

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA
GREENSBORO DIVISION**

IN RE: nCoat, Inc., nTech, Inc., MCC, Inc., and High Performance Coatings, Inc., Debtors.	Case No. 10-11512 Case No. 10-11513 Case No. 10-11514 Case No. 10-11515 (Cases Consolidated for Administration) Chapter 11
DISCLOSURE STATEMENT FOR JOINT PLAN OF REORGANIZATION DATED OCTOBER 20, 2011	

NOW COME nCoat, Inc. (“nCoat”), nTech, Inc. (“nTech”), MCC, Inc. (“MCC”) and High Performance Coatings, Inc. (“HPC” and collectively, the “Debtors”), and respectfully provide the following Disclosure Statement regarding the Joint Plan of Reorganization Dated October 20, 2011 (the “Plan”) pursuant to 11 U.S.C. Section 1125 and Rule 3016 of the Federal Rules of Bankruptcy Procedure. Capitalized terms are defined in the Plan and shall have the meaning set forth therein. **A copy of the Plan is attached hereto as Exhibit 1 and incorporated herein by reference.**

INTRODUCTION

On August 16, 2010 (the “Petition Date”), the Debtors filed voluntary petitions seeking relief under Chapter 11 of the Bankruptcy Code. The Debtors’ cases were consolidated for purposes of administration only. The Debtors are related entities, as nTech, MCC and HPC are wholly-owned subsidiaries of nCoat.

On the Petition Date, the Debtors filed a motion to sell substantially all of the assets of the Debtors to Fort Ashford Funds, LLC or its designee (“Fort Ashford”), free and clear of all claims, liens, encumbrances and interests, pursuant to a sale procedure which provided for the submission of higher and better bids, an auction, and approval by the Court after notice and hearing (the “Sale Motion”). No bids were received by the Debtors other than the initial bid of Fort Ashford, and on September 28, 2010, an Order was entered granting the Sale Motion. The closing on the sale occurred on October 1, 2010 (“Sale Date”).

From the Petition Date through the Sale Date, the Debtors operated their respective businesses as debtors-in-possession. After the Sale Date, the Debtors ceased all business operations, paid all undisputed secured claims, assumed and assigned certain executory contracts and unexpired leases to the designee of Fort Ashford, and retained two employees to close the books and records and wind up the business affairs of the Debtors.

The Debtors have filed the Plan as a plan of orderly liquidation pursuant to which the Debtors will use the net proceeds from the sale of the assets to pay all Allowed Administrative Expenses incurred through the Effective Date, Allowed Priority Unsecured Claims and any other Allowed Secured Claims which remain unpaid, with any remaining proceeds to be divided equally between the estates of MCC, HPC and nTech. The proceeds distributed to each subsidiary estate would first be used to pay Allowed Administrative Expenses incurred on or after the Effective Date, with any remaining proceeds distributed to creditors in each case as their interests may appear. Any funds remaining in each subsidiary estate after creditors are paid in full would then be distributed to the estate of nCoat, the parent corporation.

All creditors and other parties in interest are encouraged to read the Plan carefully and thoroughly, and to review the Plan with their attorneys or other advisors to ascertain its terms, provisions, and conditions and the effect of the Plan on any Claims or Equity Interests which such persons may possess.

PROCEDURAL INFORMATION

Pursuant to the Bankruptcy Code, this Disclosure Statement must be approved by the Court. Such approval is required by statute and does not constitute a determination by the Court as to the desirability of, or the value, adequacy, or suitability of any consideration offered under the Plan, but does indicate that the Disclosure Statement contains adequate information to permit those claimants and other parties in interest whose acceptance of the Plan is solicited pursuant to this Disclosure Statement to make an informed judgment about the Plan.

The Debtors prepared this Disclosure Statement to disclose that information available which, in the Debtors' opinion, is material, important and necessary to an evaluation of the Plan, and the material herein contained is intended solely for this purpose and the use of known creditors and equity interest holders of the Debtors. This Disclosure Statement may not be relied upon for any purpose other than a determination of how to vote on the Plan. Furthermore, the matters addressed and the discussions contained in this Disclosure Statement are not necessarily

sufficient for the formulation of a judgment by any creditor or equity interest holder of whether the Plan is preferable to any alternative thereto. However, the Debtors as the proponents of the Plan support the Plan for the reasons explained herein and encourage each creditor, equity interest holder, or other party in interest to accept the Plan by timely returning a ballot in favor of the Plan.

The Disclosure Statement is submitted in accordance with §1125 for the purpose of soliciting acceptance of the Plan from holders of certain classes of claims and equity interests. The persons whose acceptance is sought are those whose claims or interests are “impaired” by the Plan; *i.e.*--those whose claims or equity interests are altered by the Plan or who will not receive under the Plan the allowed amounts of their respective claims or equity interests in cash. Holders of those claims and interests which are not “impaired” are automatically deemed to have accepted the Plan.

If the Plan is rejected by one or more impaired classes of claims or equity interests, the Plan or a modification thereof may still be confirmed by the Court if the Court determines, among other things, that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting class or classes of claims or interests impaired by the Plan. The Debtors will request such a determination (commonly referred to as a “cram down”) if the Plan or modification thereof is not accepted by one or more of the impaired classes of claims or interests.

If the Plan or any modification thereof is not accepted by one or more of the impaired classes of claims or interests and is not confirmed by the Court pursuant to the cram down provisions of the Bankruptcy Code, the Debtors may seek to modify the Plan or may convert this case to a proceeding under Chapter 7, in which event the Chapter 7 trustee would pursue all necessary litigation and make final distributions to creditors. By separate Order served on all parties in interest, the Court will set a hearing to consider confirmation of the Plan.

A creditor or equity interest holder, in order to vote, must file a Proof of Claim or Interest on or before the date set as the “bar date” for filing all claims. The bar date for filing claims against the Debtors is set forth in the Plan. However, any creditor or equity interest holder whose claim or interest is listed in the schedules filed by the Debtors and not identified as disputed, unliquidated or contingent is deemed (to the extent so scheduled) to have filed a claim, and absent objection such claim is deemed allowed and entitled to vote.

