Appendix G: Reorganized Debtors' Budget

Appendix G: Reorganized Debtors' Budget

A. Introduction

The Budget for the Reorganized Debtors set forth below reflects (a) actual financial information from December 2, 2001 through June 30, 2003 and (b) estimated financial information for July 1, 2003 through December 31, 2003 and for each of calendar years 2004, 2005 and 2006. Listed below are certain significant assumptions utilized in preparing the Budget. The projected receipts and expenses included in the attached Budget, both in terms of amounts and timing, are management's best estimates. Unlike most operating budget projections, the attached budget is associated with a liquidation and cannot be fully based on historical events and assumptions.

B. Variance

Estimating a budget for the Reorganized Debtors is an uncertain process because of the number of unknown variables, such as business and economic contingencies beyond the Reorganized Debtors' control. This uncertainty is further aggravated by the complexities of these Chapter 11 Cases. The projections contained in the Reorganized Debtors' Budget have not been compiled or examined by independent accountants. The Debtors make no representation regarding the accuracy of the projections or the Reorganized Debtors' ability to achieve forecasted results. Many of the assumptions underlying the projections are subject to significant uncertainties. Inevitably, some assumptions will not materialize, and unanticipated events and circumstances may affect the ultimate financial results. **Therefore, the actual results achieved will vary from the forecasts, and the variations may be material.**

C. Assumptions

1. The projected receipts and expenses included in the attached Budget are for the Reorganized Debtors and their subsidiaries collectively, and are not specific to any particular legal entities.

2. Net Cash Receipts are gross cash receipts from third parties related to contract performance, contract settlements, accounts receivable collections, gross receipts of project operations where a Debtor is the project manager, and asset sales less, as applicable, cost of sales for contract performance, amounts held in escrow pending final resolution of specific transaction items (i.e., purchase price adjustments), auction, and marketing fees and collection agency fees and disbursements related to project operations where a Debtor is the project manager (including, without limitation, operations and maintenance costs, taxes, debt repayments, and investor distributions).

    a. Estimated receipts from Trading Contracts & Receivables: The settlements of trading contracts are based on the Debtors' review of their positions with each counterparty, the current status of

negotiations for settlement with each counterparty and the Debtors' settlement history. Additionally, certain trading contracts are subject to arbitration and litigation that has also been considered in determining the Debtors' estimate of their receipts from trading contracts. The collection of trading accounts receivable is based upon the Debtors' review of their outstanding accounts receivable balances by counterparty and also recent collection history.

b. Estimated Receipts from Asset Sales & Other: (i) Asset sales projected receipts are based upon valuation and market analysis for each asset to be sold and current discussions with potential purchasers. These amounts include anticipated settlement and litigation proceeds related to the assets, but only to the extent a projected settlement or recovery amount is reasonably known and the timing of receipt can be reasonably predicted. However, the Reorganized Debtors do believe that certain of the expected settlement and litigation recoveries that are not included in the Budget are material. The amounts included in the Budget are net of expected disbursements related to the assets, such as taxes and dividends; (ii) Asset Sales & Other also includes projections of material recoveries from certain financing transactions that have settled or are projected to settle, to the extent known or anticipated. However, no receipts have been projected from financing transactions that are the subjects of current settlement negotiations because of the uncertainty of the ultimate recoveries. Notwithstanding the foregoing, Asset Sales & Other for the year 2005 does include the potential release from escrow of proceeds from the anticipated sale of a newsprint and directory paper mill business that is associated with a financing structure, and these proceeds have also been included in the Blackstone Model.

3. Both the Net Cash Receipts and Expenses are dependent on headcount necessary to liquidate and/or settle the Remaining Assets in an efficient manner. As of December 31, 2003, the Reorganized Debtors are projected to have a headcount of 1,038 with the numbers declining significantly over the 2004 through 2006 period. The projected headcount numbers for the Reorganized Debtors at each of December 31 of 2004, 2005, and 2006 are 535, 240, and 156, respectively.

4. G&A Expenses include, among other items, expenses related to the commercial and support groups involved in liquidating the Remaining Assets and pursuing and resolving claims. They also include functional support areas such as Accounting, Tax, Legal and Human Resources. While the majority of the costs for these expenses will be associated with employees and contract labor employed by the Reorganized Debtors, certain of the costs will be outsourced from Stephen Forbes Cooper LLC, which has been retained by the Reorganized Debtors with Bankruptcy

Court approval. The costs associated with this outsourcing are approximately: $14 million for July 1 – December 31, 2003 (out of total expenses of $304 million, net of Cash Balance Plan Funding); $31 million for 2004 (out of total expenses of $474 million); $33 million for 2005 (out of total expenses of $230 million); and $36 million for 2006 (out of total expenses of $181 million).

5. As described in Section VII of the Disclosure Statement, the Reorganized Debtors anticipate providing and receiving transition services to and from CrossCountry and Prisma and providing transition services to PGE (including administrative and other support services) through December 31, 2004. While an extension of these services beyond 2004 could be negotiated in the future, no services or related headcount, reimbursements or expenses are included in the attached Budget for beyond 2004. The expenses listed in the attached Budget are net of reimbursements to the Reorganized Debtors from the Operating Entities with respect to such transition services.

