UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re	:	
	:	**Chapter 11 Case No.**
AMES DEPARTMENT STORES, INC., *et al.*,	:	**01-42217 (REG)**
	:	
Debtors.	:	**Jointly Administered**
	:	

DISCLOSURE STATEMENT FOR DEBTORS' CHAPTER 11 PLAN

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Dated: New York, New York
December 6, 2004

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I. INTRODUCTION

This is the disclosure statement (the "Disclosure Statement") of Ames Department Stores, Inc. ("Ames"), Ames Merchandising Corporation, Amesplace.com, Inc., Ames Realty II, Inc., and Ames Transportation Systems, Inc. (collectively with Ames, the "Debtors"), in the above-captioned chapter 11 cases pending before the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), filed in connection with the Debtors' Chapter 11 Plan, dated December 6, 2004 (the "Plan"), a copy of which is annexed to this Disclosure Statement as Exhibit A.

A. Definitions and Exhibits

1. Definitions. Unless otherwise defined herein, capitalized terms used in this Disclosure Statement shall have the meanings ascribed to such terms in the Plan.

2. Exhibit. The exhibit to this Disclosure Statement is incorporated as if fully set forth herein and is a part of this Disclosure Statement.

B. Notice to Creditors

1. Scope of Plan. The Plan is the product of consensual discussions between the Debtors and the Committee. Summarily, the Plan provides for (i) the distribution on the Effective Date to the holders of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, and Allowed Priority Non-Tax Claims Cash in an amount equal to the Allowed amount of such Claims, (ii) the distribution on the Effective Date to the holders of Allowed Secured Claims (if any), at the option of the Debtors, of either (a) Cash in an amount equal to one hundred percent (100%) of the unpaid amount of such Allowed Secured Claim, (b) the proceeds of the sale or disposition of the Collateral securing such Allowed Secured Claim to the extent of the value of the holder's secured interest in the Allowed Secured Claim, net of the costs of disposition of such Collateral, (c) the Collateral securing such Allowed Secured Claim, (d) such treatment that leaves unaltered the legal, equitable, and contractual rights to which the holder of such Allowed Secured Claim is entitled, or (e) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code, and (iii) the distribution on the Effective Date to the holders of Allowed General Unsecured Claims, subject to Section 6.3(a) of the Plan permitting the establishment of a Liquidating Trust, their Pro Rata Share of Available Cash, but not to exceed the full amount of such holders' Allowed General Unsecured Claim. **IT IS THE OPINION OF THE DEBTORS AND THE COMMITTEE THAT CONFIRMATION AND IMPLEMENTATION OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS' ESTATES AND CREDITORS. THEREFORE, THE DEBTORS AND THE COMMITTEE RECOMMEND THAT CREDITORS VOTE TO APPROVE THE PLAN.**

2. Purpose of Disclosure Statement. The purpose of the Disclosure Statement is to set forth information that (i) summarizes the Plan and alternatives to the Plan, (ii) advises holders of Claims and Equity Interests of their rights under the Plan, (iii) assists creditors entitled to vote in making informed decisions as to whether they should vote to accept or reject the Plan, and (iv) assists the Bankruptcy Court in

determining whether the Plan complies with the provisions of chapter 11 of the Bankruptcy Code and should be confirmed.

By order dated _____ ___, 2005, the Bankruptcy Court approved this Disclosure Statement, finding that it contains "adequate information," as that term is used in section 1125(a)(1) of the Bankruptcy Code. However, the Bankruptcy Court has not passed on the merits of the Plan. Creditors should carefully read the Disclosure Statement, in its entirety, before voting on the Plan.

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

THE *LAST DAY* TO VOTE TO ACCEPT OR REJECT THE PLAN IS _____ __, 2005.

THE *RECORD DATE* FOR DETERMINING WHICH CREDITORS MAY VOTE ON THE PLAN IS _____ ___, 2005.

PLEASE READ THE DISCLOSURE STATEMENT, INCLUDING THE PLAN, IN ITS ENTIRETY. A COPY OF THE PLAN IS ANNEXED HERETO AS EXHIBIT A. THE DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN, BUT THE PLAN ITSELF QUALIFIES ALL SUCH SUMMARIES. ACCORDINGLY, IF THERE EXISTS ANY INCONSISTENCY BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN SHALL CONTROL.

The Plan Supplement will be filed with the Bankruptcy Court no later than ten (10) days prior to the hearing to confirm the Plan. The financial and other information included in this Disclosure Statement is for purposes of soliciting acceptances of the Plan.

C. Disclosure Statement Enclosures

Accompanying the Disclosure Statement are the following enclosures:

1. Disclosure Statement Approval Order. A copy of the order of the Bankruptcy Court, dated _____, 2005, approving the Disclosure Statement and, among other things, establishing procedures for voting on the Plan and scheduling the hearing to consider, and the deadline for objecting to, confirmation of the Plan (the "Approval Order").

2. Notice of Confirmation Hearing. A copy of the notice of the deadline for submitting ballots to accept or reject the Plan and, among other things, the date, time, and place of the Confirmation Hearing and the deadline for filing objections to confirmation of the Plan (the "Confirmation Hearing Notice").

3. Ballots. One or more ballots (and return envelopes) for voting to accept or reject the Plan, unless you are not entitled to vote because you are (i) to receive no distribution under the Plan and are deemed to reject the Plan, (ii) not impaired under

the Plan and are deemed to accept the Plan, or (iii) a holder of a Claim subject to an objection filed by the Debtors, which Claim is temporarily disallowed for voting purposes. See Section VI below for an explanation of which parties in interest are entitled to vote.

The Bankruptcy Code provides that only creditors who vote on the Plan will be counted for purposes of determining whether the requisite acceptances have been attained. Failure to timely deliver a ballot by the voting deadline will constitute an abstention. Any ballot that is executed and timely delivered but does not indicate an acceptance or rejection shall be deemed to constitute an acceptance of the Plan.

D. Inquiries

If you have any questions about the packet of materials that you have received, please contact Timothy Q. Karcher, Esq., Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153, Telephone: (212) 310-8000 during normal business hours.

Additional copies of this Disclosure Statement or copies of the Plan Supplement are available upon request made to _____, the Debtors' voting agent (the "Voting Agent"), at the following address:

If by overnight or hand delivery:	**If by standard mailing:**
_____	**_____**
_____	**P.O. Box _____**
New York, NY _____	**_____**
Attn: Ames Balloting Center	**New York, NY _____**
	Attn: Ames Balloting Center

E. Summary Table of Classification and Treatment of Claims and Equity Interests Under the Plan

The following table provides a summary of the classification and treatment of Claims and Equity Interests under the Plan and is qualified in its entirety by reference to the Plan, a copy of which is annexed hereto as Exhibit A.

Class Number	Description of Class	Estimated Amount of Allowed Claims in Class	Treatment Under the Plan/ Estimated % Recovery Under Plan
N/A	Administrative Expense Claims	$85,570,988	- Recovery: 100% - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Administrative Expense Claims shall be distributed an amount in Cash equal to the Allowed amount of their Administrative Expense Claim.
N/A	Priority Tax Claims	$10,000,000	- Recovery: 100% - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Priority Tax Claims shall be distributed an amount in Cash equal to the Allowed amount of their Priority Tax Claim.
Class 1	Secured Claims	$0.00	- Recovery: 100% - Impaired - Except to the extent a holder of an Allowed Secured Claim agrees to a different treatment of such Claim, on the Effective Date, or as soon thereafter as is reasonably practicable, each holder of an Allowed Secured Claim shall receive, at the option of the Plan Implementation Party, (i) Cash in an amount equal to 100% of the unpaid amount of such Allowed Secured Claim, (ii) the proceeds of the sale or disposition of the Collateral securing such Allowed Secured Claim to the extent of the value of the holder's secured interest in the Allowed Secured Claim, net of the costs of disposition of such Collateral, (iii) the Collateral securing such Allowed Secured Claim, (iv) such treatment that leaves unaltered the legal, equitable, and contractual rights to which the holder of such Allowed Secured Claim is entitled, or (v) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code.

Class Number	Description of Class	Estimated Amount of Allowed Claims in Class	Treatment Under the Plan/ Estimated % Recovery Under Plan
Class 2	Priority Non-Tax Claims	$0.00	- Recovery: 100% - Impaired - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Priority Non-Tax Claims shall receive Cash in an amount equal to the Allowed amount of their Priority Non-Tax Claim.
Class 3	General Unsecured Claims	It is estimated that the aggregate claims in Class 3 will be approximately $802,000,000	- Recovery: pro rata distribution of all liquidation proceeds (including collections realized on the settlement or resolution of Avoidance Actions) - Impaired - On the Effective Date, and subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust), holders of Allowed General Unsecured Claims shall receive their Pro Rata Share of Available Cash, but not to exceed the full amount of such Allowed General Unsecured Claim.
Class 4	Equity Interests	N/A	- Recovery: 0% - Impaired - On the Effective Date, all Equity Interests of Ames shall be canceled and one new share of Ames's common stock will be issued to a custodian designated by Ames, who will hold such share for the benefit of the holders of such former Equity Interests consistent with their former economic entitlement. Other than such beneficial interest, and subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust), each holder of an Equity Interest shall not receive any recovery. All common stock of Ames shall be canceled on the date Ames is dissolved.

II. OVERVIEW OF DEBTORS' OPERATIONS AND CHAPTER 11 CASES

A. Debtors' Prepetition Business Operations

Prior to commencing the Chapter 11 Cases, Ames was the largest regional discount retailer in the United States. Through its subsidiaries, it operated approximately 452 stores in nineteen contiguous states in the Northeast, Midwest, and Mid-Atlantic regions, as well as the District of Columbia. The Debtors also operated distribution centers in Leesport, Pennsylvania; Mansfield, Massachusetts; Columbus, Ohio; and Westfield, Massachusetts. Ames was organized in 1962 as a successor to a business originally founded in 1958. Ames was reorganized in December 1992 under chapter 11 of the United States Bankruptcy Code.

The Debtors' stores offered a wide range of both brand name and other quality merchandise for the home and family at prices below those of conventional department stores and specialty retailers. Specifically, the Debtors sold merchandise in three major categories: home lines (e.g., crafts, furniture, linens, home entertainment products, housewares, and small appliances), softlines (e.g., jewelry and apparel for women, men, and children), and hardlines (e.g., health and beauty care products, toys, stationery, gift wrap, and holiday decorations). In addition, all the Debtors' stores included a shoe department operated by an independent licensee.

The Debtors' merchandise offerings, prices, store design, and focus on customer service were targeted to meet the needs of these cost-conscious customers who the Debtors believed were generally underserved by other large discount retailers. In connection therewith, the Debtors employed a "high/low" pricing strategy (i.e., offering greater discounts on selected items or categories of merchandise to attract customers, while maintaining ordinary discount prices on all other merchandise), supplemented by weekly advertising circulars and recurring promotional programs.

As of the Commencement Date, the Debtors employed approximately 29,700 employees. Of these, approximately 26,500 employees worked in various capacities in the retail stores, approximately 2,200 employees worked in the Debtors' distribution centers, and approximately 1,000 employees worked in the Debtors' corporate and regional offices. None of the Debtors' employees were covered by collective bargaining agreements, with the exception of approximately 1,400 persons employed in the Debtors' distribution centers, whose collective bargaining agreements expired at various times from December 2002 to December 2003.

For the fiscal year ended February 3, 2001, the Debtors had net sales of approximately $3,953,600,000. As of August 4, 2001, the Debtors' books and records reflected assets totaling approximately $1,901,573,000 and liabilities totaling approximately $1,558,410,000.

B. Debtors' Prepetition Capital Structure

In addition to operating leases and trade debt incurred in the ordinary course of the Debtors' business operations, the Debtors' prepetition consolidated capital structure principally consisted of (i) a revolving credit facility, (ii) a term facility, (iii) a financing facility secured by leaseholds, (iv) two series of senior notes, and (v) a single class of common stock.

GECC Revolving Credit and Term Facilities. On March 2, 2001, Ames Merchandising Corporation entered into a credit agreement with General Electric Capital Corporation ("GECC"), as agent, and a syndicate of other banks and financial institutions, for an $800,000,000 senior secured financing comprised of a secured revolving credit facility of up to $750,000,000, with a sublimit of $50,000,000 for letters of credit, and a secured term facility of $50,000,000 (the "GECC Prepetition Credit Agreement"). The GECC facility, which replaced the Debtors' previously existing $650,000,000 credit facility (the "Prior Credit Agreement"), was guaranteed by each of the other Debtors and secured by substantially all the Debtors' assets.

Kimco Leasehold Facility. On August 3, 2001, the Debtors entered into a $75,000,000 facility with Kimco Funding, LLC ("Kimco"), secured by certain leaseholds, other real property interests, and inventory.

Hills Senior Notes. On December 31, 1998, a special purpose subsidiary of the Debtors acquired approximately 81.3% of the outstanding common stock and 74.4% of the outstanding convertible preferred stock of Hills Stores Company ("Hills"). On the same date, this subsidiary purchased approximately $144.1 million, or approximately 73.9%, of the $195 million of outstanding Hills 12.5% Senior Notes due 2003 (the "Hills Senior Notes"). In March 1999, the Debtors consummated a merger of Hills into Ames Department Stores, Inc., pursuant to which the remaining $50.9 million of the Hills Senior Notes became direct obligations of Ames. The Hills Senior Notes were subsequently revalued at a discounted rate of 11.79%. As of February 3, 2001, Hills Senior Notes with a face value of $43.6 million and a recorded value of $44.3 million remained outstanding. The Hills Senior Notes are unsecured obligations of the Debtors and matured in July 2003.

Ames Senior Notes. On April 27, 1999, Ames completed the sale of $200,000,000 of 10% seven-year senior notes (the "Ames Senior Notes"). The net proceeds of the sale were used to reduce outstanding borrowings under the Prior Credit Agreement. The Ames Senior Notes are unsecured obligations, guaranteed by each of the Debtors, and mature in April 2006.

Ames Common Stock. Ames common stock is publicly held and had been listed on The Nasdaq Stock Market. On June 1, 2001, 29,408,057 shares of common stock were outstanding.

C. **Significant Events Leading to Commencement of the Chapter 11 Cases**

Prevailing market (and recessionary) conditions in the United States precipitated a broad decline in the retail sector. This decline arose from a confluence of socioeconomic factors affecting consumers' disposable income, including fluctuating interest rates, previously soaring energy prices, and widespread corporate and manufacturing layoffs. These socioeconomic effects had a particularly acute impact on the Debtors' business, as the Debtors' core lower-income customers tended to be most affected by recessionary forces and market downturns.

In the year prior to the commencement of the Chapter 11 Cases, the Debtors improved their margin performance and identified the 47 stores and debt needed to be eliminated. Nevertheless, while the Debtors' business plan had proven very successful for many years, and despite their strong market standing and well-recognized brand name, the Debtors were unable to obtain the immediate financing that would enable them to maintain an adequate supply of inventory. The Debtors' business is seasonal in nature. Historically, net sales are highest in the last fiscal quarter. Accordingly, the demand for working capital is heaviest in the period beginning in August and extending through November, when sufficient merchandise must be purchased for the Fall and Christmas seasons.

As a result of the Debtors' inability to obtain necessary third party financing, the Debtors were forced to commence the Chapter 11 Cases to protect their valuable retail franchise.

D. **The Chapter 11 Cases**

1. Commencement of the Chapter 11 Cases. On August 20, 2001, the Debtors commenced the Chapter 11 Cases in the United States Bankruptcy Court for the Southern District of New York. As of the date hereof, the Debtors continue to manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

2. Appointment of the Committee. On September 5, 2001, the Committee was appointed by the Office of the United States Trustee pursuant to section 1102 of the Bankruptcy Code to represent the interests of unsecured creditors in the Chapter 11 Cases. The Committee currently consists of the following fourteen members:

1.	GSC PARTNERS 500 Campus Drive, Suite 220 Florham Park, New Jersey 07932	8.	FOOTSTAR, INC. 933 Macarthur Blvd Mahwah, New Jersey 07430
2.	SARA LEE UNDERWEAR 475 Corporate Square Drive Winston-Salem, North Carolina 27105	9.	JPMORGAN CHASE BANK Institutional Trust Services 4 New York Plaza – 15th Floor New York, New York 10004
3.	AMERICAN GREETINGS SERVICE CORP. One American Road Cleveland, Ohio 44144-2398	10.	U.S. BANK, N.A. Corporate Trust Services One Federal Street, 3rd Floor Boston, Massachusetts 02110
4.	SUNBEAM CORPORATION 2381 Executive Center Drive Boca Raton, Florida 33431	11.	HASBRO, INC. 200 Narragansett Park Drive Pawtucket, Rhode Island 02862-0200
5.	IBM 5569 North Country Road 29 Loveland, Colorado 80538	12.	THOMASVILLE FURNITURE INDUSTRIES, INC. P.O. Box 339 Thomasville, North Carolina 27361-0339
6.	THE ARLEE GROUP 261 Fifth Avenue New York, New York 10016	13.	PAUL K. MILLER 1809 Lydia Avenue St. Paul, Minnesota 55113
7.	VF JEANSWEAR, INC. 335 Church Court (27401) P.O. Box 21488 Greensboro, North Carolina 27420-1488	14.	GMAC COMMERCIAL FINANCE LLC. One Pennsylvania Plaza, 9th Floor New York, New York 10119

The initial Committee had consisted of the following fifteen members: The Chase Manhattan Bank, Paul K. Miller, GSC Partners, State Street Bank and Trust Co., Murray Capital Management, Inc., Sara Lee Knit Products, VF Jeanswear LP, Hasbro, Inc., Arlee Home Fashions, Inc., Thomasville Furniture Industries, Inc., Sunbeam Corporation, American Greetings, International Business Machines Corporation, Footstar, Inc., and Kovoner/Rosen Interests.

