class C stock ensured that if Verizon had converted all of its Class B stock, it would have had the right to over 80% of the economic value of Genuity Inc. and control over 96% of the voting rights. However, Verizon could have exchanged its Class B shares for Class C shares only when permitted to do so as a regulatory matter, that is, only after it had obtained the requisite 271 Approvals. As a Class B stockholder, Verizon also had the ability to convert its Class B Stock into shares of Class A Stock. This conversion rate would simply have preserved Verizon's 9.5% economic stake in Genuity Inc.

The FCC approved the merger of GTE and Bell Atlantic, with the Genuity IPO Spin-Out, in an order issued in June 2000 (the "FCC Order"). Among other things, the FCC Order prohibited Verizon from lending (or providing credit support) to the Genuity Inc. Group in excess of $2.75 billion.

C. *The Debtors' Capital Structure*

1. The Genuity Inc. Initial Public Offering

As described above, Genuity Inc.'s business plan contemplated $11-13 billion of capital expenditures over five years. To fund this plan, Bell Atlantic and GTE began discussions with investment bankers in the spring of 2000 with a view toward raising $4.3 billion in an initial public offering of Genuity Inc. stock (the "IPO"), which was to remain with Genuity Inc. as the foundation of its capitalization. The $4.3 billion target was based on an estimated IPO price of about $25 per share.

With preparations for the IPO underway, the market for equity in telecommunications and Internet-based businesses began to deteriorate. At the recommendation of their investment bankers, GTE and Bell Atlantic lowered the target IPO share price to a range of $12-15 per share. Notwithstanding the lower-than-expected IPO price and the corresponding reduction in the initial equity capitalization of Genuity Inc., GTE and Bell Atlantic did not change the terms of the Genuity IPO Spin-Out. GTE and Bell Atlantic did not cancel the IPO, because accomplishing the Genuity IPO Spin-Out was an absolute necessity and precondition to consummating the merger of GTE and Bell Atlantic. Nor did GTE and Bell Atlantic alter the Genuity Inc. Group business plan, in part because they had sought approval of the merger from their respective shareholders based on a business plan that contemplated the Genuity Inc. Group constructing a massive telecommunications network that would be reintegrated into Verizon as soon as Verizon obtained the requisite 271 Approvals.

By June of 2000, owing to further decline of the industry and the capital markets, the investment bankers recommended a final price for the IPO of $11 per share, which would provide Genuity Inc. with only $1.9 billion of initial equity capital, or 40% of the sum anticipated when GTE and Bell Atlantic formulated the Genuity Inc. Group's business plan. Notwithstanding this further reduction in the equity capitalization of Genuity Inc., GTE and Bell Atlantic did not make any attempt to alter the Genuity Inc. Group's business plan or to defer the IPO. Nor did GTE and Bell Atlantic contribute any additional equity capital to Genuity Inc. to compensate for the shortfall in IPO proceeds and initial capitalization. On June 27, 2000, the Genuity Inc. board of directors approved the $11 per share IPO pricing, and the IPO was consummated on June 30, 2000.

Immediately after the IPO, the Genuity Inc. Group began its capital expenditure program in accordance with its business plan. This caused the Genuity Inc. Group to spend cash at the rate of approximately $400 million per quarter. At this rate, given its paid-in capital, the Genuity Inc. Group would have exhausted its cash in little more than 12 months. The Genuity Inc. Group's business plan, as GTE and Bell Atlantic had approved it, contemplated that Genuity Inc. would have to raise additional funds in the debt markets to supplement what was expected to be an initial equity capitalization of $4.3 billion.

2. The JPMorgan Chase Standby Credit Facility

In early June of 2000, prior to the IPO, Bell Atlantic and GTE began working with their existing bank lenders to arrange a credit facility for Genuity Inc. That credit facility was put in place pursuant to a Credit Agreement (as amended and restated from time to time, the "Bank Credit Agreement") dated as of September 5, 2000 by and among Genuity Inc., JPMorgan Chase Bank, as successor in interest to The Chase Manhattan Bank, in its capacity as Administrative Agent ("JPMorgan Chase" or the "Bank Agent"), the Lenders as that term is defined in the Bank Credit Agreement (the "Bank Lenders"), J.P. Morgan Securities Inc., as arranger, Citibank, N.A., as syndication agent, and Credit Suisse First Boston and DeutscheBank AG New York Branch ("DeutscheBank"), as co-documentation agents.

In connection with the Bank Credit Agreement, Genuity Solutions and Genuity Telecom executed a guaranty, dated as of September 5, 2000 (the "Subsidiary Guaranty"), wherein each of Genuity Solutions and Genuity Telecom absolutely and unconditionally guaranteed the payment of amounts due and owing under the Bank Credit Agreement. The liability of Genuity Solutions and Genuity Telecom under the Subsidiary Guaranty was limited to the amount of each entity's aggregate Debt (as defined in the Bank Credit Agreement), other than debt arising under the Subsidiary Guaranty. See Section IV.A.3 below for further details.

The Bank Credit Agreement documentation was based on a prior credit facility that JPMorgan Chase had arranged for GTE, a much larger, investment-grade company. In view of the Genuity IPO Spin-Out, the Bank Lenders requested a provision that was different from the prior credit they had extended to GTE: it would be an event of default if at any time Verizon was no longer in a position to reacquire control of Genuity Inc. Specifically, Section 6.01(g) of the Bank Credit Agreement provided for an event of default (the "Verizon Condition") if:

> (g)(i) Verizon shall cease, prior to the exercise of the Verizon Option, to control, directly or indirectly, a sufficient number of shares of the Borrower's capital stock such that, upon exercise of the Verizon Option, Verizon would own, directly or indirectly, at least 50% of the combined voting power of all Voting Stock of the Borrower; or (ii) the Verizon Option is cancelled or becomes invalid or unenforceable (other than upon the exercise thereof) or the U.S. Federal Communications Commission issues a final ruling that will prevent the exercise of the Verizon Option; or (iii) after the exercise of the Verizon Option, Verizon shall cease to own, directly or indirectly, at least 50% of the combined voting power of all Voting Stock of the Borrower;

The Bank Credit Agreement defines the term "Verizon Option" as:

> "Verizon Option" means the five-year (or, if extended under certain conditions, six-year) option held by Verizon to exchange its Class B Common Stock of the Borrower for Class C Common Stock of the Borrower that will represent up to 82% of the aggregate equity and up to 95% of the combined voting power of all Voting Stock of the Borrower.

Thus, the continuation of the credit that Genuity Inc. had obtained under the Bank Credit Agreement was completely subject to Verizon's continued ability to regain control of Genuity Inc.

3. The Verizon Credit Facility and the Amended Bank Credit Agreement

In March of 2001, Verizon extended Genuity Inc. a loan of $500 million (the "Verizon Bridge Loan"). The terms of the Verizon Bridge Loan were essentially the same as those contained in the Bank Credit Agreement. Significantly, the Verizon Bridge Loan, like the Bank Credit Agreement, included the Verizon Condition as an Event of Default. On May 22, 2001, Genuity Inc. and Verizon amended the Verizon Bridge Loan to increase available credit from $500 million to $1.15 billion. Over the next few months, Verizon advanced these additional amounts pursuant to the amended Verizon Bridge Loan.

On or about September 24, 2001, Verizon, Genuity Inc. and the Bank Lenders amended Genuity Inc.'s debt financing structure. The Bank Credit Agreement was amended to give Genuity Inc. the ability to have JPMorgan Chase issue letters of credit as part of an overall $2 billion commitment. Genuity Inc. immediately used that letter-of-credit facility to raise $1.15 billion in an offering of notes (the "Chase-Backed Notes"). While the Chase-Backed Notes were obligations of Genuity Inc., in the event of default on those notes, the noteholders could draw on a letter of credit issued by the Bank Agent in the full principal amount of the notes. In turn, each of the Bank Lenders would advance funds to pay on the letter of credit. Thus, the Chase-Backed Notes operated, as a practical matter, as an extension of credit by the Bank Lenders to Genuity Inc. Accordingly, the availability under the Bank Credit Agreement was reduced by the $1.15 billion amount of letter of credit exposure, leaving only $850 million that Genuity Inc. could directly draw under the Bank Credit Agreement. The Subsidiary Guaranty remained in force, covering the letter of credit advances and any further direct draw on the available credit of $850 million.

Also, as part of this new financing arrangement, Verizon and Genuity Inc. again amended the Verizon Bridge Loan to make up to $2 billion available to Genuity Inc. and to extend the maturity date of the previous bridge loans. This amended and extended Verizon Bridge Loan is subsequently referred to in this Disclosure Statement as the "Verizon Credit Facility."

4. Debtors' Cost-Cutting

In response to market conditions in the telecommunications industry and reduced availability of capital from the debt markets, in 2001 and 2002, the Debtors undertook

significant revisions to their business plans. Those revisions included reductions-in-force of approximately 1,500 employees in 2001 and another 650 employees in 2002.

D. *Events Leading Up to the Chapter 11 Cases*

1. Genuity Inc. Draws on the Bank Credit Agreement

On July 21, 2002, the Genuity Inc. board of directors voted to draw the remaining $850 million available under the Bank Credit Agreement. Genuity Inc. officers made the draw request to the Bank Lenders the next day, July 22, 2002. By July 23, all but one of the Bank Lenders had funded (the "July 2002 Draw") its committed share of the draw request. The remaining bank, DeutscheBank, refused to fund, and Genuity Inc. commenced a civil action for damages against DeutscheBank.

As previously described (see Section II.C.3), the Bank Lenders also had credit exposure for the $1.15 billion of the Chase-Backed Notes, via a letter of credit. The Debtors' bankruptcy filing caused a default of those notes, and the letter of credit was drawn. On or about December 4, 2002, each of the Bank Lenders, including DeutscheBank, funded their portion of that letter of credit. As a result (and net of several prepetition paydowns described below), as of the Petition Date the Debtors were indebted to the Bank Lenders in the total principal amount of approximately $1.676 billion.

2. Verizon Converts Its B Shares to A Shares and Triggers Events of Default under the Credit Facilities

On July 24, 2002, one day after the $850 million draw request on the Bank Credit Agreement was funded, Verizon sent a notice to Genuity Inc. effecting the conversion of all but one of its Class B shares into Class A shares (the "B-to-A Conversion"). The B-to-A Conversion left Verizon with insufficient Class B shares to retake more than 50% of the voting rights in Genuity Inc. The occurrence of the Verizon Condition triggered an event of default under both the Verizon Credit Facility and the Bank Credit Agreement. Verizon's single remaining Class B share entitled it to retain its seat on the Genuity Inc. board of directors.

Verizon notified the Bank Lenders of the B-to-A Conversion, and the Bank Lenders, in turn, notified Genuity Inc. that the Bank Credit Agreement was in default. As a result, Genuity Inc. negotiated a standstill agreement with all the Bank Lenders except DeutscheBank (the "Initial Bank Forbearance Agreement"), and with Verizon, under which Genuity Inc. repaid $100 million to the Bank Agent on behalf of the Bank Lenders (other than DeutscheBank) in exchange for an agreement by those Bank Lenders not to enforce any remedies under the Bank Credit Agreement for a period of two weeks. The Initial Bank Forbearance Agreement was extended six times (such extensions, collectively with the Initial Bank Forbearance Agreement, the "Bank Forbearance Agreements"), each time with Genuity Inc. repaying money to the Bank Agent on behalf of the Bank Lenders (other than DeutscheBank) in exchange for a further forbearance from the exercise of remedies. As of the Petition Date, Genuity Inc. had repaid the Bank Agent on behalf of the Bank Lenders (other than DeutscheBank) a total of $208 million pursuant to the Bank Forbearance Agreements. As a further result of this event of default, Genuity Inc. was unable to draw the $850 million remaining under the Verizon Credit Facility.

3. The Genuity Inc./Level 3 Negotiations

During the standstill period, the Debtors explored various restructuring alternatives, including certain strategic options, asset dispositions and filing for protection under the Bankruptcy Code. In August 2002, the Debtors began negotiations with Level 3 concerning a possible sale of some or all of their assets. Verizon was necessarily drawn into these negotiations, since, in addition to its position as a significant shareholder of and lender to Genuity Inc., Verizon was also a major customer and vendor to other Debtors. From the outset of negotiations, Level 3 made clear that the viability of any transaction with the Debtors depended upon preserving and modifying in significant respects valuable commercial agreements between Verizon and the Debtors (collectively, the "Verizon Commercial Agreements"), including: (i) agreements under which Verizon purchased from the Debtors a variety of DSL and dial-up services, IP services, private line transport and ATM transport services; and (ii) agreements under which Verizon provided access services and "cyberpop" solutions to the Debtors pursuant to various tariffs and other agreements.

On or about October 5, 2002, Level 3 and Verizon commenced extensive negotiations on the parameters of the Verizon Commercial Agreements, including a variety of amendments thereto. These negotiations led, on or about November 27, 2002, to the execution of certain letter agreements (the "Letter Agreements") between Verizon and Level 3 and certain of its affiliates pursuant to which Verizon agreed, subject to certain terms and conditions, (i) to support Level 3's purchase of substantially all of the assets of the Debtors; and (ii) to enter into substantial amendments of the Verizon Commercial Agreements and other agreements upon the closing of the Level 3 Sale. As a result, Level 3 entered into the Level 3 Purchase Agreement. The transactions contemplated by the Letter Agreements, including the modification and preservation of the Verizon Commercial Agreements, were conditions to the Level 3 Sale.

As consideration for Verizon's willingness to enter into the Letter Agreements, thus to facilitate the Level 3 Sale, Verizon demanded that the Debtors enter into a settlement agreement with Verizon (the "Verizon Release") and seek its approval by the Bankruptcy Court, which was an express condition to the effectiveness of the Letter Agreements. The parties entered into negotiations and ultimately executed the Verizon Release, which provides for limited mutual releases between the Debtors and Verizon with respect to, among other things, the formation and capitalization of Genuity Inc., the B-to-A Conversion, and the proposed Level 3 Sale.

On November 27, 2002, Genuity Inc. reached a definitive agreement with Level 3 (as amended, the "Level 3 Purchase Agreement") under which Level 3 would acquire substantially all of the Debtors' operating assets and a substantial portion of the Debtors' customer base, including Verizon, for approximately $242 million in cash, subject to certain potential purchase price adjustments. (See Section III.J.1 below for a discussion of these adjustments.) In addition, the Level 3 Purchase Agreement provided that Level 3 would assume certain long term operating agreements of the Genuity Inc. Group providing hundreds of millions of dollars in benefits to the unsecured creditors of the estates of such Debtors. The assumption of these operating agreements resulted in cure payments to certain creditors and the elimination of certain large claims that would have diluted the recovery of other general unsecured creditors.

4. Other Prebankruptcy Agreements

On or about November 12, 2002 the Debtors agreed to an amendment of the Bank Credit Agreement ("Bank Amendment No. 1"). Bank Amendment No. 1 provides that all amounts that the Debtors repay to the Bank Agent are distributed first to repay the July 2002 Draw, and then to repay $1.15 billion drawn pursuant to the letter of credit for the Chase-Backed Notes. This order-of-payments provision was agreed to by the requisite Bank Lenders who at that time held outstanding indebtedness under the Bank Credit Agreement. DeutscheBank did not consent to this amendment of the Bank Credit Agreement. DeutscheBank has stated that it considers Bank Amendment No. 1 to be without force or effect because DeutscheBank did not consent to the amendment. The Bank Agent has informed DeutscheBank that it believes that Bank Amendment No. 1 is valid and enforceable as it was duly executed by the Debtors and the requisite number of Bank Lenders in a manner consistent with the protocol set forth in the Bank Credit Agreement. Moreover, inasmuch as DeutscheBank failed to fund its portion of the July 2002 Draw request, failure to give effect to Bank Amendment No. 1 would have the effect of DeutscheBank recognizing a greater percentage recovery than any of the other Bank Lenders.

DeutscheBank asserts that prior to Bank Amendment No. 1, Section 2.16 of the Bank Credit Agreement provided that a Bank Lender's "ratable share" was to be calculated based upon all advances under the Bank Credit Agreement without distinction between them and provided that, in the event that a Bank Lender obtained in excess of its ratable share of payments, that such Bank Lender must purchase from the other Bank Lenders participation interests that will result in a ratable distribution. DeutscheBank also asserts that (i) Section 8.01 of the Bank Credit Agreement, which governs amendments, provides that any amendment that purports to waive the ratable distribution provisions of Section 2.16 of the Bank Credit Agreement must be agreed to by each Bank Lender that "has or is owed obligations" under the Bank Credit Agreement and (ii) DeutscheBank had and was owed outstanding obligations under the Bank Credit Agreement at the time of the amendment, including, among other things, exposure on the outstanding letter of credit and various contractual obligations between and among the Bank Lenders under the Bank Credit Agreement itself.

The Plan does not resolve the dispute over the validity of Bank Amendment No. 1. The Plan provides that all distributions in respect of Bank Group Claims shall be made to the Bank Agent for the benefit of the Bank Lenders. The Bank Credit Agreement and each of the notes issued by the Debtors to the Bank Lenders expressly provide that all payments in respect of the Bank Credit Agreement shall be made to the Bank Agent. Accordingly, the Debtors believe that the Plan complies with all of their obligations under the Bank Credit Agreement with respect to making distributions, thereby avoiding the possibility that any dispute over the validity of Bank Amendment No. 1 could delay the Plan confirmation process. DeutscheBank contends that distributions on its claim must be made to it directly and not to any third party, including the Bank Agent.

Also on November 27, 2002, Verizon and the Bank Lenders, except DeutscheBank, entered into a Participation, Subordination and Release Agreement (the "Verizon-Bank Agreement"). Among other things, the Verizon-Bank Agreement

provided that a wholly owned subsidiary of Verizon would purchase prior to the filing of the Chapter 11 Cases from those Bank Lenders a $180.625 million participation in the amounts due under the Bank Credit Agreement in respect of the July 2002 Draw. Verizon agreed that repayments to it in respect of that participation would not be made until those Bank Lenders had been repaid all amounts that were still due them in respect of the July 2002 Draw. The combined effect of Bank Amendment No. 1 and the Verizon-Bank Agreement was to provide for an order of distribution of payments received under the Bank Credit Agreement (and the Subsidiary Guaranty) as follows: (i) the first $518 million to be repaid to those Bank Lenders who funded the July 2002 Draw, of which $180.625 million will be repaid to Verizon by virtue of its participation interest after all amounts due and owing to the other Bank Lenders in respect of the July 2002 Draw have been paid in full and (ii) all further amounts to all Bank Lenders. DeutscheBank contends that Bank Amendment No. 1 is not valid and that the effects of the Verizon-Bank Agreement may be different. The Verizon-Bank Agreement also provides:

- that Verizon subordinates all of its claims under the Verizon Credit Facility to the claims of the Bank Lenders under the Bank Credit Agreement; that subordination requires that any amounts payable to Verizon in respect of the Verizon Credit Facility (such as distributions from the Chapter 11 Cases) shall instead be paid to the Bank Lenders;
- for mutual releases (collectively, the "Verizon Release") among Verizon and its affiliates, on the one hand, and the Bank Lenders that funded the July 2002 Draw, on the other hand; and
- that neither Verizon nor those Bank Lenders shall challenge the others' claims, or take certain other adverse positions in the Chapter 11 Cases, except that the Creditors' Committee is not prohibited from challenging any claims of Verizon and its affiliates so long as none of those Bank Lenders (or the Bank Agent) initiated such challenge.

III. EVENTS DURING THE CHAPTER 11 CASES

On November 27, 2002 (the "Petition Date"), immediately following the signing of the Level 3 Purchase Agreement and the Verizon Release, each of the Debtors commenced the Chapter 11 Cases by filing voluntary chapter 11 petitions in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). At that time, all actions and proceedings against the Debtors and all acts to obtain property from the Debtors were stayed under Section 362 of the Bankruptcy Code. The Chapter 11 Cases were assigned to The Honorable Prudence Carter Beatty, United States Bankruptcy Judge. Since the Petition Date, the Debtors have continued to operate their businesses and manage their properties as debtors-in-possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

A. *First Day Orders*

On the Petition Date, the Debtors filed several motions seeking approval of certain so-called "first day orders." The first day orders facilitated the transition between the Debtors' prepetition and postpetition business operations by authorizing the Debtors

to continue with certain regular business practices that may not be specifically authorized under the Bankruptcy Code, or for which the Bankruptcy Code requires prior court approval. The first day orders in these Chapter 11 Cases, the majority of which were signed at a hearing held on December 2, 2002, authorized, among other things:

- joint administration of the Debtors' bankruptcy cases;
- payment of prepetition claims of critical vendors;
- payment of prepetition claims of foreign vendors;
- payment of prepetition employee obligations and continuation of employee benefit plans and programs;
- payment of certain prepetition shipping, distribution and warehousing charges;
- continued customer practices, including settlement of certain receivables;
- continued maintenance of the Debtors' bank accounts, continued use of existing business forms, and continued use of the Debtors' existing cash management system; and
- payment of prepetition sales, use and other taxes.

B. ***Retained Professionals***

The Debtors have retained several professional firms to assist and provide advice with respect to major activities in the Chapter 11 Cases (in addition, the Debtors have retained a number of other firms to assist with smaller and/or discrete matters with which those firms are familiar). Specifically, the Debtors have retained, and the Bankruptcy Court has approved the retention of, the following professionals: (a) Ropes & Gray LLP, to provide bankruptcy advice as well as legal representation in connection with various corporate, tax, employment-law and employee-benefits and litigation matters; (b) Lazard, Frères & Co., Inc., as financial advisor and investment banker principally with respect to the Level 3 Purchase Agreement and any competing bids; (c) Alvarez & Marsal, as financial advisor providing support with respect to the Level 3 Purchase Agreement; (d) Ernst & Young LLP, as auditor and tax advisor; (e) Morrison & Foerster LLP, providing telecommunications and regulatory advice, prosecuting litigation for the Debtors as creditors in other bankruptcy cases and representation in certain claim disputes in the Debtors' bankruptcy; (f) Baker & McKenzie LLP, to provide legal services in connection with international activities; (g) Kirkland & Ellis LLP, to handle a significant litigation with Nortel Networks Inc. and its affiliates ("Nortel"), a purchase price adjustment dispute under the Level 3 Purchase Agreement and certain other matters being handled pre-petition; (h) LeBoeuf Lamb LLP, to handle ordinary receivables collection litigation, and (i) Skadden, Arps, Slate, Meagher & Flom LLP, to provide corporate and transactional services to the Debtors in connection with the Level 3 Sale, as well as

transitional services in assisting Ropes & Gray LLP to take over representation of the Debtors in bankruptcy matters.

In addition to the retention of these professional firms, the Debtors have hired, and the Bankruptcy Court has approved, AP Services LLC (an affiliate of the management and bankruptcy-advisory firm AlixPartners, LLC) to provide a number of temporary employees to the Debtors, specifically to provide personnel to assist with the bankruptcy process. One of those employees, Eric D. Simonsen, was hired to serve as the Chief Financial Officer of Genuity Inc. On or about July 17, 2003, after the Debtors' business operations had ceased and they had completed an audit for 2002, Mr. Simonsen was replaced as CFO by another AP Services employee, Todd B. Brents, to manage the claims resolution process and to complete the wind-down of the Debtors' financial affairs, which were the most significant tasks remaining for the Debtors' finance department. The compensation of AP Services is in part based on fixed hourly rates for each temporary employee, but also has a component based on total actual cash distributions to unsecured creditors and the timing of such distributions. See Section VI.B.10 for details of the AP Services compensation arrangement.

C. *Appointment of the Creditors' Committee*

On December 5, 2002, the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed an official committee of the Debtors' unsecured creditors (the "Creditors' Committee") in the Chapter 11 Cases. The Creditors' Committee originally had, and currently has, five members: JPMorgan Chase Bank, BNP Paribas, Mizuho Corporate Bank, Ltd., Nortel Networks, Inc., and Allegiance Telecom. The Creditors' Committee retained the law firm of Kramer Levin Naftalis & Frankel LLP as the Creditors' Committee's attorneys and Deloitte & Touche LLP as the Creditors' Committee's financial advisor. The Bankruptcy Court has approved the Creditors' Committee's retention of both of these professional firms.

No trustee has been appointed in the Chapter 11 Cases.

D. *Post-Petition Events Relating to Approval of the Level 3 Purchase Agreement and the Verizon Release*

Section 363(b) of the Bankruptcy Code requires that a debtor-in-possession seek court approval of any use, sale or lease of property of the bankruptcy estate outside the ordinary course of the debtor's business. Accordingly, immediately after the Debtors commenced the Chapter 11 Cases and filed the first-day motions, the Debtors also filed a motion (the "Level 3 Sale Motion") to approve the various aspects of the Level 3 Purchase Agreement. The Level 3 Sale Motion contemplated a two-stage approval process: first, obtaining a court order approving the bidding procedures and the breakup fee and expense reimbursement (the "Bid Procedures Order"); and second, approval of the sale transaction to Level 3, subject to any higher and better offer (the "Level 3 Sale Order").

The Level 3 Purchase Agreement gave the Debtors the opportunity to seek higher and better bids from other potential purchasers of the Debtors' assets. However, the Level 3 Purchase Agreement also provided that the Debtors conduct any such solicitation and bidding process in conformity with an agreed-upon set of bidding procedures and

that in the event that Level 3 did not purchase the Debtors' assets because another bidder was selected, that Level 3 would receive a breakup fee of $10 million and reimbursement of its expenses (including professional fees) in an amount not to exceed $3.0 million. The Level 3 Purchase Agreement also provided that Level 3 could terminate the agreement unless the Bankruptcy Court approved the bidding procedures, and specifically affirmed Level 3's right to the breakup fee and expense reimbursement no later than December 18, 2002.

The Bankruptcy Court considered entering the Bid Procedures Order at a hearing held on December 16, 2002. One formal objection to the Bid Procedures Order was filed, and the Creditors' Committee informally objected to certain aspects of the proposed Bid Procedures Order. Level 3 agreed to amend certain of the proposed bidding procedures, and the Bankruptcy Court approved the amended bidding procedures, as embodied in the final Bid Procedures Order, on December 16, 2002. These changes to the Bid Procedures Order gave the Debtors additional flexibility in seeking competing bids, in comparing competing bids with the Level 3 Purchase Agreement, and in conducting any auction if any qualified competing bidders emerged. The changes to the Bid Procedures Order also required that the Debtors consult with the Creditors' Committee prior to making certain significant decisions during the bidding process.

The deadline for competing bids was January 15, 2003. The Debtors received only one bid. The Debtors and their advisors worked extensively with the bidder to determine whether its bid was a qualifying bid under the court-approved Bid Procedures Order. Ultimately, after the Debtors consulted with the Creditors' Committee, the board of directors of Genuity Inc. determined that the bid was not a qualified bid and that no auction would be conducted.

Simultaneously with the solicitation and bid process, the Debtors gave notice to all known creditors of (a) the request to approve the Level 3 Sale, and (b) the request to approve the release of most of the Debtors' claims against Verizon, which (as described above) was a contractual prerequisite to consummating the Level 3 Sale. On January 23–24, 2003 the Bankruptcy Court conducted a hearing (the "Level 3 Sale Hearing") to consider approval of the Level 3 Sale Order, the sale to Level 3 and the Verizon Release. Over 50 creditors formally objected to entry of the Level 3 Sale Order. Certain allegedly secured creditors requested that a portion of the sale proceeds be segregated and held in reserve pending resolution of their claims. Numerous counterparties to executory contracts objected on various grounds to the assumption and assignment of their contracts in connection with the sale. Almost all of these objections were resolved by agreement, a few such objections were overruled by the Bankruptcy Court, and some additional objections were adjourned with the objecting party's agreement that the Level 3 Sale Order could be entered while preserving their rights, and that the Level 3 Sale could be consummated.