A creditor or equity interest holder may vote to accept or reject the Plan by filling out and mailing (as instructed thereon) the ballot which has been provided with this Disclosure Statement. The Court will set the time by which ballots must actually be filed; and, any ballots received after such time may not be counted. Regardless of whether a creditor or interest holder votes against the Plan, or whether the creditor or interest holder votes at all, such persons will be bound by the terms and treatment set forth in the Plan if the Plan is confirmed by the Court.

Allowance of a claim or interest for voting purposes does not necessarily mean that all or a portion of the claim will be allowed or disallowed for distribution purposes. The Debtors or any party in interest may file an objection to a claim, which will then be allowed or disallowed by the Court after notice and an opportunity for hearing. Tax consequences of any of the transactions proposed by the Plan will depend upon the individual circumstances applicable to each creditor, equity interest holder, or other party in interest, and must of necessity include factors beyond the Debtors' knowledge. A general discussion of potential tax consequences is contained in the Disclosure Statement.

The various claims of creditors and interests of equity interest holders are all treated under the proposed Plan. There are additional significant provisions contained throughout the Plan that impact the treatment of creditors and equity interest holders--please read the Plan carefully to fully understand its terms. The Plan proposes segregation of the creditors into separate classes, with an additional class comprising the equity interests.

The Debtors or others may solicit your vote for or against the Plan. The cost of any solicitation by the Debtors will be borne by the Estate. No other additional compensation shall be received by any party for any solicitation other than as disclosed to the Court.

Consummation Of The Plan Is Subject To Numerous Conditions And Variables, And There Can Be No Assurance That The Plan, As Contemplated, Will Be Effectuated. No Representations Or Assurances Concerning The Plan Are Authorized By The Debtors Other Than As Set Forth In This Disclosure Statement. Any Representations Or Inducements Made By Any Person To Secure Your Vote Which Are Other Than Herein Contained Should Not Be Relied Upon By You In Arriving At Your Decision, And Such Additional Representations Or Inducements Should Be Reported To Counsel For The Debtors, Who In Turn Shall Convey Such Information To The Court For Such Action As May Be Deemed Appropriate.

Certain materials contained in this Disclosure Statement may have been taken directly from other, readily accessible instruments or digests of other instruments. In addition, other

information may be made available, upon reasonable written request, to creditors or other parties in interest having standing to request such information. While the Debtors made every effort to retain the meaning of any such instruments or documents or the portions thereof reiterated herein, you are advised that any reliance on the contents of such other instruments or documents should be predicated on a thorough review of the instruments or documents themselves, including the Plan.

VOTING

If you are in one of the classes of creditors or other parties in interest whose interests are affected by the Plan, it is important that you vote. To vote to accept or reject the Plan, creditors and other persons or entities having claims against the Debtors falling within any of the impaired classes should indicate their acceptance or rejection on the appropriate ballot. Any persons holding claims in more than one impaired class must file one ballot for each such class. Additional ballots may be obtained by written request to Counsel for the Debtors.

A class of claims will have accepted the Plan if it is accepted by class members holding at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the allowed claims of such class voting on the Plan. A class of equity interests will have accepted the Plan if it is accepted by class members holding at least two-thirds (2/3) in amount of the allowed interests in such class voting on the Plan. You are, therefore, urged to fill in, date, sign, and promptly mail the enclosed ballot furnished to you.

Please Be Sure To Properly Complete The Form And Legibly Identify The Name Of The Claimant Or Equity Interest Holder. Executed Ballots Must Be Received On Or Before The Return Date Set Forth In The Ballot. Completed Ballots Should Be Returned To The Address Specified On The Ballot. Since Mail Delays May Occur, It Is Important That The Ballot Or Ballots Be Mailed Or Delivered Well In Advance Of The Date Specified. Any Acceptances Or Rejections Of The Plan Received After The Date May Not Be Included In Any Calculation To Determine Whether The Creditors And Equity Interest Holders Have Voted To Accept Or Reject The Plan.

This Is A Solicitation By The Debtors Only And Is Not A Solicitation By The Attorneys, Accountants, Or Other Professionals Who May Be Employed By The Debtors, And The Representations Made Herein Are Solely And Exclusively Those Of The Debtors And Not Of Such Attorneys, Accountants, Or Other Professionals.

BACKGROUND AND HISTORY OF THE DEBTORS

nCoat is a Delaware corporation, and HPC, nTech, and MCC are wholly-owned subsidiaries of nCoat. Prior to the Sale Date, the Debtors specialized in nanotechnology

research, licensing, and the commercialization, distribution and application of nano-structured as well as multiple non-nano structured surface coatings. The Debtors' specialized coatings were used by the automotive, diesel engine, trucking, recreational vehicle, motorcycle, aerospace and oil and gas industries for heat management, corrosion resistance, friction reduction, bond strength and appearance.

Prior to the Sale Date, the Debtors' corporate offices were located in Whitsett, North Carolina, and the Debtors' application operations were conducted at facilities located in Oklahoma City, Oklahoma, Tempe, Arizona, and Whitsett, North Carolina. As of the Petition Date, the only assets owned by nCoat were its interests in MCC, HPC and nTech. HPC was acquired by nCoat in September of 2005, and MCC, which did business under the name of JET HOT® Coatings, was acquired by nCoat in 2007. At the time of their acquisition, both HPC and MCC were market leaders in the development and application of high performance coatings. nCoat formed nTech in 2006 as an intellectual property and development entity. nTech held proprietary intellectual property transferred from MCC and HPC (the "Intellectual Property") and further licensed coatings facilities at customers' manufacturing plants.

As of the Petition Date, HPC had personal property in the form of accounts receivable, machinery, and equipment with an estimated aggregate value of approximately \$723,000. The liabilities scheduled by HPC as of the Petition Date totaled approximately \$1,650,000, of which \$347,490.95 and \$114,005.44 were scheduled as secured claims and unsecured priority claims, respectively. MCC had personal property in the form of cash, accounts receivable, machinery, and equipment with an estimated aggregate value of approximately \$412,000. The liabilities of MCC as of the Petition Date totaled approximately \$921,500, of which \$324,586.00 and \$117,508.05 were scheduled as secured claims and unsecured priority claims, respectively. The Intellectual Property was the primary asset of nTech. As of the Petition Date, the Intellectual Property had an estimated aggregate value of approximately \$1,400,000. nTech also owned fixed assets and inventory totaling approximately \$80,231. The liabilities of nTech as of the Petition Date totaled approximately \$175,000, of which \$142,500 were scheduled as secured claims.