The Committee retained Otterbourg, Steindler, Houston & Rosen, P.C., 230 Park Avenue, 29th Floor, New York, New York 10169, as its attorneys; Jaspan Schlesinger Hoffman LLP, 300 Garden City Plaza, Garden City, New York 11530, as special restructuring counsel; and FTI Consulting (formerly PriceWaterhouseCoopers), 622 Third Avenue, 31st Floor, New York, NY 10017, as its accountants. The Committee has actively participated in all aspects of the Chapter 11 Cases.

3. Initial DIP Financing. As part of the preparation for the commencement of the Chapter 11 Cases, the Debtors negotiated the terms of debtor in possession financing facilities in the amounts of $700 million and $55 million from a

group of lenders led by GE Capital and Kimco, respectively, to provide working capital during the Chapter 11 Cases.

Specifically, on September 5, 2001, the Bankruptcy Court entered a final order approving that certain Debtor in Possession Credit Agreement, dated as of August 20, 2001 (the "GE DIP Credit Agreement"), among the Debtors, GECC, and other lenders party thereto (the "GE DIP Lenders"). The GE DIP Credit Agreement provided the Debtors with a $700 million debtor in possession credit facility, consisting of (i) a Tranche A revolver of up to $575 million, with a letter of credit sublimit of $50 million, (ii) a Tranche B revolver of up to $50 million, and (iii) a term loan of up to $75 million. The lenders under the GECC DIP Credit Agreement were granted a superpriority claim against the estates of the Debtors except with respect to the Debtors' right, title, and interest in all real property leases in which the lenders under the Kimco DIP Credit Agreement (as hereinafter defined) were granted a first priority lien. The GECC DIP Credit Agreement provides for an escrow account in the aggregate amount of $5,000,000 to fund a carve-out reserve to satisfy any deficiency in the event there are insufficient funds at the close of the Chapter 11 Cases to satisfy allowed, accrued, and unpaid fees of professionals. The Debtors' obligations under the GECC DIP Credit Agreement have been fully satisfied, as discussed more fully below. The carve-out reserve remains in escrow, and to the extent such escrowed funds are not needed to satisfy allowed, accrued, and unpaid fees of professionals, such funds will be available for distribution to creditors pursuant to the Plan.

On September 5, 2001, the Bankruptcy Court also entered a final order approving that certain Debtor in Possession Credit Agreement, dated as of August 20, 2001, among the Debtors and Kimco (the "Initial Kimco DIP Credit Agreement"). The Initial Kimco DIP Credit Agreement provided the Debtors with a $55 million term loan facility. The lenders under the Initial Kimco DIP Credit Agreement were granted a priority claim against the estates of the Debtors, which ranked junior to the superpriority claims of the lenders under the GECC DIP Credit Agreement (except with respect to the Debtors' right, title, and interest in all real property leases in which the lenders under the Initial Kimco DIP Credit Agreement were granted a first priority lien). The Debtors' obligations under the Initial Kimco DIP Credit Agreement have been fully satisfied, as discussed more fully below.

On July 25, 2002, the Bankruptcy Court issued an order authorizing the Debtors to enter into an agreement with KRC Acquisition Corp. ("KRC"), a Kimco affiliate, dated as of June 14, 2002 (the "KRC Agreement"), pursuant to which the Debtors would sell and lease back certain of the Debtors' fee-owned properties and assign three unexpired leases of nonresidential real property in consideration for a purchase price of $59 million to be paid by KRC to the Debtors (the "KRC Transaction"). Shortly after executing the KRC Agreement, the Debtors received $20 million, as an advance (the "Advance"), to be applied to the purchase price upon the closing of the KRC Transaction. The KRC Agreement further provided that in consideration for the Advance, KRC would be afforded the identical protections granted to Kimco under the Initial Kimco DIP Credit Agreement pursuant to section 364 of the Bankruptcy Code.

4. The LFD Litigation. On September 6, 2001, LFD Operating, Inc. ("LFD") commenced an adversary proceeding against Ames and Ames Merchandising

Corporation seeking the return of $8.9 million that LFD alleged is property of LFD and should be excluded from the Debtors' estates (the "LFD/Ames Action"). Pursuant to a licensing agreement between the Debtors and LFD, the Debtors authorized LFD to operate shoe departments in the Debtors' stores and a licensing fee was taken out of the proceeds of LFD's sales. LFD alleges that proceeds from the sale of LFD's merchandise were LFD's property from the time of sale and that Ames was LFD's agent for purposes of collecting and holding the proceeds, and further alleges Ames was to hold the proceeds in trust for LFD. When it commenced the LFD Action, LFD also moved by order to show cause for a temporary restraining order and preliminary injunction (the "LFD Motion"). On September 25, 2001, the Bankruptcy Court denied LFD's request for a temporary restraining order and merged consideration of the LFD Motion for a preliminary injunction with a trial on the merits of the LFD/Ames Action and issued an order to that effect on September 27, 2001. On March 8, 2002, the Bankruptcy Court denied LFD's requested relief, and on March 19, 2002, the Bankruptcy Court dismissed the LFD/Ames Action. The United States District Court for the Southern District of New York affirmed the Bankruptcy Court's decision on September 1, 2004. LFD is appealing the District Court's decision to the United States Court of Appeals for the Second Circuit. The Debtors believe they will prevail in this appeal.

On September 6, 2001, LFD also commenced an action against GECC (the "LFD/GECC Action") which was predicated on the Debtors' alleged failure to pay LFD under the same transactions which gave rise to the LFD/Ames Action that were instead paid over to GECC and the GECC DIP Lenders. By order dated July 1, 2002, the Bankruptcy Court stayed the LFD/GECC Action pending resolution of the LFD/Ames Action. GECC and the GE DIP Lenders requested the Debtors establish an $11,500,000 reserve (the "LFD Reserve") to support the Debtors' alleged obligations to indemnify GECC and the GE DIP Lenders with respect to the LFD/GECC Litigation. By order dated September 30, 2002, the Bankruptcy Court approved the establishment of the LFD Reserve. If the LFD/Ames Action is ultimately resolved in the Debtors' favor, the LFD Reserve will be available for distributions to creditors pursuant to the Plan.

5. Insurance Sureties. Since its reorganization in 1992, the Debtors have employed several insurance companies to administer insurance programs under various workers' compensation and automobile, general, and products liability insurance policies. Many of the insurance policies are loss sensitive, i.e., payment obligations are based on the actual experience of the Debtors as insureds. The insureds make an initial payment (or installment payments) at the commencement of the policy period and then make payments based on the actual losses and expenses and reimbursement of deductible amounts.

Prior to the Commencement Date, to assure payment and performance of the Debtors' obligations under the various insurance policies and programs, the insurance companies were the beneficiaries of sureties in the form of irrevocable letters of credit. The current amount of the letters of credit is $37,884,485 (the "LC Surety"), which is backed by cash deposits in the amount of $39,686,000 (the "LC Collateral") in Wells Fargo Bank. The LC Collateral will not be available to the Debtors for distribution to creditors unless the amount of the LC Surety is reduced.

The largest portion of the LC Surety is posted for the benefit of Travelers Indemnity Company and its affiliates (collectively, "Travelers"). Travelers provided workers' compensation and automobile, general, and products liability coverage to the Debtors from November 1998 through November 2002 pursuant to certain policies and corresponding agreement letters which prescribe calculation and payment of premium and reimbursement of obligations. Travelers provides claims administration services for certain self-insured claims pursuant to related claims services agreements. The amount of the LC Surety posted for the benefit of Travelers is $26.8 million.

In addition to the LC Surety posted for the benefit of Travelers, (i) $8,500,000 of the LC Surety is in the form of a letter of credit posted for the benefit of Old Republic Insurance Company, which provided coverage for the Debtors from October 1992 through October 1998, (ii) $1,600,000 of the LC Surety is in the form of a letter of credit posted for the benefit of Wausau Insurance Company, which provided coverage for Hills Stores from August 1991 through December 1998, and (iii) $909,000 of the LC Surety is in the form of a letter of credit posted for the benefit of Reliance Insurance Company, which provided coverage for the Debtors from October 1990 through October 1992.

The Debtors believe the total amount of the LC Surety is far in excess of the amounts necessary to cover the Debtors' outstanding obligations under the various insurance policies and programs. The Debtors are in the process of negotiating a reduction of the LC Surety with the insurance companies. In the event the LC Surety is reduced, the amount of LC Collateral will also be reduced and additional cash will be available for distribution to creditors under the Plan.

6. The Going Out of Business Sales. Several months prior to commencing the Chapter 11 Cases through and including June 2002, the Debtors engaged in an extensive review of their store locations to determine whether or not each of the stores figured into the Debtors' long term business plan. In connection with this review, the Debtors closed over 150 stores. By orders dated August 20, 2001, November 19, 2001, December 21, 2001, and June 11, 2002, the Debtors obtained Bankruptcy Court approval to conduct going out of business sales and enter into agency agreements with The Nassi Group, LLC to conduct such sales at 123 of the Debtors' store locations.

Through July 2002, the Debtors weathered their anticipated low point in credit availability with the help of asset sales and additional financing. The Debtors, together with the Committee and the GE DIP Lenders, all wanted the Debtors to operate through the summer, after which the "back to school" and holiday seasons would generate substantial profits. Although the Debtors made it to their projected low point in availability with slightly better credit availability than their business plan contemplated, particularly starting in late July 2002, sales dropped precipitously below plan despite significant paper and television advertising. In addition, the Debtors were increasingly unable to obtain merchandise from trade vendors, particularly from vendors that financed their businesses by assigning accounts receivable from the Debtors to commercial factors.

Before a default occurred under the GECC DIP Credit Agreement, the Debtors, the Committee, and the GE DIP Lenders weighed the risks to be incurred by continuing operations against the prospects of a prompt wind down. While the Debtors

hoped to continue operating and strengthen through the holiday season, they recognized the heightened reluctance of trade vendors to ship and the disappointing sales made the risks of operating greater than the potential benefits. In the exercise of their fiduciary duties, the Debtors concluded, with the concurrence of the GE DIP Lenders and the Committee, to wind down operations in the hopes of paying all postpetition allowed claims.

On August 14, 2002 (the "Announcement Date"), the Board of Directors of Ames announced the value of the Debtors' estates could best be maximized, with the smallest increase of liabilities, through an orderly wind down of the Debtors' affairs in chapter 11. On August 16, 2002, the Bankruptcy Court entered an order, pursuant to sections 105 and 363(b), (f), (m), and (n) of the Bankruptcy Code, authorizing the Debtors to, among other things, conduct going out of business sales at all their remaining locations (the "GOB Sales") while the Debtors wound down their business (the "Wind Down").

Contemporaneous with the decision to conduct the GOB Sales, the Debtors suspended payment of administrative expenses of trade vendors. This decision was made to preserve the assets of the Debtors' estates to ensure a fair distribution to administrative expense creditors.

7. Employee Retention Program. In light of the critical, time-intensive employment services the Debtors required while they wound down their business, the Debtors needed to provide their employees with an incentive to continue working for the Debtors throughout the wind down process. To this end, the Debtors, in concurrence with the Committee, formulated an employee severance, retention, and performance incentive program to provide incentives to retain key employees during the Wind Down (the "Employee Retention Program"). The Employee Retention Program has four components: (i) accrued vacation and severance payments for approximately 21,000 store-level employees, home office employees, and field staff terminated on or after August 14, 2002, who would initially receive 100% of their accrued vacation and a severance payment equal to 40% of their severance amount calculated based on the Debtors' historical severance policy for nonofficers and 25% of their severance amount calculated based on the Debtors' historical severance policy or contracts for officers, (ii) accrued vacation and severance payments for approximately 120 key employees whose employment would be gradually terminated after November 1, 2002 until the conclusion of the Wind Down and cash payments to such key employees ranging from 50% to 100% of each key employee's base weekly salary multiplied by the number of weeks worked subsequent to November 1, 2002, to be paid upon termination, (iii) incentive payments for a limited number of key employees who achieve predetermined, targeted recovery goals, and (iv) an incentive program for key management employees.

8. The DIP Credit Agreement. While the Debtors expected to have cash available for distribution to creditors at the conclusion of the Wind Down, the Debtors recognized that, absent additional debtor in possession financing, they would be unable to (i) meet their ongoing payroll and other day-to-day ordinary expense obligations, (ii) make payments under the Employee Retention Program, and (iii) pay the carrying costs of the Debtors' unexpired leases of nonresidential real property.

At the time the Debtors commenced the Wind Down, the Debtors had approximately 324 store leases remaining, in addition to the Debtors' fee-owned properties. To maximize the value of these leases and properties, which would be the critical element of recovery to creditors, the Debtors were required to pay the carrying costs associated therewith. Accordingly, it was imperative for the Debtors to demonstrate to the commercial real estate market that the Debtors possessed sufficient liquidity to pay all lease expenses for as long as it took to maximize recovery from the marketing of the leases.

To continue to wind down their affairs in an orderly fashion, the Debtors were able to secure an agreement with Kimco for a new debtor in possession financing facility, which permits the Debtors to obtain up to $100 million in new working capital to preserve the value in the Debtors' estates. Specifically, the Debtors entered into that certain Revolving Credit, Guaranty, and Security Agreement with Kimco, dated as of September 27, 2002, as amended (the "DIP Credit Agreement"), pursuant to which Kimco committed to provide new debtor in possession financing in the aggregate amount of up to $100,000,000 to be used to pay the Debtors' obligations under the Initial Kimco DIP Credit Agreement and the KRC Agreement, and fund the Employee Retention Program and operations during the Wind Down period. All obligations arising under the GE DIP Credit Agreement were scheduled to be paid before the Debtors could borrow under the DIP Credit Agreement. By order dated October 23, 2002, the Bankruptcy Court authorized the Debtors to enter into the DIP Credit Agreement, as further modified at the October 23 hearing. A condition precedent to closing the transactions contemplated by the DIP Credit Agreement was the discharge of all the Debtors' obligations under their existing debtor in possession financing agreements (i.e., the GE DIP Credit Agreement, the Initial Kimco DIP Credit Agreement, and the KRC Agreement).

On November 21, 2003, the Bankruptcy Court issued an order authorizing, among other things, the Debtors to amend the borrowing base in the DIP Credit Agreement to provide for up to $32,500,000 in revolving credit, plus an additional $12,500,000 in revolving credit on the terms set forth in such amendment, pursuant to section 364(c) of the Bankruptcy Code, which amounts were for the purpose of, among other things, funding the payment of certain administrative expense claims.

9. Disposition of Leases and Fee-Owned Properties. As of the Commencement Date, the Debtors were parties to more than 535 unexpired leases of nonresidential real property (collectively, the "Unexpired Leases"). Of these, approximately 477 leases related to the retail stores operated by the Debtors. Since the Commencement Date, the Debtors have, pursuant to section 365 of the Bankruptcy Code, either assumed and assigned or rejected nearly all of their Unexpired Leases. In addition, at the commencement of the Chapter 11 Cases, the Debtors owned certain real property, including two distribution centers, seven retail stores, and the Ames corporate headquarters in Rocky Hill, Connecticut (collectively, the "Fee-Owned Property").

The disposition of the Unexpired Leases and Fee-Owned Property took several different forms. First, because many retailers or other end users were interested in acquiring certain property, the Debtors assumed and assigned certain Unexpired

Leases and sold certain Fee-Owned Property to successful bidders at auctions conducted by the Debtors for the sale of such property.

Second, because many real estate investors and other non-end users (including retailers) expressed an interest in certain Unexpired Leases and Fee-Owned Property, the Debtors offered for sale, in lieu of an immediate assignment or sale of one or more Unexpired Leases or Fee-Owned Property, the right to direct the Debtors to assume and assign such Unexpired Leases or sell such Fee-Owned Property to third parties qualifying under the Bankruptcy Code, after such non-end users located ultimate purchasers of the Unexpired Leases or Fee-Owned Property (the "Designation Rights"). The risk of locating a replacement tenant or buyer and the carrying costs during the period prior to the location of such tenant or buyer became the responsibility of the purchaser of the Designation Rights, although the landlords retained their rights against the Debtors until the Unexpired Leases were actually assumed and assigned. During the course of the Chapter 11 Cases, the Debtors sold Designation Rights to Wal-Mart Stores, Inc., Home Depot U.S.A., Inc., Kohl's Department Stores, Inc., Shaw's Supermarkets, Inc., The Stop & Shop Supermarket Company, The TJX Companies, Inc., and SEA Properties.

Third, many landlords expressed interest in "repurchasing" their respective Unexpired Leases. To the extent a landlord was a successful bidder for its own Unexpired Lease, the Debtors offered such landlord the alternative of executing a lease termination agreement providing for cash consideration and/or the waiver of any lease rejection claims.

Finally, the Debtors rejected those Unexpired Leases which they determined in the exercise of their sound business judgment were unmarketable pursuant to section 365 of the Bankruptcy Code and abandoned certain personal property located at the premises of the rejected Unexpired Leases in accordance with section 554(a) of the Bankruptcy Code.

To ensure an orderly Wind Down and maximize the value realized on the real property assets, the Debtors, in conjunction with the Committee and Kimco, determined to establish procedures for the disposition of the Unexpired Leases and Fee-Owned Property. Accordingly, on December 4, 2002, the Bankruptcy Court entered an order (the "Asset Disposition Order"), pursuant to sections 105, 363(b), (f), and (m), 365, and 1146 of the Bankruptcy Code and Rules 2002 and 6004 of the Bankruptcy Rules, approving procedures for the disposition of the Debtors' Unexpired Leases, Fee-Owned Property, and Designation Rights. The disposition of these assets took on the four different forms discussed above.