In addition to the secured-party and contract-counterparty objections, DeutscheBank announced its intention to object to the granting of a release to Verizon and to the approval of a sale to Level 3. DeutscheBank initiated extensive discovery in preparation for the Level 3 Sale Hearing, as did the Debtors. Shortly before the Level 3 Sale Hearing, the Debtors were able to reach a compromise with DeutscheBank (the "DeutscheBank Settlement"), pursuant to which DeutscheBank agreed to withdraw its

objections to the Level 3 Sale Order and the Verizon Release in exchange for the Debtors releasing DeutscheBank from any liability for its failure to fund the July 2002 Draw. The Debtors sought approval of the DeutscheBank Settlement on an emergency basis, via order to show cause, at the outset of the Level 3 Sale Hearing. There were no objections to the DeutscheBank Settlement, and the Bankruptcy Court approved that compromise.

At the Level 3 Sale Hearing, the Debtors presented expert testimony regarding the advisability of granting the Verizon Release as part of an overall strategy of consummating the Level 3 Sale in order to maximize creditor recoveries by, in part, minimizing rejection damages claims. The Debtors also presented testimony from the Debtors' general counsel, their chief financial officer and a senior financial advisor from Lazard Frères & Co., Inc. Following this testimony, the Bankruptcy Court approved the Verizon Release. The Bankruptcy Court also approved the sale of substantially all of the Debtors' assets to Level 3 and entered the Level 3 Sale Order. The Debtors and Level 3 consummated the Level 3 Sale on February 4, 2003. At that time, after certain purchase price adjustments pursuant to the Level 3 Purchase Agreement, Level 3 paid the Debtors $117 million, and placed an additional $20 million into escrow.

E. *Debtors' Efforts to Retain Key Employees*

As with many telecommunications companies, the Debtors had, prior to their financial difficulties, and in the ordinary course of their business and employee compensation practices, provided incentives to key employees to remain in the Debtors' employ. These incentives principally took the form of grants of stock options and other rights to equity of Genuity Inc. During the first half of 2002, the change in market conditions reduced the equity value of Genuity Inc. and rendered employee equity incentives essentially worthless. At the same time, Genuity Inc. began to experience substantial employee attrition. Faced with the risk of losing valuable key employees, the Debtors determined that action was needed to retain those employees whose knowledge and efforts would be critical to preserving the going-concern value of the Debtors' businesses. As a result, prior to the Petition Date, the Debtors adopted a key employee retention program (the "KERP") for 333 employees. That program provided for aggregate payments of approximately $17.3 million. Prior to the Petition Date, the Debtors had paid approximately 35% of the amounts due under this retention program.

Prior to their financial difficulties, the Debtors had also instituted a severance program (the "Severance Program") for almost all employees, which entitled such employees to cash severance payments if the Debtors terminated the employee without cause. The Severance Program had a one-year term and was routinely renewed each year after its adoption. As of the Petition Date, the Severance Program was due to expire on December 31, 2002. The Debtors had adopted the Severance Program in order to provide incentives for employees to remain with the Debtors, despite significant reductions in workforce at the Debtors' businesses during 2001. Those reductions in force had also presented the Debtors' employees with strong incentives to leave for employment elsewhere if opportunities presented themselves. On the Petition Date, the Debtors filed a motion seeking an order of the Bankruptcy Court specifically authorizing payment of amounts due under the Severance Program, both during 2002, and as renewed for 2003. The Bank Agent objected to these proposed payments under the Severance Program. The

Debtors, the Bank Agent, and the Creditors' Committee reached a compromise regarding a reduced Severance Program. On December 17, 2002, the Bankruptcy Court entered an order authorizing the continuation of the Severance Program with respect to all employees except those included as participants in the KERP. As approved, the Severance Program essentially provides severance equal to two weeks' worth of salary and benefits for each year that a rank and file employee has been employed by the Debtors if such employee is terminated involuntarily other than for cause. Certain technical and supervisory personnel receive guaranteed minimum payments equal to thirteen, twenty-six or thirty-nine weeks of salary and benefits under the Severance Program. Neither members of senior management with employment agreements, nor employees offered comparable, long-term positions with Level 3 were entitled to benefits under the Severance Program approved on December 17, 2002.

On December 19, 2002, in anticipation of the consummation of the Level 3 Sale, and the hiring by Level 3 of many of the Debtors' existing employees, the Debtors filed a motion seeking authorization to continue the KERP and implement a severance benefits program for certain senior executives. The Debtors believed that continuation of the KERP was integral to the Debtors' efforts to minimize key employee turnover during the critical period leading up to the closing of the Level 3 Sale. On December 30, 2002, after extensive negotiations with the Creditors' Committee, the Bankruptcy Court entered an order (the "KERP Order"), which had been approved by the Creditors' Committee, authorizing the continuation of the KERP in modified form. In particular, the KERP Order provided that participants were entitled to retain payments previously received under the KERP and were eligible to receive a subsequent retention payment equal to twenty-five percent (25%) of their original award under the KERP under certain circumstances. The KERP Order also provided for certain modifications to the severance payments to which participants under the KERP were entitled under the Severance Program, as well as an incentive bonus connected to the timing of the closing of the Level 3 Sale. Simultaneously with the KERP Order, the Bankruptcy Court entered an order authorizing the continuation of the Severance Program, as modified, with respect to the participants under the KERP.

At the time of the consummation of the Level 3 Sale on February 4, 2003, Level 3 hired approximately 1,400 of the Debtors' existing employees, and the Debtors terminated an additional 800 employees, thereby reducing the Debtors' workforce from approximately 2,300 employees to only 96 employees. At that time, the Debtors believed that they would be in direct competition with Level 3 for many desirable employees who could greatly assist in the administration of the bankruptcy cases and maximizing value for creditors, but who would know that any employment with the Debtors would be temporary, lasting only until the Debtors accomplished various stages of the liquidation. Accordingly, on February 24, 2003, the Debtors sought to establish an estate employee incentive compensation and retention program solely for the employees who chose to remain with the Debtors' estates (the "EERP"), with a total cost not to exceed $4.0 million. The terms of the EERP reflect extensive negotiation and discussion with the Creditors' Committee. The EERP provides the Debtors' receivables collections personnel with targeted bonuses based on the total percentage recovery on the Debtors' outstanding accounts receivable for which such person was responsible. The EERP also provides all other employees with bonuses based on the amount of time they remain

employed by the Debtors. Finally, the EERP further provides seven executives of the Debtors with additional bonuses based on total actual cash distributions to unsecured creditors and the timing of such distributions under a chapter 11 plan. The Bankruptcy Court approved the EERP on March 10, 2003. The EERP contemplated an effective date for a liquidating plan as early as September 2003. Over the past several months, it became apparent that the effective date was unlikely to occur that soon. On July 21, 2003, with the support of the Creditors' Committee, the Debtors filed a motion (the "Second EERP Motion") with the Bankruptcy Court seeking to (i) increase the aggregate amount of funds available under the EERP to $5.0 million, thereby making the program available during the extended plan approval period, and (ii) extending the deadlines and modifying the recovery targets for which executives may earn additional bonuses under the EERP. The Bankruptcy Court entered the order approving the Second EERP Motion on August 8, 2003.

F. ***Schedules and Statements and the Section 341 Meeting***

The Debtors filed their Schedules of Assets and Liabilities and Statement of Financial Affairs with the Bankruptcy Court on February 10, 2003. That same date, the U.S. Trustee conducted the initial meeting of the Debtors' creditors under Section 341 of the Bankruptcy Code.

G. ***Contracts and Leases; Disposition of De Minimis Assets***

1. Contracts and Leases

Under the Bankruptcy Code, a debtor may "assume" or "reject" each of its executory contracts and unexpired leases (sometimes collectively referred to in this section as executory contracts). While definitions of executory contracts vary, they are generally contracts for which both the debtor and the counterparty have performance remaining (e.g., the counterparty still has services to render and the debtor still has payments to make under the contract). The decision to assume or reject an executory contract allows the debtor either to preserve a valuable contract or to effectively breach a costly contract, thereby helping the debtor reorganize or liquidate its affairs. With only a few exceptions, if a debtor assumes an executory contract, the debtor may also "assign" the contract to third parties. This permits a debtor to sell valuable contracts by assuming and assigning them in exchange for cash payments. If a debtor wishes to assume an executory contract, it must first "cure" all existing defaults under the contract — or provide adequate assurance that it will promptly do so — and the debtor must provide adequate assurance that it will be able to perform its future obligations under the assumed executory contract. In the case of executory contracts being assigned, this adequate assurance is typically provided (as it was in this case) by a showing that the buyer or assignee will be able to perform the obligations under the contracts being assumed and assigned. Amounts owed to cure defaults must be paid in full (as opposed to the partial recoveries that general prepetition unsecured creditors receive). If instead a debtor rejects an executory contract, the contract is deemed to have been breached by the debtor immediately prior to the start of the bankruptcy case and the counterparty has only a prepetition damages claim for breach of that contract. Certain provisions of the Bankruptcy Code also place limits on the size of rejection damages claims; most notably,

Section 502(b)(6) limits rejection damages claims for lessors of real property to any actual arrearages plus the rent that would be due for the greater of one year or 15% of any remaining lease term, up to a maximum of three years.

Pursuant to the Level 3 Purchase Agreement, Level 3 was entitled to designate which executory contracts and unexpired leases of non-residential real property it wanted the Debtors to assume and assign in connection with the sale, and which executory contracts and unexpired leases would be excluded from the sale. Specifically, the Level 3 Purchase Agreement required Level 3 to determine prior to the closing of the Level 3 Sale which executory customer contracts the Debtors should assume and assign to Level 3 and which executory customer contracts the Debtors were permitted to reject. The Level 3 Purchase Agreement also required Level 3 to designate on or before May 4, 2003 (the "Election Date") which executory vendor contracts and non-residential real property leases (i) the Debtors had to assume and assign to Level 3, or (ii) would be excluded from the Level 3 Sale and allowed to be rejected. For those executory vendor contracts and unexpired leases which Level 3 permitted the Debtors to reject, Level 3 could require that the effective date of rejection be as late as the Effective Date of the Plan.

The Debtors estimate that, as of the Petition Date, they were parties to approximately 450 unexpired leases of non-residential real property, and thousands of executory contracts. Pursuant to Section 365(d)(4) of the Bankruptcy Code, a debtor must assume or reject unexpired leases of non-residential real property within sixty days of the petition date unless the Bankruptcy Court orders otherwise. The Debtors' initial deadline for assuming or rejecting unexpired leases in the Chapter 11 Cases was January 26, 2003. Pursuant to several orders of the Bankruptcy Court, the Debtors have extended that deadline to the Effective Date of the Plan.

The Debtors assumed and assigned many executory contracts and unexpired leases to Level 3 in connection with the sale of substantially all of the Debtors' assets. The Debtors generally have rejected, or intend to reject, all executory contracts and unexpired leases that have not been assumed and assigned to Level 3. For any executory contracts or unexpired leases that are being rejected, a counterparty must file any claim for rejection damages not later than 30 days after the effective date of the rejection.

In connection with the assumption and assignment of executory contracts and unexpired leases to Level 3, and other parties, the Debtors provided the counterparties to such contracts and leases with notice of what the Debtors' estimated the cure to be thereunder. While most counterparties did not object to the Debtors' estimated cure, approximately 40 so-called "cure objections" were raised. The Debtors have been working diligently to resolve these cure objections. Through August 1, 2003, the Debtors have paid approximately $ 22.8 million in cure payments and resolved approximately 25 cure objections. The Debtors are continuing to attempt to resolve such objections amicably and estimate their potential additional cure liability to be in the range of $ 38–78 million. The Debtors cannot at this time specify with any greater accuracy the amount of additional cure claims because certain major creditors have yet to quantify their alleged cure claims with specificity. The actual amount of additional cure liability could adversely and materially affect the distributions to Holders of Class 3 and Class 4 Claims.

2. De Minimis Asset Sales

Prior and subsequent to the Petition Date, in connection with the operation of their businesses, the Debtors maintained various assets which the Debtors determined were no longer necessary for the continued operation of their businesses. The Debtors anticipated that these assets, which the Debtors considered to be non-core assets of *de minimis* value, would be excluded from the sale to Level 3 and would, over the course of the Chapter 11 Cases, become unproductive, unnecessary and/or burdensome to the Debtors' estates. Accordingly, in order to facilitate the disposition of these assets, as well as the rejection of certain unexpired leases for certain premises on which some of these assets were located, the Debtors filed a motion with the Bankruptcy Court seeking authorization to sell such assets free and clear of all liens, claims and encumbrances without further Bankruptcy Court approval, and to abandon such assets in the event a sale was not feasible. The Bankruptcy Court entered an order (the "De Minimis Sale Order") approving the motion on January 24, 2003.

Pursuant to the De Minimis Sale Order, the Debtors are authorized, among other things, to sell certain assets with a sale price of $350,000 or less in the ordinary course of business without further notice or court approval, provided that in the aggregate such sales do not exceed $2 million. The De Minimis Sale Order also authorizes the Debtors to abandon assets of any value, and sell assets with a sale price of over $350,000, but less than $1.5 million, on limited notice. To date, the Debtors have sold assets for approximately $575,000 and abandoned approximately $980,000 of assets (based on net book value), under the De Minimis Sale Order.

H. ***International Wind-Down***

Subsequent to the consummation of the Level 3 Sale, the Debtors focused their attention on the orderly liquidation of their remaining assets and the wind-down of their businesses and the businesses of their subsidiaries and branches (the "Wind-Down"). In addition to the Debtors, the Wind-Down encompasses the assets and businesses of the fourteen foreign non-debtor subsidiaries of Genuity Solutions and the eight international branches of Genuity International and Genuity International Networks LLC (collectively, the "Genuity International Entities"). On May 7, 2003, the Bankruptcy Court entered an order (the "International Wind-Down Order") authorizing the Debtors to fund the wind-down costs of the Genuity International Entities and to take any and all other actions necessary to implement and effectuate, or cause to be implemented and effectuated, the Wind-Down to the extent the Debtors deem such actions to be in the best interests of their estates. Pursuant to the International Wind-Down Order, the Debtors are authorized to use their assets to fund the solvent wind-down of the Genuity International Entities on an as-needed basis, without a notice or a hearing, up to a maximum aggregate net funding amount of $2,000,000. The International Wind-Down Order also authorizes the Debtors to settle intercompany obligations between the Genuity International Entities and the Debtors to the extent necessary to effectuate the timely, efficient and equitable Wind-Down of such entities.

As the Debtors began the Wind-Down, they found that it might be necessary to appoint new officers and directors of certain Genuity International Entities and, with respect to others, to appoint a foreign liquidator or other representative to handle the

Wind-Down in certain foreign jurisdictions. In several cases, candidates for the foreign liquidator position demanded an indemnity as a condition of service. Accordingly, despite the Debtors' belief that they may have had the authority to indemnify these parties under the International Wind-Down Order, the Debtors filed a motion with the Bankruptcy Court on June 27, 2003 seeking authorization to extend indemnification coverage to those officers, directors and authorized representatives of the Genuity International Entities who are elected or appointed after the Petition Date for claims arising out of postpetition services. The Bankruptcy Court entered an order granting that motion on July 14, 2003.

I. *The Claims Process*

1. The Bar Dates

The Bankruptcy Code provides a procedure for all persons who believe they have a claim against a debtor to assert such claims, so that such claimant can receive distributions from the debtor's bankruptcy case. The bankruptcy court establishes a "bar date" — a date by which creditors must file their claims, or else such claims will not participate in the bankruptcy case or any distribution. After the filing of all claims, the debtor evaluates such claims and can raise objections to them. These claims objections allow the debtor to minimize claims against it, and thereby maximize the recovery to creditors.

On February 26, 2003, the Bankruptcy Court signed an order (the "Bar Date Order") establishing the deadline for filing proofs of claims against the Debtors, other than claims of governmental units and Administrative Claims, as April 18, 2003 at 5:00 p.m. prevailing Eastern time (the "April 18th Bar Date") or, with respect to claims filed by a person or entity holding a claim against the Debtors arising from the rejection of an executory contract or unexpired lease, the later of (a) the April 18th Bar Date or (b) the date that is thirty days after the effective date of rejection identified in the notice of rejection or order authorizing rejection with respect to such executory contract or unexpired lease (the "Rejection Bar Date"). The Bar Date Order also established the deadline for the filing of proofs of claims by governmental units (as defined in Section 101(27) of the Bankruptcy Code), as May 26, 2003 at 5:00 p.m. prevailing Eastern time (the "Governmental Bar Date").

On September 12, 2003, the Bankruptcy Court entered an order (the "Interim Administrative Claims Bar Date Order") establishing October 15, 2003 as the deadline (collectively with the April 18th Bar Date, the Governmental Bar Date and the Rejection Bar Date, the "Bar Dates") for filing proofs of Administrative Claims (except Professional Fee Claims) accruing during the period through and including July 31, 2003.

In connection with the commencement of the Chapter 11 Cases, the Debtors retained Donlin, Recano & Company, Inc. (the "Claims Agent") for the purposes of, among other things, maintaining the Claims registry in the Chapter 11 Cases and providing certain notice to creditors, interest Holders and other parties-in-interest. Subsequent to entry of the Bar Date Order, the Claims Agent mailed notices of the Bar Dates and proof of claim forms to all known creditors and stockholders of the Debtors and caused notices of the Bar Dates to be published in various newspapers.

2. Claims Objections and Claims Reconciliations

The Debtors have been reviewing, analyzing and resolving Claims on an ongoing basis as part of the claims reconciliation process. To date, over 5,500 proofs of claim have been filed in these Chapter 11 Cases. In order to facilitate the efficient administration of the numerous claims and objections thereto, the Debtors filed a motion seeking authorization to implement certain procedures related to objections to proofs of claims, notifying claimants of such objections, and settling such objections on limited notice and without further court approval (the "Claims Procedures") on June 3, 2003. The Bankruptcy Court entered an order approving the Claims Procedures on June 26, 2003.

To date, the Debtors have filed four (4) omnibus objections to proofs of claim. In these omnibus objections, the Debtors objected to certain duplicative claims, certain late filed claims, certain claims that were filed on account of equity interests in the Debtors, certain claims that have been previously satisfied or settled, certain claims for which the claimant failed to provide support and which do not appear in the Debtors' books and records, certain claims filed on account of liabilities that have been assumed by Level 3 in connection with the Level 3 Sale, certain misclassified and/or overstated claims, and certain other disputed claims. As of September 30, 2003, the Bankruptcy Court had entered orders disallowing or modifying approximately 4,627 proofs of claim, thereby eliminating asserted liabilities aggregating approximately $3.3 billion.

The Debtors' fourth omnibus objection to claims, filed on September 19, 2003, is currently pending. The fourth omnibus objection seeks to modify or expunge approximately 158 claims totaling approximately $189.7 million dollars. The Debtors anticipate that additional omnibus and individual claims objections will be filed in the near future, including in advance of the deadline for Holders of claims to return Ballots accepting or rejecting the Plan, and that the effect of certain objections could be to prohibit certain claim Holders from voting absent the Bankruptcy Court's temporary allowance of such claims for voting purposes.

As a result of the Debtors' aforementioned efforts, substantial progress has been made in reconciling the amount and classification of outstanding claims and asserting and prosecuting objections to claims. The Debtors have also identified claims for future resolution, as well as other existing or potential claims disputes. Nevertheless, a significant number of claims have not yet been resolved to date, and the actual ultimate aggregate amount of Allowed Claims may differ significantly from the amounts used for purposes of the estimates set forth in Sections I and VIII.B.2. Accordingly, the amount of the Pro Rata Share that will ultimately be received by any particular Holder of an Allowed Class 4 Claim may be adversely affected by the outcome of the claims resolution process.

J. ***Material Litigation Matters***

1. Level 3 — Purchase Price Adjustment

Level 3 acquired the assets of Genuity Inc. and its subsidiaries pursuant to the Level 3 Purchase Agreement on February 4, 2003. Part of the consideration received by the Debtors was $117 million, plus an additional $20 million in cash paid into escrow.

The escrow is intended to cover damages from any breaches of representations and warranties and covenants by the Debtors and other indemnification obligations under the Level 3 Purchase Agreement. Level 3 has until November 4, 2003 to assert such indemnification claims.

The Level 3 Purchase Agreement also contemplates certain purchase price adjustments. These adjustments, if applicable, relate to decreases in annualized recurring revenue, the reconciliation of certain prepaid items and payment of property taxes. Level 3 has asserted that it is entitled to a purchase price decrease of $38.6 million under the Level 3 Purchase Agreement. The Debtors, in response to Level 3, contend that the appropriate purchase price adjustment is a price increase of $4.3 million. The amount of the final purchase price adjustment will be increased for interest accruing from the closing of the Level 3 Sale to the date of payment at a rate of 5% per annum. The Debtors expect that the purchase price adjustment will be resolved by a formal arbitration proceeding, conducted by a certified public accountant with telecommunications experience and arbitration experience.

2. John Does (Nos. 1-46) — General Unsecured Claim

Prior to the Petition Date, John Does Nos. 1-46 asserted claims against one or more of the Debtors in an action styled *John Does v. Franco Productions*, N.D. Ill. No. 99 C 7885 (the "John Does Action"), in the United States District Court for the Northern District of Illinois. The plaintiffs in the John Does Action, John Does Nos. 1–46 (the "Athlete Plaintiffs") are former college athletes who were allegedly illicitly videotaped in their locker rooms, with the resulting videotapes sold over the Internet. In addition to commencing the action against the persons who taped the athletes and sold the videos, the plaintiffs also sued several telecommunications companies, including the Debtors, on the theory that the advertising for the videos and the sales had occurred over portions of the Internet that consisted of the Genuity Inc. Group-owned networks, and that websites selling the videos may have been hosted on the Genuity Inc. Group-owned equipment.

Prior to the Petition Date, Genuity Inc. filed a motion to dismiss the John Does Action, which was granted in November 2002. The lawsuit proceeded against the video producers, who never responded, and in November 2002 the Athlete Plaintiffs obtained default judgments against the video producers. Subsequently, the plaintiffs appealed the District Court order granting Genuity Inc.'s motion to dismiss to the Seventh Circuit Court of Appeals in an appeal styled *John Does v. Linda Herman*, 7th Cir. No. 02-4323 (the "Appeal").

The filing of the Debtors' bankruptcy petitions stayed the John Does Action and the Appeal pursuant to Section 362 of the Bankruptcy Code. The plaintiffs filed six proofs of claim in the Chapter 11 Cases, against various Debtors, including Genuity Solutions, each claim asserting that the plaintiffs are owed $450 million.

On March 19, 2003, John Does 1-46 filed a motion in the Bankruptcy Court seeking relief from the automatic stay to pursue the Appeal. Subsequently, the Debtors and the plaintiffs executed a stipulation pursuant to which the parties agreed that the stay would be modified to let the Appeal continue in the Seventh Circuit, and that the Debtors' objections to the plaintiffs' proofs of claim would proceed in the Bankruptcy Court. The Debtors objected to the claims filed by the John Does plaintiffs on May 23,

2003. Subsequently, the parties executed another stipulation, pursuant to which the parties agreed, among other things, that the plaintiffs' proofs of claim would be disallowed, except for the plaintiffs' proof of claim against Genuity Solutions (the "Solutions Claim"), and that the Solutions Claim would be disallowed to the extent that it exceeds $46 million. While the stipulation places a cap on the amount the Debtors are required to set aside in any reserve for disputed General Unsecured Claims, the Debtors' rights to object to the merits of the Claim are preserved. The parties also confirmed that the Appeal would continue to proceed in the Circuit Court and that any further proceedings related to the Solutions Claim, regardless of the outcome of the Appeal, would proceed in the Bankruptcy Court. The Bankruptcy Court approved the stipulation on June 25, 2003. The Appeal is fully briefed, and oral argument occurred before the appeals court on September 24, 2003.

3. Sharon Anderson — General Unsecured Claim

Prior to the Petition Date, Sharon Anderson ("Anderson"), acting as guardian ad litem and as de facto conservator for Danny Westall, an adult alleged by Anderson to be unable to manage his affairs and eligible for the appointment of a conservator under the terms of California law, asserted claims against one or more of the Debtors in the United States District Court for the Central District of California in an action entitled *Anderson v. Brown*, Case No. 01-09421 DT (the "Anderson Action"). Such claims arise from the alleged tortious operation of a motor vehicle by defendant Michael S. Brown, the driver, and by former defendant Todd R. Bausman, his passenger (collectively, "Brown and Bausman"). In the Anderson Action, Anderson alleges that one of the Debtors and its former corporate affiliate, GTE Communication Systems Corporation (then doing business as GTE Supply), are vicariously liable under a respondeat superior theory of liability for the negligent conduct of Brown and Bausman in connection with the operation of a motor vehicle, as well as for the intentional torts of such persons. Anderson also asserts a cause of action against one or more of the Debtors for the "negligent hiring" of Brown and Bausman. Anderson has filed a proof of claim in the Chapter 11 Cases for an amount "in excess of $5.5 million."

Upon the filing of the Debtors' bankruptcy petitions, the Anderson Action was stayed as to the Debtors pursuant to Section 362(a) of the Bankruptcy Code. At that time, the Debtors maintained a common policy (the "Policy") of insurance coverage with American Home Assurance, a member of the American International Group ("AIG"). In or around May 2003, the Debtors and Anderson began negotiating a stipulation that, if approved by the Bankruptcy Court, would grant Anderson relief from the automatic stay solely for the purpose of attempting to liquidate her claims against AIG under the Policy. In exchange for the Debtors' consent to lift the stay, Anderson would agree to look only to applicable insurance proceeds for any recovery which could otherwise be asserted against any of the Debtors in respect of the Anderson Action and to waive her right to seek other payment from the Debtors, or to file proofs of claim in the Chapter 11 Cases. Prior to the execution of the stipulation, however, the Debtors were informed that all of the non-debtor parties to the Anderson Action had reached a settlement of the claims asserted therein (the "Anderson Settlement"). Although not parties to the Anderson Settlement, Genuity Inc. and all of its Debtor affiliates are expressly designated as third-party beneficiaries of the release of claims given by Anderson in exchange for the

settlement. The Bankruptcy Court entered an order approving the Anderson Settlement on September 18, 2003.

4. Lily Kephart, et al. — General Unsecured Claim

Prior to the Petition Date, Lily Kephart, Huan Kephart, Jaymar Kephart, Huan Kephart II, and Dylan Kephart (collectively, the "Kepharts") asserted claims against one or more of the Debtors in an action entitled *Lily Kephart, et al. v. Toyota, et al.*, Case No. CV011499, in the Superior Court of California, County of San Joaquin (the "Kephart Action"). Such claims arise from the alleged tortious operation of a motor vehicle by defendant Duncan Graham, an alleged former employee of one or more of the Debtors. The Kepharts have filed two proofs of claim in the Chapter 11 Cases for "undetermined" amounts.

Upon the filing of the Debtors' bankruptcy petitions, the Kephart Action was stayed as to the Debtors pursuant to Section 362(a) of the Bankruptcy Code. At that time, the Debtors maintained insurance coverage (the "Policies") with American Home Assurance, a member of the American International Group, and Chubb (collectively, with all successors and/or assigns thereof, the "Insurers"). The Debtors executed a stipulation with the Kepharts (the "Kephart Stipulation"), which grants the Kepharts relief from the automatic stay for the sole purpose of liquidating the claims asserted in the Kephart Action against the Insurers under the Policies. In exchange for the Debtors' consent to modify the stay, the Kepharts have agreed that if there is a judgment adverse to the Debtors awarded as a result of the liquidation of the Kepharts' claims, they will (i) only attempt, and be entitled, to collect any settlement of, or judgment on, such claims from the Insurers, and not from the Debtors themselves, (ii) look only to applicable insurance proceeds for any recovery which could otherwise be asserted against any of the Debtors in respect of the Kephart Action, and (iii) waive their right to seek other payment from the Debtors, or to file proofs of claim in the Debtors' Chapter 11 Cases.