For several years prior to the Petition Date, the Debtors business had declined as a result of the recession. The Debtors also lacked liquidity due to the acquisition of HPC and MCC in 2005 and 2007, respectively. Shortly before the Petition Date, the Debtors entered into

negotiations with Fort Ashford, whereby Fort Ashford agreed to (i) loan \$142,500 to the Debtors secured by a blanket lien upon substantially all assets of the Debtors, subject to existing liens (the "Prepetition Loan"), (ii) loan the Debtors additional sums after the Petition Date, subject to certain conditions, including approval by the Court (the "Post-petition Loan"), and (iii) enter into an Asset Purchase Agreement pursuant to which the Debtors would sell and Fort Ashford would purchase substantially all of the assets of the Debtors, and the Debtors would assume and assign to Fort Ashford certain executory contracts and leases of the Debtors.

In furtherance of the foregoing, the Debtors executed Promissory Notes and Security Agreements which evidenced the Pre-Petition Loan and granted Fort Ashford a security interest in substantially all of the Debtors' tangible and intangible personal property, and Fort Ashford caused UCC-1 form financing statements to be duly recorded to properly perfect the security interests granted by the Debtors. The Debtors and Fort Ashford also executed the Asset Purchase Agreement ("APA") for the sale of substantially all of the Debtors' property (the "Sale Assets"), excluding certain assets which were to be retained by the Debtors (the "Excluded Assets"). The Excluded Assets were set forth in the APA and generally described as (i) any cash on hand, in transit or on deposit, other than deposits and prepaid amounts paid by the Debtors' customers and paid by the Debtors to manufacturers and other third parties, (ii) any cause of action which may be brought by one or more of the Debtors, including those which may be brought as a debtor-in-possession or by a trustee on behalf of the Debtors pursuant to Chapter 5 of the Bankruptcy Code in connection with the bankruptcy cases, and (iii) any assets which were not included on the list of Purchased Assets. Pursuant to the APA, the Debtors agreed to sell the Sale Assets to Fort Ashford for the sum of \$1,000,000, with Fort Ashford receiving a credit in the amount of the Pre-Petition Loan and any Post-Petition Loan (the "Loan Credit"). Fort Ashford also agreed to pay up to \$50,000 in cure costs associated with the Debtors assumption and assignment to Fort Ashford of any executory contracts and leases (the "Cure Payments").

On the Petition Date, the Debtors filed the Sale Motion pursuant to which the Debtors sought approval of the sale of the Sale Assets to Fort Ashford in accordance with the terms and conditions set forth in the APA. The Sale Motion also was subject to a sale procedure order which provided for the submission of higher and better bids, an auction, and approval by the Court after notice and hearing. No bids were received by the Debtors other than the initial bid of Fort Ashford, and on September 28, 2010, an Order was entered granting the Sale Motion.

The closing on the APA occurred on or about October 1, 2010. At the closing, Fort Ashford paid to the Debtors the sum of \$905,251.14 (the “Sales Proceeds”), which included the purchase price of \$1,000,000, plus the sum of \$50,000 to be applied toward Cure Payments, less the Loan Credit in the amount of \$144,748.86. Subsequent to the closing, the Debtors paid from the Sales Proceeds the sum of \$234,102.32 to creditors holding first priority security interests in specific equipment sold to Fort Ashford and creditors entitled to Cure Payments, resulting in net sales proceeds of \$671,148.82 (the “Net Sales Proceeds”). **A true and accurate copy of the Closing Statement is attached hereto as Exhibit 2 (the “Closing Statement”).**

PLAN SUMMARY

The Following Is A Brief Summary Of Certain Provisions Of The Plan And Should Not Be Relied On For Voting Purposes In Lieu Of A Thorough And Comprehensive Review Of The Actual Plan Itself. The Summary Does Not Purport To Be Complete. Creditors And Equity Interest Holders Are Urged To Read The Plan To Ascertain The Effect Of The Plan On Their Claims And Interests And The Other Provisions Of The Plan. Creditors And Equity Interest Holders Are Further Urged To Consult With Their Attorneys, Tax Advisors, Financial Consultants, Or Other Professionals In Order To Understand More Fully The Plan Or The Effect Of The Plan As To Their Particular Situation.

The Plan of orderly liquidation contemplates the distribution of the Net Sales Proceeds to pay all Allowed Administrative Expenses incurred through the Effective Date, Allowed Priority Unsecured Claims, and Allowed Secured Claims (which remain unpaid) of the Debtors, with any remaining Net Sales Proceeds to be divided equally between the estates of MCC, HPC and nTech and, after payment of Allowed Administrative Expenses incurred after the Effective Date, distributed to unsecured creditors in each case in accordance with the priorities established by the Bankruptcy Code. The Debtors expect that there may be funds remaining in the nTech estate after the payment of all secured and unsecured creditors, which would then be distributed to secured and unsecured creditors of nCoat in accordance with the priorities established by the Bankruptcy Code. The Debtors do not anticipate that any excess funds will be available from the estates of MCC and HPC to pay claims of creditors of nCoat. If confirmed, a claims review process regarding Allowed Claims is anticipated to take approximately 180 days after the Confirmation Date.

As of the date of the filing of the Plan, the Debtor anticipates that the Net Sales Proceeds will be the only funds available to satisfy costs of administration and, to the extent possible, the

claims of creditors of the Debtors. Cash on hand in the Debtors' estates as of the Petition Date, along with any post-petition collections or recoveries of cash on hand, funds on deposit, and accounts receivable have been expended post-petition in payment of administrative expenses, including the Debtors' payroll and payroll taxes, operating expenses, and professional fees incurred to date. The Debtors do not know of any causes of action or claims which the Debtors could assert against a third party pursuant to §§ 541, 542, 544, 545, 546, 547, 548, 549, 550 or 553 of the Bankruptcy Code (the "Bankruptcy Causes of Action") or otherwise, and do not expect any recoveries pursuant to Bankruptcy Causes of Action or other litigation. However, the Plan provides the opportunity for the Debtor and/or the Official Committee of Unsecured Creditors of nCoat (the "Committee") to pursue such causes of action if warranted.