Proceeds from the disposition of Unexpired Leases, Designation Rights, and Fee-Owned Property are the foundation of the Plan and will fund distributions to creditors. Significantly, on November 11, 2004, the Debtors filed a motion with the Bankruptcy Court seeking authorization to sell their distribution center in Leesport, Pennsylvania (the "Leesport Sale"), which is the Debtors' most valuable remaining single asset. The proceeds from the Leesport Sale are anticipated to exceed $20 million and will be used to fund distributions under the Plan.

10. Reclamation Claims. During the initial stages of these Chapter 11 Cases, the Debtors received demands from over 100 parties (the "Sellers") asserting rights of reclamation pursuant to section 2-702(2) of the Uniform Commercial Code (the "UCC") and/or section 546(c) of the Bankruptcy Code (the "Reclamation Claims"). The Reclamation Claims request that the Debtors either (i) return certain products and goods purportedly delivered to them prior to the Commencement Date, or (ii) consent to the granting of administrative expense priority status to such claims.

Indeed, the Debtors received over 100 Reclamation Claims in the aggregate amount of approximately $12.9 million. The goods subject to the Reclamation Claims were essential to the Debtors' ongoing operations, and the Debtors' businesses would be severely disrupted if vendors exercised their rights to reclaim goods without a uniform procedure that was fair to all parties. Moreover, because of the size and complexity of their businesses generally, and in particular the volume of inventory sales, it was not feasible for the Debtors to return inventory shipments to vendors in response to all of the Reclamation Claims the Debtors received.

In response to the large number of reclamation demands, the Debtors formulated reclamation procedures (the "Reclamation Procedures") to process and treat the Reclamation Claims. The Reclamation Procedures established guidelines pursuant to which reclaiming sellers could substantiate their claims and the Debtors could identify valid reclamation claims.

On January 24, 2002, the Bankruptcy Court entered an order approving the Reclamation Procedures, which (i) established March 25, 2002 as the deadline by which reclaiming vendors were required to submit documents in support of their Reclamation Claims, and (ii) required the Debtors to file a report with the Bankruptcy Court by May 27, 2002. Interested parties were provided with an opportunity to object to the report.

Of the over 100 Reclamation Claims received by the Debtors totaling $12,938,341.92, the Debtors have determined that claims seeking $3,603,825.09 were valid and entitled to administrative priority status pursuant to section 546(c) of the Bankruptcy Code.

11. Claims Process. By order dated January 31, 2002 (the "Bar Date Order"), the Bankruptcy Court set March 25, 2002 as the deadline by which proofs of claim were required to be filed in the Chapter 11 Cases (the "Bar Date"). In accordance with the Bar Date Order, written notices of the Bar Date were mailed to all known creditors. The time within which to file claims against the Debtors has expired. To date, over 2,000 proofs of claim have been filed against the Debtors.

Since the Debtors determined to conduct the GOB Sales, numerous creditors filed motions with the Bankruptcy Court seeking allowance and immediate payment of administrative expense claims (the "Administrative Expense Motions"). To ensure the amount of the administrative expense claims are not in dispute, the Debtors have been working with their administrative expense creditors to reconcile their respective claims. As each claim was reconciled, the Debtors, when requested, sent a letter to the administrative expense claimant (or its attorney) acknowledging the amount

of the administrative expense claim and stating that the amount and timing of any payment will be consistent with the treatment afforded similarly situated administrative expense claimants. While most recipients of such letters were satisfied with the Debtors' representations contained therein, many creditors insisted on an order from the Bankruptcy Court fixing and allowing their administrative expense claims.

To ensure an orderly Wind Down, while minimizing the administrative burdens on their estates, the Debtors established procedures (the "Administrative Expense Procedures"), which were approved by order of the Bankruptcy Court, dated July 8, 2003, which gave them authority to fix the allowed amount of an administrative expense claim by a letter (the "Administrative Expense Letter"), executed by an officer of the Debtors, without the need for a formal stipulation and order. The Administrative Expense Letters state (i) the claimant has an allowed administrative expense claim under section 503(b) of the Bankruptcy Code, (ii) such claim will have administrative expense priority under section 507(a)(1) of the Bankruptcy Code, (iii) such claim will be paid at the same time as similarly situated administrative expenses, and (iv) if the Debtors ultimately are unable to pay administrative expense claims in full, such claimant shall receive the same dividend as other similarly situated administrative expense claimants. The Bankruptcy Court order approving the Administrative Expense Procedures provides that the issuance of an Administrative Expense Letter bars the Debtors from disputing their fixing of the allowed amount of the administrative expense claim that is the subject of such letter.

12. Administrative Claims Settlement Program. On November 21, 2003, the Bankruptcy Court issued an order authorizing the Debtors, among other things, to purchase certain administrative expense claims asserted in the Chapter 11 Cases, pursuant to section 363(b) the Bankruptcy Code (the "Claims Settlement Program"). Pursuant to the Claims Settlement Program, the Debtors were authorized to purchase administrative expense claims held by (i) trade vendors and landlords at 50% of the amount of their respective administrative expense claims, and (ii) former employees at 40% of the amount of their respective administrative expense claims. The Claims Settlement Program provided an opportunity for certain administrative expense creditors to receive cash if they determined to participate in the program and enabled the Debtors to satisfy a significant number of administrative expense claims for less than the face amount of such claims for those respective holders of claims who chose to participate in the program. Since implementing the Claims Settlement Program, the Debtors have reduced their administrative expense claim liability by approximately $33,829,012 -- to a level of approximately $85,570,988.

13. Sylvania Action. By complaint dated November 20, 2003, Osram Sylvania Products, Inc. ("Sylvania") commenced an adversary proceeding (the "Sylvania Action") against the Debtors, in which Sylvania sought (i) recovery of $1.2 million in connection with what it alleged to be a valid and perfected security interest in certain Sylvania products (the "Sylvania Products") it asserted were in the Debtors' stores on the Commencement Date and sold during the postpetition period, and (ii) an order requiring Ames to seek enforcement of what Sylvania alleged is a settlement agreement entered into between the Debtors and Sylvania pursuant to which, among other things, Sylvania would have a secured claim in the amount of $1.12 million with respect to the Sylvania

Products. The other named defendants in the Sylvania Action were GECC and Kimco, against whom Sylvania sought to recover whatever portion of the proceeds from the sale of the Sylvania Products they may have received. GECC and Kimco have asserted cross-claims against the Debtors seeking indemnification under the debtor in possession financing agreements with respect to any amounts they may become obligated to pay to Sylvania.

The Debtors deny that Sylvania has a properly perfected security interest with respect to all the Sylvania Products, and to the extent Sylvania does have a properly perfected security interest, that such interest is enforceable. The Debtors further deny ever entering into a settlement agreement with Sylvania. The parties have commenced discovery and are presently involved in settlement negotiations.

14. Smoot Class Action. On December 15, 1998, a class action complaint was filed in the United States District Court for the District of Connecticut syled *Edmond Smoot, III and Yousef S.A. Syed, Individually and on Behalf of All Others Similarly Situated v. Ames Department Stores, Inc.* (the "Smoot Action"). The complaint alleged that Ames violated the Fair Labor Standards Act and state laws in those states in which it does business by failing to pay plaintiffs time and one-half their regular rates of pay for hours worked in excess of forty hours a week.

The allegations are similar to a previous class action lawsuit styled *Colleen Austin, on Behalf of Herself and Others Similarly Situated v. Ames Department Stores, Inc. et al.* (the "Austin Class Action"). The Debtors settled the Austin Class Action lawsuit as well as other similar lawsuits that were filed in 1995 and 1996. The class represented in the Smoot Action comprised those assistant managers who did not opt in to the Austin settlement, those who opted in and continued to work for Ames, and those who worked for Ames as an assistant manager after August 19, 1998, but who were not otherwise covered by the previous categories. Ames filed an answer in the Smoot Action in which it denied liability on the basis that plaintiffs were exempt employees and, thus, not entitled to overtime pay. Prior to the Commencement Date, the district court approved a settlement of the Smoot Action that was reached by the parties, which requires an evidentiary hearing on the proper classification of the assistant manager position. In the event the Ames prevails, the total cost to Ames will be $1,000,000, including attorneys' fees; in the event plaintiffs prevail, the cost to Ames will be $3,000,000, excluding attorneys' fees.

As a result of the filing of the Chapter 11 Cases, the Smoot Action is subject to the automatic stay set forth in section 362(a) of the Bankruptcy Code. By motion dated December 4, 2001, plaintiffs sought relief from the automatic stay to continue the litigation. The parties have entered into an agreement which, subject to the approval of the Bankruptcy Court, provides that the motion is withdrawn and the automatic stay modified only to the extent of permitting the parties to resolve the remaining issues pursuant to the terms of the settlement. The parties further consented to removal of the Smoot Action to the Southern District of New York and referring it thereafter to the Bankruptcy Court.

15. Preference Actions. In early 2003, the Debtors identified potential preference payments in excess of $300 million and, after consultation with the

Committee, determined the right to recover these payments represented a significant asset which should be pursued to maximize value for the benefit of the Debtors' estates, creditors, and all parties in interest. The Debtors, along with their professionals, have commenced and continue to prosecute approximately 2,000 actions to avoid certain prepetition transfers pursuant to sections 547, 550, and 551, as well as other relevant provisions of the Bankruptcy Code. The Debtors anticipate the Preference Actions will continue well into 2005. Recoveries from the Preference Actions will be a primary source of funding for distributions pursuant to the Plan.

III. OVERVIEW OF THE PLAN

A. General

This Section of the Disclosure Statement summarizes the Plan, which is set forth in its entirety as Exhibit A hereto. This summary is qualified in its entirety by reference to the Plan. **YOU SHOULD READ THE PLAN IN ITS ENTIRETY BEFORE VOTING TO ACCEPT OR REJECT THE PLAN**.

In general, a chapter 11 plan (i) divides claims and equity interests into separate classes, (ii) specifies the property that each class is to receive under the plan, and (iii) contains other provisions necessary to implement the Plan. Under the Bankruptcy Code, "claims" and "equity interests," rather than "creditors" and "shareholders," are classified because creditors and shareholders may hold claims and equity interests in more than one class. Under section 1124 of the Bankruptcy Code, a class of claims is "impaired" under a plan unless the plan (i) leaves unaltered the legal, equitable, and contractual rights of each holder of a claim in such class, or (ii) provides, among other things, for the cure of existing defaults and reinstatement of the maturity of claims in such class. Classes 1, 2, and 3 are impaired under the Plan, and holders of Claims in such Classes are entitled to vote to accept or reject the Plan unless the Claims are subject to an objection filed by the Debtors. Ballots are being furnished herewith to all holders of Claims in Classes 1, 2, and 3 that are entitled to vote to facilitate their voting to accept or reject the Plan.

A chapter 11 plan may also specify that certain classes of claims or equity interests are to have their claims or equity interests remain unaltered by the plan. Such classes are referred to as "not impaired" and, because of the favorable treatment accorded to such classes, they are conclusively deemed to have accepted the plan and, therefore, need not be solicited to vote to accept or reject the plan.

A chapter 11 plan may also specify that certain classes will not receive any distribution under the plan. Under section 1126(g) of the Bankruptcy Code, such classes are conclusively deemed to have rejected the plan and, therefore, need not be solicited to accept or reject the plan. Holders of Equity Interests in Class 4 will not receive any recovery under the Plan on account of such Equity Interests, and such Class is, therefore, conclusively deemed to reject the Plan. No ballot is enclosed for holders of Class 4 Equity Interests.

The "Effective Date" of the Plan means the date on which the conditions precedent to the occurrence of the Effective Date of the Plan specified in Section 9.2 of the Plan have been satisfied.

B. Assets for Distribution Under the Plan

The Plan provides for the distribution to holders of Allowed General Unsecured Claims against the Debtors, subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust) of their Pro Rata Share of Available Cash, but not to exceed the full amount of such Allowed General Unsecured Claim, after payment of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Secured Claims, and Allowed Priority Non-Tax Claims.

C. Description and Summary Table of Classification and Treatment of Claims and Equity Interests Under the Plan

Claims and Equity Interests are divided into four Classes under the Plan, and the proposed treatment of Claims and Equity Interests in each Class is described in the Plan and in the chart set forth below. Such classification takes into account the different nature and priority of the Claims and Equity Interests. The Plan contains one class of Secured Claims (Class 1) that are impaired, one Class of impaired Priority Non-Tax Claims (Class 2), one class of impaired General Unsecured Claims (Class 3), and one Class of impaired Equity Interests (Class 4). The meaning of "impairment," and the consequences thereof in connection with voting on the Plan, are set forth in Section III.A above.

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

Secured Claims (Class 1). Class 1 is a group of subclasses. The Debtors believe that all of Secured Claims have already been paid. Except to the extent that a holder of an Allowed Secured Claim against any of the Debtors agrees to a different treatment of such Claim, on the Effective Date, or as soon thereafter as is reasonably practicable, each holder of an Allowed Secured Claim shall receive, at the option of the Plan Implementation Party, and in full satisfaction of such Claim, either (i) Cash in an amount equal to one hundred percent (100%) of the unpaid amount of such Allowed Secured Claim, (ii) the proceeds of the sale or disposition of the Collateral securing such Allowed Secured Claim to the extent of the value of the holder's secured interest in the Allowed Secured Claim, net of the costs of disposition of such Collateral, (iii) the Collateral securing such Allowed Secured Claim, (iv) such treatment that leaves unaltered the legal, equitable, and contractual rights to which the holder of such Allowed Secured Claim is entitled, or (v) such other distribution as necessary to satisfy the requirements of the Bankruptcy Code. In the event the Plan Implementation Party treats a Claim under clause (i) or (ii) above, the liens securing such Secured Claim shall be deemed released.

Priority Non-Tax Claims (Class 2). The Claims in Class 2 are the types of Claims identified in section 507(a) of the Bankruptcy Code that are entitled to priority in payment (other than Administrative Expense Claims and Priority Tax Claims). For the Debtors, these Claims relate primarily to prepetition wages and employee benefit plan contributions that had not yet been paid as of the Commencement Date. The Debtors believe that all of these Claims have already been paid pursuant to an order entered by the Bankruptcy Court on the Commencement Date. Claims in Class 2 that have not already been paid will be paid in Cash on the Effective Date, or as soon thereafter as is reasonably practicable, except to the extent the holders of such Claims agree to a different treatment.

General Unsecured Claims (Class 3). The aggregate amount of General Unsecured Claims filed against the Debtors on or before the March 25, 2002 bar date was approximately $2,000,000,000. However, the Debtors estimate that the aggregate amount of Allowed Claims in Class 3 will be approximately $802,000,000, after deducting duplicate Claims, amended and superceded Claims, previously paid Claims, Claims not supported by the Debtors' books and records, Claims that are covered by insurance, and Claims that are subject to other objections. The Claims in Class 3 consist of the Claims of suppliers and other vendors, landlords with prepetition rent claims and/or claims based on rejection of leases, employment, personal injury, and other litigation claimants to the extent not covered by insurance, parties to contracts with the Debtors that are being rejected, the principal and interest accrued and unpaid through the Commencement Date under the notes that are subject to the Indentures, and other general unsecured claims.

Holders of Claims in Class 3, subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust) will receive their Pro Rata Share of Available Cash, but not to exceed the full amount of such Allowed General Unsecured Claim. The estimated percentage recovery to holders of Allowed General Unsecured Claims in Class 3 is dependent on, among other things, the total amount of General Unsecured Claims that become Allowed Claims and the value of the Liquidation Trust Assets (and excludes the collections realized on the settlement or resolution of the Avoidance Actions), and assumes that the aggregate amount of Allowed General Unsecured Claims ultimately will be approximately $802,000,000. There can be no assurance that the estimated claims amount is correct.

Equity Interests (Class 4). This Class consists of the Equity Interests in Ames represented by Ames's outstanding 29,408,057 shares of common stock, $1.00 par value. The Class includes all shares owned by affiliates or members of the management of the Debtors and any outstanding options, warrants, or rights to purchase such stock. On the Effective Date, all Equity Interests issued by Ames shall be canceled and one new share of Ames's common stock will be issued to a custodian to be designated by Ames, who will hold such share for the benefit of the holders of such former Equity Interests consistent with their former economic entitlements. Other than such beneficial interest, and subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust), each holder of an Equity Interest shall neither receive nor retain any property or interest in property on account of such Equity Interest. All common stock of Ames

outstanding after the Effective Date shall be canceled on the date Ames is dissolved in accordance with Section 6.6(d) of the Plan.

The following table is qualified in its entirety by reference to the Plan, a copy of which is annexed hereto as Exhibit A. In no case will any creditor receive more than 100% of its Allowed Claim.