The Bankruptcy Court approved the Kephart Stipulation; therefore, the Kepharts have no claims against any of the Debtors in the Chapter 11 Cases.

5. Nortel Networks, Inc. — General Unsecured Claim, Possible Receivables and Cure Dispute

Nortel is a global industry leader and innovator supplying its service provider and enterprise customers with communications technology and infrastructure to enable value-added IP data, voice and multimedia services spanning Wireless Networks, Wireline Networks, Enterprise Networks, and Optical Networks. Prior to the Petition Date, Genuity Inc. and/or its predecessors-in-interest entered into a number of agreements with Nortel, pursuant to which the Debtors purchased, or agreed to purchase, hundreds of millions of dollars worth of Nortel products (primarily telecommunications hardware), and Nortel purchased, or agreed to purchase, various internetworking services from the Debtors. Also prior to the Petition Date, a dispute arose between the Debtors and Nortel with respect to the parties' respective obligations under certain agreements. Nortel has filed an amended proof of claim in the Chapter 11 Cases for $166,239,626.00.

The dispute between Nortel and the Debtors consists of a variety of claims and counterclaims flowing between the two parties. Nortel's alleged $166 million claim

arises, in part, out of the Debtors' alleged failure to pay and/or perform under certain agreements between the parties, and includes: (i) an alleged claim of approximately $120 million arising under a letter of intent ("Qtera LOI") pursuant to which Nortel was to provide Genuity Solutions with a Qtera system; (ii) an asserted cure amount of over $26 million allegedly owed under another letter of intent ("GTEI LOI") that was assumed and assigned to Level 3; (iii) an alleged $6.6 million reimbursement claim under a "take or pay" contract with Genuity Solutions; and (iv) various other alleged contract claims. For its part, Genuity Solutions has asserted claims and counterclaims against Nortel in the approximate aggregate amount of $69 million, which include an alleged $55 million reimbursement claim under the Qtera LOI, and an alleged claim for $14 million arising in connection with a breach of contract suit commenced by the Debtors against Nortel and/or its affiliates on account of Nortel's alleged breach of the "take or pay" contract.

The Debtors began discussions with Nortel regarding its claims in March 2003. Given the magnitude of the Nortel claims, the Creditors' Committee members (other than Nortel) believed that it was important to attempt to resolve the Nortel claims prior to confirmation of a Plan. Toward that end, the Creditors' Committee (excluding Nortel) began to engage in discussions with Nortel regarding its claims in June 2003. These discussions began with the Creditors' Committee (excluding Nortel) gathering due diligence and hearing presentations from Nortel and the Debtors on the merits of the Nortel claims. Negotiations commenced shortly thereafter and led to a proposed settlement between the Creditors' Committee (other than Nortel) and Nortel in July 2003. The terms of the proposed settlement were presented to, and ultimately approved by, the Debtors and thereafter embodied in a settlement stipulation between the Debtors and Nortel, which was entered by the Bankruptcy Court as "So Ordered" on September 18, 2003. The Creditors' Committee (other than Nortel) has advised the Debtors that the formulation of the Creditors' Committee's position regarding the proposed settlement of the Nortel claims excluded Nortel.

Pursuant to the settlement, Nortel will be granted an allowed General Unsecured Claim of $25 million in settlement of the Qtera LOI dispute, the parties will waive all claims relating to the "take or pay" contract, the cure under the GTEI LOI will be $2,028,896, and the claims asserted by Nortel under the other contracts with the Debtors will be allowed as General Unsecured Claims in the amount of $178,000.

6. Victor Roman/Hudson Telegraph Associates — General Unsecured Claim

Prior to the Petition Date, Victor Roman ("Roman") commenced an action against Hudson Telegraph Associates, LLP ("Hudson") and Lehr Construction in the Supreme Court of the State of New York (the "Roman Action"). The Roman Action arose out of a personal injury that Roman allegedly incurred while working at 60 Hudson Street, New York, NY on September 27, 1999. In the Roman Action, Roman seeks to recover damages of $10 million.

At the time of the alleged injury underlying the Roman Action, which was prior to the spin-off of the Debtors from GTE, GTE Intelligent Network Services Inc., predecessor in interest to Genuity Solutions, and GTE Internetworking, n/k/a Genuity Inc., occupied a portion of the premises at 60 Hudson Street as tenants under two lease agreements with Hudson as landlord (the "Leases"). Subsequent to the IPO, Genuity Inc.

and Genuity Solutions continued to occupy the premises under the Leases. Subsequent to the Petition Date, the Debtors assumed and assigned the Leases to Verizon Global Networks, Inc.

On April 24, 2003, more than two and one-half years after the commencement of the Roman Action, Hudson filed a third-party complaint against GTE Internetworking, Inc., Genuity Inc., Genuity Solutions and Genuity Telecom in the Roman Action, asserting claims for, among other things, negligence and indemnification under the applicable Lease (the "Third-Party Action"). Upon learning of the third-party complaint, the Debtors' counsel contacted counsel for Hudson to inform them that the filing of the third-party complaint violated the automatic stay, and to request that Hudson withdraw its complaint against the Debtors. Instead, on June 27, 2003, Hudson filed a motion for relief from stay in the Bankruptcy Court to proceed with the Roman Action in the state court (the "Hudson Relief Motion"). The Debtors objected to the Hudson Relief Motion on July 16, 2003, arguing, among other things, that Hudson was barred from bringing the action asserted against the Debtors in the third-party complaint under the doctrine of *res judicata* pursuant to the Bankruptcy Court's prior order authorizing the assumption and assignment of the Leases. Subsequently, the Debtors and Hudson entered into a stipulation (the "Hudson Stipulation") providing that the automatic stay would be annulled and modified only so as to permit Hudson to liquidate its claims in State court and to seek recovery of any settlement or judgment in the Third-Party Action only against the insurer. The Bankruptcy Court approved the Hudson Stipulation at a hearing on September 17, 2003.

7. ICG Datachoice — General Unsecured Claim

Prior to the Petition Date, ICG DataChoice Network Services, LLC ("ICG") filed suit against Genuity Solutions in federal court in Denver, Colorado, asserting claims for breach of contract and anticipatory breach of contract arising out of the termination of a contract under which ICG was to provide telecommunications services to Genuity Solutions (the "Colorado Litigation"). Genuity Solutions denied ICG's allegation, and took the position that it had properly terminated the contract due to ICG's failure to perform. Genuity Solutions vigorously defended the lawsuit until the case was stayed by the filing of the Debtors' bankruptcy petitions. On February 25, 2003, ICG filed a motion for relief from the automatic stay in order to proceed with the Colorado Litigation (the "ICG Lift Stay Motion"). At a hearing on March 25, 2003, the Bankruptcy Court denied the ICG Lift Stay Motion as premature, particularly since ICG had yet to file a proof of claim in the Chapter 11 Cases at the time. Subsequently, ICG filed a General Unsecured Claim in the in the amount of $35 million. The Debtors intend to object to ICG's claim.

More specifically, ICG alleges that Genuity Solutions breached its contract with ICG, anticipatorily breached the contract, and breached the implied covenant of good faith and fair dealing. ICG contends that Genuity Solutions failed to provide ICG with the architectural, technical and equipment specifications that ICG required in order to be able to conduct advanced testing of ICG services as provided under the contract. The Debtors believe that they provided ICG with all the necessary equipment and technical specifications that ICG needed to conduct the required testing and to enable ICG to perform under the contract. The Debtors also contend that ICG could not have performed

the contract for various technical and financial reasons. The Debtors contest ICG's damages estimates.

8. Verizon Commercial Disputes — General Unsecured Claim, Cure Dispute, Receivables

From the time of the IPO through the closing of the Level 3 Sale, the Debtors and Verizon were parties to a host of commercial agreements under which the Debtors supplied services to Verizon and vice versa. Disputes have arisen between the Debtors and Verizon under a number of these agreements. The resolution of these disputes could have a significant impact on the recoveries to General Unsecured Creditors.

Verizon has filed multiple claims in the Chapter 11 Cases, reflecting the broad scope of its commercial relations with the Debtors. While there are numerous points of difference between the Debtors and Verizon with respect to these claims, the disputes of the greatest magnitude relate to Verizon's numerous guarantees of the Debtors' real estate leases and the termination of a certain Memorandum of Understanding dated January 3, 2002 (the "Verizon MOU"). At the time of the IPO, Verizon agreed to continue certain guarantees with respect to real estate leases to be taken over by the Genuity Inc. Group after the IPO and to issue new guarantees for certain other Genuity Inc. Group leases (the "Verizon Lease Guarantees"). Verizon contends that the rejection of numerous unexpired leases in the Chapter 11 Cases has given rise to multiple claims against Verizon under the Verizon Lease Guarantees. Verizon has filed General Unsecured Claims totaling approximately $126 million relating to the Verizon Lease Guarantees. The Debtors believe that this number may be reduced considerably by the application of the cap on lease damages imposed by Section 502(b)(6) of the Bankruptcy Code.

The terms of the Verizon MOU were predicated on Verizon receiving all necessary regulatory and governmental approvals before being obligated to provide services in a state. If such approval process materially and adversely changed the rights, obligations or risks of Verizon or Genuity Solutions, the parties were to negotiate in good faith upon new terms that would satisfy their original intentions; and in the event they were unable to agree upon such terms, either party was given the right to terminate the Verizon MOU or affected services. In the event of such a termination, Genuity Solutions was not to be subject to any termination or shortfall liability, nor to any other liability that would otherwise apply under Verizon tariffs. In July 2002, Verizon notified Genuity Solutions that the FCC had refused to approve the Verizon MOU because the FCC disapproved the Verizon MOU's waiver of termination liabilities and required a cost justification from Verizon. To the Debtors' knowledge, Verizon has not provided the FCC with a cost justification for the waiver and indicated to Genuity Solutions that they had no intent to do so. After attempting but being unable to come to agreement with Verizon on terms that would satisfy the original intention of the parties, Genuity Solutions gave written notice to Verizon that Genuity Solutions was terminating the Verizon MOU due to failure by Verizon to secure necessary regulatory approval resulting in a material adverse change, and accompanied by the failure by Verizon to propose any alternative agreement that might satisfy the original intentions of the parties. While the Debtors believe that they have no outstanding liabilities under the Verizon MOU, Verizon has asserted a General Unsecured Claim of approximately $79 million.

While Verizon's proof of claim does not set forth the basis of its claim, the Debtors believe that the claim is based on a calculation of 100% of the monthly rate for each circuit Verizon alleges were subject to the MOU, multiplied by the number of months allegedly remaining under the contract. Genuity currently believes that Verizon's claim is without merit and may be objectionable on a variety of grounds, including the following: (1) that Genuity has no liability to Verizon because Verizon breached or otherwise failed to comply with the provisions of the MOU; (2) that Genuity was entitled to terminate the MOU because Verizon's failure to obtain the contemplated regulatory approvals; (3) that Verizon has suffered as a result of the termination of the MOU little or no damages; and (4) that, for various reasons, if Verizon has any claim it is far below the amount asserted in its proof of claim.

The Plan does not address the extent of any potential claims by the Estates seeking equitable subordination of Verizon's claims in respect of these commercial agreements. An attempt, if any, to equitably subordinate such claims would likely be based on the prepetition conduct of Verizon described in Section II above. A fuller description of those facts may be found in the Debtors' Supplemental Memorandum in support of Settlement Agreement (the "Verizon Settlement") with Verizon Communications Inc. (Docket No. 310). See also Section II.D.3 above. Verizon believes there is no basis for any such equitable subordination and has informed the Debtors that it would vigorously defend against any such claims.

Pursuant to the terms of the Level 3 Purchase Agreement, the Debtors assumed and assigned numerous Verizon contracts to Level 3, including written agreements, service orders and service requests under tariffs for thousands of telecommunications circuits provided by Verizon (the "Assigned Verizon Agreements"). The Debtors proposed an aggregate cure amount of $17.3 million for the Assigned Verizon Agreements. Verizon objected to the Debtors' proposed cure for the Assigned Verizon Agreements, asserting that the proper cure amount should total, at a minimum, approximately $38.5 million. The contracts under which cure is claimed are, primarily, contracts, service orders or service requests for thousands of telecommunications circuits. A large portion of the discrepancy in cure amounts between the Debtors and Verizon arises from significant difficulties in reconciling the billing systems of the two companies. The Debtors and Verizon have expended significant effort in their continuing attempts to reconcile the cure amounts due in respect of these telecommunications circuits. The Debtors do not at the present time have an estimate as to the potential outcome of the reconciliation or any litigation over these cure issues.

On June 9, 2003, Verizon filed an expedited motion seeking an order compelling the Debtors and Level 3 to pay amounts allegedly past due on postpetition invoices (the "Verizon Expedited Motion"). In particular, Verizon alleged that it was owed approximately $39 million on postpetition invoices from four distinct lines of business: retail, wholesale, enterprise, and high-speed data services. The Debtors filed an opposition to the Verizon Expedited Motion on the grounds that, first, Verizon was being paid on a current basis for amounts due and owing since the closing of the Level 3 Sale and second, that Verizon could not reasonably demand payment of past due amounts from the Debtors when Verizon itself was withholding payment on tens of millions of dollars it owed to the Debtors. At a hearing on June 23, 2003, the Bankruptcy Court

refused Verizon's request for an evidentiary hearing and adjourned the Verizon Expedited Motion pending further negotiations and exchange of information between the parties. The Debtors and Verizon have exchanged significant amounts of information regarding, and are in the process of reconciling, these billing discrepancies. Negotiations between the parties are continuing.

In addition to Verizon's claims against the Debtors, there are also significant amounts that various Verizon entities owe to the Debtors. The majority of these sums have accrued under an agreement for DSL services (the "Verizon DSL Agreement"). Under the DSL Agreement, Genuity Solutions provided DSL services to Verizon Online ("VOL"), which VOL resold to its own customers. The Debtors believe that VOL owes as much as $75.5 million under the DSL Agreement. Verizon disputes the aggregate amount the Debtors are claiming under the DSL Agreement and is also asserting a setoff of as much as $32.1 million for the cost of the component services provided to the Debtors by the other Verizon entities. In addition, various Verizon entities owe the Debtors substantial amounts under certain other agreements. Verizon has indicated that it believes the amounts due to Genuity Solutions under such other agreements are significantly less than the amounts shown in the Debtors' records. There are some disputes over the precise amounts owed, as well as a dispute between the Debtors and Verizon as to whether amounts that Genuity Solutions owes to certain Verizon entities may be setoff or recouped against amounts that certain Verizon entities owe to Genuity Solutions.

The actual amount of the Debtors' cure liability and the Verizon accounts receivable could adversely and materially affect the distributions to Holders of Class 3 and Class 4 Claims. Furthermore, the actual allowed amounts of Verizon's General Unsecured Claims could adversely and materially affect the distributions to Holders of Class 4 Claims.

K. *Professional Fees*

As of September 1, 2003, the Debtors have paid the various professionals retained by them in their Chapter 11 Cases an aggregate of approximately $14.4 million since the Petition Date, and have paid professionals retained by the Creditors' Committee an aggregate of approximately $1.4 million since the Petition Date. The Bankruptcy Court has approved, on an interim basis, approximately $13.6 million of such fees and expenses. It is expected that during the Plan approval process, professionals will file second interim fee applications and the Bankruptcy Court will then consider allowing such fees and expenses on an interim basis. The Debtors estimate that various professionals will accrue fees and expenses subsequent to September 1, 2003 for approximately $5.7 million assuming the Effective Date is November 30, 2003. The fees and expenses discussed in this paragraph also do not include fees and expenses of AP Services LLC, which are expected to be approximately $4.1 million, excluding any incentive fee (see Section VI.B.10 below).

These estimates do not include claims for substantial contribution in the Chapter 11 cases, which may be filed by certain members of the Creditors' Committee and their professionals. The Debtors have been apprised that Nortel, as a Creditors' Committee member, anticipates filing a claim for professional expenses incurred in making a

substantial contribution to the Chapter 11 Cases, including the negotiation of the intercreditor compromise incorporated in the Plan, in the amount of approximately $450,000 through July 31, 2003 plus amounts incurred thereafter. The Debtors have also been apprised that the Bank Agent, as a Creditors' Committee member, anticipates filing such a substantial contribution claim, in the amount of approximately $500,000 through August 31, 2003 plus amounts incurred thereafter. The Debtors have not agreed to these substantial contribution claims and they remain subject to objection and Bankruptcy Court approval.

L. ***Statutory Fees to United States Trustee***

The Debtors are required to pay statutory fees pursuant to Chapter 123 of title 28, United States Code (the "US Trustee Fees"). The US Trustee Fees shall be paid when due, by the Debtors on or before the Effective Date and by the Liquidating Trust after the Effective Date, through the closing of the Chapter 11 Cases.

IV. DEBTOR-CREDITOR AND INTERCREDITOR SETTLEMENT

From the inception of the Chapter 11 Cases, the Debtors and the Creditors' Committee understood that a principal purpose of negotiations regarding a plan would be the allocation of assets of the estates among creditor constituencies, principally the Bank Lenders, Verizon and the other General Unsecured Creditors. Members of the Creditors' Committee have negotiated extensively with each other in an effort to resolve consensually the myriad intercreditor and debtor-creditor issues in the Chapter 11 Cases among the Debtors, the Bank Lenders, Verizon and the other General Unsecured Creditors.

Discussion among the Creditors' Committee members regarding intercreditor issues began in April 2003. After more than a month of analysis and due diligence on these issues, in late May 2003 the Creditors' Committee members, led by JPMorgan Chase, on behalf of the Bank Lenders, and Nortel, on behalf of the General Unsecured Creditors, began to negotiate the terms of a global intercreditor resolution. This negotiation culminated in an agreement in principle reached, and approved by, the full Creditors' Committee in early July 2003. The Debtors have participated in these negotiations by having conversations with certain significant creditors and the Creditors' Committee and by providing factual information and identifying and explaining legal issues that the Debtors consider relevant to resolution of intercreditor issues and certain debtor-creditor issues. The Debtors have also conducted their own extensive evaluation of the issues that could affect distributions to various groups of creditors under the Plan.

These negotiations have resulted in a settlement under which intercreditor issues and certain debtor-creditor issues will be compromised and settled pursuant to the Plan (the "Settlement"). The Settlement is supported unanimously by the Creditors' Committee and the Debtors. The Debtors support the Settlement because it provides for the consensual and fair resolution of the intercreditor and certain debtor-creditor issues, which the Debtors believe is in the best interests of the creditors as a whole. In accordance with Bankruptcy Rule 9019, and pursuant to the terms of the Plan, at and as part of the hearing on confirmation of the Plan, the Debtors will request that the

Bankruptcy Court approve the Settlement as fair, reasonable and in the best interests of the Debtors' estates.

The Debtors and the Creditors' Committee believe the Settlement is in the best interests of the unsecured creditors of each of the Debtors' estates for several reasons. First, as discussed more extensively below, the outcomes of the potential litigations that are being settled are uncertain. Second, the Settlement is a product of extensive negotiation among the Creditors' Committee (which is comprised of certain Bank Lenders and General Unsecured Creditors), and its members' respective advisors. As such, the Settlement takes into account the risks and potential recoveries related to each of the intercreditor and the debtor-creditor issues described herein. Finally, except for certain potential preference actions, none of the intercreditor litigation claims, if successful, would enhance the total recovery available to unsecured creditors. Instead, the major effect would be to alter the percentage of recoveries among the unsecured creditor constituencies. For example, if the Bank Lenders prevailed on all of their contentions, the recovery for General Unsecured Creditors could be between 3% and 6% of their allowed claims. On the other hand, General Unsecured Creditors might raise issues that, if all were decided against the Bank Lenders, could lead to a recovery for General Unsecured Creditors of between 59% and 100% of their allowed claims.

Further, regardless of the eventual outcome of the disputes resolved by the Settlement, continued litigation would result in substantial cost to the estates and extensive delays – at least several months and potentially more than a year – in confirming a plan of liquidation. For example, the Debtors believe that due to the circumstances under which the July 2002 Draw occurred, it is likely that the Bank Lenders would litigate the issues described below aggressively. These costs and delays would certainly diminish the amount of cash available for distribution to unsecured creditors.

Finally, some of the variance in estimated recovery percentages under the Plan for General Unsecured Creditors, and in the scenarios discussed below, results from the range of potential claims in that class. Currently the Debtors estimate that the General Unsecured Claims that will ultimately be allowed in the Chapter 11 Cases may equal as little as $404 million and as much as $788 million.

A. *Summary of Intercreditor and Debtor-Creditor Issues Compromised Under the Settlement*

The Plan reflects a careful and thorough evaluation of possible legal theories, among other things, by which the Bankruptcy Court might, if asked to do so, avoid or recharacterize various transactions between the parent Debtor, Genuity Inc., and its subsidiaries, or between Genuity Inc. and third parties. The potential causes of action being resolved pursuant to the Settlement include: (a) whether the intercompany debt held by Genuity Inc. against Genuity Solutions, in whole or in part, could be recharacterized as equity infusions from Genuity Inc. into Genuity Solutions, (b) fraudulent conveyance actions by Genuity Inc. against Genuity Solutions and other subsidiaries in connection with the downstreaming of funds to those subsidiaries at times the Bank Lenders could argue Genuity Inc. and Genuity Solutions were insolvent, (c) an objection to the allowed amount of the Subsidiary Guaranty Claims asserted by the Bank

Lenders against Genuity Solutions and Genuity Telecom under the Bank Credit Agreement, (d) preference actions by Genuity Solutions against Genuity Inc. and by Genuity Inc. against the Bank Lenders for receipt of certain payments during the applicable preference periods, (e) the equitable subordination of the Verizon claims to all other claims, (f) fraud claims against the officers and directors of Genuity Inc. in connection with making the July 2002 Draw, (g) cross-claims and counterclaims of those directors and officers against Verizon and other parties, and (h) substantive consolidation of the Debtors' estates.

It is important to recognize that these issues are interrelated and cannot be considered in isolation. The ultimate litigated outcome of nearly every issue would directly affect the resolution of other issues, and any litigation would likely involve all of these issues in a complex related series of proceedings. Accordingly, the discussions and recovery percentages provided below do not describe discrete possible outcomes. Rather, they are intended to assist creditors in understanding the components of these major intercreditor disputes and the complex interplay among those components. There is no practical way to estimate the probability of any particular set of outcomes of any such litigation.

As described further, both above and below, since their creation, substantially all financing for all of the Debtors (including the IPO, the July 2001 offering of the Chase-Backed Notes, the Bank Credit Agreement and Verizon Credit Facility) has been obtained by Genuity Inc., and the proceeds thereof have been transferred, directly or indirectly, after receipt to accounts under the name of Genuity Solutions and entered in the Debtors' records as payables. The last major intercompany transfer was the more than $700 million in proceeds of the July 2002 Draw. As a result of the various intercompany transfers, as of the Petition Date the bulk of the Debtors' cash was held at Genuity Solutions – approximately $829 million was held by Genuity Solutions, and only $31.9 million was held by Genuity Inc.

As described above, substantially all of the General Unsecured Claims are against Genuity Solutions, and the Bank Lenders' direct claims and the Verizon Credit Facility Claims are against Genuity Inc. Given that the intercompany claims are entered in the Debtors' records as payables, the Banks would expect a Subsidiary Guaranty Claim in the full amount of the Bank Loans against Genuity Solutions, and the Bank Lenders would seek to have Genuity Inc. assert intercompany claims against Genuity Solutions in the full amount of the various intercompany transfers between Genuity Inc. and Genuity Solutions as well as fraudulent conveyance claims.

1. The Nature of Intercompany Advances from Genuity Inc. to Genuity Solutions

One issue raised is whether the funds transferred from Genuity Inc. to Genuity Solutions, which currently are recorded on the Debtors' books as payables, are properly characterized as debt owed by Genuity Solutions to Genuity Inc. or, in whole or in part, could be recharacterized as equity infusions by Genuity Inc. into Genuity Solutions. As of the commencement of these Chapter 11 Cases, the Debtors' books and records reflect approximately $5.9 billion of intercompany payables by Genuity Solutions to either Genuity Inc. or another wholly-owned Debtor-subsidiary of Genuity Inc. that does not

have substantial creditors.[1] If these intercompany claims were allowed in full as valid indebtedness *pari passu* with General Unsecured Claims and a Subsidiary Guaranty Claim was allowed in full in the amount of $1.67 billion (see Section IV.A.3 below), the recovery on all such claims would be between 8% and 11% of allowed claims. Because between 91% and 95% of the claims benefit the Bank Lenders, directly in respect of the Subsidiary Guaranty Claim and indirectly in respect of the intercompany claims of Genuity Inc., most available cash would flow to the Bank Lenders. However, pursuant to the equitable remedy of recharacterization, bankruptcy courts have the power in appropriate circumstances to recast intercompany indebtedness, in whole or in part, as equity.

In determining whether to recharacterize a loan as equity, courts examine the relationship between the debtor and the lender, the capitalization of the debtor, and the particular circumstances under which the loan was made. Supporting the current debt characterization is the fact that these advances of cash from Genuity Inc. to Genuity Solutions are recorded in the Debtors' books and records as payables from Genuity Solutions to Genuity Inc., and that the accounting system applied and recorded an interest rate on the payables and treated them as debt for tax purposes. There are certain factors, such as the absence of a maturity date for repayment and the fact that the intercompany transfers recorded on the Debtors' books were never set-off or reconciled, that one could use to argue that those intercompany transfers to Genuity Solutions should be recharacterized as equity capital.

Recharacterization of advances from Genuity Inc. to its subsidiaries as capital contributions rather than debt would have a significant impact on the distribution of estate funds. Such a remedy would transform Genuity Inc.'s intercompany claims against Genuity Solutions, which holds substantially all of the Debtors' cash, to equity interests that would be junior to the unsecured claims against that subsidiary. In this scenario, General Unsecured Creditors of Genuity Solutions would receive a relative distribution from these cases in an amount significantly in excess of what the Settlement under the Plan provides. Indeed, the hypothetical recovery, based on a full recharacterization of the intercompany claims and assuming a resulting limitation of the Genuity Solutions Subsidiary Guaranty Claim to $407 million (see Section IV.A.3 below) and success by General Unsecured Creditors on all other issues (including fraudulent conveyance issues), could result in recoveries to General Unsecured Creditors of approximately 59-100% on their claims. However, if any recharacterization challenge was unsuccessful, the status quo would be maintained — each of the intercompany claims by Genuity Inc. against Genuity Solutions will be allowed as a General Unsecured Claim. Each of such intercompany claims would share pro rata in the distributions to be made to Holders of General Unsecured Claims by the Genuity Solutions estate. Such intercompany claims, together with a full Subsidiary Guaranty Claim by the Bank Lenders, would constitute the overwhelming majority of the claims against Genuity Solutions and therefore entitle the

[1] These intercompany amounts are not listed on the Debtors' Schedules; the Debtors have not included any intercompany amounts in their Schedules (as disclosed therein). The Debtors do not believe that the presence or absence of the intercompany amounts in the Schedules would independently affect the outcome of any intercreditor litigation.

Bank Lenders to a relative distribution from these cases in an amount significantly in excess of what the Settlement under this Plan provides.