The estates of MCC and HPC have a claim against the estate of nTech arising out of the transfer of the Intellectual Property from MCC and HPC for no consideration in 2006 and 2007 pursuant to §§ 544 and 550 of the Bankruptcy Code. However, the Plan provides for the waiver of such claims against nTech in consideration for the allocation of the Sale Proceeds as between nTech, MCC and HPC as more specifically set forth in the section of this Disclosure Statement entitled "Means For Execution Of The Plan".

The Debtors desire that this Plan be a consensual plan, with all classes of creditors voting to accept the Plan by the requisite majorities required under §1126. In the event any class does not accept the Plan, however, the Debtors request that the Plan be confirmed by the cram down provisions of §1129(b) with respect to such dissenting class or classes. The Debtors reserve the right to modify the Plan pursuant to §1127, consistent with the requirement that the Plan, as modified, meets the requirements of §1122 and §1123.

Classification and Treatment of Claims and Interests.

For purposes of the Plan, Claims and Equity Interests are divided into the following Classes and will receive the treatment summarized below and set forth in detail in the Plan. **A schedule of estimated claims is attached hereto as Exhibit 3.** Please note that the schedule was prepared prior to completion of the claims reconciliation process, and thus the amounts shown are subject to change depending on the final amount of the allowed claims.

Administrative Expenses. Administrative expenses shall be allowed upon due request or application and in such amounts as may be determined by the Court after notice and hearing. Attorneys, accountants and other professionals retained by the Debtors and the Committee shall

be compensated for services rendered in such capacity and reasonably necessary to the administration of the estates, in such amounts as may be determined by the Court not to exceed reasonable compensation for such services.

Allowed Administrative Expenses incurred prior to the Effective Date shall be paid from Available Cash (either in full or pro rata depending on the amount of Available Cash) on the later of (i) the Effective Date or (ii) within thirty (30) days after the same can be determined and, if necessary, allowed by the Court.

The term “Available Cash” includes all cash on hand generated from the liquidation of the Debtors’ assets to Fort Ashford or otherwise, less payment or provisions for Allowed Secured Claims having a lien upon or security interest in such assets and Cure Payments as allowed pursuant to the Order entered in the Debtors’ proceedings on September 2, 2010 (the “September 2 Order”, Docket #77).

Allowed Administrative Expenses incurred on or after the Effective Date of the Plan with respect to a particular Estate shall be paid from MCC Available Cash, HPC Available Cash, nTech Available Cash or nCoat Available Cash, as applicable (either in full or pro rata depending on the amount of MCC Available Cash, HPC Available Cash, nTech Available Cash or nCoat Available Cash), within thirty (30) days after the same can be determined and allowed by the Court.

The term “MCC Available Cash” includes (i) one-third of the Available Cash, after payment in full of all Allowed Administrative Expenses incurred prior to the Effective Date and Allowed Priority Unsecured Claims (including Allowed Priority Tax Claims and Class 13 Allowed Priority Unsecured Claims), and (ii) recoveries from any Bankruptcy Causes of Action or other litigation, if any, that could be brought on behalf of MCC.

The term “nTech Available Cash” includes (i) one-third of the Available Cash, after payment in full of all Allowed Administrative Expenses incurred prior to the Effective Date and Allowed Priority Unsecured Claims (including Allowed Priority Tax Claims and Class 13 Allowed Priority Unsecured Claims), and (ii) recoveries from any Bankruptcy Causes of Action or other litigation, if any, that could be brought on behalf of nTech.

The term “HPC Available Cash” includes (i) one-third of the Available Cash, after payment in full of all Allowed Administrative Expenses incurred prior to the Effective Date and Allowed Priority Unsecured Claims (including Allowed Priority Tax Claims and Class 13

Allowed Priority Unsecured Claims), and (ii) recoveries from any Bankruptcy Causes of Action or other litigation, if any, that could be brought on behalf of HPC.

The term “nCoat Available Cash” includes (i) the remaining MCC Available Cash, if any, after payment in full of the MCC Allowed Claims; (ii) the remaining nTech Available Cash, if any, after payment in full of the nTech Allowed Claims; (iii) the remaining HPC Available Cash, if any, after payment in full of the HPC Allowed Claims; and (iv) recoveries from any Bankruptcy Causes of Action or other litigation, if any, that could be brought on behalf of nCoat.

While it is difficult if not impossible to predict the amount of such claims with certainty, the fees and expenses of Debtors’ counsel and counsel for the Committee have been paid in part as and when allowed during the course of these cases, and the attached projections as summarized below represent an estimated amount for such claims which will be due and payable as provided above.

1. Debtors counsel, Northen Blue LLP: approximately \$30,000.
2. Special Counsel for the Debtors, Durham, Jones & Pinegar, P.C., approximately \$0.
3. Counsel for Official Committee of Unsecured Creditors, Womble Carlyle Sandridge & Rice PLLC, approximately \$20,000.
4. Administrative Claim filed by the Internal Revenue Service in the amount of \$373.53 for post-petition withholding taxes.
5. Court fees: approximately \$4,875.

Priority Tax Claims

Priority tax claims are those claims entitled to priority as set forth in § 507(a)(8) of the Bankruptcy Code. Allowed Priority Tax Claims shall be paid from Available Cash (either in full or pro rata depending on the amount of Available Cash) on or before the later of (a) 180 days after the Effective Date, or (b) the date on which said entity becomes a holder of such Allowed Priority Tax Claim.

Based upon the claims scheduled by the Debtors in these proceedings and the filed claims, the attached projections as summarized below represent an estimated amount of the aggregate claims in each of the Debtor’s estates which will be due and payable as provided above.