6. Other Expenses includes anticipated expenses related to IT systems and support, accounting systems and support, insurance, employee retention programs and financing costs related primarily to obligations pursuant to the Reorganized Debtors' exit financing facility.

7. Professional Fees do not include any success fee to Stephen Forbes Cooper LLC, which will be negotiated with the Creditors' Committee and submitted to the Bankruptcy Court for approval.

8. The anticipated funding of the amount reflected in the Cash Balance Plan Funding is currently under discussion (both as to exact amount and timing) and will be the subject of a motion and hearing in the Bankruptcy Court.

9. Total Expenses of approximately $1.6 billion for the period December 2, 2001 through June 30, 2003 includes approximately $502 million for professional fees, plus approximately $30 million to Stephen Forbes Cooper LLC for outsourcing costs of the type described in Assumption 4 above.

10. In accordance with the Litigation Trust Agreement and the Special Litigation Trust Agreement and any agreements entered into in connection therewith, on the Effective Date, the Debtors shall transfer such amounts of Cash as jointly determined by the Debtors and the Creditors' Committee as necessary to fund the operations of the Litigation Trust and the Special Litigation Trust. The Debtors and the Reorganized Debtors shall have no further obligation to provide any funding with respect to the Litigation Trust or the Special Litigation Trust. The estimated

professional fees include estimated funding of the operations of the Litigation Trust and Special Litigation Trust.

11. Interest Income is projected based on available cash of approximately $5 billion, plus anticipated cash receipts less expenses reflected in the attached Budget. It is assumed that approximately 15% of cash available for distribution at the time of such distribution will be distributed initially in the second quarter of 2004, 25% in the fourth quarter of 2004, 15% in the second quarter of 2005, and the remainder will be distributed in the following quarters: Q4 2005, Q2 2006, Q4 2006, Q2 2007 and Q4 2007. **It should be noted that this hypothetical scenario is for assumption purposes only, and the actual timing and amount of the distributions may vary materially from the assumptions used herein.**

12. The Reorganized Debtors' Budget contains projections for the three-year period following the anticipated confirmation of the Plan. For purposes of the Budget, it is assumed that the Plan will be confirmed on January 1, 2004. Although the Debtors anticipate completing the wind-down of the Reorganized Debtors' businesses by year-end 2006, conclusion of this process may be delayed by, among other things, completion of the claims process, resolution of pending litigation, and issues associated with obtaining relevant consents and approvals associated with the liquidation of the Remaining Assets and dissolution of the Reorganized Debtors. As it is impossible to predict this timing with any certainty, it is anticipated that the Reorganized Debtors will conduct periodic and, at a minimum, annual reviews of the budgets for the Reorganized Debtors, Litigation Trust, and Special Litigation Trust and review the budgets and seek approval, as appropriate, with the board of directors and/or trustees of the Reorganized Debtors, Litigation Trust, and Special Litigation Trust. In reviewing and analyzing these budgets, the Reorganized Debtors will endeavor to maximize the ultimate recoveries to Creditors.

13. The projected receipts included in the Budget include anticipated asset sales, as well as projected recoveries from litigation, if a settlement or other recovery is reasonably known and the timing of receipt can be reasonably predicted. Nonetheless, the Debtors believe that other settlement and litigation recoveries not included in the Budget are material. Consequently, although the budget estimate for 2006 reflects a substantial loss, the Debtors anticipate that the Reorganized Debtors will have sufficient receipts to satisfy their operating requirements in 2006 and, should there be a delay in the conclusion of the wind down of these estates thereafter.

14. The Reorganized Debtors' Budget reflects the Reorganized Debtors' projections regarding the funds that will be brought in and the funds that will be expended in connection with the winding down of the Reorganized Debtors' businesses. The Reorganized Debtors' Budget does not reflect

anticipated distributions or disputed claims reserves to be made pursuant to the Plan. Allowed Administrative Expense Claims will be paid in full, in accordance with the Plan, and a reserve will be established for disputed Administrative Expense Claims.

Reorganized Debtors
Budget – Summary
December 2, 2001 - December 31, 2006
(In thousands)

	ACTUAL	ESTIMATE			
	12/2/2001 - 6/30/2003	7/1/2003 - 12/31/2003	2004	2005	2006
Net Cash Receipts:					
Trading Contracts & Receivables	$ -	$534,775	$360,991	$772,200	-
Asset Sales & Other	-	803,635	730,668	267,615	16,034
Total - Net Cash Receipts	**5,203,678**	**1,338,410**	**1,091,659**	**1,039,815**	**16,034**
Expenses:					
G&A Expenses	-	127,269	162,556	84,804	72,735
Other Expenses	-	29,780	102,951	47,645	45,061
Professional Fees	-	146,418	208,818	97,197	63,458
Cash Balance Plan Funding	-	220,000	-	-	-
Total Expenses	**1,594,173**	**523,467**	**474,325**	**229,646**	**181,254**
Interest Income	-	20,949	82,020	118,841	112,168
TOTAL	$3,609,505	$835,892	$699,354	$929,010	($53,052)