Further, recharacterization litigation would require the Bankruptcy Court to resolve a number of factually complex issues and the burden of proof to recharacterize debt as equity may require the party asserting such a claim to prove its case by clear and convincing evidence. Absent the Settlement, the litigation of these issues would significantly delay the implementation of a plan and would require the estate to incur significant legal fees, all without any assurance of success or benefit to General Unsecured Creditors. Additionally, the Bank Lenders would likely make the argument that the court should give effect to the Subsidiary Guaranty for the entire amount of the debt outstanding under the Bank Credit Agreement even if a portion of the amounts transferred from Genuity Inc. to Genuity Solutions are recharacterized by the court as equity. The Bank Lenders would note that the court should give effect to what those lenders see as the intent of the parties and provide the Bank Lenders with full Subsidiary Guaranty Claims in the amount of $1.67 billion.

2. Recovery by Genuity Inc. of Certain Intercompany Advances to Genuity Solutions as a Fraudulent Conveyance

The Genuity Inc. Estate has potential claims against the Genuity Solutions Estate to recover certain advances based on a "downstream fraudulent transfer" theory. Specifically, Bankruptcy Code Section 548 provides that a bankruptcy estate may recover the amount of any transfer made by the debtor within one year prior to the petition date if (i) at the time of the transfer the debtor was insolvent, had unreasonably small capital or intended to incur debts that it would be unable to pay as they came due and (ii) the transfer was made for less than reasonably equivalent value. Similarly, Bankruptcy Code Section 544 provides that a bankruptcy estate may avail itself of state-law fraudulent transfer claims that could have been brought by creditors. While it is not clear which state's law would apply to the transfers from Genuity Inc. to Genuity Solutions, both Massachusetts and New York (the likely applicable state laws) have fraudulent transfer statutes similar to Bankruptcy Code Section 548.

Based on these provisions of Bankruptcy Code Sections 548 and 544, the Genuity Inc. Estate could argue that each transfer from Genuity Inc. to Genuity Solutions was a fraudulent transfer if, at the time of such transfer, Genuity Inc. was insolvent or had unreasonably small capital and that Genuity Solutions was also insolvent. If such facts could be proved for any such transfer, then Genuity Inc. could argue that it received no benefit from the transfer to an insolvent Genuity Solutions, because all transferred funds would only be available to ultimately satisfy claims of Genuity Solutions' creditors.

There is evidence to support, and refute, the insolvency, or inadequate capitalization, of Genuity Inc. at the relevant times. There is also evidence to support, and refute, the insolvency of Genuity Solutions at the relevant times. The strongest arguments in favor of finding a fraudulent conveyance exist with respect to the most recent pre-petition transfer, the $723 million July 2002 Draw under the Bank Credit Agreement that was downstreamed to Genuity Solutions.

As a practical matter, this potential intercompany dispute could mitigate the result of the dispute over whether intercompany advances constitute debt of Genuity Solutions

payable to Genuity Inc. because a successful downstream fraudulent transfer claim would at least give Genuity Inc. an additional intercompany claim against Genuity Solutions. Moreover, the Bank Lenders could argue that the remedy for a downstream fraudulent transfer is, in this case, a full dollar-for-dollar return of the downstreamed funds. Such a remedy would have the effect of removing $514.2 million from the estate of Genuity Solutions to Genuity Inc. and thereby diminishing the General Unsecured Creditors' recovery. Furthermore, the Bank Lenders might still have a Subsidiary Guaranty Claim of $407 million (see Section IV.A.3 below). Such a result would leave between $211 million and $417 million available for distribution to satisfy claims at Genuity Solutions. General Unsecured Creditors could contend that there is no downstream fraudulent transfer except where all of the intercompany indebtedness is recharacterized as equity, and in such a scenario the resulting recovery for General Unsecured Creditors would be between 16% and 49%. As an example of the complex interplay of issues, the Bank Lenders assert that there are potential litigation outcomes in which there would be full recovery by Genuity Inc. of the downstream fraudulent transfer and there would also still be full or only partially reduced intercompany claims and relatively large Subsidiary Guaranty Claims. Even if debt recharacterization reduced the intercompany claims from $5.9 billion to $1.67 billion (the amount of money loaned into the Genuity Inc. Group by the Bank Lenders, with all Verizon- and IPO-raised funds treated as equity), the recovery for General Unsecured Creditors, after the effects of a successful fraudulent transfer litigation, would be between 3% to 9% of allowed claims. If the Bank Lenders were fully successful in their contentions regarding the downstream fraudulent transfer and the characterization of intercompany claims, then the recovery for General Unsecured Creditors would be between 3% and 6% of allowed claims.

3. The Scope of Genuity Solutions' and Genuity Telecom's Guaranty of the Bank Debt

As noted above, Genuity Inc. is the sole borrower under the Bank Credit Agreement. At the time Genuity Inc. entered into the Bank Credit Agreement, both Genuity Solutions and Genuity Telecom executed the Subsidiary Guaranty. The Subsidiary Guaranty provides that the liability of each guarantor is limited to the aggregate "Debt" (as defined in the Bank Credit Agreement) of such guarantor (other than Debt arising under the Bank Credit Agreement). The term "Debt" is defined in the Bank Credit Agreement, in relevant part, as:

"Debt" of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of such Person's business for which collection proceedings have not been commenced, provided that trade payables for which collection proceedings have commenced shall not be included in the term "Debt" so long as the payment of such trade payables is being contested in good faith and by proper proceedings and for which appropriate reserves are being maintained), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, … (e) all obligations of such Person as lessee under leases that have been, in accordance with GAAP, recorded as capital leases, ….

Accordingly, if certain intercompany advances described above are recharacterized as equity, rather than being characterized as intercompany debt that

would be "indebtedness for borrowed money" under this definition, it could be argued that the Genuity Solutions and Genuity Telecom obligations under the Subsidiary Guaranty might be less than the full amount of indebtedness to the Bank Lenders. However, as of the Petition Date Genuity Solutions had not less than $7 million of third-party notes payable and approximately $400 million of lease liabilities that would be classified as capital leases under GAAP, as well as trade debt. Therefore, in any case, the amount of the Genuity Solutions' guaranty of the Bank Credit Agreement would be more than $407 million, and likely would be higher given that it is unlikely that all of the approximately $6 billion of intercompany payables would be recharacterized.

Additionally, and as with the equity recharacterization argument discussed above, the Bank Lenders would likely make the argument that the court should give effect to the Subsidiary Guaranty for the entire amount of the debt outstanding under the Bank Credit Agreement even if the amounts transferred from Genuity Inc. to Genuity Solutions are recharacterized by the court to be equity. The Bank Lenders would note that the court should give effect to what they see as the intent of the parties and provide the Bank Lenders with a full Subsidiary Guaranty.

4. The Debtors' Potential Preference Actions Against the Bank Lenders

Following the Verizon Termination, the Debtors, the Bank Agent and the Bank Lenders began negotiations regarding the defaults that the Verizon Termination had caused. As described above (see Section II.D.2), during those negotiations the Debtors and the Bank Agent entered into the Bank Forbearance Agreements. The Bank Forbearance Agreements were instrumental in maintaining critical third-party contracts and providing the Debtors with the opportunity to review their restructuring options in an orderly manner and negotiate the Level 3 transaction. The Initial Bank Forbearance Agreement provided a two-week forbearance in exchange for a $100 million repayment. Genuity Inc. repaid the Bank Lenders another $50 million pursuant to the Bank Forbearance Agreements executed after the Initial Bank Forbearance Agreement and before August 27, 2002. Finally, Genuity Inc. repaid the Bank Lenders another $58 million pursuant to the Bank Forbearance Agreements executed within the 90 days prior to the Petition Date. In each case, the cash paid to the Bank Lenders pursuant to the Bank Forbearance Agreements was originally downstreamed from Genuity Inc. to Genuity Solutions and subsequently returned by Genuity Solutions to Genuity Inc. for purposes of making the payments under the Bank Forbearance Agreements to the Bank Lenders.

These circumstances give rise to potential claims (a) of the Genuity Solutions Estate against Genuity Inc. to recover all or some portion of the $208 million paid, in the aggregate, as well as against the Bank Lenders as subsequent transferees, and (b) of Genuity Inc. against the Bank Lenders to recover all or some portion of the $58 million paid, in the aggregate, based on Bankruptcy Code Section 547, which deals with preferences, and Section 550, which deals with recoveries from subsequent transferees. If such preference claims were brought, the Bank Lenders would likely vigorously defend such claims. Among other things, the Bank Lenders could argue with respect to the transfers prior to the 90th day before the Petition Date that: (i) because the Bank Lenders were not insiders, those transfers cannot be recovered from them as a result of Bankruptcy Code Section 550(c) and (ii) the funds transferred were not property of the

Genuity Solutions Estate because those funds were fraudulently transferred from Genuity Inc. to Genuity Solutions (see Section IV.A.2 above) Such a litigation, like each of the others described in this Disclosure Statement, would be factually complex and require substantial time and expense to obtain a judgment. The Debtors and the Creditors' Committee believe that this Settlement reflects more time- and cost-efficient resolution, within the range of reasonableness, of this and the other intercreditor issues discussed herein.

In the event of any preference recovery from the Bank Lenders, the Bank Lenders would have increased claims against the applicable Debtor in the amount of such recovery. Because the Bank Lenders are the largest creditors of the Debtors, only a portion of any recovery would benefit General Unsecured Creditors. Depending on the outcome of various other issues (e.g., the amount of intercompany claims and substantive consolidation), even if the Genuity Solutions Estate was completely successful in obtaining the preference recovery described above, the portion of the preference recovery benefiting General Unsecured Creditors would be between $19 million and $83 million. The ultimate preference recovery within such range is dependent on the outcome of the debt recharacterization and Subsidiary Guaranty issues, which affect the amount of allowed unsecured claims against Genuity Solutions and which claims would share in any preference recovery. For example, if the Bank Lenders succeeded on all of their contentions but were required to disgorge the maximum amount of the alleged preferential transfers, the General Unsecured Creditor recovery would increase from a 3-6% range to approximately a range of 4-9%. If the General Unsecured Creditors succeeded on all of their potential arguments and a full preference claim, the General Unsecured Creditor recovery would increase from a 59-100% range to approximately a range of 77-100%.

5. Equitable Subordination of Verizon Claims

As described above in Section II.D.4, prior to the Petition Date, Verizon and the Bank Lenders entered into an agreement pursuant to which, among other things, Verizon agreed to subordinate its Claims under the Verizon Credit Facility to the payment in full of the Bank Lenders' Claims under the Bank Credit Agreement. Absent the Settlement, the General Unsecured Creditors might have sought to equitably subordinate the Verizon Credit Facility Claims to the General Unsecured Claims. Such an action becomes unnecessary given the structure of the Settlement embodied in the Plan – Verizon will receive no distribution in respect of its Verizon Credit Facility Claims, given that there are insufficient funds to pay the Bank Lenders in full, and the value that would otherwise be attributable to such Verizon Credit Facility Claims is allocated by the Bank Lenders among all unsecured creditors as set forth in the Settlement and the Plan. A brief discussion of the basis for equitable subordination is set forth below.

Verizon has various relationships with Genuity Inc. and its debtor-affiliates, including: (i) successor to GTE, the former parent of GTE Internetworking, n/k/a Genuity Inc.; (ii) Holder of Class A stock of Genuity Inc.; (iii) Holder of one share of Class B stock of Genuity Inc. and the right to elect one member of the board of directors of Genuity Inc.; (iv) lender of $1.15 billion to Genuity Inc. under the Verizon Credit Facility (i.e., the Class 5 Verizon Investments Claims); (v) guarantor of various

contractual obligations of Genuity Inc. and/or its debtor-affiliates; (vi) customer of Genuity Inc. and/or its debtor-affiliates; and (vii) vendor of Genuity Inc. and/or its debtor-affiliates.

In determining whether to equitably subordinate claims, courts will analyze whether (i) the claimant engaged in inequitable conduct, (ii) the inequitable conduct resulted in injury to the debtor's other creditors and/or conferred an unfair advantage on the claimant, and (iii) equitable subordination of the claim is not inconsistent with the other provisions of the Bankruptcy Code. Factors that could support equitable subordination of Verizon's claims include Genuity Inc.'s overall relationship with, and arguable control by, Verizon, and Genuity Inc.'s undercapitalization at the time of the IPO. Verizon could argue that it engaged in no inequitable conduct that resulted in injury to the Debtors' other creditors, that Verizon itself was injured by the Debtors' bankruptcy, and that the many commercial arrangements between the Debtors and Verizon were negotiated on an arm's length basis. The extent to which the Verizon commercial agreement claims are enforceable or subordinated is not addressed by the Settlement or the Plan.

Equitable subordination of the Verizon Investments Claims would only be material in the event of a full substantive consolidation of the Debtors' Estates. See Section IV.A.6 below.

6. Substantive Consolidation

The term "substantive consolidation" refers to the merging of the assets and liabilities of distinct, bankrupt entities and their treatment as if they belonged to a single entity. The two critical factors considered in assessing whether substantive consolidation is warranted are (i) whether creditors dealt with the Debtors as a single economic unit and did not rely on their separate identity in extending credit or (ii) whether the affairs of the Debtors are so entangled that consolidation will benefit all creditors. With respect to the first factor, creditors who make loans on the basis of the financial status of a separate entity expect to be able to look to the assets of their particular borrower for satisfaction of that loan. The second factor involves whether there has been a commingling of the assets and business functions and considers whether all creditors will benefit because untangling is either impossible or so costly as to consume the assets. Full substantive consolidation would result in General Unsecured Creditors receiving a relative distribution in excess of what the Settlement provides. For example, all unsecured creditors sharing *pari passu* in a substantively consolidated case would receive between 20% and 28% of their allowed claims. Under those circumstances, as a result of the contractual subordination of the Verizon Investments Claims to the claims of the Bank Lenders, the Bank Lenders would actually receive between 34% and 47% of their allowed claims. If the Verizon Investments Claims are also equitably subordinated in such a consolidated estate, then all remaining unsecured creditors (including General Unsecured Creditors) would receive between 29% and 45% of their allowed claims. These recovery estimates could increase somewhat if the estates were also successful on some or all of the preference claims against the Bank Lenders. The Plan provides for substantive consolidation only for limited purposes of voting and administrative convenience of distributions. See Section IV.B.2 below.

There is evidence to support, and to refute, the two factors of the substantive consolidation analysis. On the one hand, facts militating against substantive consolidation would include that: (a) the majority of the General Unsecured Creditors did business predominantly with Genuity Solutions, and not with any of the other Debtors; (b) there were separate legal and financial records for each of the Debtors; (c) in the normal course of business since at least the time of the IPO, it was the practice of Genuity Solutions to have its contracts with third parties be in the name of Genuity Solutions Inc. and not the trade name "Genuity"; (d) public filings with the Securities and Exchange Commission, which were available to contracting parties, disclosed the existence of different legal entities; and (e) many of the contracting parties were sophisticated and understood the legal entity (i.e. Genuity Solutions) with which they were dealing. On the other hand, facts militating in favor of substantive consolidation would include that separate financial statements of individual Debtors were not provided to general unsecured creditors nor were they publicly available, as well as some of the same facts that are relevant to the issue of whether intercompany advances could be recharacterized as equity.

7. Potential Causes of Action Against the Debtors' Directors and Officers

The global compromise contained in the Plan includes a release of current and former directors and officers of the Debtors, from all claims that the Debtors, their Estates and any person receiving distributions under this Plan might have. This release is an integral part of the overall settlement, because (among other reasons) in the event of major intercompany and intercreditor litigation, including the litigation that might be brought by Bank Lenders, there could be claims brought against those directors and officers, who would in turn have claims over against the Debtors (for indemnification) and against other third parties (for contributing to whatever harms are alleged).

The Debtors have considered whether they or the Estates would have any viable claims against the directors and officers; the Debtors have concluded that they would not. The Creditors' Committee has considered and supports the releases to be given, as part of the global settlement. The following is a description of the principal potential claims against directors and officers, all of which the Debtors believe have no merit. Some or all of any claims may be covered by insurance policies, and any claims may be covered by insurance; and any insurers may have defenses to coverage.

First, the Debtors and their Estates might assert claims for breaches of fiduciary duty by the directors and officers. Such claims might arise from, among other things, alleged undercapitalization of the Debtors from the time of the IPO and at various times thereafter, alleged failure to formulate and execute appropriate business plans and stem large operating losses, and alleged bad decisions in undertaking various corporate acquisitions. In general, directors and officers can be held liable for breaches of duty of care, duty of good faith and duty of loyalty. Directors and officers would have a variety of arguments and defenses against such claims, including that their planning was entirely proper given market conditions at the relevant times, that their decisions are protected by the so-called "business judgment rule" under which courts give deference to decisions made after a fully-informed process, and that provisions of the relevant corporate charters protect the directors against monetary liability.

Second, the Bank Lenders who funded the July 2002 Draw might allege that, at the time of such draw, some or all directors and officers of the Debtors knew, or should have known, that Verizon would imminently convert its shares so as to cause an event of default under the Bank Credit Agreement. The Debtors are not aware of any director or officer who had such knowledge; the Debtors and the directors and officers are not aware of any specific factual basis for such a claim.

B. ***Terms of the Settlement***

The Settlement involves the resolution of all litigation claims set forth in Section IV.A above, and how cash from the Debtors' estates will be allocated among the Debtors' creditors and the substantive consolidation of the Debtors for purposes of voting on, making distributions under, and administration of, the Plan.

1. Allocation of Cash to Unsecured Creditors

Available Cash held by the Debtors will be allocated between the Bank Lenders and the General Unsecured Creditors as follows:

(a) The first $514.2 million will be distributed on the Effective Date to the Bank Agent for the benefit of the Bank Lenders;

(b) The next $70 million will be distributed on the Effective Date to the Liquidating Trust (see Section VI.B), to be distributed for the benefit of the Holders of General Unsecured Claims after payment of expenses and establishment of appropriate reserves as set forth in the Liquidating Trust Agreement;

(c) The next $116 million will be distributed to the Bank Agent for the benefit of the Bank Lenders, of which at least $3,840,850 must be distributed on the Effective Date; and

(d) Thereafter, for each dollar of distributable cash, 68% will be distributed to Holders of Class A Beneficial Interests in the Liquidating Trust, and 32% will be distributed to the Class B Subtrust for the benefit of General Unsecured Creditors, after the payment of certain expenses and the creation of reserves as described in the Liquidating Trust Agreement; provided, however, that any distributions of such cash on the Effective Date in respect of the Class A Beneficial Interests shall be made directly to the Bank Agent, on behalf of the Bank Lenders.

Assuming that the Available Cash is no less than $700 million on the Effective Date, which would satisfy distributions (a) through (c) above, the Bank Lenders would receive a recovery of no less than 39%, and the General Unsecured Creditors would receive a recovery of no less than 10% (assuming General Unsecured Claims of $800 million and expenses of the Liquidating Trust of $5 million, which will be paid prior to

distributions to the General Unsecured Creditors). For the purposes of this calculation, the high point of expected potential total Allowed General Unsecured Claims was used.

All cash in excess of $700 million distributed by the Debtors with respect to claims of the Bank Lenders and the General Unsecured Creditors, whether received prior to or after the Effective Date, will be allocated in the percentages set forth above in the distributions contemplated by clause (d). These percentages reflect a settlement based on the *pro rata* shares of the remaining claims of the Bank Lenders (excluding Subsidiary Guaranty Claims of the Bank Lenders and Verizon Credit Facility Claims) and the General Unsecured Creditors (using the approximate midpoint between the high and low expected aggregate allowed General Unsecured Claims) after taking into account distributions contemplated by clauses (a) through (c) and assuming the substantive consolidation of the assets of and claims against the Debtors' estates as described below.

2. Substantive Consolidation

The Debtors' estates will be substantively consolidated for purposes of voting on, making distributions under and administration of, the Plan only. In order to effectuate this aspect of the Settlement, in connection with the Confirmation of the Plan, the court will be asked to approve as part of the Confirmation Order that, for purposes of making distributions and otherwise administering the Plan, on the Effective Date: (i) all assets and all liabilities of the Debtors shall be treated as if merged into Genuity Inc., (ii) all guarantees of any Debtor of the payment, performance or collection of obligations of another Debtor shall be eliminated and cancelled, (iii) any obligation of any Debtor and all guarantees thereof executed by one or more of the other Debtors shall be treated as a single obligation and a single claim against Genuity Inc., (iv) all joint obligations of two or more Debtors and all multiple claims against such entities on account of such joint obligations shall be treated and allowed only as a single claim against Genuity Inc., (v) each claim filed in the case of any Debtor shall be deemed filed against Genuity Inc. and a single obligation of Genuity Inc., (vi) all equity interests owned by any of the Debtors in any other Debtor shall be eliminated for purposes of making distributions and otherwise administering the Plan, and (vii) all intercompany claims held by any Debtor (either directly or through another Debtor) against any other Debtor shall be deemed settled and paid to the extent that any Debtor makes available its assets to fund a distribution made to any claimant on behalf of any other Debtor and all intercompany claims by and among the Debtors shall be eliminated. Nothing in the Plan or herein is an admission by the Debtors, or otherwise indicates the merits of any claim in respect of substantive consolidation.

C. ***Bankruptcy Court Approval of the Settlement***

The Debtors propose to effectuate the terms of the Settlement under the Plan in accordance with section 1123(b)(3)(A) of the Bankruptcy Code. At the Confirmation Hearing, the Debtors will request, pursuant to Bankruptcy Rule 9019 and subject to the occurrence of the Effective Date, that the Bankruptcy Court approve the Settlement. Such approval by the Bankruptcy Court will entail consideration of certain factors to determine whether the Settlement is in the best interests of the Debtors' estates. Among the determinative factors to be considered are:

- the probability of success in the litigation;
- the complexity of the litigation and the expenses, inconveniences and delays necessarily attendant to the prosecution of the litigation;
- the difficulties, if any, to be encountered in the collection of any judgment that might be obtained; and
- the interests of the Debtors' estates, including those of the creditors and other parties in interest and giving appropriate deference to the reasonable views expressed by them in relation to the proposed Settlement.

Based upon the factors set forth above – and considering in particular the uncertainty of the litigation outcome – the Debtors and the Creditors' Committee believe the Settlement falls well within the range of reasonableness and reflects a reasonable compromise of complex issues. As discussed above, the outcomes of the potential litigations being settled are uncertain. Moreover, litigation of the intercreditor and certain debtor-creditor issues would result in protracted litigation requiring considerable time and expense. Litigation would result in a guaranteed diminution of the estate because ultimately, regardless of the outcome, no additional funds will be brought into the estate. For all of the foregoing reasons, the Debtors and the Creditors' Committee believe that the Settlement is in the best interests of the Debtors' unsecured creditors.

V. THE JOINT CONSOLIDATED PLAN OF LIQUIDATION, AS MODIFIED

A. *Plan Overview*

The Plan represents a settlement and compromise of numerous potential disputes, principally those set forth in Section IV above. The Debtors believe that the litigation of these various disputes in these Chapter 11 Cases could consume many millions of dollars that can otherwise be distributed to creditors and, more importantly, would delay actual cash distributions to creditors for many months, and possibly years. The Debtors accordingly believe that a compromise of these disputes in the Plan is in the best interests of all creditors, both maximizing and expediting overall recoveries in these Chapter 11 Cases.

The Plan is premised on the compromise and settlement of the significant disputes described in Section IV above. The Settlement provides for, among other things, substantive consolidation of the Debtors for the purpose of implementing the Settlement and making distributions in accordance therewith.

The term "substantive consolidation" refers to the pooling of assets and liabilities of distinct, bankrupt entities, which are then treated as if they belonged to a single debtor entity. In a substantively consolidated estate, not only are the liabilities of the consolidated entities satisfied from a common fund of assets, but also intercompany and guaranty claims are often eliminated, and the creditors of all the consolidated debtors are combined for the purposes of voting on a Chapter 11 plan. Substantive consolidation is the vehicle for accomplishing the global intercreditor resolution embodied in the Plan.

The global settlement and compromise represented by the Plan takes account of the various intercompany claims, both direct and indirect, through the structure of distributions from the consolidated estate. Because the Bank Lenders have claims against Genuity Inc., Genuity Solutions, and Genuity Telecom, and because they are the

beneficiaries of the contractual subordination of the Verizon Investments Claims, the Plan provides for recoveries to the Bank Lenders (Class 3) and non-Bank General Unsecured Creditors (Class 4) according to the following terms, in each case to the extent the Debtors have sufficient cash after making distributions to or creating reserves for Allowed, Disputed and as yet unasserted Administrative Claims, Priority Tax Claims, Priority Claims and Miscellaneous Secured Claims:

1. The first $514.2 million will be distributed to the Bank Agent in its capacity as agent for the benefit of the Bank Lenders;

2. The next $70 million will be distributed to the Liquidating Trust (see Section VI), to be held in a separate subtrust maintained for the benefit of General Unsecured Creditors, with the proceeds thereof to be distributed to the General Unsecured Creditors after the payment of expenses and the creation of reserves, as and to the extent provided in the Liquidating Trust Agreement;

3. The next $116 million will be distributed to the Bank Agent in its capacity as agent for the benefit of the Bank Lenders; and

4. Thereafter, for each dollar of distributable cash, 68% will be distributed to Holders of Class A Beneficial Interests in the Liquidating Trust, and 32% will be distributed to the Class B Subtrust for the benefit of General Unsecured Creditors, after the payment of certain expenses and the creation of reserves as described in the Liquidating Trust Agreement; provided, however, that any distributions of such cash on the Effective Date in respect of the Class A Beneficial Interests shall be made directly to the Bank Agent, on behalf of the Bank Lenders;

and, provided further, that any distributions pursuant to paragraph 4 above after the Effective Date shall be made net of all applicable reserves and expenses, as provided in the Liquidating Trust Agreement.

All assets of the Debtors not distributed on the Effective Date of the Plan shall vest on the Effective Date in a Liquidating Trust, as provided in the Liquidating Trust Agreement. Distributions to Holders of beneficial interests in the Liquidating Trust will be made by the Liquidating Trust based on such Holder's pro rata share of Class A or Class B (as applicable) beneficial interests in the Liquidating Trust established thereunder.

The provisions of the Plan relating to substantive consolidation of the Debtors, the treatment of direct and indirect intercompany claims, and the treatment of each Class of Claims under the Plan, including the distributions, reflects the global compromise and settlement of these issues as between the Debtors and the Creditors' Committee and among the various members of the Creditors' Committee. On the Effective Date of the Plan, this compromise and settlement will be binding on the Debtors, all Holders of Claims against the Debtors, and all other entities receiving any payments or other distributions under the Plan.

B. ***Provisions for the Payment of Unclassified Claims***

1. Administrative Claims

Each Holder of an Allowed Administrative Claim shall be paid in full in Cash the amount of such Allowed Administrative Claim on or as soon as reasonably practicable after the latest of (i) the Effective Date, (ii) the date such Administrative Claim becomes Allowed and (iii) the date fixed by the Bankruptcy Court, unless such Holder shall agree to a different treatment of such Claim (including, without limitation, any different treatment that may be provided for in the documentation governing such Claim).

2. Priority Tax Claims

Each Holder of an Allowed Priority Tax Claim shall, at the option of the Liquidating Trust or the Debtors, be paid in full in Cash the amount of such Allowed Priority Tax Claim on or as soon as reasonably practicable after the later of (a) the Effective Date and (b) the date such Priority Tax Claim becomes Allowed.

C. ***Provisions for the Payment of Classified Claims and Interests***

1. Classification of Claims and Interests

Claims and Interests are classified under the Plan as follows:

(a) Class 1 — Priority Claims

(b) Class 2 — Miscellaneous Secured Claims (this includes the secured portion, pursuant to Bankruptcy Code Sections 506(a) and (b), of any claims for real estate taxes that are secured by liens as a matter of applicable nonbankruptcy law)

(c) Class 3 — Bank Group Claims

(d) Class 4 — General Unsecured Claims

(e) Class 5 — Verizon Investments Claims

(f) Class 6 — 510(b) Claims

(g) Class 7 — Interests in the Debtors

2. Treatment of Class 1 Priority Claims

Each Holder of an Allowed Priority Claim shall be paid in full in Cash the amount of such Allowed Priority Claim on or as soon as reasonably practicable after the later of (i) the Effective Date and (ii) the date such Priority Claim becomes Allowed, unless such Holder shall agree to a different treatment of such Claim.