1. nCoat: Priority tax claims in the aggregate amount of \$13,809.89 were scheduled by the Debtor or filed in the nCoat proceeding as more specifically set forth on Exhibit 3.
2. nTech: No priority tax claims were filed or scheduled in this case.
3. MCC: Priority tax claims in the aggregate amount of \$114,228.33 were scheduled by the Debtor or filed in the MCC proceeding as more specifically set forth on Exhibit 3.
4. HPC: Priority tax claims in the aggregate amount of \$102,698.68 were scheduled by the Debtor or filed in the HPC proceeding as more specifically set forth on Exhibit 3.

Classes Of Claims

Class 1 shall consist of the Allowed Secured Claim of Fort Ashford in the amount of \$144,748.86, which includes the original Pre-Petition Loan in the amount of \$142,500 and all accrued interest thereon through the closing on the APA. The claim of Fort Ashford was paid in full at the closing on the APA as evidenced by the Closing Statement, and no further distribution will be made to Fort Ashford pursuant to the Plan. The Class 1 claim of Fort Ashford is unimpaired.

Class 2 shall consist of the Allowed Secured Claim of GE Capital Corporation (“GE”) in the amount of \$38,100 pursuant to two Lease Agreements between HPC and GE, both of which were determined to be secured credit transactions pursuant to the September 2 Order (Lease Nos. 4425778001 and 4425778002). At the closing on the APA, the sum of \$38,100 was paid to GE in full satisfaction of any security interest of GE in and to the property which was the subject of the Lease Agreements as evidenced by the Closing Statement. The secured claim of GE was paid in full at the closing on the APA, and no further distribution will be made to GE pursuant to the Plan. The Class 2 Claim of GE is unimpaired.

Class 3 shall consist of the Allowed Secured Claim of Balboa Capital Corporation/Bank of America Leasing (“Balboa”) in the amount of \$35,213 pursuant to a Lease Agreement between HPC and Balboa (Lease No. 130232-000), which was determined to be a secured credit transaction pursuant to the September 2 Order. At the closing on the APA, the sum of \$35,213 was paid to Balboa in full satisfaction of any security interest of Balboa in and to the property which was the subject of the Lease Agreement as evidenced by the Closing Statement. Pursuant

to the Plan, the deficiency claim of Balboa in the amount of \$33,610.16 as evidenced by Claim Number 20 filed by Balboa in the HPC proceeding shall be included and paid with the Class 16 Unsecured Claims of HPC. The Class 3 Claim of Balboa is impaired.

Class 4 shall consist of the Allowed Secured Claim of Huntington National Bank (“Huntington”) in the amount of \$76,763.80 pursuant to a Lease Agreement between HPC and Huntington (as the assignee of the original lessor, National City Commercial Capital Corporation), which was determined to be a secured credit transaction pursuant to the September 2 Order (Lease No. 73193000). At the closing on the APA, the sum of \$53,100 was paid to Huntington in full satisfaction of any security interest of Huntington in and to the property which was the subject of the Lease Agreement as evidenced by the Closing Statement. Pursuant to the Plan, the deficiency claim of Huntington in the amount of \$23,663.80 as evidenced by Claim Number 28 filed by Huntington in the HPC proceeding shall be included and paid with the Class 16 Unsecured Claims of HPC. The Class 4 Claim of Huntington is impaired.

Class 5 shall consist of the Allowed Secured Claim of Royal Bank of America Leasing, L.P. (“Royal Bank”) in the amount of \$39,402 pursuant to a Lease Agreement between HPC and Royal Bank, which was determined to be a secured credit transaction pursuant to the September 2 Order. At the closing on the APA, the sum of \$11,550 was paid to Royal Bank in full satisfaction of any security interest of Royal Bank in and to the property which was the subject of the Lease Agreement as evidenced by the Closing Statement. Pursuant to the Plan, the deficiency claim of Royal Bank in the amount of \$27,852 as evidenced by the scheduled claim of Royal Bank in the HPC proceeding shall be included and paid with the Class 16 Unsecured Claims of HPC. The Class 5 Claim of Royal Bank is impaired.

Class 6 shall consist of the Allowed Secured Claim of the Utah State Tax Commission (“Utah State”) filed in the nCoat proceeding. Utah State asserts a secured claim, to the extent so allowed by the Court, in the amount of \$10,404.43 based upon a notice of tax lien filed under Utah State law prior to the Petition Date. Utah State does not specifically identify the property of nCoat to which the lien attaches. The Debtor disputes the lien asserted by Utah State as against any property of nCoat, as the security interest therein was not properly perfected as against the Debtor as a hypothetical judgment lien creditor by the filing of the notice of tax lien in the county and state in which the Debtor owned property. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, Utah State will

receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim will be treated and paid as an Unsecured Priority Tax Claim. The Class 6 claim of Utah State is impaired.

Class 7 shall consist of the Allowed Secured Claim of Michael Novakovic (“Novakovic”) scheduled in the MCC proceeding in the amount of \$182,086. The Debtor contends that Novakovic did not have a valid, properly perfected security interest in any property owned by MCC or any other Debtor as of the Petition Date. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, Novakovic will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim shall be included and paid with the Class 14 Unsecured Claims of MCC. The Class 7 Claim of Novakovic is impaired.

Class 8 shall consist of the Allowed Secured Claim of the Internal Revenue Service (“IRS”) filed in the MCC proceeding. The IRS asserts a secured claim, to the extent so allowed by the Court, in the amount of \$14,560.62 based upon a notice of federal tax lien filed in Montgomery County, Pennsylvania prior to the Petition Date. The IRS does not specifically identify the property of MCC to which the lien attaches. The Debtor disputes the lien asserted by the IRS as against any property of MCC, as the security interest therein was not properly perfected as against the Debtor as a hypothetical judgment lien creditor by the filing of the notice of federal tax lien in the county and state in which the Debtor owned property. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, the IRS will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim will be treated and paid as an Unsecured Priority Tax Claim. The Class 8 Claim of the IRS is impaired.