Class Number	**Description of Class**	**Estimated Amount of Allowed Claims in Class**	**Treatment Under the Plan/ Estimated % Recovery Under Plan**
N/A	Administrative Expense Claims	$85,570,988	- Recovery: 100% - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Administrative Expense Claims shall be distributed an amount in Cash equal to the Allowed amount of their Administrative Expense Claim.
N/A	Priority Tax Claims	$10,000,000	- Recovery: 100% - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Priority Tax Claims shall be distributed an amount in Cash equal to the Allowed amount of their Priority Tax Claim.
Class 1	Secured Claims	$0.00	- Recovery: 100% - Impaired - Except to the extent a holder of an Allowed Secured Claim agrees to a different treatment of such Claim, on the Effective Date, or as soon thereafter as is reasonably practicable, each holder of an Allowed Secured Claim shall receive, at the option of the Plan Implementation Party, (i) Cash in an amount equal to 100% of the unpaid amount of such Allowed Secured Claim, (ii) the proceeds of the sale or disposition of the Collateral securing such Allowed Secured Claim to the extent of the value of the holder's secured interest in the Allowed Secured Claim, net of the costs of disposition of such Collateral, (iii) the Collateral securing such Allowed Secured Claim, (iv) such treatment that leaves unaltered the legal, equitable, and contractual rights to which the holder of such Allowed Secured Claim is entitled, or (v) such other distribution as necessary to satisfy the requirements of the

Class Number	Description of Class	Estimated Amount of Allowed Claims in Class	Treatment Under the Plan/ Estimated % Recovery Under Plan
			Bankruptcy Code.
Class 2	Priority Non-Tax Claims	$0.00	- Recovery: 100% - Impaired - On the Effective Date, or as soon thereafter as is reasonably practicable, holders of Allowed Priority Non-Tax Claims shall receive Cash in an amount equal to the Allowed amount of their Priority Non-Tax Claim.
Class 3	General Unsecured Claims	It is estimated that the aggregate claims in Class 3 will be approximately $802,000,000	- Recovery: pro rata distribution of all liquidation proceeds (including collections realized on the settlement or resolution of Avoidance Actions) - Impaired - Holders of Allowed General Unsecured Claims, subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust), shall receive their Pro Rata Share of Available Cash, but not to exceed the full amount of such Allowed General Unsecured Claim.
Class 4	Equity Interests	N/A	- Recovery: 0% - Impaired - On the Effective Date, all Equity Interests of Ames shall be canceled, and one new share of Ames's common stock will be issued to a custodian designated by Ames, who will hold such share for the benefit of the holders of such former Equity Interests consistent with their former economic entitlement. Other than such beneficial interest, and subject to Section 6.3(a) of the Plan (permitting the establishment of a Liquidating Trust), each holder of an Equity Interest shall not receive any recovery. All common stock of Ames shall be canceled on the date Ames is dissolved.

D. **Reservation of "Cram Down" Rights**

The Bankruptcy Code permits the Bankruptcy Court to confirm a chapter 11 plan over the dissent of any class of claims or equity interests as long as the standards in section 1129(b) are met. This power to confirm a plan over dissenting classes – often

referred to as "cram down" – is an important part of the reorganization process. It assures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

The Debtors reserve the right to seek confirmation of the Plan notwithstanding the rejection of the Plan by any Class entitled to vote. In the event a Class votes to reject the Plan, the Debtors will request the Bankruptcy Court to rule that the Plan meets the requirements specified in section 1129(b) of the Bankruptcy Code with respect to such Class. The Debtors will also seek such a ruling with respect to Class 4, which is deemed to reject the Plan.

E. Administrative Expenses for the Debtors

In order to confirm the Plan, Allowed Administrative Expense Claims and Allowed Priority Tax Claims must be paid in full or in a manner otherwise agreeable to the holders of those Claims. Administrative expenses are the actual and necessary costs and expenses of the Chapter 11 Cases. Those expenses include, but are not limited to, postpetition salaries and other benefits for employees, postpetition rent, amounts owed to vendors providing goods and services during the Chapter 11 Cases, tax obligations incurred after the commencement of the Chapter 11 Cases, bankers' fees, reclamation claims, management costs, and certain statutory fees and expenses. Other administrative expenses include the actual, reasonable, necessary, and unpaid fees and expenses of the professionals retained by the Debtors and the Committee.

The Debtors estimate that the amount of Allowed Administrative Expense Claims as of the Effective Date will aggregate approximately $85,570,988. Consistent with the requirement of the Bankruptcy Code, the Plan generally provides for Allowed Administrative Expense Claims to be paid in full on the Effective Date, or as soon thereafter as is reasonably practicable. Administrative Expense Claims relating to compensation of the professionals retained by the Debtors and the Committee, or for the reimbursement of expenses for certain members of the Committee, will, unless otherwise agreed by the claimant, be paid following entry of an order allowing such Administrative Expense Claim.

Allowed Priority Tax Claims will be paid in full on the Effective Date, or as soon thereafter as is reasonably practicable. The Debtors do not believe there will be any material unpaid Allowed Priority Tax Claims as of the Effective Date.

The Debtors anticipate that Allowed Administrative Expense Claims and Allowed Priority Tax Claims in accordance with the Plan, the Trustee Expense Fund (in the event the Plan Implementation Party elects to establish a Liquidating Trust), and the administration of the Chapter 11 Cases will total approximately $100,570,000. The Debtors anticipate having more than sufficient cash available on the Confirmation Date from the proceeds of the Leesport Sale, as well as other sources, to pay all of the foregoing in full.

F. **Provisions Governing Distributions Under the Plan**

1. Effective Date Payments and Transfers by the Debtors. On the Effective Date, or as soon thereafter as is reasonably practicable, after reserving sufficient funds to pay holders of Disputed Claims against the Debtors in the amount such holders would be entitled to receive under the Plan if all such Claims were to become Allowed Claims, the Plan Implementation Party shall remit to each holder of an Allowed Claim against the Debtors an amount in Cash equal to the Allowed amount of such Claim; *provided, however*, that in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Plan Implementation Party shall transfer the Liquidating Trust Assets free and clear of all liens, claims, and encumbrances to the Liquidating Trust, but subject to any obligations imposed by the Plan, on behalf of holders of Allowed General Unsecured Claims.

2. Subsequent Distributions. Unless otherwise provided in the Plan, as additional Available Cash becomes available subsequent to the Effective Date from (i) undeliverable, time-barred, or unclaimed distributions to holders of Allowed Claims, (ii) the disallowance or reduction of Disputed Claims, (iii) a decrease in the estimate of Cash necessary to fund the administration of the Plan, (iv) liquidation of the Debtors' non-Cash assets, (v) recoveries on Causes of Action or Avoidance Actions, or (vi) otherwise, the Plan Implementation Party shall, on each such Subsequent Distribution Date, remit to each holder of an Allowed General Unsecured Claim its Pro Rata Share of Available Cash, but not to exceed in aggregate (taking into account all prior distributions under Section 4.3 of the Plan) the full amount of such Claim. In no event shall the Plan Implementation Party be obligated to make a distribution if, in its reasonable business judgment, the amount then on hand and the ultimate distribution to be made would not be justified, taking into account all the attendant costs of such distribution. In such case, any undistributed amount may be held over to the next Subsequent Distribution Date.

3. Distributions of Cash. At the option of the Plan Implementation Party, any Cash payment to be made under the Plan may be made by check or wire transfer or as otherwise required or provided in applicable agreements.

4. Allocation of Distributions. Distributions to any holder of an Allowed Claim shall be allocated first to the principal portion of any such Allowed Claim, and, only after the principal portion of any such Allowed Claim is satisfied in full, to any portion of such Allowed Claim comprising interest (but solely to the extent that interest is an allowable portion of such Allowed Claim).

5. Withholding and Reporting Requirements. In connection with the Plan and all instruments issued in connection therewith and distributed thereon, any party issuing any instrument or making any distribution under the Plan shall comply with all applicable withholding and reporting requirements imposed by any federal, state, or local taxing authority, and all distributions under the Plan shall be subject to any such withholding or reporting requirements. Notwithstanding the foregoing, each holder of an Allowed Claim or Equity Interest that is to receive a distribution under the Plan shall have the sole and exclusive responsibility for the satisfaction and payment of any tax obligations imposed by any governmental unit, including income, withholding, and other tax obligations, on account of such distribution. Any party issuing any instrument or

making any distribution under the Plan has the right, but not the obligation, to not make a distribution until such holder has made arrangements satisfactory to such issuing or disbursing party for payment of any such tax obligations.

6. Minimum Distributions. No payment of Cash less than $10 shall be made by the Plan Implementation Party to any holder of a General Unsecured Claim. This amount reflects the point in which the Debtors believe the expected cost of distribution will equal or exceed the amount distributable. Any Available Cash or Liquidating Trust Assets (in the event the Plan Implementation Party elects to establish a Liquidating Trust), which are undistributable in accordance with Section 5.6 of the Plan shall be distributed to a charitable organization exempt from federal income tax under Section 501(c)(3) of the Tax Code to be selected by, and unrelated to, the Plan Implementation Party.

G. Means for Implementation and Execution of the Plan

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

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

The Plan provides that entry of the Confirmation Order shall constitute the approval, pursuant to section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of Ames Merchandising Corporation, Amesplace.com, Inc., Ames Realty II, Inc., and Ames Transportation Systems, Inc., and their respective estates, into Ames for voting, confirmation, and distribution purposes under the Plan. Solely for such purposes, on and after the Effective Date, (i) all assets and all liabilities of the Debtors shall be deemed merged into Ames, (ii) all guaranties of any Debtor of the payment, performance, or collection of obligations of another Debtor shall be eliminated and canceled, (iii) any obligation of any Debtor and all guaranties thereof executed by one or more of the other Debtors shall be treated as a single obligation, and such guaranties shall be deemed a single Claim against the consolidated Debtors, (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 the consolidated Debtors, (v) all Claims between or among the Debtors shall be canceled, and (vi) each Claim filed in the Chapter 11 Case of any Debtor shall be deemed filed against the consolidated Debtors and a single obligation of the consolidated Debtors on and after the Effective Date. The substantive consolidation and

deemed merger effected pursuant to Section 6.1(a) of the Plan shall not affect (other than for purposes related to funding distributions under the Plan and as set forth in Section 6.1(a) of the Plan) (i) the legal and organizational structure of the Debtors, (ii) defenses to any Causes of Action or requirements for any third party to establish mutuality to assert a right of setoff, and (iii) distributions out of any insurance policies or proceeds of such policies.

The Debtors believe that the foregoing substantive consolidation of their estates is warranted. It is well established that section 105(a) of the Bankruptcy Code empowers a bankruptcy court to authorize substantive consolidation. The United States Court of Appeals for the Second Circuit, the circuit in which the Chapter 11 Cases are pending, has articulated a test for evaluating a request for substantive consolidation. *Union Sav. Bank v. Augie/Restivo Baking Co. (In re Augie/Restivo Baking Co.)*, 860 F.2d 515 (2d Cir. 1988). The test, as formulated by the Second Circuit, considers (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. *Id.* at 518. 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 assets and business functions and considers whether all creditors will benefit because untangling is either impossible or so costly as to consume the assets. If either factor is satisfied, substantive consolidation is appropriate.

There is an ample factual basis for the consolidation of the Debtors. First, the applicable facts demonstrate a substantial identity and an extensive and inseparable interrelationship and entanglement between and among the Debtors. For example: (i) all the Debtors' retail operations are conducted and controlled by Ames Merchandising Corporation; (ii) the Debtors maintain their books and records on a consolidated basis and, as a result, only were able to file with the Bankruptcy Court consolidated, rather than individual Debtor-by-Debtor, Schedules; (iii) officers and directors of each of the Debtor subsidiaries simultaneously have been officers and/or directors of Ames and vice versa, and corporate policy for all the Debtors has been established and implemented by Ames's officers and board of directors; (iv) the Debtors file consolidated federal income tax returns and prepare financial statements, annual reports, and other documents filed with the Securities and Exchange Commission on a consolidated basis; and (v) all financial information disseminated to the public, including to customers, suppliers, landlords, lenders, and credit rating agencies, is prepared and presented on a consolidated basis.

Second, the applicable facts demonstrate that no creditor relied on the separate identity of one or more of the Debtors in extending credit to the Debtors inasmuch as (a) all financial information disseminated by the Debtors to the creditors was and is prepared and presented on a consolidated basis, and (b) substantially all the Debtors' obligations are, in fact, obligations of Ames.

In view of the foregoing, the Debtors believe that creditors would not be prejudiced by the substantive consolidation proposed in the Plan, which is consistent with creditors' having dealt with the Debtors as a single economic entity, and further believe

that such consolidation would best utilize the Debtors' assets and potential of all of the Debtors to pay to the creditors of each entity the distributions proposed in the Plan.

2. The Plan Administrator. The Confirmation Order shall name the Plan Administrator to implement the terms of the Plan. The Plan Administrator shall act for Ames and its Debtor subsidiaries in a fiduciary capacity as applicable to a board of directors, subject to the provisions of the Plan. The Plan Administrator, as the fiduciary of Ames, which is the sole shareholder of the Debtor subsidiaries, will have the power to appoint officers and directors of Ames' Debtor subsidiaries in accordance with their respective articles of incorporation and bylaws. It is the intent of the Plan Administrator to appoint himself as the sole officer and director of the Debtor subsidiaries. The salient terms of the Plan Administrator's employment, including the Plan Administrator's duties and compensation (which compensation shall be negotiated by the Plan Administrator, the Debtors, and the Committee), to the extent not set forth in the Plan, shall be set forth in the Confirmation Order. The Plan Administrator shall be entitled to reasonable compensation in an amount consistent with that of similar functionaries in similar types of bankruptcy cases. In the event the Plan Administrator dies, is terminated, or resigns for any reason, the Committee shall designate a successor. The Plan Administrator shall be required to disclose its connections, if any, with the Debtors, their creditors, any other party in interest, and the U.S. Trustee.

a. Duties and Powers. The Plan Administrator, together with its representatives and professionals, shall administer the Plan. The duties and powers of the Plan Administrator shall include all powers necessary to implement the Plan and administrate and liquidate the assets of Ames, and, indirectly, the Debtor subsidiaries, including, without limitation, the duties and powers listed in the Plan.

(i) The Plan Administrator may exercise all power and authority that may be or could have been exercised, commence all proceedings that may be or could have been commenced, and take all actions that may be or could have been taken by an officer, director, or stockholder of Ames with like effect as if authorized, exercised, and taken by unanimous action of such officers, directors, and stockholders, including, without limitation, amendment of the certificate of incorporation and bylaws of the Debtors and the dissolution of any Debtor.

(ii) The Plan Administrator may object to, seek to subordinate, compromise, or settle any or all Claims against any of the Debtors.

(iii) The Plan Administrator shall liquidate and convert, or cause to be liquidated and converted, to Cash the assets of the Debtors, make timely distributions, administer the winding up of the Debtors' affairs, including, but not limited to, causing the dissolution of the Debtors and closing the Chapter 11 Cases, and not unduly prolong the duration of the Chapter 11 Cases. In so doing, the Plan Administrator shall exercise its reasonable business judgment in liquidating the assets of the Debtors to maximize recoveries. The liquidation of such assets may be accomplished either through the sale of the assets of the Debtors (in whole or in combination, and including the sale of any Causes of Action or Avoidance Actions) or through the prosecution, compromise and settlement, abandonment, or dismissal of any or all Claims, Causes of Action, or Avoidance Actions, or otherwise.

(iv) The Plan Administrator may abandon, or cause to be abandoned, in any commercially reasonable manner, including abandonment or donation to a charitable organization of its choice, any assets if it concludes they are of no benefit to the Debtors' estates.

(v) The Plan Administrator may pursue, or cause to be pursued, Causes of Action and Avoidance Actions of the Debtors. The Plan Administrator shall have discretion to elect whether or not to pursue any and all Causes of Action and Avoidance Actions of the Debtors and whether and when to compromise, settle, abandon, dismiss, or otherwise dispose of any such Causes of Action and Avoidance Actions, as the Plan Administrator may determine is in the best interests of holders of Claims against and Equity Interests in the Debtors, and the Plan Administrator shall have no liability to any of the Debtors, their estates, their creditors, the Committee, its members, or any other party for the outcome of its decisions in this regard, except for gross negligence or willful misconduct.

(vi) The Plan Administrator may retain professionals to assist it in performing its duties under the Plan.

(vii) The Plan Administrator shall maintain the Debtors' books and records, maintain accounts, make distributions, and take other actions consistent with the Plan and the implementation thereof.

(viii) The Plan Administrator may enter, or cause to be entered, into any agreement or execute any document required by or consistent with the Plan and perform all of the Debtors' obligations thereunder.

(ix) The right and power of the Plan Administrator to invest any of the Debtors' Cash, including cash proceeds from the liquidation of any of the Debtors' assets and the realization or disposition of any Causes of Action and Avoidance Actions, and any income earned by the Debtors shall be limited to the right and power to invest such Cash in United States Treasury Bills, interest-bearing certificates of deposit, tax exempt securities, or investments permitted by section 345 of the Bankruptcy Code or otherwise authorized by the Bankruptcy Court, using prudent efforts to enhance the rates of interest earned on such Cash without inordinate credit risk or interest rate risk; *provided, however*, the Plan Administrator may expend the Cash of the Debtors to effectuate the provisions of the Plan.

(x) The Plan Administrator shall have the powers of administration regarding all the Debtors' tax obligations, including filing of returns. The Plan Administrator shall (A) endeavor to complete and file within ninety (90) days after the dissolution of the Debtors (or such longer period as authorized by the Bankruptcy Court for cause), the Debtors' final federal, state, and local tax returns, (B) request, if necessary, an expedited determination of any unpaid tax liability of the Debtors or their estates under section 505(b) of the Bankruptcy Code for all taxable periods of the Debtors ending after the Commencement Date through the liquidation of the Debtors as determined under applicable tax laws, and (C) represent the interest and account of the Debtors or their estates before any taxing authority in all matters, including, without limitation, any action, suit, proceeding, or audit.

(xi) The Plan Administrator may incur any reasonable and necessary expenses in connection with the performance of its duties under the Plan.