3. Treatment of Class 2 Miscellaneous Secured Claims

Each Allowed Miscellaneous Secured Claim will be treated, at the election of the Debtors made not later than the Confirmation Hearing, as follows: (a) the Plan shall leave

unaltered the legal, equitable and contractual rights with respect to such Claim; (b) the Holder of such Claim shall receive Cash equal to the Allowed amount of such Claim; (c) the Holder of such Claim shall receive the indubitable equivalent of such Claim; (d) such Claim shall be paid in full in Cash on or as soon as reasonably practicable after the later of the Effective Date and the date on which such Claim becomes Allowed; or (e) the Holder of such Claim shall receive such other treatment to which such Holder consents.

As described above in Section III.D, the Debtors have sold substantially all of their assets to Level 3. Under the Level 3 Sale Order that sale was free and clear of all Liens, with any Liens (to the extent valid, enforceable and perfected) attaching to the proceeds of the sale. To the Debtors' knowledge they have no remaining Non-Cash Assets that are pledged as collateral to secure any Claim. It is therefore likely that option (d) listed above will apply to the Allowed Miscellaneous Secured Claims; i.e. they will be paid in full in Cash on or as soon as reasonably practicable after the later of the Effective Date and the date on which such Claim becomes Allowed. Section 8.3.2(h) of the Plan provides that the Liquidating Trust assets will be distributed to Holders of Class B Beneficial Interests only after appropriate reserves have been established in accordance with the Liquidating Trust Agreement. Pursuant to the Liquidating Trust Agreement, the Liquidating Trust will establish a reserve for Disputed Cash Claims, which include all Disputed Miscellaneous Secured Claims.

4. Treatment of Class 3 Bank Group Claims

On or as soon as reasonably practicable after the Effective Date, the Bank Agent, on behalf of the Bank Lenders, shall receive the following in respect of all Class 3 Claims:

(a) $514,200,000.00; and

(b) the Bank Tranche Amount; and

(c) 68% of the Residual Cash, if any; and

(d) the Class A Beneficial Interests, which shall evidence the right to receive the Bank Tranche Amount, to the extent not paid on the Effective Date, and 68% of the Residual Cash, if any, after the Effective Date;

provided, however, that (i) the $514,200,000 payment; not less than $3,840,850 of the Bank Tranche Amount; and the Class A Beneficial Interests shall be distributed on the Effective Date and (ii) any distribution of Cash to be made to the Holders of Class A Beneficial Interests after the Effective Date shall be made net of all applicable reserves and expenses, as provided in the Liquidating Trust Agreement.

5. Treatment of Class 4 General Unsecured Claims

Each Holder of an Allowed General Unsecured Claim shall receive, on or as soon as reasonably practicable after the later of the Effective Date and the date such Claim is Allowed, such Holder's Pro Rata Share of Class B Beneficial Interests; provided, however, that the Class B Beneficial Interests that otherwise would have been distributed

in respect of the BBN Bonds Claims shall be subject to the provisions of Section 8.8 of the Plan. The Class B Beneficial Interests shall, in the aggregate, evidence the right of the Holders of Allowed General Unsecured Claims to receive from the Class B Subtrust their respective Pro Rata Share of the Class B Tranche Amount (i.e., $70 million less reserves and expenses) plus 32% of the Residual Cash, in each case net of all applicable reserves and expenses, as provided in the Liquidating Trust Agreement. See Section V.G for a discussion of the treatment of the BBN Bonds Claims.

6. Treatment of Class 5 Verizon Investments Claims

Holders of Allowed Verizon Investments Claims shall receive no distribution under the Plan with respect to such Claims.

7. Treatment of Class 6 Section 510(b) Claims

Holders of Allowed 510(b) Claims shall receive no distribution under the Plan with respect to such Claims.

8. Treatment of All Interests in the Debtors

On the Effective Date, all Interests in the Debtors shall be cancelled and extinguished and Holders of such Interests shall not receive any distribution under the Plan.

D. ***Method of Distribution Under the Plan***

Under the Bankruptcy Code, only claims and equity interests that are "allowed" may receive distributions under a Chapter 11 plan. In general, an "allowed" claim or "allowed" equity interest simply means that the debtor agrees or, in the event of a dispute, that the Bankruptcy Court determines, that the claim or interest, and the amount thereof, is in fact a valid obligation of the debtor.

Any Claim that is not a Disputed Claim and for which a proof of claim has been timely filed asserting such Claim as liquidated and not contingent is an Allowed Claim. Any Claim that has been listed by any Debtor in such Debtor's schedules of assets and liabilities, as may be amended from time to time, as liquidated in amount and not disputed or contingent is an Allowed Claim in the amount listed in the schedules unless an objection to such Claim has been filed. If the Holder of such Claim files a proof of claim in an amount greater than the amount set forth on the Debtor's schedules of assets and liabilities, the Claim shall be a Disputed Claim in its entirety. Any Claim that has been listed in the Debtor's schedules of assets and liabilities as disputed, contingent or not liquidated and for which a proof of claim has been filed is a Disputed Claim. Any Claim for which an objection or motion to estimate for purposes of allowance has been timely interposed is a Disputed Claim. For an explanation of how Disputed Claims will be treated and resolved, see Section V.E below.

An objection to any claim may be interposed (i) prior to the Effective Date of the Plan, by the Debtors or (ii) after the Effective Date of the Plan and prior to the Claims Objection Date, by the Liquidating Trust. Any claim for which an objection has been interposed will be an Allowed Claim to the extent the objection is determined in favor of the Holder of the claim.

1. Sources of Cash for Plan Distributions

Except as otherwise provided in the Plan or the Confirmation Order, all Cash to be distributed pursuant to the Plan will be obtained from the Debtors' available Cash and the liquidation of the Debtors' remaining Non-Cash Assets.

2. Disbursing Agent

The Debtors shall act as the Disbursing Agent under the Plan with respect to distributions made on the Effective Date, and the Liquidating Trustee shall act as Disbursing Agent thereafter. The Disbursing Agent shall make all distributions to Holders of Beneficial Interests in the Liquidating Trust, and of Cash, required to be distributed under the applicable provisions of this Plan. The Disbursing Agent shall serve with reasonable bond after the Effective Date.

3. Distributions on Allowed Claims as of the Effective Date

On the Effective Date or as soon as practicable thereafter, the Disbursing Agent shall pay, in cash, all Allowed Administrative Claims, all Allowed Priority Tax Claims, all Allowed Class 1 Priority Claims, all Allowed Class 2 Miscellaneous Secured Claims (unless an alternative treatment authorized by the Plan is elected), and the amount payable with respect to Allowed Class 3 Bank Group Claims.

4. Distributions from the Liquidating Trust

On or as soon as reasonably practicable after the Effective Date, and after establishing appropriate expense and claim reserves in accordance with the Liquidating Trust Agreement, the Liquidating Trust shall distribute all remaining amounts in the Class B Subtrust to the Holders of the Class B Beneficial Interests. The Liquidating Trust will make subsequent distributions from the Class B Subtrust to the Holders of the Class B Beneficial Interests from time to time after the Effective Date, as and to the extent provided in the Liquidating Trust Agreement.

After paying or otherwise reserving for expenses incurred by the Liquidating Trust in connection with the Causes of Action and the resolution of the Disputed Cash Claims, the Liquidating Trust will distribute the Liquidating Trust Assets from time to time in accordance with Sections 7.3 and 7.4 of the Plan and as and to the extent provided in the Liquidating Trust Agreement.

5. Disputed General Unsecured Claims Reserve

On the date of any distribution from the Class B Subtrust, the Liquidating Trust shall establish, and maintain thereafter, a reserve, from Cash in the Class B Subtrust, for the benefit of Holders of Disputed General Unsecured Claims. Such reserve shall consist of an amount of Cash equal to the amount that would be distributable to all Holders of Disputed General Unsecured Claims, in respect of all distributions made to that date, if those Claims were Allowed in the Maximum Amount. In the event any disputed General Unsecured Claim becomes an Allowed Claim, the amount of such Allowed Claim shall never exceed the Maximum Amount of such Disputed Claim, and the Liquidating Trust shall distribute to the Holder of such Allowed Claim from the reserve the aggregate amount of Cash and Class B Beneficial Interests that such Holder would have received as

of the date of such distribution in respect of such Allowed Claim had such Claim been an Allowed Claim as of the Effective Date.

6. Withholding Taxes

The Debtors and the Liquidating Trust shall comply with all withholding, reporting, certification and information requirements imposed by any federal, state, local or foreign taxing authority and all distributions under the Plan shall, to the extent applicable, be subject to any such withholding, reporting, certification and information requirements. Persons entitled to receive distributions under the Plan shall, as a condition to receiving such distributions, provide such information and take such steps as the Disbursing Agent may reasonably require to ensure compliance with such withholding and reporting requirements, and to enable the Disbursing Agent to obtain the certifications and information as may be necessary or appropriate to satisfy the provisions of any tax law.

Any Person who does not provide the Disbursing Agent with requisite information after the Disbursing Agent has made at least three attempts (by written notice or request for such information, including on the ballots in these Chapter 11 Cases) to obtain such information, may be deemed to have forfeited such Person's right to such distributions, which shall be treated as unclaimed property under the Plan.

7. Delivery of Distributions

Distributions to Holders of Allowed Claims under the Plan shall be made to the address of such Holder on the books and records of the Debtors or their agents, unless the Debtors have been notified in writing of a change of address. If the distribution to any Holder of an Allowed Claim is returned as undeliverable, the Disbursing Agent shall use reasonable efforts to determine the current address of such Holder. Subject to Section 11.6 of the Plan, undeliverable distributions shall be held by the Liquidating Trust.

8. Unclaimed Property

Any Person who fails to claim any distribution or Cash to be distributed under the Plan within one (1) year from the initial date for such distribution shall forfeit all rights to any such distributions under the Plan. Upon such forfeiture of any beneficial interest in the Liquidating Trust, such beneficial interest shall be deemed cancelled and of no further force or effect. Upon such forfeiture of Cash or other property, such Cash or property shall be the property of the Liquidating Trust. Nothing herein or in the Plan shall require the Debtors, the Disbursing Agent or the Liquidating Trust to attempt to locate or notify any Person with respect to any forfeited property. Persons who fail to claim Cash or other property to be distributed under the Plan shall forfeit their rights thereto and shall have no claim whatsoever with respect thereto against the Debtors, their Estates, the Disbursing Agent, the Liquidating Trust, the Liquidating Trustee, the Liquidating Trust Oversight Committee, the Liquidating Trust Assets or any Holder of an Allowed Claim to which distributions are made.

E. ***Resolution of Disputed, Contingent and Unliquidated Claims***

1. No Distributions Pending Allowance

No payments or distributions shall be made on account of any Claim, including a Disputed Claim, until such Claim becomes an Allowed Claim.

2. Prosecution of Objections

If the Debtors, the Liquidating Trust or other parties in interest dispute any Claim, such dispute shall be determined, resolved or adjudicated, as the case may be, under applicable law by the Bankruptcy Court. After the Effective Date, except as set forth in Section 8.8.3 of the Plan, no party in interest shall have the right to object to Claims against, or Interests in, the Debtors or their Estates other than the Liquidating Trust, which shall be deemed to have standing to object to all such Claims and Interests.

3. Estimation

The Debtors (on or before the Effective Date) and the Liquidating Trust (after the Effective Date) may each elect, at their respective sole option, to object to or seek estimation under Bankruptcy Code Section 502 with respect to any proof of Claim or Interest filed by or on behalf of a Holder of a Claim or Interest in the Debtors. The Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including during the pendency of any appeal relating to such objection.

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

1. Rejected Contracts and Leases

As described previously, the Level 3 Purchase Agreement required Level 3 to designate (a) on or before the closing of the Level 3 Sale, which executory customer contracts that Level 3 would permit the Debtors to reject and (b) on or before May 4, 2003, which executory vendor contracts and unexpired leases Level 3 would permit the Debtors to reject (the "Level 3 Transition Period Contracts"). Level 3 could require that the rejection effective date for Level 3 Transition Period Contracts be as late as the Effective Date. Level 3 also has the right to request acceleration of the rejection any Level 3 Transition Period Contract upon notice to the contract counterparty. Pursuant to the Level 3 Sale Order, the Debtors have previously given notice to all counterparties to Level 3 Transition Period Contracts that the Debtors have elected to reject, but for which the effective date of rejection has been delayed until as late as the Effective Date of the Plan. Thus, without further action, all such Level 3 Transaction Period Contracts for which rejection has not previously become effective shall be deemed rejected as of the Effective Date.

Many of the Level 3 Transition Period Contracts consisted of contracts, service orders or service requests for telecommunications circuits, that is, the telephone lines and fiber-optic cable that formed the components of the Debtors' network. Many of these circuits were to be assumed and assigned to Level 3. While the Debtors made every effort to specifically identify all such circuits to be assumed and assigned in their notices to circuit vendors, precise identification was not always possible due to the large number

of circuits that comprised the Debtors' network. For this reason, on some notices of assumption and assignment of circuits, the Debtors indicated that, in addition any circuits identified on the notices of assumption and assignment, all active telecommunications circuits with a particular counterparty were to be assumed and assigned. To provide certainty with respect to the status of executory contracts for telecommunications circuits, the Plan provides that any telecommunications circuit that has not been specifically identified and assumed and assigned to Level 3 by the Effective Date shall be deemed rejected as of the Effective Date.

In addition, the Plan provides that all executory contracts and unexpired leases to which the Debtors are party, and that have not previously been assumed or rejected in the Chapter 11 Cases, shall be rejected as of the Effective Date of the Plan.

Entry of the Confirmation Order shall constitute approval by the Bankruptcy Court of all such rejections.

2. Bar Date for Rejection Damages

With respect to Level 3 Transition Period Contracts, the Level 3 Sale Order and the Bar Date Order both provide that each non-debtor counterparty to each such Level 3 Transition Period Contract must file any proofs of claim, arising from the rejection of such contract, with the Bankruptcy Court not later than the 30th day after the effective date of rejection of such Level 3 Transition Period Contract, or else such Claim shall be forever barred from being asserted against the Debtors' Estates.

With respect to all other executory contracts and unexpired leases being rejected as of the Effective Date, the Plan and the Bar Date Order both provide that the non-debtor counterparties to each such contract or lease must file any proofs of claim, arising from the rejection of such contract or lease, with the Bankruptcy Court not later than the 30th day after the Effective Date, or else such claim shall be forever barred from being asserted against the Debtors' Estates.

In each case, Claims to be filed with the Bankruptcy Court must be sent to:

IF SENT BY MAIL:	IF DELIVERED BY HAND OR OVERNIGHT COURIER:
United States Bankruptcy Court Southern District of New York Re: Genuity Inc., et al. P.O. Box 110 Bowling Green Station New York, NY 10274	United States Bankruptcy Court Southern District of New York Re: Genuity Inc., et al. One Bowling Green, Room 534 New York, NY 10002-1408

G. ***Treatment of BBN Bonds***

In April 1987, Genuity Solutions (then known as Bolt Beranek and Newman, Inc.) issued $86.25 million aggregate principal amount of 6% Convertible Subordinated Debentures due 2012 (the "BBN Bonds"). The BBN Bonds had substantial prepayments made during their life; as of the Petition Date only $7,487,000 in principal amount remained outstanding. The BBN Bonds are, pursuant to the terms of their indenture,

subordinated to certain other claims against Genuity Solutions. As a result, Section 8.2.2 of the Plan provides that the BBN Bonds Trustee shall have an Allowed Claim in Class 4 (General Unsecured Claims) of $7,782,736.41, the amount of outstanding principal and interest as of the Petition Date. However, the Plan also provides that the distributions to the BBN Bonds Trustee will instead be diverted to other creditors; Section 8.8 of the Plan contains provisions that implement the subordination provisions of the BBN Bonds Indenture so that amounts are paid directly over to the beneficiaries of that subordination.

Specifically, Article Four of the BBN Bonds Indenture provides that:

> Upon any distribution of assets of [Genuity Solutions] upon any dissolution, winding up, liquidation or reorganization of [Genuity Solutions] (whether in bankruptcy, insolvency or receivership proceedings or upon an assignment for the benefit of creditors or otherwise), (a) The Holders of all Senior Indebtedness shall first be entitled to receive payment in full of the principal thereof, premium, if any, and interest due thereon before the Holders of the [BBN Bonds] are entitled to receive any payment on account of the principal of, premium, if any, or interest on the [BBN Bonds] [other than certain stock]; and (b) any payment or distribution of assets of [Genuity Solutions], whether in cash, property or securities [other than certain stock], to which the Holders of the [BBN Bonds] or the [BBN Bonds Trustee] would be entitled except for the provisions of this Article Four, shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or other trustee or agent, directly to the Holders of Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution or provisions therefore to the Holder of such Senior Indebtedness . . . .

The BBN Bonds Indenture defines "Senior Indebtedness" as:

> The term "Senior Indebtedness" shall mean the following, whether outstanding on the date hereof [April 1, 1987] or thereafter created, incurred, assumed or guaranteed:
>
> (a) principal of and premium, if any, and interest on indebtedness of [Genuity Solutions] for money borrowed

(including any indebtedness secured by a mortgage or other lien which is (i) given to secure all or part of the purchase price of property subject thereto, whether given to the vendor of such property or to another, or (ii) existing on property at the time of acquisition thereof) evidenced by notes or other written obligations;

(b) principal of and premium, if any, and interest on indebtedness of [Genuity Solutions] evidenced by notes, debentures, bonds or other securities sold by [Genuity Solutions] for money;

(c) principal of and premium, if any, and interest on indebtedness of [Genuity Solutions] incurred under Capital Lease Obligations (as defined below);

(d) principal of and premium, if any, and interest on indebtedness of others of the kinds described in either of the preceding clauses (a), (b) or (c) assumed by or guaranteed in any manner by [Genuity Solutions] or in effect guaranteed by [Genuity Solutions] through an agreement to purchase, contingent or otherwise; and

(e) principal of and premium, if any, and interest on renewals, extensions or refundings of indebtedness or leases of the kinds described in any of the preceding clauses (a), (b), (c) or (d);

unless, in the case of any particular indebtedness, lease, renewal, extension or refunding, the instrument or lease creating or evidencing the same or the assumption or guarantee of the same expressly provides that such indebtedness, lease, renewal, extension or refunding is subordinate to any other indebtedness of [Genuity Solutions] or that such indebtedness, lease, renewal, extension or refunding is not superior in right of payment to the [BBN Bonds]. The term "Capital Lease Obligations" for purposes hereof shall be deemed to mean a lease of real or personal property which, in accordance with generally accepted accounting principles, is reflected in an amount shown as a liability on the balance sheet of [Genuity Solutions].

The Plan implements these subordination provisions by defining "Senior Creditor Claimants," which are the Persons entitled to the benefits of the contractual subordination of the BBN Bonds. The Plan specifically identifies those creditors that the Debtors believe are Senior Creditor Claimants, as well as the amounts of their Senior Creditor Claims as of the Effective Date, on Exhibit B to the Plan.

A Person who is not a Holder of an Allowed General Unsecured Claim under any agreement set forth in Exhibit B to the Plan may seek to become a Senior Creditor Claimant by Filing a statement of such Claim, including the basis for qualification as a Senior Creditor Claimant, not later than the 30th day after the Effective Date. If the Liquidating Trust, any Senior Creditor Claimant or beneficial owner of BBN Bonds objects to the proposed treatment of any Senior Creditor Claimant, the objecting party must File its objection not later than 60 days after the Effective Date, and the objection will then be adjudicated in the Bankruptcy Court.

On the Effective Date, the Disbursing Agent shall place in a reserve (the "Senior Creditor Claims Reserve"), the Class B Beneficial Interests that would have been distributable to the BBN Bonds Trustee in respect of the BBN Bonds Claims, if not for the subordination provisions set forth in the BBN Bonds Indenture. The Disbursing Agent shall, as soon as practicable after the date that objections are due as described above: (i) continue to hold in the Senior Creditor Claims Reserve an amount of Class B Beneficial Interests equal to the Senior Claimant Share of such Class B Beneficial Interests that would have been distributed in respect of the maximum amount (as determined by the Liquidating Trustee) of all Contested Senior Creditor Claims and (ii) distribute to all other Senior Creditor Claimants holding Approved Senior Creditor Claims their Senior Claimant Share of the other Class B Beneficial Interests in the Senior Creditor Claims Reserve. From time to time, as Contested Senior Creditor Claims are resolved, Class B Beneficial Interests in respect thereof shall be distributed from Senior Creditor Claims Reserve to the Holders thereof, to the extent such Contested Senior Creditor Claims are determined to be Approved Senior Creditor Claims, and shall be distributed to the other Senior Creditor Claimants who hold Approved Senior Creditor Claims and allocated to (and continue to be held in the Senior Creditor Claims Reserve for) the other Senior Creditor Claimants who hold Contested Senior Creditor Claims which have not yet been resolved, to the extent such Contested Senior Creditor Claims are determined by Final Order not to benefit from such subordination provisions. Prior to the resolution of all Contested Senior Creditor Claims, Cash deposited in the Senior Creditor Claims Reserve shall not be distributed to Holders of Class B Beneficial Interests issued in respect of Approved Senior Creditor Claims but shall be used to pay all costs and expenses incurred by the Liquidating Trust in connection with the investigation, resolution, defense against, compromise and settlement of all Contested Senior Creditor Claims. Upon the resolution of all Contested Senior Creditor Claims, any Cash in the Senior Creditor Claims Reserve shall be distributed pro rata to the Holders of Class B Beneficial Interests issued in respect of Approved Senior Creditor Claims.

H. *Effect of Confirmation*

1. Binding Effect

The Plan shall be binding upon and inure to the benefit of the Debtors, Holders of Claims and Interests in the Debtors, and their respective successors and assigns.

2. **Releases**

The Plan provides for releases of various parties-in-interest. First, it provides for a release of the Bank Agent and Bank Lenders from all claims and causes of action of the Debtors or their estates. The Plan does not, however, release the Bank Agent or the Bank Lenders from any criminal liability. This release is being granted in the Plan as part of the settlement of potential preference litigation against the Bank Agent and Bank Lenders, potential objections to the claims of the Bank Agent and Bank Lenders and potential litigation that could be brought by or for the benefit of the Bank Lenders regarding the Subsidiary Guaranty, the enforcement of intercompany claims, alleged fraudulent transfers and alleged conduct of the Debtors' directors and officers. The Plan specifically provides that on the Effective Date the Bank Agent and all Bank Lenders shall be released from all claims, Causes of Action (including, without limitation, Avoidance Actions and actions to subordinate claims) and other causes of actions with respect to any act or omission on or prior to the Effective Date that relates to the Debtors or their Estates whether known or unknown, at law or in equity held by, or that could be asserted in the Chapter 11 Cases by, any of the Debtors, their Estates and any Person who, directly or indirectly receives a distribution under the Plan, including persons claiming through an agent or indenture trustee or beneficial Holders claiming through one or more securities intermediaries. In exchange for this Release, the Bank Agent and the Bank Lenders have agreed to the treatment of and distributions to General Unsecured Creditors under the Plan. The releases that the Plan provides to the Bank Agent and Bank Lenders expressly exclude any releases among the Bank Agent and Bank Lenders. This exception to the releases is part of the Plan structure that does not take a position as to the validity of Bank Amendment No. 1. Any Bank Lender or the Bank Agent who desires to dispute the validity of Amendment No. 1 will remain free to do so, and such disputes are not affected by the Plan.

Second, the Plan provides for a release of the present and former directors and officers of the Debtors and their Non-Debtor Subsidiaries (the "D&O Releasees"). This release is being granted in the Plan as part of the overall settlement of causes of action, including potential contribution and indemnity claims, relating to the Debtors and the events prior to the Effective Date. If the parties in interest actually litigated the major intercreditor and debtor-creditor issues in the Chapter 11 Cases (see discussion in Sections IV.A.1–4 above), there would likely also be actions brought against various of the D&O Releasees. Although the Debtors believe that all such actions are without merit (see Section IV.A.7 above), in that litigation scenario the D&O Releasees would have numerous causes of action against parties such as Verizon and perhaps others. The Plan specifically provides that on the Effective Date the D&O Releasees shall be released from all claims and causes of action, with respect to any act or omission on or prior to the Effective Date that relates to the Debtors or their Estates, whether known or unknown, at law or in equity held by, or that could be asserted by, any of the Debtors, their Estates and any Person who, directly or indirectly receives a distribution under the Plan, including persons claiming through an agent or indenture trustee or beneficial Holders claiming through one or more securities

intermediaries. The Plan does not, however, release any of the D&O Releasees from (i) criminal liability for any act or omission in their respective capacities as directors and officers, (ii) any liability to the United States federal government, or (iii) for liability pursuant to ERISA § 502(a) with respect to any employee benefit plan sponsored by the Debtors.

The cornerstone of the Plan is the complete, total and final resolution of the major intercreditor and debtor-creditor issues, for the purposes of reducing uncertainty and the costs to the Estates and to creditors who would be embroiled in such a large amount of litigation. The releases of the D&O Releasees and the Bank Agent and Bank Lenders are a necessary and critical component of the Settlement embodied in the Plan; without such releases the specter of massive litigation would still exist, eliminating the benefits of the proposed compromise.

3. **Exculpation**

Subject to the occurrence of the Effective Date, the Debtors, the Creditors' Committee, each Person who served as a director or officer of the Debtors, or as a member of the Creditors' Committee, together with such Person's directors, officers, members, managers, partners, employees, attorneys, advisers, agents and representatives, shall have no liability to any Person for any actions or omissions on or after the Petition Date that relate to the Debtors or their Estates, except in the case of gross negligence or willful misconduct. However, the Plan does not exculpate any Person from (i) any criminal liability or (ii) liability pursuant to ERISA § 502(a) with respect to any employee benefit plan sponsored by the Debtors. Finally, the Plan does not release any attorney from liability to his or her clients.

4. **Injunction**

All injunctions or stays provided for in the Chapter 11 Cases pursuant to Bankruptcy Code Section 105, 362 or otherwise and in effect on the Confirmation Date, shall remain in full force and effect until the closing of the Chapter 11 Cases pursuant to Bankruptcy Code Section 350(a). Subject to the occurrence of the Effective Date, the entry of the Confirmation Order shall permanently enjoin all Persons that have held, currently hold or may hold a Claim or an Interest in the Debtors from taking any of the following actions in respect of such Claim or Interest: (a) commencing, conducting or continuing in any manner, directly or indirectly, any suit, action or other proceeding of any kind against any or all of the Debtors, the Liquidating Trust or their respective property or assets; (b) enforcing, levying, attaching, collecting or otherwise recovering in any manner or by any means, whether directly or indirectly, any judgment, award, decree or order against any or all of the Debtors, the Liquidating Trust or their respective property or assets; (c) creating, perfecting or enforcing in any manner, directly or indirectly, any Lien against any or all of the Debtors, the Liquidating Trust or their respective property or assets; (d) asserting any setoff, right of subrogation or recoupment of any kind, directly or indirectly, against any debt, liability or obligation due to the Debtors, the Liquidating Trust or their respective property; and (e) proceeding in any manner in any place whatsoever that does not conform to or comply with or is inconsistent with the provisions of the Plan.