Class 9 shall consist of the Allowed Secured Claim of the Mississippi Department of Revenue (“Mississippi DOR”) filed in the MCC proceeding. Mississippi DOR asserts a secured claim, to the extent so allowed by the Court, in the amount of \$15,350.85 based upon a notice of tax lien filed under Mississippi State law prior to the Petition Date. Mississippi DOR does not specifically identify the property of MCC to which the lien attaches. The Debtor disputes the lien asserted by Mississippi DOR as against any property of MCC, as the security interest therein

was not properly perfected as against the Debtor as a hypothetical judgment lien creditor by the filing of the notice of tax lien in the county and state in which the Debtor owned property. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, Mississippi DOR will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim will be treated and paid as an Unsecured Priority Tax Claim. The Class 9 Claim of Mississippi DOR is impaired.

Class 10 shall consist of the Secured Claim of TW Telecom, Inc. (“Telecom”) filed in the HPC proceeding. Telecom asserts a secured claim, to the extent so allowed by the Court, in the amount of \$688.00, but does not specifically identify documentation supporting the lien or the property of HPC to which the lien attaches. The Debtor disputes the validity and priority of the lien asserted by Telecom as against any property of HPC. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, Telecom will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim shall be included and paid with the Class 14 Unsecured Claims of MCC. The Class 10 Claim of Telecom is impaired.

Class 11 shall consist of the Secured Claim of Dell Financial Services, LLC (“Dell”) filed in the HPC proceeding. Dell asserts a secured claim, to the extent so allowed by the Court, in the amount of \$6,218.81 pursuant to certain Lease Agreements and Loans between HPC and Dell for the purchase and lease of computer equipment. The Debtor disputes the validity and priority of the lien asserted by Dell. To the extent any lien securing such claim is determined by the Court to be valid and unavoidable by the Debtor, Dell will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim shall be included and paid with the Class 16 Unsecured Claims of HPC. The Class 11 Claim of Dell is impaired.

Class 12 shall consist of the Secured Claim of Key Equipment Leasing (“Key Equipment”) scheduled in the HPC proceeding in the amount of \$61,636 pursuant to a master lease agreement between HPC and Key Equipment regarding the use of Epicor accounting software. The agreement was determined to be a secured credit transaction pursuant to the September 2 Order. To the extent any lien securing such claim is determined by the Court to be

valid and unavoidable by the Debtor, Key Equipment will receive payment to the extent of its Allowed Secured Claim from Available Cash after valuation or liquidation of the property securing such claim, and the remainder of the claim shall be included and paid with the Class 16 Unsecured Claims of HPC. The Class 12 Claim of Key Equipment is impaired.

Class 13 shall consist of the Allowed Priority Unsecured Claims entitled to priority as specified in § 507(a)(4) for unpaid wages, salaries, or commissions, including vacation, severance and sick leave, but only to the extent of \$11,725 for each individual or corporation, as the case may be, earned within 180 days before the Petition Date or the date of cessation of the Debtors' business, whichever comes first. Holders of Allowed Priority Unsecured Claims shall be paid from the Available Cash (either in full or pro rata depending upon the amount of Available Cash) on or before the later of (i) 180 days after the Effective Date or (ii) the date on which said entity becomes a holder of such a Priority Unsecured Claim. The Debtors estimate that the aggregate amount of Class 13 Claims does not exceed \$42,000. The Class 13 Priority Unsecured Claims is impaired.

Class 14 shall consist of the Allowed Unsecured Claims of MCC, including the unsecured portion of any claims of MCC listed herein as secured but that are determined to be unsecured by order of the Court or applicable law after (a) valuation or liquidation of property securing such claim, or (b) avoidance of any lien securing such claim. Holders of Allowed Unsecured Claims of MCC will be paid from MCC Available Cash (in full or pro rata depending upon the amount of MCC Available Cash) in one or more distributions after the Effective Date upon the realization of MCC Available Cash, and after payment in full of Allowed Administrative Expenses incurred by MCC on or after the Effective Date. No post-petition interest shall be paid on any Allowed Unsecured Claims of MCC unless all such Claims have been paid in full, in which event interest shall be calculated and paid at the federal judgment rate in effect at the Petition Date.

The Debtors estimate that the aggregate amount of the Class 14 Claims will be approximately \$489,000, and in the Claim Analysis and Projection has estimated that the eventual distribution on Allowed Unsecured Claims may range from a low of 0% to a high of 9%, depending on the amount of the MCC Available Cash. The Class 14 Unsecured Claims of MCC is impaired.

Class 15 shall consist of the Allowed Unsecured Claims of nTech, including the unsecured portion of any claims of nTech listed herein as secured but that are determined to be unsecured by order of the Court or applicable law after (a) valuation or liquidation of property securing such claim, or (b) avoidance of any lien securing such claim. Holders of Allowed Unsecured Claims of nTech will be paid from nTech Available Cash (in full or pro rata depending upon the amount of nTech Available Cash) in one or more distributions after the Effective Date upon the realization of nTech Available Cash, and after payment in full of Allowed Administrative Expenses incurred by nTech on or after the Effective Date. No post-petition interest shall be paid on any Allowed Unsecured Claims of nTech unless all such Claims have been paid in full, in which event interest shall be calculated and paid at the federal judgment rate in effect at the Petition Date.

The Debtors estimate that the aggregate amount of the Class 15 Claims will be approximately \$33,000, and in the Claim Analysis and Projection has estimated that the eventual distribution on Allowed Unsecured Claims may range from a low of 0% to a high of 100%, depending on the amount of the nTech Available Cash. The Class 15 Unsecured Claims of nTech is impaired.

Class 16 shall consist of the Allowed Unsecured Claims of HPC, including the unsecured portion of any claims of HPC listed herein as secured but that are determined to be unsecured by order of the Court or applicable law after (a) valuation or liquidation of property securing such claim, or (b) avoidance of any lien securing such claim. Holders of Allowed Unsecured Claims of HPC will be paid from HPC Available Cash (in full or pro rata depending upon the amount of HPC Available Cash) in one or more distributions after the Effective Date upon the realization of HPC Available Cash, and after payment in full of Allowed Administrative Expenses incurred by HPC on or after the Effective Date. No post-petition interest shall be paid on any Allowed Unsecured Claims of HPC unless all such Claims have been paid in full, in which event interest shall be calculated and paid at the federal judgment rate in effect at the Petition Date.