(xii) The Plan Administrator may take all other actions not inconsistent with the provisions of the Plan which the Plan Administrator deems reasonably necessary or desirable with respect to administering the Plan.

b. Indemnification of Plan Administrator. The Plan Administrator and its agents and professionals shall not be liable for actions taken or omitted in its capacity as, or on behalf of, the Plan Administrator, except those acts arising out of its or their own willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or *ultra vires* acts, and each shall be entitled to indemnification and reimbursement for fees and expenses in defending any and all of its actions or inactions in its capacity as, or on behalf of, the Plan Administrator, except for any actions or inactions involving willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or *ultra vires* acts. Any indemnification claim of the Plan Administrator (and the other parties entitled to indemnification under this subsection (b)) shall be satisfied from the funds reserved by the Debtors to fund the administration of the Plan and the Chapter 11 Cases on and after the Effective Date; *provided*, *however*, the Plan Administrator shall return any portion of such funds used to defend any action in which the Plan Administrator is found to have acted with gross negligence or willful misconduct. The Plan Administrator shall be entitled to rely, in good faith, on the advice of its retained professionals. The provisions of this subsection (b) do not apply to actions taken by the Plan Administrator in any capacity other than as Plan Administrator.

c. Termination of Duties. The duties of the Plan Administrator will terminate (i) after the Debtors have been dissolved in accordance with Section 6.6(d) of the Plan, (ii) all assets held or controlled by the Plan Administrator have been distributed in accordance with the terms of the Plan, and (iii) upon material completion of all other duties and functions set forth in the Plan, but in no event later than three (3) years after the Effective Date, unless extended by order of the Bankruptcy Court.

d. Closing of Chapter 11 Cases. When all Disputed Claims filed against the Debtors have become Allowed Claims or have been disallowed by Final Order, and all remaining assets of the Debtors have been liquidated and converted into Cash or abandoned and such Cash has been distributed in accordance with the Plan, the Plan Administrator shall seek authority from the Bankruptcy Court to close the Chapter 11 Cases in accordance with the Bankruptcy Code and the Bankruptcy Rules.

3. The Liquidating Trust.

a. Establishment of Liquidating Trust. In the event the Plan Implementation Party elects to establish a Liquidating Trust to facilitate the liquidation and winding up of the Debtors, the Plan Implementation Party shall transfer the Liquidating Trust Assets to the Liquidating Trust on the Effective Date or, in the event the Plan Implementation Party elects to establish a Liquidating Trust after the Effective Date, such later date for the benefit of the holders of Allowed General Unsecured Claims. In such event, in lieu of having a continuing right under the Plan to receive Available

Cash, the holders of Allowed General Unsecured Claims shall receive beneficial interests in the Liquidating Trust entitling them to share in the proceeds of the Liquidating Trust Assets on an economically equivalent basis to that provided in Section 4.3 of the Plan and, to the extent that the Plan Implementation Party reasonably determines that the value of the Liquidating Trust Assets on the Transfer Date exceeds the aggregate amount of the Allowed General Unsecured Claims (less any amounts previously distributed thereon), the holders of Allowed Equity Interests shall also receive beneficial interests in the Liquidating Trust entitling them to share on an economically equivalent basis to that provided in Section 4.4 of the Plan.

b. Execution of Liquidating Trust Agreement. In the event the Plan Implementation Party elects to establish a Liquidating Trust as provided herein, on the Effective Date, the Liquidating Trust Agreement, in a form reasonably acceptable to the Committee, shall be executed, and all other necessary steps shall be taken to establish the Liquidating Trust and the beneficial interests therein, which shall be for the benefit of the holders of Allowed General Unsecured Claims. Section 6.3 of the Plan sets forth certain of the rights, duties, and obligations of the Trustee. In the event of any conflict between the terms of Section 6.3 of the Plan and the terms of the Liquidating Trust Agreement, the terms of the Liquidating Trust Agreement shall govern.

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

d. Liquidating Trust Assets. The Liquidating Trust shall consist of the Liquidating Trust Assets. Any Cash or other property received from third parties from the prosecution, settlement, or compromise of the Avoidance Actions shall constitute Liquidating Trust Assets for purposes of distributions under the Liquidating Trust. On the Transfer Date, the Plan Implementation Party shall transfer all the Liquidating Trust Assets to the Liquidating Trust free and clear of all liens, claims, and encumbrances; *provided, however*, that all such assets shall be transferred to the Liquidating Trust subject to (i) any Claims in Article II and Article IV of the Plan (other than General Unsecured Claims) that have not been paid or Allowed as of the Transfer Date (but which are subsequently Allowed), (ii) any expenses incurred and unpaid, or to be incurred, by the Plan Implementation Party in respect of consummation of the Plan and winding up of the Debtors' estates, and (iii) and any post-Transfer Date obligations of the Plan Implementation Party. In addition, all bank accounts established by the Plan Implementation Party to fund all Claims receiving Cash payments shall be held by the Trustee in the name of the Liquidating Trust subject to the provisions of the Plan, and the Liquidating Trust shall have no greater rights to such bank accounts than the rights of the Plan Implementation Party.

e. Governance of Liquidating Trust. The Liquidating Trust shall be governed by the Trustee.

f. The Trustee. In the event the Plan Implementation Party elects to appoint a Trustee, Rolando de Aguiar shall be designated as the Trustee on or before the Transfer Date by the Committee with the consent of the Debtors, which

consent shall not be unreasonably withheld. The designation of the Trustee shall be effective on the Transfer Date without the need for a further order of the Bankruptcy Court.

g. Role of the Trustee.

(i) In furtherance of and consistent with the purpose of the Liquidating Trust and the Plan, the Trustee shall (A) have the power and authority to hold, manage, sell, and distribute the Liquidating Trust Assets to the holders of Allowed General Unsecured Claims, (B) hold the Liquidating Trust Assets for the benefit of the holders of Allowed General Unsecured Claims, (C) have the power and authority to hold, manage, sell, and distribute Cash or non-Cash Liquidating Trust Assets obtained through the exercise of its power and authority, (D) have the power and authority to prosecute and resolve, in the names of the Debtors and/or the name of the Trustee, the Avoidance Actions, (E) have the power and authority to prosecute and resolve objections to Disputed General Unsecured Claims, (F) have the power and authority to perform such other functions as are provided in the Plan, and (G) have the power and authority to administer the closure of the Chapter 11 Cases. The Trustee shall be responsible for all decisions and duties with respect to the Liquidating Trust and the Liquidating Trust Assets. In all circumstances, the Trustee shall act in the best interests of all beneficiaries of the Liquidating Trust and in furtherance of the purpose of the Liquidating Trust.

(ii) After the certificates of cancellation, dissolution, or merger for all the Debtors have been filed in accordance with Section 6.6(d) of the Plan, the Trustee shall be authorized to exercise all powers regarding the Debtors' tax matters, including filing tax returns, to the same extent as if the Trustee were the debtor in possession. The Trustee shall (A) endeavor to complete and file within ninety (90) days of the filing for dissolution by Ames, to the extent not previously filed, the Debtors' final federal, state, and local tax returns, (B) request an expedited determination of any unpaid tax liability of the Debtors under section 505(b) of the Bankruptcy Code for all tax periods of the Debtors ending after the Commencement Date through the liquidation of the Debtors as determined under applicable tax laws, to the extent not previously requested, and (C) represent the interest and account of the Debtors before any taxing authority in all matters, including, but not limited to, any action, suit, proceeding, or audit.

h. Nontransferability of Liquidating Trust Interests. The beneficial interests in the Liquidating Trust shall not be certificated and are not transferable (except as otherwise provided in the Liquidating Trust Agreement).

i. Cash. The Trustee may invest Cash (including any earnings thereon or proceeds therefrom) as permitted by section 345 of the Bankruptcy Code; *provided, however*, that such investments are investments permitted to be made by a liquidating trust within the meaning of Treasury Regulation section 301.7701-4(d), as reflected therein, or under applicable Internal Revenue Service ("IRS") guidelines, rulings, or other controlling authorities.

j. Costs and Expenses of Trustee. The costs and expenses of the Liquidating Trust, including the fees and expenses of the Trustee and its retained

professionals (with the exception of those incurred in connection with the pursuit of the Avoidance Actions), shall be paid first out of the Trustee Expense Fund and then out of the other Liquidating Trust Assets. Such costs and expenses shall be considered administrative expenses of the Debtors' estates.

k. Compensation of Trustee. The Trustee shall be entitled to reasonable compensation in an amount consistent with that of similar functionaries in similar types of bankruptcy proceedings.

l. Distribution of Liquidating Trust Assets. The Trustee shall distribute at least annually and in accordance with the Liquidating Trust Agreement, beginning on the Transfer Date or as soon thereafter as is practicable, the Liquidating Trust Assets on hand (including any Cash received from the Debtors on the Transfer Date, and treating as Cash for purposes of Section 6.3 of the Plan any permitted investments under Section 6.3(i) of the Plan), except such amounts (i) as would be distributable to a holder of a Disputed Claim if such Disputed Claim had been Allowed prior to the time of such distribution (but only until such Claim is resolved), (ii) as are reasonably necessary to meet contingent liabilities and to maintain the value of the Liquidating Trust Assets during liquidation, (iii) to pay reasonable expenses (including, but not limited to, any taxes imposed on the Liquidating Trust or in respect of the Liquidating Trust Assets), and (iv) to satisfy other liabilities incurred by the Liquidating Trust in accordance with the Plan or the Liquidating Trust Agreement.

m. Retention of Professionals by Trustee. The Trustee may retain and compensate counsel and other professionals to assist in its duties as Trustee on such terms as the Trustee deems appropriate without Bankruptcy Court approval. The Trustee may retain any professional who represented parties in interest in the Chapter 11 Cases.

n. Federal Income Tax Treatment of Liquidating Trust.

(i) Liquidating Trust Assets Treated as Owned by Creditors. For all federal income tax purposes, all parties (including, without limitation, the Plan Implementation Party, the Trustee, and the holders of General Unsecured Claims) shall treat the transfer of the Liquidating Trust Assets to the Liquidating Trust for the benefit of the holders of Allowed General Unsecured Claims, whether Allowed on or after the Transfer Date, as (A) a transfer of the Liquidating Trust Assets directly to the holders of Allowed General Unsecured Claims in satisfaction of such Claims (other than to the extent allocable to Disputed General Unsecured Claims) followed by (B) the transfer by such holders to the Liquidating Trust of the Liquidating Trust Assets in exchange for beneficial interests in the Liquidating Trust. Accordingly, the holders of such Claims shall be treated for federal income tax purposes as the grantors and owners of their respective shares of the Liquidating Trust Assets.

(ii) Tax Reporting. In the event the Plan Implementation Party elects to establish a Liquidating Trust:

(a) The Trustee shall file returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a)

and in accordance with Section 6.3(n) of the Plan. The Trustee shall also annually send to each record holder of a beneficial interest a separate statement setting forth the holder's share of items of income, gain, loss, deduction, or credit and will instruct all such holders to report such items on their federal income tax returns or to forward the appropriate information to the beneficial holders with instructions to report such items on their federal income tax returns. The Liquidating Trust's taxable income, gain, loss, deduction, or credit will be allocated (subject to Sections 6.3(n)(ii)(c) and (d) of the Plan) to the holders of Allowed General Unsecured Claims in accordance with their relative beneficial interests in the Liquidating Trust.

(b) As soon as possible after the Transfer Date, the Trustee shall make a good faith valuation of the Liquidating Trust Assets. Such valuation shall be made available from time to time, to the extent relevant, and used consistently by all parties (including, without limitation, the Debtors, the Trustee, and the holders of Allowed General Unsecured Claims) for all federal income tax purposes. The Trustee shall also file (or cause to be filed) any other statements, returns, or disclosures relating to the Liquidating Trust that are required by any governmental unit.

(c) In the event the holders of Allowed Equity Interests also receive beneficial interests in the Liquidating Trust, allocation of Liquidating Trust taxable income or loss shall be allocated as follows: Allocations of Liquidating Trust taxable income shall be determined by reference to the manner in which an amount of Cash equal to such taxable income would be distributed (without regard to any restrictions on distributions described herein) if, immediately prior to such deemed distribution, the Liquidating Trust had distributed all its other assets (valued at their tax book value) to the holders of the Liquidating Trust interests (treating any pending Disputed General Unsecured Claims as if they were Allowed Claims (see Section 6.3(n)(ii)(d) of the Plan), in each case up to the tax book value of the assets treated as contributed by such holders, adjusted for prior taxable income and loss and taking into account all prior and concurrent distributions from the Liquidating Trust. Similarly, taxable loss of the Liquidating Trust shall be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The tax book value of the Liquidating Trust Assets for this purpose shall equal their fair market value on the Transfer Date, adjusted in accordance with tax accounting principles prescribed by the Tax Code, the applicable tax regulations, and other applicable administrative and judicial authorities and pronouncements.

(d) Subject to definitive guidance from the IRS or a court of competent jurisdiction to the contrary (including the receipt by the Trustee of a private letter ruling if the Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Trustee), the Trustee shall (i) treat any Liquidating Trust Assets allocable to, or retained on account of, Disputed General Unsecured Claims as held by one or more discrete trusts for federal income tax purposes (the "Liquidating Trust Claims Reserve"), consisting of separate and independent shares to be established in respect of each Disputed General Unsecured Claim, in accordance with the trust provisions of the Tax Code (section 641 *et seq.*), (ii) treat as taxable income or loss of the Liquidating Trust Claims Reserve, with respect to

any given taxable year, the portion of the taxable income or loss of the Liquidating Trust that would have been allocated to the holders of Disputed General Unsecured Claims had such Claims been Allowed on the Transfer Date (but only for the portion of the taxable year with respect to which such Claims are unresolved), (iii) treat as a distribution from the Liquidating Trust Claims Reserve any increased amounts distributed by the Liquidating Trust as a result of any Disputed General Unsecured Claims resolved earlier in the taxable year, to the extent such distributions relate to taxable income or loss of the Liquidating Trust Claims Reserve determined in accordance with the provisions of the Plan, and (iv) to the extent permitted by applicable law, report consistent with the foregoing for state and local income tax purposes. All holders of General Unsecured Claims shall report, for tax purposes, consistent with the foregoing.

(e) The Trustee shall be responsible for payments, out of the Liquidating Trust Assets, of any taxes imposed on the Liquidating Trust or the Liquidating Trust Assets, including the Liquidating Trust Claims Reserve. In the event, and to the extent, any Cash retained on account of Disputed General Unsecured Claims in the Liquidating Trust Claims Reserve is insufficient to pay the portion of any such taxes attributable to the taxable income arising from the assets allocable to, or retained on account of, Disputed General Unsecured Claims, such taxes shall be (i) reimbursed from any subsequent Cash amounts retained on account of Disputed General Unsecured Claims, or (ii) to the extent such Disputed General Unsecured Claims have subsequently been resolved, deducted from any amounts distributable by the Trustee as a result of the resolutions of such Disputed General Unsecured Claims.

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

o. Dissolution. The Trustee and the Liquidating Trust shall be discharged or dissolved, as the case may be, at such time as (i) all Disputed General Unsecured Claims have been resolved, (ii) all Liquidating Trust Assets have been liquidated, and (iii) all distributions required to be made by the Trustee under the Plan have been made, but in no event shall the Liquidating Trust be dissolved later than three (3) years from the Transfer Date unless the Bankruptcy Court, upon motion within the six (6) month period prior to the third (3rd) anniversary of the Transfer Date (and, in the case of any extension, within six (6) months prior to the end of such extension), determines that a fixed period extension (not to exceed two (2) years, together with any prior extensions, without a favorable letter ruling from the IRS that any further extension would not adversely affect the status of the Liquidating Trust as a liquidating trust for federal income tax purposes) is necessary to facilitate or complete the recovery and liquidation of the Liquidating Trust Assets or the dissolution of the Debtors.

p. Indemnification of Trustee. The Trustee and its agents and professionals shall not be liable for actions taken or omitted in its capacity as, or on behalf of, the Trustee, except those acts arising out of its or their own willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or *ultra vires* acts, and each shall be entitled to indemnification and reimbursement for fees and expenses in

defending any and all of its actions or inactions in its capacity as, or on behalf of, the Trustee, except for any actions or inactions involving willful misconduct, gross negligence, bad faith, self-dealing, breach of fiduciary duty, or *ultra vires* acts. Any indemnification claim of the Trustee (and the other parties entitled to indemnification under this subsection (p)) shall be satisfied first from the Trustee Expense Fund and then from the Liquidating Trust Assets. The Trustee shall be entitled to rely, in good faith, on the advice of its retained professionals.

q. Closing of Chapter 11 Cases. When all Disputed Claims filed against the Debtors have become Allowed Claims or have been disallowed by Final Order, and all of the Liquidating Trust Assets have been distributed in accordance with the Plan, the Trustee shall seek authority from the Bankruptcy Court to close the Chapter 11 Cases in accordance with the Bankruptcy Code and the Bankruptcy Rules.

r. Closing of Chapter 11 Cases by Charitable Gift. If at any time the Trustee determines that the expense of administering the Liquidating Trust so as to make a final distribution to its beneficiaries is likely to exceed the value of the assets remaining in the Liquidating Trust, the Trustee shall apply to the Bankruptcy Court for authority to (i) reserve any amounts necessary to close the Chapter 11 Cases, (ii) donate any balance to a charitable organization exempt from federal income tax under Section 501(c)(3) of the Tax Code that is unrelated to Ames, the Liquidating Trust, and any insider of the Trustee, and (iii) close the Chapter 11 Cases in accordance with the Bankruptcy Code and Bankruptcy Rules. Notice of such application shall be given electronically, to the extent practicable, to those parties who have filed requests for notices and whose electronic addresses remain current and operating.