I. ***Retention of Jurisdiction***

The Plan provides that the Bankruptcy Court shall retain jurisdiction to hear a wide variety of disputes that continue, or arise, after the Effective Date, such as claims objections, preference and other avoidance actions, receivables collection litigation, disputes regarding the Plan itself and disputes relating to the Liquidating Trust. Specifically the Plan provides that after the Effective Date the Bankruptcy Court shall retain jurisdiction:

(a) To determine the allowability, classification, or priority of Claims against and Interests in the Debtors, and to determine the rights of Senior Creditor Claimants to distributions in respect of the BBN Bonds;

(b) To issue injunctions or take such other actions or make such other orders as may be necessary or appropriate to restrain interference with the Plan or its execution or implementation by any Person, to construe and to take any other action to enforce and execute the Plan, including, but not limited to, the waiver, release, injunction and exculpation provisions thereof, the Confirmation Order, or any other order of the Bankruptcy Court, to issue such orders as may be necessary for the implementation, execution, performance and consummation of the Plan and all matters referred to therein, and to determine all matters that may be pending before the Bankruptcy Court in each Chapter 11 Case on or before the Effective Date with respect to any Person;

(c) To determine any and all applications for allowance of compensation and expense reimbursement of Professionals for periods on or before the Effective Date;

(d) To resolve any dispute arising under or related to the implementation, execution, consummation or interpretation of the Plan and the Liquidating Trust Agreement and the making of distributions thereunder;

(e) To determine any and all motions for the rejection, assumption, or assignment of executory contracts or unexpired leases, or to determine any motion to reject an executory contract or unexpired lease pursuant to Section 9.1 of the Plan and to determine the allowance of any Claims resulting from the rejection of executory contracts and unexpired leases;

(f) To determine all applications, motions, adversary proceedings, contested matters, actions, and any other litigated matters instituted in the Chapter 11 Cases prior to the closing of the Chapter 11 Cases, including any remands;

(g) To determine such other matters, and for such other purposes, as may be provided in the Confirmation Order or as may be authorized under provisions of the Bankruptcy Code and the Bankruptcy Rules;

(h) To modify the Plan under section 1127 of the Bankruptcy Code, remedy any defect, cure any omission, or reconcile any inconsistency in the Plan or the Confirmation Order so as to carry out the Plan's intent and purposes;

(i) To issue such orders in aid of consummation of the Plan and the Confirmation Order notwithstanding any otherwise applicable non-bankruptcy law, with respect to any Person, to the full extent authorized by the Bankruptcy Code;

(j) To enable the prosecution of any and all proceedings that are not released pursuant to the Plan which have been or may be brought prior to the Effective Date to set aside Liens and to recover any transfers, assets, properties or damages to which the Estates may be entitled under applicable provisions of the Bankruptcy Code or any other federal, state or local laws except as may be waived pursuant to the Plan;

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

(l) To resolve any disputes concerning whether a Person had sufficient notice of the Chapter 11 Cases, the Disclosure Statement hearing, or the Confirmation Hearing, for any purpose;

(m) To determine any tax liability pursuant to section 505 of the Bankruptcy Code;

(n) To resolve any dispute or matter arising under or in connection with any order of the Bankruptcy Court entered in the Chapter 11 Cases;

(o) To enter a Final Order closing the Chapter 11 Cases; and

(p) To determine such other matters as may be set forth in the Confirmation Order or as may arise in connection with the Plan, Confirmation Order, Liquidating Trust Agreement and/or any other agreement or transaction entered into pursuant to or in connection with the Plan.

J. ***Effective Date of the Plan***

1. Confirmation

The Bankruptcy Code provides that the Bankruptcy Code shall "confirm" a plan of reorganization or liquidation, such as the Plan. The requirements for confirmation are discussed in more detail below. The Plan provides that the Plan shall be considered confirmed upon entry of a Bankruptcy Court order confirming the Plan. However, the provisions of the Plan shall not take effect until the Plan becomes effective (see section 3 below).

2. Condition to Confirmation

The Plan provides that confirmation shall not occur unless the Confirmation Order is satisfactory in form and substance to the Debtors and, subject to certain Committee Consent Rights, the Creditors' Committee. Subject to certain Committee Consent Rights, the Debtors reserve the right in the Plan to waive this condition to confirmation.

3. Conditions to Effective Date

The Plan provides for an "Effective Date," at which time the Plan's provisions shall become operative and the Plan shall be deemed substantially consummated. Prior to the occurrence of the Effective Date, the Plan shall have no effect, notwithstanding the entry of the Confirmation Order and the lapse of any stay of the Confirmation Order.

The Plan provides that several events must occur before the Effective Date happens and the Plan goes into effect. Specifically, the Plan requires that as conditions to the occurrence of the Effective Date:

(a) The Bankruptcy Court shall have entered the Confirmation Order, and such Confirmation Order shall be a Final Order;

(b) The Debtors shall have obtained all authorizations, consents and regulatory approvals required, if any, in connection with the Plan's effectiveness;

(c) No court shall have entered an order restraining the Debtors from consummating the Plan;

(d) The Bank Agent, on behalf of the Bank Lenders, shall have received (i) the $514,200,000 payment and (ii) not less than $3,840,850 of the Bank Tranche Amount;

(e) The Class B Tranche Amount shall have been deposited into the Class B Subtrust, after appropriate reserves are made in accordance with the Liquidating Trust Agreement;

(f) The Liquidating Trust Agreement shall have been executed, delivered, issued and in effect, and the Liquidating Trustee and the

Liquidating Trust Oversight Committee shall have been appointed; and

(g) All corporate matters necessary to effect the transactions contemplated by the Plan shall have been completed.

In the Plan, the Debtors have retained the right, subject to the Committee Consent Rights, to waive any or all of these conditions. The Debtors anticipate mailing a notice of the Effective Date to all creditors shortly after the Effective Date occurs.

The Effective Date shall also serve as the basis for the deadline by which all Persons must assert any remaining Administrative Claims against the Debtors or their Estates. Such Administrative Claims for which a bar date has not been set by prior Bankruptcy Court order (see Section III.I.1 above regarding the Interim Administrative Claims Bar Date Order) and except Claims under the Estate Employee Retention Plan and the AlixPartners Retention Agreement must be filed not later than the 30th day after the Effective Date.

K. *Miscellaneous Plan Provisions*

1. Effectuating Documents and Further Transactions

Under the Plan, the Debtors are authorized and directed to take all necessary or desirable steps, execute any documents and perform all necessary or desirable acts, to consummate the terms and conditions of the Plan on the Effective Date. On or before the Effective Date, the Debtors may, but shall not be required to, File such agreements and other documents as may be necessary or desirable to effectuate or further evidence the terms and conditions of the Plan and the other agreements referred to therein.

On or after the Effective Date, under the Plan the Liquidating Trust is authorized and directed to take all necessary or desirable steps, execute any documents and perform all necessary or desirable acts, to consummate the terms and conditions of the Plan. On or after the Effective Date, the Liquidating Trust may file with the Bankruptcy Court such agreements and other documents as may be necessary or desirable to effectuate or further evidence the terms and conditions of the Plan and the other agreements referred to therein.

2. Corporate Action

Pursuant to Delaware General Corporation Law Section 303, Massachusetts General Law c.156B Section 73 and any other similar law governing any of the Debtors, all terms of and actions contemplated by the Plan may be put into effect and carried out without the directors, officers or shareholders of the Debtors taking any further action, and all such persons shall be deemed to have unanimously approved the Plan and all transactions provided for thereunder or contemplated thereby.

3. Exemption from Transfer Taxes

Pursuant to, and to the fullest extent permitted by, Bankruptcy Code Section 1146(c): (i) the issuance, transfer or exchange of any securities, instruments or documents; (ii) the creation of any Lien, or (iii) the making or assignment of any lease or

the making or delivery of any deed or other instrument of transfer under, pursuant to, in furtherance of or in connection with, the Plan, including any deeds, bills of sale or assignments executed in connection with the Plan or the Confirmation Order shall not be subject to any stamp tax, transfer tax, intangible tax, recording fee, or similar tax, charge or expense. The Bankruptcy Court order approving the Level 3 Sale provides that such sale was pursuant to a plan and that the transfer of assets to Level 3 was therefore not subject to such taxes, fees, charges and expenses. The Bankruptcy Court ordered the Debtors to hold in reserve amounts necessary to pay such taxes, in the event a plan was not later confirmed. The Plan provides that, upon the Effective Date, such reserves shall be released to the Liquidating Trust.

4. Amendments to or Modification of the Plan

The Plan may be altered, amended or modified by the Debtors, subject to the Committee Consent Rights. Specifically, the Debtors may not materially alter, amend or modify the Plan, withdraw or revoke the Plan, take action under certain specified sections of the Plan, or extend the Effective Date without the prior consent of the Creditors' Committee. If, after good faith discussion of any such material alteration, amendment or modification, withdrawal or revocation or action, the Creditors' Committee declines to provide such consent, the Debtors and the Creditors' Committee retain the right to seek authority to make or to enjoin such alteration, amendment, or modification, or withdrawal or revocation or action, from the Bankruptcy Court.

Subject to the foregoing, the Debtors may alter, amend or modify the Plan before the Confirmation Date as provided in section 1127 of the Bankruptcy Code. The Debtors may, without notice to all Holders of Claims and Interests insofar as it does not materially and adversely affect the interest of Holders of Claims or Interests, correct any defect, omission or inconsistency in the Plan in such manner and to such extent as may be necessary to expedite the execution of the Plan. The Plan may be altered or amended after the Confirmation Date with the consent of the Debtors in a manner which, in the opinion of the Bankruptcy Court, materially and adversely affects Holders of Claims, provided that such alteration or modification is after a hearing as provided in section 1127 of the Bankruptcy Code.

5. Severability of Plan Provisions

Except as to terms which would frustrate the overall purpose of the Plan, should any provision in the Plan be determined to be unenforceable, such determination shall in no way limit or affect the enforceability and operating effect of any or all other provisions of the Plan.

6. Plan Supplement

Not later than 20 days prior to the Confirmation Hearing, the Debtors shall file a supplement to the Plan, which shall provide such additional information as the Debtors deem necessary to the Confirmation of the Plan, including a list of the Persons appointed by the Creditors' Committee as the initial members of the Liquidating Trust Oversight Committee.

7. Revocation, Withdrawal or Non-Consummation

The Debtors reserve the right to revoke or withdraw the Plan prior to the Effective Date, subject to the Committee Consent Rights. If the Debtors revoke or withdraw the Plan, then the result shall be the same as if the Confirmation Order were not entered and the Effective Date did not occur as to the Debtors. The Confirmation Order shall be null and void and of no effect if the Plan is terminated after the Confirmation Date but before the Effective Date. The Bankruptcy Court shall have sole and exclusive jurisdiction over any disputes regarding the foregoing.

8. Statutory Committees

Upon the Effective Date, any official committees appointed in the Chapter 11 Cases, including the Creditors' Committee, shall be dissolved. All members of such committees, including members of the Creditors' Committee, shall have no further rights or duties arising from such membership.

9. United States Trustee Fees

The quarterly fees payable pursuant to 28 U.S.C. § 1930(a)(6) shall be paid when due. Payments due on or before the Effective Date shall be made by the Debtors and payments after the Effective Date shall be made by the Liquidating Trust.

VI. IMPLEMENTATION OF THE PLAN

A. *Substantive Consolidation*

1. Consolidation of Chapter 11 Cases

The Plan provides that the Debtors' Estates will be substantively consolidated for purposes of voting on, administering the Plan and the making of distributions to creditors only. The Debtors believe that substantive consolidation is an efficient means of implementing the intercreditor settlement. See Section IV.

Unless the Bankruptcy Court has approved the substantive consolidation of any of the Chapter 11 Cases by a prior order, the Plan shall serve as, and shall be deemed to be, a motion for entry of an order substantively consolidating the Chapter 11 Cases of the Debtors for the purposes of voting on, making distributions under and administering the Plan only. If no objection to such substantive consolidation is filed and served on or before the Voting Deadline, by any Holder of an Impaired Claim, the Consolidation Order (which may be the Confirmation Order) may be entered by the Bankruptcy Court. If any such objections are timely filed and served, a hearing with respect to substantive consolidation of the Chapter 11 Cases of the Debtors and the objections thereto shall be scheduled by the Debtors and the Bankruptcy Court, which hearing may, but is not required to, coincide with the Confirmation Hearing.

Upon the entry of an order substantively consolidating the Debtors' estates, but subject to the occurrence of the Effective Date of the Plan, the following events shall be deemed to have occurred:

(a) all Intercompany Claims of each of the Debtors against any other Debtor shall be eliminated;

(b) all assets (including Causes of Action) and liabilities of the Subsidiary Debtors and their Estates shall be merged and treated as if they were merged with the assets and liabilities of Genuity Inc. and its Estate;

(c) any obligation of any of the Debtors and all (i) guarantees thereof by, and (ii) co-liability, joint liability or vicarious liability for such obligation of, any other Debtor shall be deemed to be one (1) obligation of Genuity Inc.;

(d) Interests in all of the Subsidiary Debtors shall be deemed cancelled for all purposes;

(e) each Claim Filed or to be Filed against any Debtor shall be deemed Filed only against Genuity Inc. and shall be deemed a single claim against and a single obligation of Genuity Inc., and all duplicate proofs of claim for the same Claim Filed against more than one Debtor will be deemed to be expunged and the Claims asserted thereunder Disallowed;

(f) each of the officers and directors of each of the Subsidiary Debtors shall be deemed to have resigned;

(g) each of the Chapter 11 Cases of the Subsidiary Debtors shall be closed, following which any and all contested matters, proceedings, and other matters that could have been brought or otherwise commenced in any of such Chapter 11 Cases shall be brought or commenced in the Chapter 11 Case of Genuity Inc.; and

(h) all Claims based upon guarantees of collection, payment or performance made by any of the Debtors as to the obligations of another Debtor shall be released and of no further force or effect;

provided, however, that the substantive consolidation of assets and liabilities of the Debtors shall not otherwise affect the separate legal existence of each Debtor for licensing, regulatory, tax or other purposes or result in any actual transfer or merger of assets and liabilities for any purpose (including for tax purposes and State-law purposes) other than the administration of the Chapter 11 Cases and the determination of the rights of Holders of Claims and Interests under the Plan and the making of Plan distributions.

B. ***The Liquidating Trust***

1. Creation of the Liquidating Trust

The Plan provides for the establishment by the Debtors of a Liquidating Trust for the benefit of the Holders of Allowed Class 3 and Class 4 Claims (other than the Holders of BBN Bonds Claims), who will receive beneficial interests therein. The Bank Agent, on behalf of the Bank Lenders, will receive Class A Beneficial Interests, and the Holders of Allowed General Unsecured Claims will receive Class B Beneficial Interests. The

Liquidating Trust shall hold the Liquidating Trust Assets in trust for the beneficiaries subject to the terms of the Plan and the Liquidating Trust Agreement.

2. Purposes of the Liquidating Trust

The Liquidating Trust will be organized for the sole purpose of liquidating the Non-Cash Assets and resolving Disputed Claims, with no objective or authority to continue or engage in the conduct of a trade or business. In particular, the Liquidating Trust shall (i) issue the Beneficial Interests to Holders of Allowed Claims, as provided in the Plan, (ii) collect and reduce the Non-Cash Assets to Cash, (iii) distribute Cash to the Holders of the Beneficial Interests, (iv) wind down the Estates and (v) take such steps as are necessary or appropriate to accomplish these purposes, in each case as more fully provided in, and subject to the terms and conditions of, the Liquidating Trust Agreement.

3. Status of the Liquidating Trust

The Liquidating Trust shall succeed to all of the rights of the Debtors necessary to protect, conserve and liquidate all Liquidating Trust Assets as quickly as reasonably practicable, which liquidation shall conclude prior to the fifth anniversary of the Effective Date, unless extended by the Bankruptcy Court for cause. As of the Effective Date, the Liquidating Trust shall be the successor to the Debtors in all proceedings then pending or thereafter commenced regarding any of the Liquidating Trust Assets, and shall have the exclusive power, as successor to and on behalf and in the name of the Debtors, to investigate, enforce, abandon, prosecute, resolve, defend against, compromise and settle Disputed Claims, all objections thereto and the Causes of Action and to maintain, sell, abandon, liquidate and collect the other Non-Cash Assets. The expenses of the Liquidating Trust shall be paid out of the Liquidating Trust Assets, as and to the extent provided in the Liquidating Trust Agreement. The Liquidating Trust shall assume the Debtors' obligations under the Estate Employee Retention Plan and the AlixPartners Retention Agreement.

4. Liquidating Trustee; Liquidating Trust Oversight Committee

Meade A. Monger, a Principal of the bankruptcy services and advisory firm AlixPartners, LLC, is designated by the Plan as the initial Liquidating Trustee. The Creditors' Committee shall designate the three initial members of the Liquidating Trust Oversight Committee on or before the 20th day prior to the commencement of the Confirmation Hearing. The Liquidating Trustee shall administer the Liquidating Trust from and after the Effective Date in accordance with the Liquidating Trust Agreement and subject to the oversight of the Liquidating Trust Oversight Committee, as provided therein.

5. Creation of Class B Subtrust

On the Effective Date, the Liquidating Trust shall establish the Class B Subtrust for the benefit of Holders of Class B Beneficial Interests and shall deposit therein Cash as and to the extent set forth in Section 8.3.3(b) of the Plan. The Class B Subtrust shall be maintained in one or more segregated, interest-bearing accounts, and amounts deposited in the Class B Subtrust shall be distributed from time to time to the Holders of the Class

B Beneficial Interests, in each case as and to the extent provided in the Liquidating Trust Agreement.

6. Cash Claims Reserve

On the Effective Date, the Liquidating Trust shall establish, in a segregated, interest-bearing account, a separate "Cash Claims Reserve" from the Class B Subtrust pursuant to the Liquidating Trust Agreement. Such reserve shall be used for payment of Disputed Cash Claims and Unpaid Administrative Expenses.

7. Reserve for Disputed General Unsecured Claims

On the date of any distribution from the Class B Subtrust, the Liquidating Trust shall establish, and maintain thereafter, a reserve, from Cash in the Class B Subtrust, for the benefit of Holders of Disputed General Unsecured Claims. Such reserve shall consist of an amount of Cash equal to the amount that would be distributable to all Holders of Disputed General Unsecured Claims, in respect of all distributions made to that date, if those Claims were Allowed in their respective Maximum Amounts.

8. Collection Expenses Reserve

On the Effective Date the Liquidating Trust shall establish and maintain thereafter a separate "Collection Expense Reserve" from Cash in the Class B Subtrust pursuant to the Liquidating Trust Agreement. Such reserve shall be placed in a segregated interest-bearing account. Such reserve shall be used for, among other things, payment of all costs and expenses that the Liquidating Trust incurs in connection with (i) the investigation, enforcement, abandonment, prosecution, resolution, defense against, compromise and settlement of all Disputed Cash Claims and objections thereto, all Causes of Action (including Avoidance Actions) and all Unpaid Administrative Expenses and (ii) without duplication, the sale, abandonment, liquidation and collection of all other Non-Cash Assets of the Liquidating Trust (collectively, "Collection Expenses"). The Collection Expenses Reserve shall be replenished from Collection Cash; provided that the Liquidating Trust Oversight Committee may from time to time increase or reduce the level to which the Collection Expenses Reserve must be replenished as provided in the Liquidating Trust Agreement.

9. Operating Expenses Reserve

On the Effective Date, the Liquidating Trust shall establish, and maintain thereafter, in a segregated, interest-bearing account, a separate "Operating Expenses Reserve" from Cash in the Class B Subtrust pursuant to the Liquidating Trust Agreement. The size of the reserve will be determined by the Liquidating Trust Oversight Committee, as provided in the Liquidating Trust Agreement. The reserve shall be used to pay costs and expenses relating to the care and maintenance of the Liquidating Trust, including, but not limited to, (1) fees of Liquidating Trustee, (2) expenses of the members of the Liquidating Trust Oversight Committee, (3) indemnification obligations, and (4) tax obligations, but in all cases excluding Collection Expenses.

10. Distributions of Amounts in Class B Subtrust to Holders of Class B Beneficial Interests

On or as soon as reasonably practicable after the Effective Date, and after establishing appropriate expense and claim reserves in accordance with the Liquidating Trust Agreement, the Liquidating Trust shall distribute all remaining Cash in the Class B Subtrust to the Holders of the Class B Beneficial Interests. The Liquidating Trust will make subsequent distributions from the Class B Subtrust to the Holders of the Class B Beneficial Interests from time to time after the Effective Date, as and to the extent provided in the Liquidating Trust Agreement.

11. Distributions of Other Liquidating Trust Assets

After paying or otherwise reserving for expenses incurred by the Liquidating Trust in connection with the Causes of Action and the resolution of the Disputed Cash Claims, the Liquidating Trust will distribute the Liquidating Trust Assets from time to time in accordance with Sections 7.3 and 7.4 of the Plan as and to the extent provided in the Liquidating Trust Agreement.

12. Reports by the Liquidating Trustee; Closing of the Chapter 11 Cases

The Liquidating Trustee shall file all required reports with the Office of the United States Trustee through the closing of the Chapter 11 Cases, and shall be authorized to seek closing of the Chapter 11 Cases.

13. Compensation of the Liquidating Trustee

The Liquidating Trustee will, initially, be Meade Monger, a Principal of the bankruptcy services and advisory firm AlixPartners, LLC. The work that the Liquidating Trustee and the employees of the Liquidating Trust (likely to be AlixPartners, LLC personnel and certain former employees of the Debtors) will perform will be bankruptcy case management services. Those services will be very similar to the services that an affiliate of AlixPartners, LLC – AP Services – has provided to the Debtors during the Chapter 11 Cases; AP Services has provided the Debtors with temporary employees, including a chief financial officer for the Debtors. As a result, the Liquidating Trustee, and employees of the Liquidating Trust hired from AlixPartners, LLC, will be compensated on terms similar to those obtained by the Debtors and approved by the Bankruptcy Court during the Chapter 11 Cases.

Specifically, the Liquidating Trustee and AlixPartners, LLC will be compensated for their work by a combination of (i) hourly time charges for employees provided to the Liquidating Trust (at reduced rates compared to customary hourly time charges of AP Services) and (ii) an incentive-compensation component based on average percentage recovery to general unsecured creditors of the Debtors and time such recoveries are actually paid to such creditors. The hourly time charges for the Liquidating Trustee shall be $ 495 per hour; the charges for other AlixPartners, LLC personnel shall range from $105 to $495 per hour. The incentive compensation for AlixPartners, LLC is to be paid on the following terms:

(a) An incentive fee will be paid in the amount of $500,000 if 50% of the assets are distributed by November 30, 2003 and the distribution percentage is no less than 7.5% of Allowed Claims.

(b) An additional $500,000 will be paid if a distribution of 75% of the assets is made by February 29, 2004 and the distribution is no less than 14% of Allowed Claims. To the extent that the terms in this subparagraph (b) are met with the exception of the distribution being made by February 29, 2004, a payment will be made in the amount of $125,000 to $500,000 (to be determined at the sole discretion of the Liquidating Trust Oversight Committee, which decision will be based on the timing and amount of creditor distributions). Even if the November 30, 2003 date in subparagraph (a) is not met, the $500,000 amount from subparagraph (a) above will also be paid as long as the 14% in this subparagraph (b) is met.

(c) An additional $125,000 will be paid once the Chapter 11 Cases are closed, provided that aggregate distributions to creditors are no less than 17.5% of Allowed Claims. For each percentage point above 17.5% of Allowed Claim amounts that are distributed to creditors, an additional $100,000 will be paid.

(d) The distribution percentage of Allowed Claims is defined as:

(x) the total amount of cash actually distributed (including undeliverable distributions under a Chapter 11 plan) to general unsecured creditors of any of the Debtors, excluding cash distributed to other Debtors

divided by

(y) the total amount of general unsecured claims against the Debtors that are allowed, without duplication. To prevent duplication general unsecured claims to be counted shall exclude:

(i) Claims that are based on (A) secondary obligations of one Debtor for the obligation of another Debtor, (B) co-primary obligations with another Debtor or (C) obligations as a joint tortfeasor with another Debtor, provided that one underlying obligation has been included in the total; and

(ii) Claims of one Debtor against another Debtor.

It is expected that these terms for compensation of the Liquidating Trustee and additional AlixPartners, LLC personnel will be memorialized in a fee agreement to be entered into on or before the Confirmation Hearing.

14. Limited Liability and Indemnification

The Liquidating Trust Oversight Committee, the Liquidating Trustee and their respective agents, representatives, designees, and professionals shall have limited liability, as more fully described in the Liquidating Trust Agreement, for actions taken or omitted in relation to the Liquidating Trust. Furthermore, the Liquidating Trust shall indemnify and hold harmless the Liquidating Trust Oversight Committee, the Liquidating

Trustee and their respective agents, representatives, designees, and professionals as set forth in the Liquidating Trust Agreement.

15. Amendment and Waiver

The Liquidating Trust Oversight Committee may amend the provisions of the Liquidating Trust Agreement as and to the extent provided in the Liquidating Trust Agreement.

16. Termination

The Liquidating Trust will terminate on the earlier of: (a) thirty days after the final distribution of the Liquidating Trust Estate; or (b) the fifth anniversary of the Effective Date. Multiple fixed extensions of the term of the Liquidating Trust may be obtained, however, upon approval of the Bankruptcy Court in accordance with the terms set forth in the Liquidating Trust Agreement.

C. ***Cancellation of Securities, Instruments and Agreements Evidencing Claims and Interests***

1. Capital Stock of Genuity Inc.

On the Effective Date, the interests of all Holders of Interests in the Debtors, including all members of Class 7, shall be cancelled.

2. Distribution Record Date

The transfer registers for the BBN Bonds, the Bank Loans, the records of ownership of other Claims against or Interests in the Debtors (including the claims register in the Chapter 11 Cases and the transfer register for the Debtors' stock), will be closed on the Distribution Record Date for purposes of making distributions under the Plan on the Effective Date (the "Initial Distribution Record Date"). For purposes of a particular distribution, none of the Debtors, the Estates, the Liquidating Trust, the Bank Agent and the BBN Bonds Trustee shall have any obligation to recognize the transfer of any of the BBN Bonds, the Bank Loans or any Claim against, or Interest in, the Debtors occurring after the Initial Distribution Record Date, and shall be entitled for purposes of such distribution to recognize and deal only with those Holders of record as of the close of business on the Initial Distribution Record Date.

D. ***Securities Law Matters***

Pursuant to the Plan, Holders of Allowed Class 3 Claims and Allowed Class 4 Claims will receive Class A Beneficial Interests and Class B Beneficial Interests, respectively, in the Liquidating Trust. The Debtors do not believe that the Class A Beneficial Interests or the Class B Beneficial Interests are securities under the Securities Act of 1933, as amended, (the "Securities Act"). However, in any event, Bankruptcy Code Section 1145 provides certain exemptions from the securities registration requirements of federal and state securities laws with respect to the distribution of securities under a Chapter 11 plan.

Bankruptcy Code Section 1145(a) generally exempts from registration under the Securities Act, the offer or sale of certain securities under a Chapter 11 plan if such

securities are offered or sold in exchange for a claim against, or an equity interest in, such debtor. If the beneficial interests in the Liquidating Trust are such securities, then, in reliance upon the exemption of Bankruptcy Code Section 1145(a), the Class A Beneficial Interests and the Class B Beneficial Interests generally will be exempt from the registration requirements of the Securities Act. Accordingly, such securities may be resold without registration under the Securities Act or other federal securities laws pursuant to an exemption provided by section 4(1) of the Securities Act, unless the Holder is an "underwriter" with respect to such securities, as that term is defined in the Bankruptcy Code. In addition, such securities generally may be resold without registration under state securities laws pursuant to various exemptions provided by the respective laws of the several states. However, recipients of securities issued under the Plan are advised to consult with their own legal advisors as to the availability of any such exemption from registration under state law in any given instance and as to any applicable requirements or conditions to such availability.