The Debtors estimate that the aggregate amount of the Class 16 Claims will be approximately \$1,455,000, and in the Claim Analysis and Projection has estimated that the eventual distribution on Allowed Unsecured Claims may range from a low of 0% to a high of 3%, depending on the amount of the HPC Available Cash. The Class 16 Unsecured Claims of HPC is impaired.

Class 17 shall consist of the Allowed Unsecured Claims of nCoat, including the unsecured portion of any claims of nCoat listed herein as secured but that are determined to be unsecured by order of the Court or applicable law after (a) valuation or liquidation of property securing such claim, or (b) avoidance of any lien securing such claim. Holders of Allowed Unsecured Claims will be paid from the nCoat Available Cash (in full or pro rata depending upon the amount of nCoat Available Cash) in one or more distributions after the Effective Date upon the realization of nCoat Available Cash, and after payment in full of Allowed Administrative Expenses incurred by nCoat on or after the Effective Date. No post-petition interest shall be paid on any Allowed Unsecured Claims of nCoat unless all such Claims have been paid in full, in which event interest shall be calculated and paid at the federal judgment rate in effect at the Petition Date.

The Debtors estimate that the aggregate amount of the Class 17 Claims will be approximately \$788 million (which may be subject to objection and reduction), and in the Claim Analysis and Projection has estimated that there will likely be no meaningful distribution on Allowed Unsecured Claims. The Class 17 Unsecured Claims of nCoat is impaired.

Equity Interests

Class 18 shall consist of the **Equity Interests** in the Debtors. The existing equity interests shall be extinguished and no distributions shall be made on account of such old equity interests.

MEANS FOR EXECUTION OF THE PLAN

Asset Liquidation and Distribution

The Debtors believe that all of the Debtors' tangible and intangible assets have been collected, recovered and/or liquidated post-petition, with most of the Debtors' assets being sold to the designee of Fort Ashford pursuant to the Sale Motion and the APA. As of the date of the filing of the Plan and Disclosure Statement, the Debtors are holding Available Cash in the amount of approximately \$462,293, which includes the Net Sales Proceeds after payment of administrative expenses incurred after the Petition Date and approved by the Court. The remaining Net Sales Proceeds and recoveries on causes of action, if any, shall be the sole means to provide payment to the holders of Allowed Claims as provided in the Plan. All assets of the Debtors as of the Effective Date shall remain property of the Debtors' estates and shall not re-vest in the Reorganized Debtors, and such property shall be distributed as set forth in the Plan.

Pursuant to the Plan, Allowed Administrative Expenses incurred prior to the Effective Date, Allowed Priority Unsecured Claims and any other Allowed Secured Claims which remain unpaid will be paid from Available Cash, with the balance of Available Cash to be divided equally between the estates of MCC, HPC and nTech. **The Projected Allocation and Distribution of the Sales Proceeds is attached to this Disclosure Statement as Exhibit 4.**

As of the Petition Date, the Debtors estimated the value of the assets of each of the Debtors on Schedule B to the Petitions. nTech had assets valued at approximately \$1,480,231; MCC had assets valued at approximately \$412,070; HPC had assets valued at approximately \$722,676; and nCoat had office furniture and equipment valued at \$18,000 as well as its interests in nTech, MCC and HPC. The estimated assets and liabilities identified on the schedules to the Debtors' Petitions would suggest that most of the Sales Proceeds should be allocated to nTech. However, such an allocation would not be equitable given that the Intellectual Property held by nTech (and valued at \$1,400,000) was transferred from MCC and HPC to nTech for no consideration. As a result, the estates of MCC and HPC have potential claims against the estate of nTech arising out of the transfers pursuant to §§ 544 and 550 of the Bankruptcy Code. In the event MCC and HPC prevailed on such claims, the value of the Intellectual Property would be returned by nTech to the estates of MCC and HPC, leaving few remaining assets in the nTech estate.

Pursuant to the Plan, MCC and HPC will waive any claims against nTech arising out of the fraudulent conveyance of the Intellectual Property in consideration for the proposed allocation of the Sales Proceeds as shown on Exhibit 4. It is projected that, after payment of the Allowed Secured Claim of Fort Ashford and Allowed Administrative Expenses through the Effective Date, nTech, MCC, HPC and nCoat will be allocated 8%, 31 %, 52% and 9% of the remaining Sales Proceeds, respectively. As shown on Exhibit 4, if the value of the Intellectual Property were transferred from nTech to MCC and HPC, then the percentage of the redistributed assets held by nTech, MCC, HPC and nCoat would be 3%, 42%, 54% and 1%, respectively; percentages that are more in line with the projected allocation shown on Exhibit 4.

The Debtors believe that the allocation of the Sales Proceeds set forth in the Plan is equitable given the likelihood that MCC and HPC would prevail on their claims against nTech. The litigation would be costly given that additional counsel would need to be hired by nTech to defend the litigation, and an expert would need to be hired to prepare an insolvency analysis.

Given the limited resources available to the Debtors in these cases, the allocation of the Sale Proceeds and the waiver by MCC and HPC of any potential claims against nTech is in the best interest of, and will maximize potential distributions to, unsecured creditors in the Debtors' estates.

Finally, sufficient funds have been allocated to nCoat to pay Allowed Priority Unsecured Claims notwithstanding the limited assets in the nCoat estate as of the Petition Date. At this time, the Debtors are uncertain as to the validity of these claims. However, to the extent the claims are allowed, the allocation of sufficient funds from the Sales Proceeds to pay these claims is equitable given that the claims arise out of wages and taxes payable to or on behalf of employees of nCoat that worked for the benefit of all Debtors prior to the Petition Date.