4. Debtors' Post-Confirmation Role; Dissolution. The Debtors shall perform each of the following acts as soon as practicable on or after the Effective Date:

a. Payments and Transfers. Except as otherwise provided in the Plan, on the Effective Date, or as soon thereafter as is reasonably practicable, the Debtors shall make payments and transfers to holders of Allowed Claims in accordance with Section 5.2(a) of the Plan.

b. Administration of Taxes. The Debtors shall be responsible for all tax matters of the Debtors until certificates of cancellation, dissolution, or merger for all the Debtors shall have been filed in accordance with Section 6.6(d) of the Plan.

c. Claims Administration and Prosecution and Plan Distributions. Except as otherwise provided in the Plan, the Debtors shall continue to have the power and authority to prosecute and resolve objections to Disputed Claims and to hold, manage, and distribute Plan distributions to the holders of Allowed Claims.

d. Dissolution. Within thirty (30) days after its completion of the acts required by the Plan, or as soon thereafter as is practicable, each Debtor shall be deemed dissolved for all purposes without the necessity for any other or further actions to be taken by or on behalf of each Debtor; *provided*, *however*, that each Debtor shall file with the office of the Secretary of State or other appropriate office for the state of its

organization a certificate of cancellation or dissolution, or alternatively, it may be merged with and into another Debtor and so file an appropriate certificate of merger.

e. Books and Records. Upon the Effective Date, Ames shall transfer and assign to the Plan Implementation Party full title to, and the Plan Implementation Party shall be authorized to take possession of, all of the books and records of the Debtors. The Plan Implementation Party shall have the responsibility of storing and maintaining books and records transferred under the Plan until one year after the date Ames is dissolved in accordance with Section 6.6(d) of the Plan, after which time such books and records may be abandoned or destroyed without further Bankruptcy Court order. The Debtors shall cooperate with the Plan Implementation Party to facilitate the delivery and storage of their books and records in accordance herewith. The Debtors (as well as their current and former officers and directors) shall be entitled to reasonable access to any books and records transferred to the Plan Implementation Party for all necessary corporate purposes, including, without limitation, defending or prosecuting litigation, determining insurance coverage, filing tax returns, and addressing personnel matters. For purposes of this Section, books and records include computer generated or computer maintained books and records and computer data, as well as electronically generated or maintained books and records or data, along with books and records of the Debtors maintained by or in possession of third parties and all of the claims and rights of the Debtors in and to their books and records, wherever located.

f. Corporate Action. Upon the Effective Date, the Debtors shall perform each of the actions and effect each of the transfers required by the terms of the Plan, in the time period allocated therefor, and all matters provided for under the Plan that would otherwise require approval of the stockholders, partners, members, directors, or comparable governing bodies of the Debtors shall be deemed to have occurred and shall be in effect from and after the Effective Date pursuant to the applicable general corporation law (or other applicable governing law) of the states in which the Debtors are incorporated or organized, without any requirement of further action by the stockholders, members, or directors (or other governing body) of the Debtors. Each of the Debtors shall be authorized and directed, following the completion of all disbursements, other transfers, and other actions required of the Debtors by the Plan, to file its certificate of cancellation, dissolution, or merger as contemplated by Section 6.6(d) of the Plan. The filing of such certificates of cancellation, dissolution, or merger shall be authorized and approved in all respects without further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by the stockholders, members, or directors (or other governing body) of the Debtors.

5. Securities Law Issues. In the event the Plan Implementation Party elects to establish a Liquidating Trust, holders of Allowed General Unsecured Claims in Class 3 will receive beneficial interests in the Liquidating Trust (i.e., the Liquidating Trust Assets) and upon their distribution from the Liquidating Trust, their pro rata share of beneficial interests in the Liquidating Trust. Section 1145 of the Bankruptcy Code provides certain exemptions from the securities registration requirements of federal and state securities laws with respect to the distribution of securities under a chapter 11 plan.

Section 1145 of the Bankruptcy Code provides that the securities registration requirements of federal and state securities laws do not apply to the offer or

sale of stock, warrants, or other securities by a debtor or a successor to the debtor if (i) the offer or sale occurs under a chapter 11 plan, (ii) the recipients of securities hold a claim against, an interest in, or a claim for administrative expense against the debtor, and (iii) the securities are issued in exchange for a claim against or interest in a debtor or are issued principally in such exchange and partly for cash and property.

It is believed that the distribution under the Plan of the beneficial interests in the Liquidating Trust to holders of Allowed General Unsecured Claims satisfies the requirements of section 1145(a)(1) of the Bankruptcy Code and are, therefore, exempt from the registration requirements of the Securities Act. The beneficial interests in the Liquidating Trust will be noncertificated and nontransferable.

H. Procedures for Resolving and Treating Disputed Claims

1. Objections to Claims. The Plan Implementation Party shall be entitled to object to Administrative Expense Claims, Priority Tax Claims, Secured Claims, Priority Non-Tax Claims, and General Unsecured Claims. On and after the Effective Date, in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Trustee shall be entitled to object to General Unsecured Claims. Any objections to Claims shall be served and filed on or before the later of (i) one hundred twenty (120) days after the Effective Date, and (ii) such date as may be fixed by the Bankruptcy Court, whether fixed before or after the date specified in clause (i) above. Any and all Disputed Claims shall be estimated under section 502(c) of the Bankruptcy Code with a five (5) page objection plus exhibits, a five (5) page response plus exhibits, and a five (5) page reply plus exhibits. The Bankruptcy Court shall determine each objection on the papers after hearing from each party for twenty (20) minutes per party; the Bankruptcy Court may also grant additional time for proceedings in its sole discretion.

2. No Distribution Pending Allowance. Notwithstanding any other provision of the Plan, if any portion of a Claim is a Disputed Claim, no payment or distribution provided under the Plan shall be made on account of such Claim unless and until such Disputed Claim becomes an Allowed Claim (other than the transfer of the Liquidating Trust Assets to the Liquidating Trust in the event the Plan Implementation Party elects to establish a Liquidating Trust). Until such time, with respect to General Unsecured Claims in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Trustee shall withhold from the property to be distributed to holders of beneficial interests in the Liquidating Trust the portion of such property allocable to Disputed General Unsecured Claims and shall hold such property in the Liquidating Trust Claims Reserve in accordance with Article VII and Section 6.3(n)(ii) of the Plan. If any Disputed General Unsecured Claims are disallowed, the Liquidating Trust Assets held in the Liquidating Trust Claims Reserve shall be released as and to the extent the Trustee determines such property is no longer necessary to fund unresolved Disputed General Unsecured Claims, and such Liquidating Trust Assets shall be distributed in accordance with Section 6.3 of the Plan. In the event the Plan Implementation Party does not elect to establish a Liquidating Trust, to the extent a Disputed Claim is not Allowed or becomes an Allowed Claim in an amount less than the amount asserted by the holder of the Disputed Claim or as previously estimated by the Bankruptcy Court, the excess of the amount of Cash that would have been distributed to

the holder of the Disputed Claim if the Claim had been Allowed in full over the amount of Cash actually distributed on account of such Disputed Claim, shall be Available Cash. All Tort Claims shall be deemed Disputed Claims unless and until they are liquidated.

3. Resolution of Disputed Claims. Unless otherwise ordered by the Bankruptcy Court after notice and a hearing, following the Effective Date, the Plan Implementation Party shall have the right to the exclusion of all others (except as to applications for allowances of compensation and reimbursement of expenses under sections 330 and 503 of the Bankruptcy Code) to make and file objections to Claims and shall serve a copy of each objection upon the holder of the Claim to which the objection is made as soon as practicable, but in no event later than one hundred twenty (120) days after the Effective Date. From and after the Confirmation Date, all objections shall be litigated to a Final Order except to the extent the Plan Implementation Party elects to withdraw any such objection or the Plan Implementation Party and the holder of a Claim elect to compromise, settle, or otherwise resolve any such objection, in which event they may settle, compromise, or otherwise resolve any Disputed Claim without approval of the Bankruptcy Court.

4. Estimation. The Plan Implementation Party may at any time request that the Bankruptcy Court estimate any contingent, unliquidated, or Disputed Claim pursuant to section 502(c) of the Bankruptcy Code regardless of whether the Plan Implementation Party previously objected to such Claim, and the Bankruptcy Court will retain jurisdiction to estimate any Claim at any time during litigation concerning any objection to any Claim, including, without limitation, during the pendency of any appeal relating to any such objection. In the event that the Bankruptcy Court estimates any contingent, unliquidated, or Disputed Claim, the amount so estimated shall constitute either the Allowed amount of such Claim or a maximum limitation on such Claim, as determined by the Bankruptcy Court. If the estimated amount constitutes a maximum limitation on the amount of such Claim, the Plan Implementation Party may pursue supplementary proceedings to object to the allowance of such Claim. All the aforementioned objection, estimation, and resolution procedures are intended to be cumulative and not exclusive of one another. On and after the Confirmation Date, Claims that have been estimated may be compromised, settled, withdrawn, or otherwise resolved subsequently, without further order of the Bankruptcy Court.

5. Allowance of Disputed Claims. If, on or after the Effective Date, any Disputed Claim becomes, in whole or in part, an Allowed Claim, the Plan Implementation Party shall, no later than the fifteenth (15th) Business Day of the first month following the month in which the Disputed Claim becomes an Allowed Claim, distribute to the holder thereof the distributions, if any, that such holder would have received had its Claim been Allowed on the Effective Date, except as otherwise provided in the Plan.

I. Treatment of Executory Contracts and Unexpired Leases

1. Executory Contracts and Unexpired Leases. On the Effective Date, all executory contracts and unexpired leases to which any of the Debtors are parties shall be deemed rejected as of the Effective Date, except for an executory contract or unexpired lease that (i) has been assumed or rejected pursuant to Final Order of the

Bankruptcy Court entered prior to the Effective Date, or (ii) is the subject of a separate motion to assume or reject filed under section 365 of the Bankruptcy Code by the Debtors prior to the Effective Date.

2. Approval of Rejection of Executory Contracts and Unexpired Leases. Entry of the Confirmation Order shall constitute the approval, pursuant to section 365(a) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected as of the Effective Date pursuant to the Plan.

3. Claims Relating to Executory Contracts and Unexpired Leases Rejected Pursuant to the Plan. Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan shall be classified as Class 3 General Unsecured Claims.

J. **Releases Granted Pursuant to the Plan**

1. Limited Releases. As of the Effective Date, the Debtors release all present and former directors and officers of the Debtors who were directors and/or officers, respectively, on or after the Commencement Date, and any other Persons who serve or served as members of management of the Debtors on or after the Commencement Date, and all post-Commencement Date advisors, consultants, or professionals of or to the Debtors, the Committee, and the Indenture Trustees from any and all Causes of Action held by, assertable on behalf of, or derivative from the Debtors, in any way relating to the Debtors, the Chapter 11 Cases, the Plan, negotiations regarding or concerning the Plan, and the ownership, management, and operation of the Debtors, except for willful misconduct (including, but not limited to, conduct that results in a personal profit at the expense of the Debtors' estates) or gross negligence; *provided, however*, that the foregoing shall not operate as a waiver of or release from any Causes of Action arising out of any express contractual obligation owing by any former director, officer, or employee of the Debtors or any reimbursement obligation of any former director, officer, or employee with respect to a loan or advance made by the Debtors to such former director, officer, or employee; and *provided further, however*, nothing in the Plan or the Confirmation Order shall affect a release of any claim against the parties released in Section 12.5 of the Plan by the United States Government or any of its agencies or any state and local authority whatsoever, including, without limitation, any claim arising under the Tax Code, the environmental laws, or any criminal laws of the United States or any state and local authority, nor shall anything in the Plan or the Confirmation Order enjoin the United States or any state or local authority from bringing any claim, suit, action, or other proceeding against any such person or entity for any liability whatsoever, including, without limitation, any claim, suit, or action arising under the Tax Code, the environmental laws, or any criminal laws of the United States or any state or local authority.

This provision is intended to release all claims of the Debtors based on any theory other than willful misconduct or gross negligence against these individuals. The release is limited to claims that could be asserted by the Debtors and only applies to claims against such parties in their representative capacity. The purpose of the release of the Debtors' personnel is to prevent a collateral attack against those individuals based on derivative actions. It is the intent of the Plan to bring finality to the disruption caused by

the Chapter 11 Cases. The parties covered by the limited release have made enormous contributions to the restructuring efforts set forth in the Plan. The Debtors are not aware of any pending or threatened actions, whether civil or criminal, against such parties. Nevertheless, the Debtors desire to relieve such parties of the threat of derivative actions against them personally by parties in the Chapter 11 Cases that may be dissatisfied with the treatment provided in the Plan.

2. Exculpation. Neither the Debtors, the Plan Administrator, the Trustee (in the event the Plan Implementation Party elects to establish a Liquidating Trust), the Committee, the Indenture Trustees, nor any of their respective members, officers, directors, employees, advisors, professionals, or agents, shall have or incur any liability to any holder of a Claim or Equity Interest for any act or omission in connection with, related to, or arising out of the Chapter 11 Cases, negotiations regarding or concerning the Plan, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects, the Debtors, the Plan Administrator, the Trustee (in the event the Plan Implementation Party elects to establish a Liquidating Trust), the Committee, the Indenture Trustees, and each of their respective members, officers, directors, employees, advisors, professionals, and agents shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

K. **Conditions Precedent to Effectiveness of Plan**

1. Condition Precedent to Confirmation of Plan. The following is a condition precedent to the confirmation of the Plan:

a. The Bankruptcy Court shall have entered a Confirmation Order in form and substance satisfactory to the Debtors.

2. Conditions Precedent to Effective Date. The following are conditions precedent to the Effective Date of the Plan:

a. No stay of the Confirmation Order shall then be in effect and the Debtors shall have sufficient Cash to pay the sum of (i) Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Secured Claims, and Allowed Priority Non-Tax Claims, and the Debtors' professional fees that have not been paid, (ii) an amount that would be required to distribute to the holders of Disputed Administrative Expense Claims, Disputed Priority Tax Claims, Disputed Secured Claims, and Disputed Priority Non-Tax Claims if all such Claims are subsequently Allowed, as set forth more fully in Article VII of the Plan, and (iii) an amount that would be required to satisfy all the Debtors' costs and expenses in connection with the Debtors' obligations under the Plan; or

b. The Plan Implementation Party, upon consultation with the Committee, shall have determined the Effective Date may occur.

3. Satisfaction of Conditions. Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and

no such action shall be deemed to have occurred prior to the taking of any other such action. If the Plan Implementation Party decides, after consultation with the Committee, that none of the conditions precedent set forth in Section 9.2 of the Plan can be satisfied and the occurrence of such conditions is not waived or cannot be waived, then the Plan Implementation Party shall file a notice of the failure of the Effective Date with the Bankruptcy Court.

4. Effect of Nonoccurrence of Conditions to Consummation. If each of the conditions to consummation and the occurrence of the Effective Date has not been satisfied or duly waived on or before the first Business Day that is one hundred twenty (120) days after the Confirmation Date, or such later date as shall be agreed by the Debtors and the Committee, the Confirmation Order may be vacated by the Bankruptcy Court. If the Confirmation Order is vacated, the Plan shall be null and void in all respects, and nothing contained in the Plan shall constitute a waiver or release of any Claims against any of the Debtors.

L. **Effects of Confirmation of Plan**

1. Vesting of Assets.

a. As of the Effective Date, the property of the Debtors' estates shall vest in the Plan Implementation Party.

b. In the event the Plan Implementation Party elects to establish a Liquidating Trust, in accordance with Article VI of the Plan and subject to the exceptions contained therein, (i) the Liquidating Trust Assets shall be transferred to the Liquidating Trust, (ii) from and after the Effective Date, the Trustee may dispose of the assets of the Liquidating Trust free of any restrictions of the Bankruptcy Code, but in accordance with the provisions of the Plan and the Liquidating Trust Agreement, and (iii) as of the Effective Date, all assets of the Debtors and the Liquidating Trust shall be free and clear of all Claims, except as provided in the Plan or the Confirmation Order.

2. Release of Assets from Bankruptcy Court Jurisdiction. Until the Effective Date, the Bankruptcy Court shall retain jurisdiction of the Debtors and their assets and properties. Thereafter, jurisdiction of the Bankruptcy Court shall be limited to the subject matter set forth in Article XI of the Plan.

3. Binding Effect. Except as otherwise provided in section 1141(d)(3) of the Bankruptcy Code, on and after the Confirmation Date, the provisions of the Plan shall bind any holder of a Claim against, or Equity Interest in, the Debtors and their respective successors and assigns, whether or not the Claim or Equity Interest of such holder is impaired under the Plan and whether or not such holder has accepted the Plan.

4. Term of Injunctions or Stays. Unless otherwise provided in the Plan, all injunctions or stays arising under or entered during the Chapter 11 Cases under section 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the closing of the Chapter 11 Cases.

5. Causes of Action. Except as otherwise provided in the Plan, on and after the Effective Date, the Plan Implementation Party will have the exclusive right to enforce any and all Causes of Action and Avoidance Actions against any person; *provided, however,* in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Trustee will have the exclusive right to enforce any and all Avoidance Actions against any person. The Plan Implementation Party may pursue, abandon, settle, or release any or all Causes of Action and Avoidance Actions, as it deems appropriate, without the need to obtain approval or any other or further relief from the Bankruptcy Court. The Plan Implementation Party may, in its sole discretion, offset any such claim held against a person against any payment due such person under the Plan; *provided, however*, in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Trustee may, in its sole discretion, offset any claim with respect to Avoidance Actions held against a person against any payment due such person under the Plan; and *provided further, however*, that any claims of the Debtors arising before the Commencement Date shall first be offset against Claims against the Debtors arising before the Commencement Date.