Bankruptcy Code Section 1145(b) 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 of such securities, or (iv) is a control person of the issuer of the securities or other issuer of the securities within the meaning of Section 2(11) of the Securities Act. The legislative history of Bankruptcy Code Section 1145 suggests that a creditor who owns at least ten percent (10%) of the securities of a reorganized debtor may be presumed to be a "control person."

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

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

VII. ACCEPTANCE OR REJECTION OF THE PLAN; VOTING PROCEDURE

Bankruptcy Code Section 1126(a) generally provides that holders of claims and Interests may vote to accept or reject a Chapter 11 plan. However, Bankruptcy Code Section 1126(f) provides that if a creditor's claim is part of a class that is not impaired under a plan, then such creditor is deemed to have accepted the plan with respect to that claim. Similarly, Bankruptcy Code Section 1126(g) provides that if a creditor's claim is

part of a class that is not receiving any distribution under the plan, then such creditor is deemed to have rejected the plan with respect to that claim.

A. ***Classes Entitled to Vote***

Under the Plan, Classes 3 and 4 are impaired and are receiving a distribution. Accordingly, creditors with Claims in Classes 3 and 4 are entitled to vote to accept or reject the Plan on account of such Claims.

B. ***Classes Not Entitled to Vote***

Under the Plan, Classes 1 and 2 are not impaired. Accordingly, creditors with Claims in Classes 1 and 2 are deemed to accept the Plan and are not entitled to vote to accept or reject the Plan on account of such Claims.

Under the Plan, Classes 5, 6 and 7 are not receiving any distributions. Accordingly, creditors and interest holders with Claims and Interests in Classes 5, 6 and 7 are deemed to reject the Plan and are not entitled to vote to accept or reject the Plan on account of such Claims and Interests.

C. ***Voting Procedure***

The Bankruptcy Court has established voting procedures in its Order approving this Disclosure Statement. Detailed voting instructions are provided with the ballot accompanying this Disclosure Statement. In general, votes must be submitted to the Balloting Agent for the Bankruptcy Court, so as to be received not later than 5:00 p.m. prevailing Eastern time on November 4, 2003, at the following address:

If by Regular Mail:	**If by Hand or Overnight Delivery**:
Genuity Inc., et al. c/o DONLIN, RECANO & COMPANY, INC. P. O. Box 2034 Murray Hill Station New York, New York 10156-0701	Genuity Inc., et al. c/o DONLIN, RECANO & COMPANY, INC. 419 Park Avenue South New York, New York 10016 Telephone: (212) 481-1411

If your Claim is in Class 3 or 4, you should read your ballot and follow the listed instructions carefully. Please use only the ballot that accompanies this Disclosure Statement.

If the instructions on your ballot require you to return the ballot to your bank, broker, or other nominee, or to their agent, you must deliver your ballot to such Person in sufficient time for such Person to process it and return it to the Balloting Agent before the Voting Deadline. If a ballot is damaged or lost, you may contact the Balloting Agent at the number set forth above. Any ballot that is executed and returned but which does not indicate an acceptance or rejection of the Plan will not be counted. Any ballot that is executed and returned which indicates both an acceptance and rejection of the Plan will be deemed an acceptance of the Plan.

The voting procedures approved by the Bankruptcy Court provide that only creditors with Claims that the Debtors do not dispute shall be entitled to vote to accept or reject the Plan.

D. *Tabulation of Votes; Acceptance of Class*

Votes will be tabulated by the Balloting Agent and the Debtors. Under the Bankruptcy Code, acceptance of a Chapter 11 plan by a class of claims is determined by calculating the number and the amount of claims voting to accept, based on the actual total allowed claims voting. Acceptance requires an affirmative vote of more than one-half of the total number of allowed claims voting and two-thirds in amount of the total allowed claims voting.

VIII. CONFIRMATION OF THE PLAN

A. *Confirmation Hearing*

The Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan for **November 17, 2003 at 10:30 a.m. prevailing Eastern time** before The Honorable Prudence Carter Beatty in Room 701 of the United States Bankruptcy Court for the Southern District of New York, One Bowling Green, New York, New York (the "Confirmation Hearing"). The Confirmation Hearing may be adjourned from time to time without notice except as given at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed on or before **November 7, 2003 at 5:00 p.m. prevailing Eastern time** in the manner described in the Notice accompanying this Disclosure Statement.

B. *Requirements for Confirmation*

1. General Requirements of Section 1129

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

(a) The Plan complies with the applicable provisions of the Bankruptcy Code.

(b) The Debtors have complied with the applicable provisions of the Bankruptcy Code.

(c) The Plan has been proposed in good faith and not by any means prescribed by law.

(d) Any payment made or to be made by the Debtors, or by a person issuing securities or acquiring property under the Plan for services or for costs and expenses in or in connection with the Chapter 11 Cases, or in connection with the Plan and incident to the Chapter 11 Cases, has been disclosed to the Bankruptcy Court, and any

such payment made before the confirmation of the Plan must be approved by the Bankruptcy Court as 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.

(e) The Debtors have disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer or voting trustee of the Debtors, affiliates of the Debtors participating in the Plan with the Debtors, or a successor to the Debtors under the Plan, and the appointment to, or continuance in, such office of such individual is consistent with the interests of creditors and equity holders and with public policy, and the Debtors have disclosed the identity of any insider that will be employed or retained by the Debtors, and the nature of any compensation for such insider.

(f) With respect to each Class of Claims or Interests, each Holder of an impaired Claim or impaired Interest either has accepted the Plan or will receive or retain under the Plan on account of such Holder's Claim or Interest, property of a value, as of the Effective Date, that is not less than the amount such Holder would receive or retain if the Debtors were liquidated on the Effective Date under Chapter 7 of the Bankruptcy Code. See discussion of "Best Interests Test" below.

(g) Except to the extent the Plan meets the requirements of section 1129(b) of the Bankruptcy Code (discussed below), each Class of Claims or Interests has either accepted the Plan or is not impaired under the Plan.

(h) Except to the extent that the Holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that Allowed Administrative Claims and Allowed Priority Claims will be paid in full on the Effective Date and that Allowed Priority Tax Claims will receive on account of such claims deferred cash payments, over a period not exceeding six (6) years after the date of assessment of such claims, of a value, as of the Effective Date, equal to the allowed amount of such claims.

(i) At lease 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.

(j) Confirmation of the Plan is not likely to be followed by the liquidation or the need for further of financial reorganization of the Debtors or any successor to the Debtors under the Plan, unless

such liquidation or reorganization is proposed in the Plan. The Plan proposes the liquidation of the Debtors.

(k) The Plan provides for continuation after its effective date of payment of all retiree benefits, as that term is defined in Bankruptcy Code Section 1114, at the levels provided by Section 1114 and for the duration of the period the debtor has obligated itself to provide such benefits. The Debtors have no such retiree benefit obligations.

2. Best Interests Tests

As described above, the Bankruptcy Code requires that each Holder of an impaired Claim or Interest either (i) accept the Plan or (ii) receive or retain under the Plan on account of such Claim or Interest property of a value, as of the Effective Date, that is not less than the value such Holder would receive if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code. Chapter 7 is a portion of the Bankruptcy Code under which debtors' estates are liquidated under the control of an independent trustee. In the typical case, a Chapter 7 debtor ceases business operations, and the Chapter 7 trustee liquidates the assets of the debtor's estate.

In these Chapter 11 Cases, of course, substantially all of the Debtors' assets have already been sold and liquidated. The Estates consist primarily of cash, plus certain Causes of Action, principally lawsuits to recover preferences and fraudulent conveyances. The approximate recoveries to Holders of Class 3 and Class 4 Claims under the Plan are set forth in the Plan Recovery Analysis below.

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Plan Recovery Analysis as of August 1, 2003

	Recovery ($million)	
Assets	**Low**	**High**
Cash-on-Hand	$ 942	$ 942
Remaining Proceeds from Level 3 Sale	($ 39)	$ 24
Collections of Accts Receivable (net of setoffs)	$ 21	$ 74
Repatriation of cash from foreign affiliates	$ 4	$4
Recoveries from Causes of Action	$ 1	$3
Other Receipts	$ 4	$4
	$ 933	$1,051
100% Obligations		
Executory Contract Cure Costs	$ 82	$ 32
Administrative Claims	$ 45	$ 30
Estate Administrative Costs Including Advisors	$ 25	$ 22
Employee Severance Costs	$ 3	$ 3
Secured and Priority Claims	$ 53	$ 33
	$ 208	$ 120
Total Cash Available	$ 725	$ 931
Class 3 Bank Group Claims		
Bank Group Claims	$1,677	$ 1,677
General Unsecured Claims		
BBN Bonds	$ 8	$ 8
Unsecured Claims, including trade claims	$ 221	$ 99
Contract Rejection Claims	$ 559	$ 297
	$ 788	$ 404
Recoveries Under Plan		
Cash to Bank Lenders	$ 650	$ 791
Bank Group Claims	$1,677	$1,677
Bank Lenders' Recovery[†]	39¢	47¢
Cash to General Unsecured Creditors (net of expenses of $ 5 million)	$ 75	$ 140
General Unsecured Creditor Claims	$ 788	$ 404
General Unsecured Creditor Recovery[†]	10¢	35¢

Comparing the recovery proposed for each creditor under the Plan with the recovery in a hypothetical Chapter 7 case requires examining three potential differences.

[†] Any difference between the estimated percentage recoveries set forth in this table and the ratio of cash to claims is due to rounding.

First, total Cash available from the liquidation and prosecution of Causes of Action might be greater in the Chapter 11 Cases than in a Chapter 7 case. Second, the total amount of Claims in a particular Class might be greater in a Chapter 7 case than in the Chapter 11 Cases, thus diluting and reducing recoveries to individual creditors in such class. Finally, the Plan in the Chapter 11 Cases proposes to allocate the Cash available for distribution among creditor Classes in a way that may be more favorable to each Class than would occur in a Chapter 7 case.

The Debtors believe that the total amount recovered for creditors will be greater in the Chapter 11 Cases than in a Chapter 7 case. A Chapter 7 case is run by an independent trustee who has no specific familiarity with the business. In contrast, the Liquidating Trust to be created by the Plan contemplates the retention of key employees and certain advisors who are intimately familiar with the remaining Claims and Causes of Action. These employees may include (i) members of the Debtors' in-house legal department who are familiar with the Debtors' Causes of Action and the executory contracts that have been assumed or rejected that have resulted in cure Claims or rejection Claims, (ii) members of the Debtors' accounts receivables department who are familiar with the Debtors' accounting systems, services formerly provided by the Debtors, the Debtors' customer base and other matters that increase their ability to maximize recovery of unpaid receivables, (iii) personnel familiar with potential tax refunds that may be obtained and (iv) real estate specialists who are able to maximize the proceeds of fixtures and equipment that are scattered at numerous former operating locations throughout the country and the world. The Debtors believe that this expertise will provide some additional recovery for creditors that could not be obtained by outside trustees and professionals who are not familiar with the Debtors' business and history.

Perhaps more importantly, the aggregate amount of Cash available for distribution to creditors would be lower in a Chapter 7 case because of increased administrative costs. First, an independent Chapter 7 trustee may receive a statutory fee on all distributions made. Second, a Chapter 7 trustee and the trustee's attorneys and accountants would add costs above and beyond the costs likely to be incurred by professionals for the Liquidating Trust (which professionals are expected to be a combination of the Debtors' and the Creditors' Committee's current professionals). All of these fees and costs would be entitled to administrative priority. A Chapter 7 trustee and professionals would have to expend tremendous amounts of effort just learning the matters already familiar to the professionals already involved in the Debtors' Chapter 11 Cases. This additional cost would reduce overall creditor recoveries. Furthermore, given the potential inter-creditor and debtor-creditor disputes described in Section IV, it is possible that one or more of the Debtors might require a separate Chapter 7 trustee. That trustee would then have to duplicate much of the efforts of the Debtors' and Creditors' Committee's professionals, as well as the efforts of the other Chapter 7 trustees. Each Chapter 7 trustee would be entitled to statutory fees and would retain separate attorneys and accountants, adding still more costs. In general, a Chapter 7 case would add additional costs of at least several million dollars, reducing creditor recoveries.

Finally, the Plan proposes distributions to creditors based on a compromise and settlement of various intercreditor and debtor-creditor disputes, as described in Section IV above. One of the principal purposes of Chapter 11 plans is to facilitate compromises

of complex intercreditor disputes, such as those the creditors and the Debtors face in these cases. This purpose would be thwarted by allowing creditors, under the guise of the best interests test, to insist that all possible litigation that might occur in a Chapter 7 case be incorporated into the confirmation of the Plan. Although a creditor might argue that, after final trials on the merits and any appeals, its distribution would be larger if all intercreditor and debtor-creditor disputes were resolved in its favor, it is equally true that each such creditor would be worse off if, instead of receiving the benefit of the compromise embodied in the Plan, all litigation were resolved against such creditor in a Chapter 7 case. The best interests test protects creditors only against results in a Chapter 11 plan that are worse than the worst possible case in Chapter 7. The Debtors' Plan proposes a compromise of massive amounts of litigation that would otherwise require an enormous amount of time and money to prosecute. The Debtors believe that these benefits outweigh the mere chance that such litigation might render any additional benefit to a particular creditor.

The Debtors also believe that the value of any distributions to each class of allowed claims in a Chapter 7 case, including all secured claims, would be less than the value of distributions under the Plan because such distributions in a Chapter 7 case would delayed for a substantial period of time. There is a risk that distribution of the proceeds of a Chapter 7 liquidation might not occur for one or more years after the completion of such liquidation in order to resolve claims and prepare for distributions. In addition, recovery to creditors may be decreased by any litigation engendered by the claims allowance process. Incorporating the time value of distributions to the liquidation analysis contained here would further lower the estimated recoveries as presented.

C. ***Section 1129(b)***

The Bankruptcy Court may confirm a plan of reorganization over the rejection or deemed rejection of the plan of reorganization by a class of claims or equity interests if the plan of reorganization "does not discriminate unfairly" and is "fair and equitable" with respect to such class. Because Classes 5, 6 and 7 are deemed to reject the Plan, the Debtors must satisfy these requirements in order to confirm the Plan. If either Class 3 or Class 4 rejects the Plan, the Debtors will, at the Confirmation Hearing, satisfy these requirements as to those classes.

1. <u>No Unfair Discrimination.</u>

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

The Debtors believe that the Plan does not unfairly discriminate against members of Class 3 and Class 4 in view of the global settlement of intercreditor issues embodied in the Plan. The Plan does not discriminate unfairly against members of Class 5 because of the contractual subordination of Claims in such Class to the Claims in Class 3, pursuant to the terms of the Verizon-Bank Agreement.

2. Fair and Equitable Test

This test applies to classes of different priority and status (e.g., secured versus unsecured) and includes the general requirement that no class of claims receive more than 100% of the allowed amount of the claims in such class. The test also imposes the so-called "absolute priority rule," which differs depending on the type of claims or interests in the dissenting class:

- Dissenting Class of Unsecured Creditors. Either (i) each Holder of an impaired unsecured Claim receives or retains on account of such claim under the plan property of a value equal to the amount of its allowed claim or (ii) the Holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

- Dissenting Class of Equity Interests. Either (i) each equity interest Holder will receive or retain on account of such interest under the plan property of a value equal to the greater of (a) the fixed liquidation preference or redemption price, if any, of such stock and (b) the value of the stock, or (ii) the Holders of interests that are junior to the equity interests of the dissenting class will not receive or retain any property under the plan of reorganization.

The Debtors believe that the treatment of Classes 5, 6 and 7 under the Plan is fair and equitable. Class 5 (Verizon InvestmentsClaims) is a class of unsecured creditors. The Plan meets the fair and equitable test with respect to Class 5 because the two junior classes of claims and interests (Classes 6 and 7) will not receive any property under the Plan. Similarly, Class 6 (Section 510(b) Claims) is a class of unsecured creditors, and the fair and equitable test is met because the junior class (Class 7) will not receive any property under the Plan. Finally, Class 7 (Interests in the Debtors) is a class of equity interests and is the most junior class under the Plan. The Plan meets the fair and equitable test with respect to Class 7 because there is no junior class.

D. ***Liquidation Under Chapter 7***

If no Chapter 11 plan can be confirmed, the 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 in accordance with the priorities established by the Bankruptcy Code. A discussion of the effect that a Chapter 7 liquidation would have on the recoveries of Holders of Claims is set forth in section VIII.B.2 of this Disclosure Statement. The Debtors believe that liquidation under Chapter 7 would result in smaller distributions being made to creditors than those provided for in the Plan because of (i) the likelihood that other assets of Debtors would have to be sold or otherwise disposed of in a less orderly fashion, (ii) additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, and (iii) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations.

IX. **TAX CONSIDERATIONS**

The following discussion summarizes certain U.S. federal income tax consequences of the implementation of the Plan solely to Holders of Allowed Claims receiving Class A Beneficial Interests or Class B Beneficial Interests in the Liquidating Trust. The following summary does not address the U.S federal income tax consequences to Holders whose Claims are entitled to reinstatement or payment in full in cash under the Plan (e.g. Priority Claims) or Holders whose Claims or equity interests are extinguished without a distribution in exchange therefor (e.g. Holders of Genuity Inc. common stock or options). The following U.S. federal income tax consequences are based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury regulations promulgated and proposed thereunder, judicial decisions and published administrative rules and pronouncements of the U.S. Internal Revenue Service ("IRS") as in effect on the date hereof. Changes in such rules or new interpretations thereof may have retroactive effect and could significantly affect the U.S. federal income tax consequences described below. The U.S. federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to the interpretation that the IRS will adopt. In addition, this summary generally does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (including but not limited to persons who are not U.S. persons, cash basis taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, real estate investment trusts, tax-exempt organizations, and investors in pass-through entities).

THE FOLLOWING SUMMARY OF CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM. ALL HOLDERS OF CLAIMS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS FOR THE FEDERAL, FOREIGN, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

A. ***General Treatment of the Transaction***

As discussed in more detail below, the Liquidating Trust has been structured to qualify as a “grantor trust” for federal income tax purposes. Accordingly, all parties will treat the transfer of assets to the Liquidating Trust as a deemed transfer of such assets directly to Holders of Allowed Claims (whether Allowed on or after the Effective Date) who receive interests in the Liquidating Trust in satisfaction of such Claims (other than to the extent allocable to or retained on account of the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve and the Senior Creditor Claims Reserve) followed by a deemed transfer of such assets by such Holders to the Liquidating Trust, who will be treated as deemed owners of their allocable shares of the Liquidating Trust Assets. The Debtors do not anticipate that a significant tax liability (if any) will be incurred by the Debtors as a result of the transfer.

The Liquidating Trustee will be required to value the Liquidating Trust Assets, and all parties, including the Holders of interests in the Liquidating Trust, must consistently use such valuation for all federal income tax purposes.

B. ***Taxation Upon Receipt of Cash and Property in Respect of Claims***

In general, each Holder of an Allowed Claim will recognize gain or loss in an amount equal to the difference between (i) the amount of cash and the fair market value of any property received, including the aggregate fair market value of the Holder's undivided interest in the Liquidating Trust Assets received in respect of its Claim, determined without taking into account the portion of the Liquidating Trust Assets allocable to, or retained on account of, the Disputed General Unsecured Claims Reserve and the Cash Claims Reserve and (ii) such Holder's adjusted tax basis in its Claim.

To the extent that an amount received (including cash or other property) by a Holder of debt is received in satisfaction of interest accrued during its holding period, such amount will be taxable to the Holder as interest income (if not previously included in the Holder's gross income). Conversely, a Holder generally will recognize a deductible loss to the extent any accrued interest previously included in its gross income is not paid in full. The allocation for federal income tax purposes between principal and interest of amounts received in exchange for the discharge of a claim at a discount is unclear. However, the Debtors intend to take the position that any cash or property received will first be allocated to principal.

EACH HOLDER IS URGED TO CONSULT ITS TAX ADVISOR REGARDING THE ALLOCATION OF CONSIDERATION AND THE DEDUCTIBILITY OF UNPAID INTEREST FOR U.S. FEDERAL INCOME TAX PURPOSES.

The fair market value of the property attributable to the interests received, if any, in the Liquidating Trust, will be determined pursuant to the valuation performed by the Liquidating Trustee.

Most recipients will likely have a loss on the deemed receipt of assets, the size of which, in the case of a Holder receiving interests in the Liquidating Trust, will depend, in part, on the determination of fair market value performed by the Liquidating Trustee.

Where gain or loss is recognized by a Holder in respect of its 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 but not limited to:

(a) the nature of origin of the Claim;

(b) the tax status of the Holder;

(c) whether the Claim constitutes a capital asset in the hands of the Holder and how long it has been held;

(d) whether the Claim was acquired at a market discount; and

(e) whether and to what extent the Holder had previously claimed a bad debt deduction with respect to the Claim.

A Holder of an Allowed Claim which purchased its Claim from a prior Holder at a market discount may be subject to the market discount rules of the Tax Code. Under those rules, assuming that the Holder has made no election to amortize the market discount into income on a current basis with respect to any market discount instrument, any gain recognized on the exchange of such Claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such Claim as of the date of the exchange.

As and when any Disputed General Unsecured Claims, or portions thereof, become Disallowed, Holders of previously Allowed General Unsecured Claims with beneficial interests in the Class B Subtrust will become entitled to an increased share of the Liquidating Trust Assets. As and when any Liquidating Trust Assets are released from the Cash Claims Reserve for the benefit of Holders of Class A Beneficial Interests and/or Class B Beneficial Interests, such Holders will become entitled to an increased share of the Liquidating Trust Assets. For federal income tax purposes, the receipt of such increased share after the Effective Date may be treated as additional consideration in satisfaction of such Holder's Allowed Claim and may result in the recognition of gain equal to the fair market value at such time of such increased share (other than amounts attributable to earnings previously taxed to the Disputed General Unsecured Claims Reserve or the Cash Claims Reserve), subject to the imputed interest provisions of the Tax Code as discussed below.

Any amount Holders receive following the Effective Date as a distribution in respect of their beneficial interests in the Liquidating Trust (other than as a result of the disallowance of Disputed General Unsecured Claims or Disputed Cash Claims, as discussed above) should not be included for federal income tax purposes in their amounts realized in respect of their respective Allowed Claims but should be separately treated as a distribution received in respect of their relative beneficial interests in the Liquidating Trust.

As and when any Disputed General Unsecured Claims, or portions thereof, become Allowed, each Holder of such Claim will recognize gain or loss in an amount equal to the difference between (i) the fair market value at such time of the beneficial interests in the Class B Subtrust received in respect of its Claim (other than amounts attributable to earnings previously taxed to the Disputed General Unsecured Claims Reserve or the Cash Claims Reserve) and (ii) such Holder's adjusted tax basis in its Claim.

If a Holder of an Allowed General Unsecured Claim receives additional distributions subsequent to the Effective Date in respect of any subsequently disallowed Disputed General Unsecured Claims (or portions thereof) or unclaimed distributions, the imputed interest provisions of the Tax Code may apply to treat a portion of such later distributions to such Holders as imputed interest, calculated from the Effective Date.

Principles similar to those described above will apply with respect to the approval and disapproval of Senior Creditor Claims.

It is possible that any loss realized by a Holder in satisfaction of an Allowed Claim may be deferred until all subsequent distributions relating to Disputed Claims are determinable, and/or that a portion of any gain realized may be recognized under the "installment method" of reporting.

C. ***Tax Treatment of the Liquidating Trust and the Beneficial Interests***

1. Classification of the Liquidating Trust

The Liquidating Trust is intended to qualify as a liquidating trust for federal income tax purposes (within the meaning of Treasury Regulations Section § 301.7701-4(d)). In general, a liquidating trust is not a separate taxable entity but rather is treated for federal income tax purposes as a "grantor" trust (i.e., a pass-through 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, sets 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 Liquidating Trust has been structured with the intention of complying with such general criteria. The Liquidating Trustee may treat subtrusts within the Liquidating Trust as separate grantor trusts.

Pursuant to the Plan, and in conformity with Revenue Procedure 94-45, all parties (including the Debtors, the Liquidating Trustee and the Holders of Allowed Claims) are required to treat, for federal income tax purposes, the Liquidating Trust as a grantor trust of which the Holders of Allowed Claims in Class 3 and Class 4 (other than the Holders of BBN Bonds Claims and the BBN Bonds Trustee) are the owners and grantors, and the following discussion assumes that the Liquidating 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 Liquidating 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 such classification, the federal income tax consequences to the Liquidating Trust, the Holders of Claims and the Debtors could vary from those discussed herein (including the potential for an entity level tax on any income of the Liquidating Trust).

2. General Tax Reporting by the Liquidating Trust and Beneficiaries

Each Holder of an Allowed Claim (including any Holder of a Disputed General Unsecured Claim that becomes Allowed subsequent to the Effective Date pursuant to the Plan) receiving a beneficial interest in the Liquidating Trust will be treated for U.S. federal income tax purposes as directly receiving and as a direct owner of its allocable percentage of the Liquidating Trust Assets.

Each Holder of an Allowed Claim as of the Effective Date will have an initial tax basis in its share of Liquidating Trust Assets equal to such share's fair market value on the Effective Date, and each Holder of any Disputed General Unsecured Claim that becomes Allowed after the Effective Date will have an initial tax basis in its share of Liquidating Trust Assets equal to such share’s fair market value as of the date such

beneficial interest is received in respect of its Claim, in each case adjusted upward if additional gain is recognized upon the release of Liquidating Trust Assets from the Cash Claims Reserve for the benefit of Holders of Beneficial Interests and, in the case of Holders of Class B Beneficial Interests, upon the disallowance of any Disputed General Unsecured Claims (or portions thereof), as discussed above, and, in the case of Holders of Approved Senior Creditor Claims, upon the determination by Final Order that Contested Senior Creditor Claims do not benefit from the subordination provisions of the BBN Bonds Indenture.

Each such Holder will be required to report on its U.S. federal income tax return its allocable share of any income, gain, loss, deduction or credit recognized or incurred by the Liquidating Trust, in accordance with its relative beneficial interest determined without taking into account the portion of the Liquidating Trust Assets allocable to, or retained on account of, the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve, and the Class B Beneficial Interests held in the Senior Creditor Claims Reserve. The character of such income etc. may depend on the individual circumstances of the Holder. All income of the Liquidating Trust will be allocated to the "grantor" beneficiaries. The Liquidating Trustee will pay, on behalf of the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve and the Senior Creditor Claims Reserve, any taxes due with respect to income allocable to such reserves as discussed below.

Each such Holder will be taxable on its allocable share of the income of the Liquidating Trust (as determined above) regardless of whether the Liquidating Trust makes any distributions to such Holder.

In general, other than in respect of previously unclaimed distributions, a distribution by the Liquidating Trust of cash (not in excess of such Holder’s adjusted tax basis in its share of the Liquidating Trust Assets) to a Holder of an Allowed Claim should not be taxable to such Holder.

Some Holders may receive fewer distributions than their basis in the Liquidating Trust Assets. Those persons should generally be allowed to claim a loss upon termination of the Liquidating Trust.

Other Holders may receive distributions in excess of their basis in the Liquidating Trust Assets. Those persons will report additional income or gain.

The Liquidating Trustee will be required to file with the IRS returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a) and send to each Holder of an Allowed Claim who is a beneficiary a separate statement setting forth such Holder's share of items of income, gain, loss, deduction or credit and will instruct the Holder to report such items on its federal income tax return. The Liquidating Trustee will also file, or cause to be filed, all appropriate tax returns with respect to any Liquidating Trust Assets allocable to the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve and the Senior Creditor Claims Reserve as discussed below.

3. Tax Reporting for the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve and the Senior Creditor Claims Reserve

Absent definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the issuance of applicable Treasury Regulations, the receipt by the Liquidating Trustee of a private letter ruling if the Liquidating Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Liquidating Trustee), the Liquidating Trustee shall:

(a) treat all Liquidating Trust Assets allocable to, or retained on account of, the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve and the Senior Creditor Claims Reserve, as held, in each case, by a discrete trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of such respective reserve, in accordance with the trust provisions of the Tax Code (section 641 *et seq.* of the Tax Code);

(b) treat as taxable income or loss of the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve, with respect to any given taxable year the portion of the taxable income or loss of the Liquidating Trust allocable to the Liquidating Trust Assets held in such reserves;

(c) treat as a distribution from the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve any increased amounts distributed by the Liquidating Trust as a result of any Disputed General Unsecured Claim, any Disputed Cash Claim or any Contested Senior Creditor Claim as the case may be, resolved earlier in the taxable year, to the extent such distribution relates to taxable income or loss of the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve, as the case may be, determined in accordance with the provisions hereof, and

(d) to the extent permitted by applicable law, report consistently for state and local income tax purposes.

Accordingly, subject to issuance of definitive guidance, the Liquidating Trustee will report on the basis that any amounts earned by the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve and any taxable income of the Liquidating Trust allocable to the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve are subject to a separate entity level tax, except to the extent such earnings are distributed during the same taxable year. Any amounts earned by or attributable to the Disputed General Unsecured Claims Reserve, the Cash Claims Reserve or the Senior Creditor Claims Reserve and distributed to a Holder during the same taxable year will be includible in such Holder's gross income.

D. ***Withholding***

All distributions to Holders of Claims under the Plan are subject to any applicable tax withholding, including employment tax withholding.

Under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to "backup withholding" at the then applicable withholding rate (currently 28%). Backup withholding generally applies if the Holder (a) fails to furnish its social security number or other taxpayer identification number ("TIN"), (b) furnishes an incorrect TIN, (c) fails properly to report interest or dividends, or (d) fails to provide certain certifications signed under penalty of perjury. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including, generally, corporations and financial institutions.

RECENTLY EFFECTIVE TREASURY REGULATIONS GENERALLY REQUIRE THE DISCLOSURE BY A TAXPAYER ON ITS FEDERAL INCOME TAX RETURNS OF CERTAIN TYPES OF TRANSACTIONS IN WHICH THE TAXPAYER PARTICIPATED AFTER JANUARY 1, 2003. HOLDERS OF CLAIMS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THESE REGULATIONS AND WHETHER THE TRANSACTIONS CONTEMPLATED BY THE PLAN WOULD BE SUBJECT TO THESE REGULATIONS AND REQUIRE SUCH DISCLOSURE.

THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. ALL HOLDERS OF CLAIMS ARE URGED TO CONSULT THEIR TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

X. **ALTERNATIVE TO CONFIRMATION OF THE PLAN**

The Debtors have sold substantially all of their assets and are currently in the process of winding down their business operations and liquidating any remaining assets. Accordingly, the only alternative to the Plan is a Chapter 7 liquidation, which alternative is not likely to benefit creditors. The Plan embodies what the Debtors believe to be the best method of resolving any remaining disputes between and among the Debtors and creditors, and completing the orderly liquidation and distribution of the Debtors' assets to creditors. The Debtors believe that their decision to remain in Chapter 11 facilitated the cost-effective disposition of their assets during the Chapter 11 Cases and the distribution of proceeds of the Level 3 Sale to creditors. If the Plan is not confirmed, then the Debtors' Chapter 11 Cases may be converted to a case under Chapter 7 of the Bankruptcy Code. In the event of conversion, the Debtors would cease their liquidation and distribution efforts, and one or more trustees would be appointed to litigate any remaining disputes between and among the Debtors and creditors, and liquidate and distribute the remaining assets of the Estates. The Debtors believe that the conversion of these Chapter 11 cases to a Chapter 7 would result in significant delay in distributions to all creditors who would have received a distribution under the Plan, and diminished recoveries to all creditors entitled to receive a distribution under the Plan. See the discussion of the "best interests" test in Section VIII.B.2 above.

XI. CONCLUSIONS AND RECOMMENDATION

The Debtors believe that confirmation and implementation of the Plan is preferable to any of the alternative described above because the Plan will result in the greatest recoveries to Holders of Claims on a present-value basis. The other alternatives would involve significant delay, uncertainty and substantial additional administrative costs. Consequently, the Debtors recommend that all Holders vote to accept the Plan and evidence their acceptance by completing and returning their Ballots so that they will be received by the Balloting Agent on or before 5:00 p.m. prevailing Eastern time on November 4, 2003.

Dated: Woburn, Massachusetts
October 1, 2003

GENUITY INC.
GENUITY SOLUTIONS INC.
BBN ADVANCED COMPUTERS INC.
BBN CERTIFICATE SERVICES INC.
BBN INSTRUMENTS CORPORATION
BBN TELECOM INC.
BOLT BERANEK AND NEWMAN CORPORATION
GENUITY BUSINESS TRUST
GENUITY EMPLOYEE HOLDINGS LLC
GENUITY INTERNATIONAL INC.
GENUITY INTERNATIONAL NETWORKS LLC
GENUITY INTERNATIONAL NETWORKS INC.
GENUITY TELECOM INC.
LIGHTSTREAM CORPORATION

Debtors and Debtors-in-Possession

/s/ Ira H. Parker
By: Ira H. Parker
Title: President

NAP.NET, L.L.C.

Debtor and Debtor-in-Possession

/s/ Ira H. Parker
By: Ira H. Parker
Title: Authorized Officer

GLOSSARY OF TERMS

Set forth below is a glossary of certain terms used in the Disclosure Statement. To the extent not defined in this Glossary of Terms or elsewhere in the Disclosure Statement, capitalized terms used in this Disclosure Statement have the meanings ascribed to such terms in Article II of the Plan attached hereto as Exhibit A. In the event of any inconsistency between the definitions in this Glossary or elsewhere in the Disclosure Statement and the definitions ascribed to the same terms in the Plan, the definitions in the Plan shall control.

510(b) Claims	All Claims against any of the Debtors that would be subordinated pursuant to Bankruptcy Code Section 510(b).
Administrative Claim	A Claim against any of the Debtors entitled to priority under Bankruptcy Code Section 507(a)(1), except for quarterly fees payable to the United States Trustee pursuant to 28 U.S.C. § 1930(a)(6).
AlixPartners Retention Agreement	The Letter Agreement dated January 7, 2003 between Genuity Inc. and AP Services LLC, as amended and in effect from time to time.
Allowed Claim	With respect to Claims, (a) any Claim or portion thereof against any of the Debtors, proof of which is timely Filed or by order of the Bankruptcy Court is not, or will not be, required to be Filed, (b) any Claim or portion thereof that has been or is hereafter listed in the Schedules as neither disputed, contingent or unliquidated, or (c) any Claim or portion thereof allowed pursuant to the Plan; and in the cases in (a) and (b) above as to which either (i) no objection to the allowance or level of priority or seniority thereof or no motion to estimate for the purposes of allowance has been interposed within the applicable period of time fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules or the Bankruptcy Court and such time period or extension thereof has expired, or (ii) such an objection or motion has been so interposed and the Claim shall have been allowed by a Final Order (but only to the extent so allowed).
Approved Senior Creditor Claims	(A) Any Senior Creditor Claim or portion thereof for which a statement is timely Filed pursuant to Section 8.8.2 of the Plan and (B) any Senior Creditor Claim or portion thereof listed on Exhibit B to the Plan; and in

	both cases as to which no objection is timely Filed or which has been approved by Final Order.
Available Cash	The Effective Date Cash minus Plan Confirmation Cash.
Avoidance Actions	All avoidance actions including all causes of action under Bankruptcy Code Sections 329, 510, 542, 543, 544, 545, 547, 548, 549, 550 and 553(b).
B-to-A Conversion	The conversion of all but one of Verizon's Class B shares of Genuity Inc. into Class A shares of Genuity Inc. pursuant to a notice delivered on July 24, 2002, whereby Verizon relinquished its right to regain control of Genuity Inc.
Balloting Agent	Donlin, Recano & Company, Inc.
Bank Agent	JPMorgan Chase Bank, as successor in interest to The Chase Manhattan Bank, in its capacity as the Administrative Agent under the Bank Credit Agreement.
Bank Amendment No. 1	The amendment to the Bank Credit Agreement establishing that all amounts repaid by the Debtors apply first to the July 2002 Draw and then to the obligations arising under the Letter of Credit drawn to repay the Chase-Backed Notes.
Bank Credit Agreement	The Amended and Restated Credit Agreement dated as of September 24, 2001, among Genuity Inc., the Bank Lenders, the Bank Agent, J.P. Morgan Securities Inc., as arranger and book manager, Citibank, N.A., as syndication agent, and Credit Suisse First Boston and Deutsche Bank AG New York Branch, as co-documentation agents, as amended and in effect from time to time.
Bank Group Claims	The Claims of the Bank Lenders relating in any way to the Bank Credit Agreement, but excluding the rights of the Bank Lenders as beneficiaries of the subordination provisions of the BBN Bonds Indenture.
Bank Lenders	"Lenders" as that term is defined in the Bank Credit Agreement.

Bank Loans	All loans under the Bank Credit Agreement.
Bank Tranche Amount	$116,000,000.00 to the extent available on or after the Effective Date.
Bankruptcy Code	Title 11 of the United States Code, as the same was in effect on the Petition Date, as amended from time to time and as applicable to the Chapter 11 Cases.
Bankruptcy Court	The United States Bankruptcy Court for the Southern District of New York, or, to the extent that such court ceases to exercise jurisdiction over the Chapter 11 Cases, such other courts or adjuncts thereof that exercise jurisdiction over the Chapter 11 Cases.
Bankruptcy Rules	The Federal Rules of Bankruptcy Procedure and the Local Rules of Bankruptcy Procedure for the United States Bankruptcy Court for the Southern District of New York, as in effect on the Petition Date and thereafter amended from time to time and as applicable to the Chapter 11 Cases.
Bar Dates	The dates established by the Bankruptcy Court as the deadlines for filing proofs of claim in the Chapter 11 Cases, specifically (i) April 18, 2003 for all claims other than claims of governmental units and claims arising from the rejection of executory contracts, (ii) May 27, 2003 for claims of governmental units, (iii) for claims arising from the rejection of executory contracts, the later of April 18, 2003 and the date that is thirty (30) days after the effective date of rejection of such executory contract, and (iv) October 15, 2003 for all Administrative Claims (other than Professional Fee Claims and Claims under the Estate Employee Retention Plan and the AlixPartners Retention Agreement) accruing during the period through and including July 31, 2003.
BBN Bonds	The 6% Convertible Subordinated Debentures due April 1, 2012, originally issued by Bolt Beranek and Newman Inc., predecessor in interest to Genuity Solutions.
BBN Bonds Claims	All Claims represented by, related to or arising under or in connection with the BBN Bonds or the BBN

	Bonds Indenture or any instruments, documents or agreements entered into, delivered or filed thereunder or in connection therewith, including the principal amount outstanding thereunder, accrued and unpaid interest thereon and all other fees, costs, expenses and other obligations thereunder but excluding the Senior Creditor Claims.
BBN Bonds Indenture	That certain Indenture dated as of April 1, 1987, between Bolt Beranek and Newman, Inc. and U.S. Bank N.A., as successor in interest to The First National Bank of Boston, pursuant to which the BBN Bonds were issued, as amended from time to time.
BBN Bonds Trustee	The indenture trustee for the BBN Bonds.
Beneficial Interests	The Class A Beneficial Interests and the Class B Beneficial Interests.
Business Day	Any day other than a Saturday, Sunday or legal holiday (as defined in Bankruptcy Rule 9006).
Cash	Cash and cash equivalents, including wire transfers of immediately available funds, certified checks, money orders, negotiable checks, other readily marketable direct obligations of the United States of America and other similar items.
Cash Claims Reserve	An amount of Cash equal to the sum of (a) the Maximum Amount of each Disputed Cash Claim, plus (b) an amount determined by the Debtors, subject to Section 14.3 of the Plan, sufficient to pay (i) the unpaid estimated Administrative Claims (including Professional Fee Claims) that accrue on or after the Petition Date through the Effective Date and (ii) any unpaid incentive compensation under the AlixPartners Retention Agreement and the Estate Employee Retention Plan that accrues after the Effective Date.
Cause of Action	All claims, rights, causes of action, torts, suits, controversies, accounts, proceedings, avoiding powers, damages and demands, whether asserted or assertable directly or derivatively in law or in equity, known or unknown, contingent or otherwise, that any Debtor or any Estate may have or hold against any Person, including the Avoidance Actions, causes of

	action for subordination of Claims and causes of action against the directors, officers, agents, accountants and other representatives of any Debtor and its affiliates.
Chapter 11 Cases	The Debtors' cases under chapter 11 of the Bankruptcy Code.
Chase-Backed Notes	The $1.15 billion in notes issued by Genuity Inc. in September 2001, backed by a letter of credit under the Bank Credit Agreement.
Claim	(A) any right to payment from a Debtor arising on or before the Effective Date, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (B) any right to an equitable remedy against a Debtor arising on or before the Effective Date for breach of performance if such breach gives rise to a right to payment from a Debtor, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured.
Claims Agent	Donlin, Recano & Company, Inc.
Claims Objection Bar Date	With respect to any Claim, the 120th day following the latest of the Effective Date, the date such Claim is Filed and such later date as may be established from time to time by the Bankruptcy Court as the last date for filing objections to such Claim.
Class	One of the classes of Claims or Interests that are substantially similar in nature to each other, established under Article V of the Plan.
Class A Beneficial Interests	The Class A beneficial interests in the Liquidating Trust.
Class B Beneficial Interests	The Class B beneficial interests in the Liquidating Trust.
Class B Subtrust	The subtrust of the Liquidating Trust, for the benefit of holders of Class B Beneficial Interests, established pursuant to Section 8.3.2(g) of the Plan.

Class B Tranche Amount	$70,000,000.00.
Collection Cash	Cash from (i) the Cash Claims Reserve as a result of Disputed Cash Claims being Disallowed or becoming Allowed Claims in amounts less than their respective Maximum Amounts, (ii) the enforcement, prosecution, compromise or settlement of Causes of Action (including Avoidance Actions), (iii) the Cash Claims Reserve as a result of Unpaid Administrative Expenses aggregating less than the Cash reserved with respect thereto and no other unpaid administrative expenses of the Debtors and their Estates accruing through the Effective Date with respect to which Cash has not been deposited in the Cash Claims Reserve and (iv) the sale, abandonment, liquidation and collection of all other Non-Cash Assets.
Confirmation Hearing	The hearing held by the Bankruptcy Court to consider Confirmation, as such hearing may be continued or adjourned from time to time.
Confirmation Order	The Bankruptcy Court's order confirming the Plan pursuant to Bankruptcy Code Section 1129.
Contested Senior Creditor Claims	All Senior Creditor Claims for which objections in accordance with Section 8.8.3 of the Plan have been Filed and have not been resolved by a Final Order.
Creditors' Committee	The Official Committee of Unsecured Creditors appointed in the Chapter 11 Cases.
Cure Claims	All Claims entitled to payment pursuant to Bankruptcy Code Sections 365(b)(1)(A) and (B).
Disallowed	With respect to Claims and Interests, any Claim or portion thereof against, or Interest or portion thereof in, a Debtor (i) disallowed, overruled or expunged by a Final Order or the Plan or (ii) not listed in the Schedules or listed in the Schedules as contingent, unliquidated or disputed and, in either case, no proof of claim was Filed in respect thereof.
Disbursing Agent	As to distributions to be made on the Effective Date, the Debtors, and as to distributions to be made after

	the Effective Date, the Liquidating Trust or its designee.
Disclosure Statement	The disclosure statement used to solicit acceptances and rejections of the Plan, including all exhibits and schedules thereto, in the form approved by the Bankruptcy Court under Section 1125 of the Bankruptcy Code, as amended, modified and supplemented from time to time.
Disputed	With respect to Claims, any Claim that is not Allowed or Disallowed. Prior to the Claims Objection Bar Date, for the purposes of the Plan, a Claim shall be considered a Disputed Claim in its entirety if: (i) the amount of the Claim specified in the proof of claim exceeds the amount of any corresponding Claim listed in the Schedules (if any); (ii) any corresponding Claim listed in the Schedules (if any) has been scheduled as disputed, contingent, or unliquidated, irrespective of the amount scheduled; or (iii) no corresponding Claim is listed in the Schedules.
Disputed Cash Claims	Administrative Claims, Cure Claims, Priority Tax Claims, Priority Claims and Miscellaneous Secured Claims that are Disputed Claims.
Distribution Record Date	As to any distribution under the Plan, 5:00 p.m. prevailing Eastern time on the 15th day prior to such distribution.
EERP	The obligations of the Debtors and their Estates under the Bankruptcy Court's Order Granting Motion to Authorize Implementation of an Incentive and Retention Program for Estate Employees (Docket No. 619), as amended and in effect from time to time.
Effective Date	The first Business Day after the conditions set forth in Article XII of the Plan have been satisfied or waived in accordance with Section 12.3 of the Plan, or such later date as established by the Debtors, subject to Section 14.3 of the Plan.
Effective Date Cash	All Cash held by or for the benefit of the Debtors or otherwise in the Debtors' control as of the Effective Date, including all Cash in the Cash Claims Reserve.

File, Filed or Filing	File, filed or filing with the Bankruptcy Court in the Chapter 11 Cases.
Final Order	An order or judgment of the Bankruptcy Court that has not been reversed, stayed, modified or amended and as to which the time to appeal or seek review, rehearing, reargument or certiorari has expired and as to which no appeal or petition for review, rehearing, reargument, stay or certiorari is pending, or as to which any right to appeal or to seek certiorari, review or rehearing has been waived, or, if an appeal, reargument, petition for review, certiorari or rehearing has been sought, the order or judgment of the Bankruptcy Court that has been affirmed by the highest court to which the order was appealed or from which the reargument, review or rehearing was sought, or certiorari has been denied, and as to which the time to take any further appeal, or seek further reargument, review, certiorari or rehearing has expired.
General Unsecured Claims	All Claims against the Debtors that are not Administrative Claims, Priority Claims, Priority Tax Claims, Miscellaneous Secured Claims, Bank Group Claims, 510(b) Claims or Verizon Investments Claims.
General Unsecured Creditor	A Holder of a General Unsecured Claim.
Genuity Inc.	Genuity Inc., a Delaware corporation, as debtor and debtor-in-possession.
Genuity International	Genuity International Inc., a Massachusetts corporation, as debtor and debtor-in-possession.
Genuity Solutions	Genuity Solutions Inc., a Massachusetts corporation, as debtor and debtor-in-possession.
Genuity Telecom	Genuity Telecom Inc., a Delaware corporation, as debtor and debtor-in-possession.
Holder	The holder of a Claim or Interest.
Intercompany Claims	All Claims of any Debtor against any other Debtor.
Interest	(A) "equity security" as that term is defined in the

	Bankruptcy Code and any other equity or membership interest, and (B) the legal, equitable, contractual or other right to acquire or receive any of the foregoing.
Interim Administrative Claims Bar Date Order	The order of the Bankruptcy Court establishing October 15, 2003 as the last day to file Administrative Claims (other than Professional Fee Claims and Claims under the Estate Employee Retention Plan and the AlixPartners Retention Agreement) accruing during the period through and including July 31, 2003.
July 2002 Draw	The draw of $722.5 million made on the Bank Credit Agreement pursuant to the draw request of $850 million on July 22, 2002.
KERP	The Key Employee Retention Program initiated by the Debtors in 2002 to retain critical employees, as modified by order of the Bankruptcy Court dated December 30, 2002.
Level 3	Level 3 Communications, LLC.
Level 3 Purchase Agreement	The Asset Purchase Agreement dated as of November 27, 2002 among the Debtors, Level 3 Communications, Inc. and Level 3 as amended and in effect from time to time.
Level 3 Sale	The sale of substantially all the assets of the Debtors to Level 3 as of February 4, 2003.
Level 3 Sale Order	The order of the Bankruptcy Court approving the transactions contemplated by the Level 3 Asset Purchase Agreement (Docket No. 438).
Level 3 Transition Period Contracts	The vendor contracts and unexpired leases of non-residential real property that Level 3 permitted the Debtors to reject pursuant to a designation made no later than May 4, 2003 under the terms of the Level 3 Purchase Agreement.
Lien	Any lien, security interest, or other charge or encumbrance of any kind, or any other type of encumbrance on title to real property.
Liquidating Trust	The trust contemplated by the Liquidating Trust

	Agreement.
Liquidating Trust Agreement	An agreement substantially in the form attached to the Plan as Exhibit A, as amended from time to time prior to the Effective Date, such amended document to be Filed.
Liquidating Trust Assets	All assets of the Estates except assets distributed on the Effective Date.
Liquidating Trust Oversight Committee	The board established pursuant to the Liquidating Trust Agreement to advise, assist and supervise the Liquidating Trustee in the administration of the Liquidating Trust.
Liquidating Trustee	Meade A. Monger, who is a Principal of AlixPartners, LLC, or any successor duly appointed pursuant to the terms of the Liquidating Trust Agreement.
Maximum Amount	With respect to any Disputed Claim: (a) the amount agreed to by the Liquidating Trust and the Holder of such Claim; (b) the amount, if any, estimated or determined by the Bankruptcy Court in accordance with Bankruptcy Code Section 502(c); or (c) absent any such agreement, estimation or determination, the liquidated amount set forth in the proof of claim Filed by the Holder of such Claim or, if no amount is so set forth, the amount estimated by the Liquidating Trust.
Miscellaneous Secured Claim	A Claim, other than an Administrative Claim, a Priority Tax Claim, a Priority Claim or a Bank Group Claim, payment of which is secured by a valid, perfected, enforceable, and non-avoidable Lien on property in which any Estate has an interest, to the extent of the value of the interest of the Holder of the Claim in such Estate's interest in such property, or to the extent such Claim is subject to setoff under Bankruptcy Code Section 553, as applicable, as determined pursuant to Bankruptcy Code Section 506(a); provided, however, that if the Holder of a Miscellaneous Secured Claim elects application of Bankruptcy Code Section 1111(b)(2), then such Holder's Claim shall be a Miscellaneous Secured Claim to the extent such Claim is Allowed.
Non-Cash Asset	Any asset of any Estate, including Causes of Action

	and accounts receivable, as of the Effective Date, other than Cash.
Non-Debtor Subsidiary	Any direct or indirect non-Debtor Subsidiary of any Debtor, except Integra S.A. and its Subsidiaries.
Nortel	Nortel Networks, Inc. and its affiliates.
Petition Date	The date of commencement of the Chapter 11 Cases, i.e., November 27, 2002.
Plan	The Debtors' Joint Consolidated Plan of Liquidation, As Modified, dated September _____, 2003, as it may be amended and modified from time to time in accordance with the terms thereof, including Section 14.3 of the Plan.
Plan Confirmation Cash	Without duplication, the sum of (a) all Cash distributions required to be paid under the Plan to Holders of Administrative Claims, Cure Claims, Priority Claims, Priority Tax Claims and Miscellaneous Secured Claims that are, in each case, Allowed Claims as of the Effective Date plus (b) the Cash Claims Reserve.
Priority Claims	All Claims against the Debtors accorded priority in right of payment under Bankruptcy Code Section 507(a), other than Administrative Claims and Priority Tax Claims.
Priority Tax Claims	All Claims against the Debtors for taxes, interest and penalties entitled to priority pursuant to Bankruptcy Code Section 507(a)(8).
Professional Fee Claims	Administrative Claims for (i) compensation and reimbursement of expenses of Professionals pursuant to Bankruptcy Code Section 327, 328, 329, 330, 331, 503(b)(1) or 1103, and (ii) Substantial Contribution Claims.
Professionals	Those Persons: (a) employed pursuant to Bankruptcy Court order entered in the Chapter 11 Cases in accordance with Bankruptcy Code Section 327, 328 or 1103; or (b) for which the Bankruptcy Court has allowed compensation and reimbursement pursuant to Bankruptcy Code Section 503(b)(2) or (4).

Pro Rata Share	As of the date of calculation and with respect to an Allowed Claim in a particular Class, a percentage equal to (a) the amount of the Holder's Allowed Claim divided by (b) the total amount of Allowed and Disputed Claims of such Class.
Residual Cash	All Available Cash minus $514,200,000 minus the Class B Tranche Amount minus the Bank Tranche Amount plus all other Cash of the Liquidating Trust, including Cash released from the Cash Claims Reserve and Cash proceeds of Non-Cash Assets, but excluding the Cash previously allocated to the Class B Subtrust.
Retiree Benefit Programs	Any plans, funds and programs maintained or established by the Debtors currently in effect providing payments to retirees and their spouses and dependents for medical, surgical or hospital case benefits, or benefits in the event of sickness, accident, disability or death to the extent such plans are subject to Bankruptcy Code Section 1114, but excluding those payments and benefits that the Debtors are not required to make or provide pursuant to Bankruptcy Code Section 1114.
Schedules	The schedules of assets and liabilities that the Debtors have Filed in the Chapter 11 Cases, including any amendments and supplements thereto.
Senior Claimant Share	As of the date of calculation and with respect to a Senior Creditor Claim, a percentage equal to (a) the amount of the Holder's Senior Creditor Claim divided by (b) the total amount of (i) Approved Senior Creditor Claims and (ii) Contested Senior Creditor Claims.
Senior Creditor Claimants	(A) the Persons listed on Exhibit B to the Plan and (B) Holders of Senior Creditor Claims pursuant to Section 8.8.2 of the Plan.
Senior Creditor Claims	Claims of Senior Creditor Claimants seeking status as a beneficiary of the subordination provisions of the BBN Bonds Indenture.
Settlement	The global settlement of various intercreditor and

	debtor-creditor issues embodied in the Plan.
Subsidiary	With respect to any Person, any other Person that either (i) has 50% or more of its voting securities or other ownership interests (by power to vote) owned by such Person or (ii) is controlled, directly or indirectly, by such Person.
Subsidiary Debtors	All of the Debtors except Genuity Inc.
Subsidiary Guaranty	The guaranty of the Bank Credit Agreement, dated September 5, 2000, executed by Genuity Solutions and Genuity Telecom.
Unpaid Administrative Expenses	The unpaid estimated administrative expenses (including fees of Professionals) of the Debtors and their Estates that accrue through the Effective Date for which no proof of Claim has been Filed and was not yet required to have been Filed.
Verizon	Verizon Communications Inc. and its affiliates.
Verizon-Bank Agreement	The Participation, Subordination and Release Agreement, dated as of November 27, 2002, between Verizon and the Bank Lenders (excluding DeutscheBank A.G.).
Verizon Investments	Verizon Investments, Inc., a Delaware corporation.
Verizon Investments Claims	All Claims of Verizon Investments represented by, related to or arising under or in connection with the Credit Agreement dated as of March 5, 2001, between Genuity Inc. and Verizon Investments, as amended and in effect from time to time, including the principal amount outstanding thereunder, accrued and unpaid interest thereon and all other fees, costs, expenses and other obligations thereunder.
Voting Deadline	November 4, 2003, at 5:00 p.m. prevailing Eastern time, the date and time fixed by the Bankruptcy Court as the last day for Holders of Claims to vote to accept or reject the Plan.

EXHIBIT A

JOINT CONSOLIDATED PLAN OF LIQUIDATION

EXHIBIT B

DISCLOSURE STATEMENT AND SOLICITATION ORDER