6. Injunction. On and after the Confirmation Date, all persons are permanently enjoined from commencing or continuing in any manner any action or proceeding (whether directly, indirectly, derivatively, or otherwise) on account of or respecting any claim, debt, right, or cause of action of the Debtors for which the Plan Implementation Party retains sole and exclusive authority to pursue in accordance with the Plan.

7. Injunction Against Interference with Plan. Upon the entry of the Confirmation Order, all holders of Claims and Equity Interests and other parties in interest, along with their respective present or former employees, agents, officers, directors, or principals, shall be enjoined from taking any actions to interfere with the implementation or consummation of the Plan.

M. **Retention of Jurisdiction by Bankruptcy Court**

The Bankruptcy Court shall retain jurisdiction of all matters arising under, arising out of, or related to the Chapter 11 Cases and the Plan pursuant to, and for the purposes of, sections 105(a) and 1142 of the Bankruptcy Code and for, among other things, the following purposes:

1. To hear and determine motions for the assumption, assumption and assignment, or rejection of executory contracts or unexpired leases and the allowance of Claims resulting therefrom;

2. To determine any motion, adversary proceeding, application, contested matter, and other litigated matter pending on or commenced after the Confirmation Date, including, without limitation, any proceeding to recover a Cause of Action or Avoidance Action;

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

4. To consider Claims or the allowance, classification, priority, compromise, estimation, or payment of any Claim;

5. To enter, implement, or enforce such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

6. To issue injunctions, enter and implement other orders, and take such other actions as may be necessary or appropriate to restrain interference by any person with the consummation, implementation, or enforcement of the Plan, the Confirmation Order, or any other order of the Bankruptcy Court;

7. To hear and determine any application to modify the Plan in accordance with section 1127 of the Bankruptcy Code, to remedy any defect or omission or reconcile any inconsistency in the Plan, the Disclosure Statement, or any order of the Bankruptcy Court, including the Confirmation Order, in such a manner as may be necessary to carry out the purposes and effects thereof;

8. To hear and determine all applications under sections 330, 331, and 503(b) of the Bankruptcy Code for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Confirmation Date;

9. To hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, the Confirmation Order, the Liquidating Trust and the Liquidating Trust Agreement (in the event the Plan Implementation Party elects to establish a Liquidating Trust), any transactions or payments contemplated by the Plan, or any agreement, instrument, or other document governing or relating to any of the foregoing;

10. To take any action and issue such orders as may be necessary to construe, enforce, implement, execute, and consummate the Plan or to maintain the integrity of the Plan following consummation;

11. To recover all assets of the Debtors, property of the Debtors' estates, and the Liquidating Trust Assets (in the event the Plan Implementation Party elects to establish a Liquidating Trust), wherever located;

12. To determine such other matters and for such other purposes as may be provided in the Confirmation Order;

13. To hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code (including, without limitation, matters with respect to any taxes payable by a trust or reserve established in furtherance of the Plan and the expedited determination of tax under section 505(b) of the Bankruptcy Code with respect to the Debtors or any trust or reserve established in furtherance of the Plan);

14. To hear and determine any other matters related hereto and not inconsistent with the Bankruptcy Code and title 28 of the United States Code; and

15. To enter a final decree closing the Chapter 11 Cases.

N. Dissolution of Committee

On the Effective Date, the Committee shall be dissolved and the members thereof shall be released and discharged of and from all further authority, duties, responsibilities, and obligations related to and arising from and in connection with the Chapter 11 Cases, and the retention or employment of the Committee's attorneys, accountants, and other agents shall terminate; *provided, however*, the Committee and its professionals shall have the right to pursue, review, and object to any applications for compensation and reimbursement of expenses filed in accordance with Section 2.2 of the Plan.

O. Exemption from Transfer Taxes

Pursuant to section 1146(c) of the Bankruptcy Code, the assignment or surrender of any lease or sublease, or the delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including any deeds, bills of sale, or assignments executed in connection with any disposition of assets contemplated by the Plan (including, in the event the Plan Implementation Party elects to establish a Liquidating Trust, transfers of assets to and by the Liquidating Trust) shall not be subject to any stamp, real estate transfer, mortgage recording, sales, use, or other similar tax.

IV. ALTERNATIVES TO THE PLAN

The Plan reflects discussions held among the Debtors and the Committee. The Debtors have determined that the Plan is the most practical means of providing maximum recoveries to creditors. Alternatives to the Plan which have been considered and evaluated by the Debtors during the course of the Chapter 11 Cases include (i) liquidation of the Debtors' assets under chapter 7 of the Bankruptcy Code, and (ii) an alternative chapter 11 plan. The Debtors' thorough consideration of these alternatives to the Plan has led them to conclude that the Plan, in comparison, provides a greater recovery to creditors on a more expeditious timetable and in a manner which minimizes inherent risks in any other course of action available to the Debtors.

A. Liquidation Under Chapter 7 of the Bankruptcy Code

If the Plan or any other chapter 11 plan for the Debtors cannot be confirmed under section 1129(a) of the Bankruptcy Code, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code, in which event a trustee would be elected or appointed to liquidate any remaining assets of the Debtors for distribution to creditors pursuant to chapter 7 of the Bankruptcy Code. If a trustee is appointed and the remaining assets of the Debtors are liquidated under chapter 7 of the Bankruptcy Code, all creditors holding Allowed Administrative Expense Claims, Allowed Priority Tax Claims, and Allowed Priority Non-Tax Claims may receive distributions of a lesser value on account of their Allowed Claims and likely would have to wait a longer period of time to receive such distributions than they would under the Plan. A chapter 7 trustee, who would lack the Debtors' knowledge of their affairs, would

be required to invest substantial time and resources to investigate the facts underlying the multitude of Claims filed against the Debtors' estates.

B. Alternative Chapter 11 Plan

If the Plan is not confirmed, the Debtors or any other party in interest (if the Debtors' exclusive period in which to file a chapter 11 plan has expired) could attempt to formulate an alternative chapter 11 plan which might provide for the liquidation of the Debtors' assets other than as provided in the Plan. However, since substantially all of the Debtors' assets have already been sold, and the Plan provides for the distribution of the Liquidating Trust Assets in the event the Plan Implementation Party elects to establish a Liquidating Trust, the Debtors believe that any alternative chapter 11 plan will necessarily be substantially similar to the Plan. Any attempt to formulate an alternative chapter 11 plan would necessarily delay creditors' receipt of distributions yet to be made. Accordingly, the Debtors believe that the Plan will enable all creditors entitled to distributions to realize the greatest possible recovery on their respective Claims with the least possible delay.

C. Certain Risk Factors

In the event that the Plan is not confirmed or the Chapter 11 Cases are converted to cases under chapter 7 of the Bankruptcy Code, the Debtors believe that such action or inaction, as the case may be, will cause the Debtors to incur substantial expenses and otherwise serve only to prolong unnecessarily the Chapter 11 Cases and negatively affect creditors' recoveries on their Claims.

V. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion summarizes certain federal income tax consequences of the implementation of the Plan to the Debtors and holders of General Unsecured Claims. The following summary does not address the federal income tax consequences to holders of Secured Claims or Priority Non-Tax Claims.

The following summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury Regulations thereunder, judicial decisions, and published administrative rules and pronouncements of the Internal Revenue Service (the "IRS") as in effect on the date hereof. All of the foregoing is subject to change, possibly on a retroactive basis, and any such change could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given that the IRS will not take a contrary view to that which is described herein. In addition, this summary does not address state, local, or foreign income or other tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, tax-

exempt organizations, persons holding a claim as part of a hedging, integrated constructive sale or straddle, and investors in pass-through entities).

The following discussion assumes that the Plan will be treated as a plan of liquidation of the Debtors for federal income tax purposes and that all distributions to holders of Allowed General Unsecured Claims and Allowed Equity Interests will be taxed consistent therewith.

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

A. Consequences to the Debtors

For federal income tax purposes, the Debtors are members of an affiliated group of corporations of which Ames is the common parent and join in the filing of a consolidated federal income tax return. Ames reported consolidated net operating loss ("NOL") carryforwards for federal income tax purposes of approximately $1.6 billion as of December 31, 2003. The amount of such NOL carryforwards remains subject to examination by the IRS.

Although the Debtors may recognize income in connection with the liquidation or distribution of their remaining assets (including upon a distribution of such assets to a liquidating trust), the Debtors believe it will have sufficient available NOL carryforwards and/or current year losses to offset such income (subject to a possible federal alternative minimum tax). However, there is no assurance that the IRS would not take a contrary position. In particular, given the lack of authoritative guidance as to the survival and utilization of NOL carryforwards in the context of a liquidating chapter 11 plan, there is a risk that the Debtors' NOL carryforwards and any losses incurred through the end of the taxable year in which the Plan is confirmed would not be available to offset any income recognized by the Debtors in any subsequent taxable years (through the completion of their liquidation).

B. Consequences to Holders of Allowed General Unsecured Claims

Pursuant to the Plan, the holders of Allowed General Unsecured Claims will receive, in satisfaction of their Claims, cash and/or beneficial interests in a Liquidating Trust (not to exceed in amount or value, as of the date of distribution, the allowed amount of such Claims) in the event the Plan Implementation Party elects to establish a Liquidating Trust. Holders of Allowed General Unsecured Claims may periodically receive additional distributions subsequent to the Effective Date in the event any Disputed Claims are subsequently disallowed.

1. Gain or Loss – Generally. In general, a holder of an Allowed General Unsecured Claim will recognize gain or loss in an amount equal to the difference between (i) the "amount realized" by a holder in respect of its Claim (other than in

respect of any Claim for accrued but unpaid interest, and excluding any portion required to be treated as imputed interest due to the post-Effective Date distribution of such consideration upon the resolution of Disputed Claims), and (ii) such holder's adjusted tax basis in such Claim (other than any Claim for accrued but unpaid interest). For a discussion of the tax consequences of any Claims for accrued but unpaid interest, see – B.2. "Distributions in Discharge of Accrued But Unpaid Interest," below.

A holder's "amount realized" generally would equal the amount of any cash and the fair market value of any property received in respect of its Claim (including a holder's undivided interest in any assets transferred to the Liquidating Trust). As discussed below, the Liquidating Trust has been structured to qualify as a "grantor trust" for federal income tax purposes. Accordingly, if the Plan Implementation Party elects to establish the Liquidating Trust, each holder of an Allowed General Unsecured Claim will be treated for federal income tax purposes as directly receiving, and as a direct owner of, its allocable portion of the Liquidating Trust Assets as of the date such assets are transferred to the Liquidating Trust (the "Transfer Date"). Pursuant to the Plan, the Trustee must make a good faith valuation of the transferred assets, and all parties (including the Debtors and all holders of General Unsecured Claims) consistently use such valuation for all federal income tax purposes. *See* –D. "Tax Treatment of the Liquidating Trust and Holders of Beneficial Interests," below.

Holders of Allowed General Unsecured Claims may receive additional distributions in respect of their Claims as Disputed Claims are resolved. As such, any loss, and a portion of any gain, realized by such holders in respect of their Allowed Claims may be deferred until the final distribution is made in respect of such Claims. In addition, the imputed interest provisions of the Tax Code may apply to treat a portion of such additional distributions as imputed interest. In the event the Liquidating Trust has previously been established, holders of previously Allowed General Unsecured Claims may become entitled to an increased share of the Liquidating Trust Assets as any Disputed General Unsecured Claims are resolved. For federal income tax purposes, the "receipt" of such increased share (other than amounts attributable to earnings previously taxed to the Liquidating Trust Claims Reserve) may be treated as additional consideration in satisfaction of such holder's Allowed Claim, in an amount equal to the fair market value of such increased share at such time (with the potential for the recognition of gain at such time). All holders are urged to consult their tax advisors regarding the possible application (or ability to elect out) of the "installment method" of reporting any gain that may be recognized by such holder in respect of its Claim.

After the Transfer Date, any amount a holder receives as a distribution from the Liquidating Trust in respect of its beneficial interests in the Liquidating Trust (other than possibly as a result of the subsequent disallowance of a Disputed General Unsecured Claim) should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Allowed Claim, but should be separately treated as a distribution received in respect of such holder's beneficial interest in the Liquidating Trust.

Where gain or loss is recognized by a holder, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the

claim constitutes a capital asset in the hands of the holder and how long it has been held, whether the claim was acquired at a market discount, and whether and to what extent the holder previously had claimed a bad debt deduction. A holder of an Allowed General Unsecured Secured 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 by a holder in respect of its claim (subject to a *de minimis* rule) generally would be characterized as ordinary income to the extent of the accrued market discount on such claim.

In general, a holder's tax basis in any assets received (such as the holder's undivided interest in any assets transferred to the Liquidating Trust) will equal the fair market value of such assets, and the holding period for such assets generally will begin the day following the holder's receipt of such assets.

2. Distributions in Discharge of Accrued But Unpaid Interest. Pursuant to the Plan, all distributions in respect of any Allowed Claim will be allocated first to the principal amount of such Claim, as determined for federal income tax purposes, and thereafter, to the remaining portion of such Claim comprising interest, if any. However, there is no assurance that such allocation would be respected by the IRS for federal income tax purposes.

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

C. Consequences to Holders of Equity Interests

Pursuant to the Plan, holders of Allowed Equity Interests will remain entitled to any Available Cash remaining after payment in full of all Allowed Claims (however unlikely) or, in the event the Plan Implementation Party elects to establish a Liquidating Trust, possibly a residual beneficial interest in the Liquidating Trust.

In general, a holder of an Allowed Equity Interest generally will recognize gain or loss in an amount equal to the difference between (i) the amount of any cash and the aggregate fair market value of any property received in respect of its Equity Interest (including its allocable interest in any assets transferred to the Liquidating Trust), and (ii) such holder's adjusted tax basis in its Equity Interest. Unless such Equity Interest is determined to be worthless, any loss realized by a holder may be deferred until all

amounts distributable to such holder in respect of its Equity Interest are known and have been distributed.

As discussed below, the Liquidating Trust has been structured to qualify as a "grantor trust" for federal income tax purposes. Accordingly, if the Plan Implementation Party elects to establish the Liquidating Trust and holders of Allowed Equity Interests become entitled to a residual interest in the Liquidating Trust, each holder of an Allowed Equity Interest will be treated for federal income tax purposes as directly receiving, and as a direct owner of, its allocable portion of the Liquidating Trust Assets as of the Transfer Date. Pursuant to the Plan, the Trustee must make a good faith valuation of the transferred assets, and all parties (including the Debtors and all holders of General Unsecured Claims and Equity Interests) consistently use such valuation for all federal income tax purposes. *See* –D. "Tax Treatment of the Liquidating Trust and Holders of Beneficial Interests," below.

After the Transfer Date, any amount a holder receives as a distribution from the Liquidating Trust in respect of its beneficial interests in the Liquidating Trust should not be included, for federal income tax purposes, in the holder's amount realized in respect of its Equity Interest, but should be separately treated as a distribution received in respect of such holder's beneficial interest in the Liquidating Trust.

Where gain or loss is recognized by a holder, the character of such gain or loss as long-term or short-term capital gain or loss or as ordinary income or loss will be determined by a number of factors, including the tax status of the holder, whether the Equity Interest constitutes a capital asset in the hands of the holder, and how long it has been held.

In general, a holder's tax basis in any assets received (such as the holder's allocable interest in any assets transferred to the Liquidating Trust, in the event the holder becomes entitled to a residual interest in the Liquidating Trust) will equal the fair market value of such assets, and the holding period for such assets generally will begin the day following the holder's receipt of such assets.

D. Tax Treatment of the Liquidating Trust and Holders of Beneficial Interests

Under the Plan, the Plan Implementation Party may elect to establish a Liquidating Trust for the benefit of holders of General Unsecured Claims and, if applicable, Equity Interests.

1. Classification of the Liquidating Trust. The Liquidating Trust is intended to qualify as a liquidating trust for U.S. federal income tax purposes. In general, a liquidating trust is not a separate taxable entity, but rather is treated for 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, set forth the general criteria for obtaining an IRS ruling as to the grantor trust status of a liquidating trust under a chapter 11 plan. The Liquidating Trust has been structured with the intention of complying with such general criteria. Pursuant to the

Plan, and in conformity with Revenue Procedure 94-45, all parties (including, without limitation, the Debtors, the Trustee, and the holders of Allowed Claims and Equity Interests) are required to treat, for federal income tax purposes, the Liquidating Trust as a grantor trust of which the holders of General Unsecured Claims and, if applicable, Equity Interests 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 the classification of the Liquidating Trust or the nature of a holder's interest in the Liquidating Trust, the federal income tax consequences to the Liquidating Trust, the holders of General Unsecured Claims and the Equity Interests, and the Debtors could vary from those discussed herein.

2. General Tax Reporting by the Liquidating Trust and Beneficiaries. For all U.S. federal income tax purposes, all parties (including, without limitation, the Debtors, the Trustee, and the holders of Allowed Claims and Equity Interests) must treat the transfer of the Liquidating Trust Assets to the Liquidating Trust, in accordance with the terms of the Plan, as a transfer of the Liquidating Trust Assets directly to the holders of General Unsecured Claims and, if applicable, Equity Interests in satisfaction of such Claims and Interests, followed by the transfer by such holders to the Liquidating Trust of such Liquidating Trust Assets in exchange for beneficial interests in the Liquidating Trust. Accordingly, all parties must treat the Liquidating Trust as a grantor trust of which such holders are the owners and grantors. Thus, such holders (and any subsequent holders of interests in the Liquidating Trust) will be treated as the direct owners of an undivided interest in the assets of the Liquidating Trust for all U.S. federal income tax purposes (which assets will have a tax basis equal to their fair market value on the Transfer Date). Pursuant to the Plan, as soon as possible after the Transfer Date, the Trustee shall make a good faith valuation of the Liquidating Trust Assets; and all parties (including, without limitation, the Debtors, the Trustee, and the holders of Allowed Claims and Equity Interests) must consistently use such valuation for all federal income tax purposes. The valuation will be made available as necessary for tax reporting purposes (on an asset or aggregate basis, as relevant).

All of the Liquidating Trust's taxable income, gain, loss, deduction, or credit generally will be allocated to the holders of Allowed General Unsecured Claims in accordance with their relative beneficial interests in the Liquidating Trust, except as discussed below (in connection with pending Disputed General Unsecured Claims). Although such allocation generally would still result even if the holders of Allowed Equity Interests receive a residual beneficial interest in the Liquidating Trust, allocations of taxable income or loss would in such event be determined as follows: Allocations of Liquidating Trust taxable income would be determined by reference to the manner in which an amount of cash equal to such taxable income would be distributed (without regard to any restrictions on distribution) if, immediately prior to the deemed distribution, the Liquidating Trust had distributed all of its other assets (valued at their tax book value) to the holders of the Liquidating Trust interests (treating any pending Disputed General Unsecured Claims as if they were Allowed Claims), in each case up to the tax book value of the assets treated as contributed by such holders, adjusted for prior taxable income and

loss and taking into account all prior and concurrent distributions from the Liquidating Trust. Similarly, taxable loss of the Liquidating Trust would be allocated by reference to the manner in which an economic loss would be borne immediately after a liquidating distribution of the remaining Liquidating Trust Assets. The character of items of income, deduction, and credit allocable to any holder and the ability of such holder to benefit from any deduction or losses may depend on the particular situation of such holder.

The U.S. federal income tax obligations of a holder are not dependent on the Liquidating Trust's distributing any cash or other proceeds. Therefore, a holder may incur a federal income tax liability with respect to its allocable share of the income of the trust regardless of the fact that the Liquidating Trust has not made any concurrent distribution to the holder. In general, other than in respect of cash retained on account of Disputed General Unsecured Claims and subsequently distributed, a distribution of cash by the Liquidating Trust to holders of Allowed General Unsecured Claims and, if applicable, Equity Interests will not be taxable to the holder since such holders will already be regarded for federal income tax purposes as owning the underlying assets.

The Trustee will file with the IRS returns for the Liquidating Trust as a grantor trust pursuant to Treasury Regulation section 1.671-4(a). The Trustee will also send to each record holder of an Allowed General Unsecured Claim or Equity Interest (if applicable) as a holder of a beneficial interest in the Liquidating Trust, 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 Trustee will also file, or cause to be filed, all appropriate tax returns with respect to any Liquidating Trust Assets allocable to Disputed General Unsecured Claims, as discussed below.

3. Tax Reporting for Liquidating Trust Assets Allocable to Disputed General Unsecured Claims. 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 Trustee of a private letter ruling if the Trustee so requests one, or the receipt of an adverse determination by the IRS upon audit if not contested by the Trustee), the Trustee shall:

a. treat any Liquidating Trust Assets allocable to, or retained on account of, Disputed General Unsecured Claims as held by one or more discrete trusts for federal income tax purposes (the "Liquidating Trust Claims Reserve"), consisting of separate and independent shares to be established in respect of each Disputed General Unsecured Claim, in accordance with the trust provisions of the Tax Code (section 641 *et seq.*);

b. treat as taxable income or loss of the Liquidating Trust Claims Reserve, with respect to any given taxable year, the portion of the taxable income or loss of the Liquidating Trust that would have been allocated to the holders of Disputed General Unsecured Claims had such Claims been Allowed on the Transfer Date (but only for the portion of the taxable year with respect to which such Claims are unresolved);

c. treat as a distribution from the Liquidating Trust Claims Reserve any increased amounts distributed by the Liquidating Trust as a result of any Disputed General Unsecured Claims resolved earlier in the taxable year, to the extent such distributions relate to taxable income or loss of the Liquidating Trust Claims Reserve determined in accordance with the provisions of the Plan; and

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

In addition, pursuant to the Plan, all holders of claims and Equity Interests are required to report consistently with such treatment. Accordingly, subject to issuance of definitive guidance, the Trustee will report on the basis that any amounts earned by this separate trust and any taxable income of the Liquidating Trust allocable to it 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 separate trust and distributed to a holder during the same taxable year will be includible in such holder's gross income.

E. **Information Reporting and Withholding**

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

Recent Treasury Regulations generally require disclosure by a taxpayer on its federal income tax return of certain types of transactions in which the taxpayer participated, including, among other types of transactions, the following: (1) certain transactions that result in the taxpayer's claiming a loss in excess of specified thresholds; and (2) certain transactions in which the taxpayer's book-tax differences exceed a specified threshold in any tax year. These categories are very broad; however, there are numerous exceptions. Holders are urged to consult their tax advisors regarding these regulations and whether the transactions contemplated by the Plan would be subject to these regulations and require disclosure on the holders' tax returns.

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

VI. VOTING PROCEDURES AND REQUIREMENTS

A. Ballots and Voting Deadline

IT IS IMPORTANT THAT THE HOLDERS OF CLAIMS IN CLASSES 1, 2, AND 3 TIMELY EXERCISE THEIR RIGHT TO VOTE TO ACCEPT OR REJECT THE CHAPTER 11 PLAN. All known holders of Claims entitled to vote on the Plan have been sent a ballot together with this Disclosure Statement. Such holders should read the ballot carefully and follow the instructions contained therein. Please use only the ballot that accompanies this Disclosure Statement.

The Debtors have engaged [Bankruptcy Services LLC] as their Voting Agent to assist in the transmission of voting materials and in the tabulation of votes with respect to the Plan. **IN ORDER FOR YOUR VOTE TO BE COUNTED, YOUR VOTE MUST BE RECEIVED BY THE VOTING AGENT AT THE ADDRESS SET FORTH BELOW BEFORE THE VOTING DEADLINE OF 4:00 P.M. (EASTERN TIME), ON _____2005.**

IF YOU MUST RETURN YOUR BALLOT TO YOUR BANK, BROKER, OR OTHER NOMINEE, OR TO ITS AGENT, YOU MUST RETURN YOUR BALLOT TO SUCH PARTY IN SUFFICIENT TIME FOR SUCH PARTY TO PROCESS YOUR BALLOT AND RETURN IT TO THE VOTING AGENT BEFORE THE VOTING DEADLINE.

IF A BALLOT IS DAMAGED OR LOST, YOU MAY CONTACT THE VOTING AGENT AT THE NUMBER SET FORTH BELOW. ANY BALLOT THAT IS EXECUTED AND RETURNED BUT WHICH DOES NOT INDICATE AN ACCEPTANCE OR REJECTION OF THE CHAPTER 11 PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE CHAPTER 11 PLAN.

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

_____
_____

B. Holders of Claims Entitled to Vote

Classes 1, 2, and 3 are the only Classes of Claims under the Plan that are impaired and entitled to vote to accept or reject the Plan. Each holder of a Claim in Class 1, 2, or 3 as of the Record Date established by the Debtors for purposes of this solicitation may vote to accept or reject the Plan (other than holders of Claims subject to an objection filed by the Debtors).

C. Vote Required for Acceptance by a Class

Under the Bankruptcy Code, acceptance of a chapter 11 plan by a class of claims occurs when holders of at least two-thirds in dollar amount and more than one half in number of the allowed claims of that class that cast ballots for acceptance or rejection of the chapter 11 plan vote to accept the plan. Thus, acceptance of the Plan by Class 3, for example, will occur only if at least two-thirds in dollar amount and a majority in number of the holders of such Class 3 Claims that cast their Ballots vote in favor of acceptance. A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

D. Voting Procedures

1. Holders of Claims in Classes 1, 2, and 3. All holders of Claims in Class 1, 2, or 3 that are entitled to vote on the Plan should complete the enclosed Ballot and return it to the Voting Agent so that it is received by the Voting Agent before the Voting Deadline.

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

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

VII. CONFIRMATION OF THE PLAN

The Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation are that the Plan is (i) accepted by all impaired classes of Claims entitled to vote or, if rejected by an impaired Class, that the Plan "does not discriminate unfairly" and is "fair and equitable" as to such Class and as to the impaired Classes of Claims and Equity Interests that are deemed to reject the Plan, (ii) feasible, and (iii) in the "best interests" of the holders of Claims and Equity Interests impaired under the Plan.

A. Acceptance of the Plan

The Bankruptcy Code defines acceptance of a chapter 11 plan by a class of creditors as acceptance by creditors holding two-thirds (2/3) in dollar amount and a majority in number of the claims in such class (other than any such creditor designated under section 1126(e) of the Bankruptcy Code), but for that purpose counts only those

creditors that actually cast ballots. Holders of claims that fail to vote are not counted as either accepting or rejecting a plan.

B. No Unfair Discrimination/Fair and Equitable Test

In the event that any impaired Class of Claims does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtors if, as to each impaired Class of Claims which has not accepted the Plan, the Plan "does not discriminate unfairly" and is "fair and equitable." Because the holders of Equity Interests in Class 4 will not receive any recovery under the Plan and are, therefore, deemed to have rejected the Plan, the Court may only confirm the Plan if the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such Class.

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

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

- Secured Creditors. Each holder of an impaired secured claim either (i) retains its liens on the property, to the extent of the allowed amount of its secured claim and receives deferred cash payments having a value, as of the effective date, of at least the allowed amount of such claim, or (ii) has the right to credit bid the amount of its claim if its property is sold and retains its lien on the proceeds of the sale (or if sold, on the proceeds thereof), or (iii) receives the "indubitable equivalent" of its allowed secured claim.

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

- Equity Interests. Either (i) each equity interest holder will receive or retain under the plan property of a value equal to the greater of (x) 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.

These requirements are in addition to other requirements established by case law interpreting the statutory requirement.

The Debtors believe the Plan will satisfy the "fair and equitable" requirement notwithstanding that Class 4 (Equity Interests) is deemed to reject the Plan because no Class that is junior to such Class will receive or retain any property on account of the Claims or Equity Interests in such Class.

Because at least one Class of Claims is not being paid in full, the existing Equity Interests are being extinguished.

C. Best Interests Test

The Bankruptcy Code requires that each holder of an impaired claim or equity interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code.

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

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

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such a trustee might engage. Other liquidation costs include the expenses incurred during the Chapter 11 Cases allowed in the chapter 7 cases, such as compensation for attorneys, financial advisors, appraisers, accountants, and other professionals for the Debtors and statutory committees of unsecured creditors appointed in the Chapter 11 Cases, and costs and expenses of members of the Committee, as well as other compensation claims. In addition, claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the Debtors during the pendency of the Chapter 11 Cases.

The foregoing types of claims, costs, expenses, fees, and such other claims that may arise in a liquidation case would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition priority and unsecured Claims.

The Debtors submit that each impaired Class will receive under the Plan a recovery at least equal in value to the recovery such Class would receive pursuant to a liquidation of the Debtors under chapter 7 of the Bankruptcy Code.

After consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Cases, including (i) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, and (ii) the substantial increases in claims that would be satisfied on a priority basis, the Debtors have determined that confirmation of the Plan will provide each holder of an Allowed Claim with a recovery that is not less than such holder would receive pursuant to liquidation of the Debtors under chapter 7.

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 not occur for a substantial period of time. In the event litigation was necessary to resolve claims asserted in a chapter 7 case, the delay could be prolonged and administrative expenses increased.

D. Feasibility

Section 1129(a)(11) of the Bankruptcy Code provides that a chapter 11 plan may be confirmed only if the Court finds that such plan is feasible. A feasible plan is one which will not lead to a need for further reorganization or liquidation of the debtor. Since the Plan provides for the liquidation of the Debtors, the Court will find that the Plan is feasible if it determines that the Debtors will be able to satisfy the conditions precedent to the Effective Date and otherwise have sufficient funds to meet its post-Confirmation Date obligations to pay for the costs of administering and fully consummating the Plan and closing the Chapter 11 Cases. The Debtors believe that the Plan satisfies the financial feasibility requirement imposed by the Bankruptcy Code.

E. Classification of Claims and Equity Interests Under the Plan

The Debtors believe that the Plan meets the classification requirements of the Bankruptcy Code which requires that a chapter 11 plan place each claim or equity interest into a class with other claims or equity interests that are "substantially similar." The Plan establishes Classes of Claims and Equity Interests as required by the Bankruptcy Code and summarized above. Administrative Expense Claims and Priority Tax Claims are not classified.

F. Confirmation of the Plan If a Class Does Not Accept the Plan

The Bankruptcy Code contains provisions for confirmation of a plan, even if it is not accepted by all impaired classes, as long as it is accepted by at least one impaired class of claims. The Plan may be confirmed under the so-called "cramdown" provisions set forth in section 1129(b) of the Bankruptcy Code if, in addition to satisfying the other requirements for confirmation, the Plan is determined to be "fair and equitable" and "does not discriminate unfairly" with respect to each Class of Claims or Equity Interests that has not accepted the Plan.

The "fair and equitable" standard, also known as the "absolute priority rule," requires that a dissenting Class receive full compensation for its Allowed Claim before any junior Class receives or retains any property under the Plan. If the holders of any impaired Class vote to reject the Plan, the Plan may be confirmed under section 1129(b) of the Bankruptcy Code if all holders of Claims and Equity Interests junior to those of the impaired Class do not receive or retain any property under the Plan.

Under the Plan, Class 4 is deemed to reject the Plan. However, the Debtors believe that the Plan can be confirmed over the deemed rejection of Class 4 because (i) no Class junior to Class 4 is receiving or retaining any property under the Plan, (ii) no Class of equal rank to Class 4 is being afforded better treatment than Class 4, and (iii) the Equity Interests held by Class 4 are valueless.

IF ALL OTHER CONFIRMATION REQUIREMENTS ARE SATISFIED AT THE CONFIRMATION HEARING, THE DEBTORS WILL ASK THE BANKRUPTCY COURT TO RULE THAT THE PLAN MAY BE CONFIRMED ON THE GROUND THAT THE SECTION 1129(b) REQUIREMENTS HAVE BEEN SATISFIED.

G. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after appropriate notice, to hold the Confirmation Hearing. The Confirmation Hearing is scheduled for _____, 2005 at 10:00 a.m. (Eastern Time), or as soon thereafter as counsel may be heard, before the Honorable Robert E. Gerber, United States Bankruptcy Judge, in Room ___ of the United States Bankruptcy Court for the Southern District of New York, Alexander Hamilton Customs House, One Bowling Green, New York, New York. The Confirmation Hearing may be adjourned from time to time by the Debtors or the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing or any subsequent adjourned confirmation hearing.

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to confirmation of a plan. Any objection to confirmation of the Plan must be in writing, must conform to the Federal Rules of Bankruptcy Procedure and the Local Rules of the Bankruptcy Court, must set forth the name of the objector and the nature and amount of claims or interests held or asserted by the objector against the particular Debtor or Debtors, the basis for the objection and the specific grounds therefor, and must be filed with the Bankruptcy Court electronically in accordance with General Order M-

242 (General Order M-242 and the User's Manual for the Electronic Case Filing System can be found at http://www.nysb.ucourts.gov, the official website for the Bankruptcy Court), by registered users of the Bankruptcy Court's case filing system and, by all other parties in interest, on a 3.5 inch disk, preferably in Portable Document Format (PDF), Wordperfect or any other Windows-based word processing format (with a hard-copy delivered directly to Chambers), and shall be served in accordance with General Order M-182, upon (i) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153 (Attn: Martin J. Bienenstock, Esq. and Deryck A. Palmer, Esq.), (ii) Togut, Segal & Segal LLP, One Penn Plaza, New York, New York 10119 (Attn: Albert Togut, Esq.), (iii) the Office of the United States Trustee, 33 Whitehall Street, 21st floor, New York, New York 10004 (Attn: Mary Tom, Esq.), and (iv) Otterbourg, Steindler, Houston & Rosen, P.C., 230 Park Avenue, 29th Floor, New York, New York 10169 (Attn: Scott L. Hazan, Esq.), so as to be **ACTUALLY RECEIVED** no later than _____2005, at 4:00 p.m. (Eastern Time).

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

At the Confirmation Hearing, the Bankruptcy Court must determine whether the requirements of section 1129 of the Bankruptcy Code have been satisfied and, upon demonstration of such compliance, the Bankruptcy Court will enter the Confirmation Order.

VIII. **CONCLUSION**

The Debtors and the Committee believe the Plan is in the best interests of all creditors and urge the holders of impaired Claims in Class 1 (Secured Claims), Class 2 (Priority Non-Tax Claims), and Class 3 (General Unsecured Claims) to vote to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received not later than _____, 2005.

Dated: New York, New York
December 6, 2004

Respectfully submitted,

AMES DEPARTMENT STORES, INC.

By: /s/ Rolando de Aguiar
Name: Rolando de Aguiar
Title: President and Chief
Wind Down Officer

AMES MERCHANDISING CORPORATION
AMESPLACE.COM, INC.
AMES REALTY II, INC.
AMES TRANSPORTATION SYSTEMS, INC.

BY: AMES DEPARTMENT STORES, INC., as agent for each of the foregoing entities

By: /s/ Rolando de Aguiar
Name: Rolando de Aguiar
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