Litigation

As of the date of the filing of the Plan and Disclosure Statement, there is no pending litigation that has been instituted by the Debtors or the Committee to recover property for the benefit of unsecured creditors. The Debtors, or the Committee on behalf of nCoat, may institute such legal actions as the Debtors or the Committee may deem necessary unless expressly waived. All "Bankruptcy Causes of Action" (*i.e.*, actions to avoid and recover preferences and fraudulent conveyances) shall be brought in the Court, and any compromise or other settlement of a controversy by the Debtors shall be approved by the Court after notice and hearing. Payments made by the Debtors to creditors within 90 days prepetition, payments to creditors who are Insiders or Affiliates within 1 year prepetition, and payments to parties made within 2 years prepetition for less than reasonably equivalent value are all subject to potential actions to recover such payments for the benefit of unsecured creditors. However, there are many defenses to such actions which reduce any potential recovery, as the Bankruptcy Code protects certain payments (such as those made in the ordinary course of business) from such avoidance actions. The Debtors do not believe that any material recoveries could be obtained from such litigation, as the Debtors believe each of these payments would be protected under the various defenses afforded by the Bankruptcy Code, and/or could not be recovered from the transferee due to a lack of net worth. However, the Committee may pursue such litigation on behalf of nCoat in the event such litigation is warranted.

Executory Contracts and Leases:

All executory contracts or unexpired leases which are existing on the Effective Date which have not been assumed and assigned to the designee of Fort Ashford pursuant to prior orders of the Court shall be deemed rejected by the Reorganized Debtors as of the Effective Date. To the extent the Debtors expect or are able to project potential rejection damage claims, such claims are included in the schedule of Unsecured Claims in the appropriate case.

FINANCIAL INFORMATION

The following information is available to creditors, equity interest holders, and other parties in interest:

Monthly Reports.

A monthly report has been and shall continue to be filed with the Court until the Confirmation Date, and thereafter a quarterly consummation status report shall be filed on behalf of the Debtors until the filing of the Final Report. The Debtors shall file such reports by the end of the month next following the report period, and at the same time shall serve a copy thereon upon the Bankruptcy Administrator and any other party in interest making a written request.

Financial Information on Record.

At or shortly after the Petition Date, the Debtors filed Schedules of Assets and Liabilities and a Statement of Financial Affairs. The monthly reports, the Schedules of Assets and Liabilities, and the Statement of Financial Affairs may be inspected by interested parties in order to obtain a broader financial picture of the Debtors and their estates. These may be examined on-line through the Court's website.

Plan Projections and Liquidation Analysis

In the event the case was converted to Chapter 7, the Court would appoint a Chapter 7 trustee, who would then proceed to distribute all property of the Debtors estates in the same or in a similar manner as set forth in the Plan. The Chapter 7 trustee would also retain professionals, as necessary, to represent the trustee, such as attorneys and accountants, and the fees and expenses of the Chapter 7 trustee and the trustee's professionals would be administrative expenses having priority over any outstanding claims (except secured claims) or other administrative expenses incurred prior to the date of conversion to Chapter 7.

The Projected Distributions to Unsecured Creditors of the Debtors is attached to the Disclosure Statement as Exhibit 5. As this Plan is a plan of orderly liquidation, the projections

reflect the expected outcome of this process. However, in a Chapter 7 scenario the Debtors believe there would be additional administrative expenses incurred in some amount, due to the Trustee's commission and the time required for new counsel to become familiar with the Debtors' assets and liabilities, which would result in less funds being available for the payment of Allowed Unsecured Claims in each of the Debtor's proceedings.

TAX CONSEQUENCES OF THE PLAN

The federal income tax consequences of the Plan are complex and subject to significant uncertainties. The Debtors have not requested a ruling from the Internal Revenue Service ("IRS") or an opinion of counsel with respect to any of the tax aspects of the Plan. Thus, no assurance can be given as to any interpretation that the IRS may adopt. In addition, this summary does not address foreign, state or local tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers. Furthermore, this discussion assumes that holders of Allowed Claims hold only Claims in a single Class. Holders of Allowed Claims in multiple Classes should consult their own tax advisors as to the effect such ownership may have on the federal income tax consequences described below.

There are certain anticipated U.S. federal income tax consequences of the proposed Plan to the Debtors and holders of Allowed Claims and Equity Interests that are impaired under the Plan. This summary is provided for informational purposes only and is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), Treasury regulations, judicial authorities and current administrative rulings and practice, all as in effect as of the date hereof and all of which are subject to change or differing interpretations, possibly with retroactive effect. It does not address all aspects of federal income taxation that may be relevant to the Debtors or to a particular holder of a Claim or Equity Interest in light of its particular facts and circumstances or to certain types of holders of Claims subject to special treatment under the Tax Code.

Creditors holding Allowed Claims (whether Priority, Secured or Unsecured) will receive cash payments as provided in the Plan. The timing for recognition of revenues, gains or losses for income tax purposes is dependent upon the particular creditor involved and cannot be addressed by the Debtors due to the multiplicity of factors which may be involved. The amount of the income or gain, and its character as ordinary income or capital gain or loss, as the case may be, will depend upon the nature of the claim of each particular Creditor.

The method of accounting utilized by a Creditor for federal income tax purposes may also affect the tax consequences of a distribution. In general, the amount of gain (or loss) recognized by any such Creditor will be the difference between (i) the Creditor's basis for federal income tax purposes, if any, in the Claim; and (ii) the amount of the distribution received. Whether the distribution will generate ordinary income or capital gain will depend upon whether the distribution is in payment of a Claim or an item which would otherwise generate ordinary income on the one hand or in payment of a Claim which would constitute a return of capital.

The Plan provides that the old equity interests in the Debtors will be extinguished, resulting in a long term capital loss in an amount depending upon each shareholder's adjusted basis in his or her respective shares.

PROVISIONS FOR IMPAIRED CREDITORS NOT ACCEPTING PLAN

With respect to any Class of creditors impaired by and not accepting this Plan by the requisite majority in number and two-thirds (2/3) in dollar amount of those casting ballots, adequate protection for the realization by them of the value of their claim shall be provided in the Order confirming the Plan by such method as will, in the opinion of the Bankruptcy Judge and consistent with the circumstances of the case, fairly and equitably provide such protection in accordance with the applicable provisions of the Bankruptcy Code. With respect to the holders of equity interests of the Debtors, no distributions will be made on account of these interests and the interests shall be extinguished.

The Bankruptcy Code provides that the Plan may be confirmed even if it is not accepted by all impaired Classes. In order to be confirmed without the requisite number of acceptances of each impaired Class, the Court must find that at least one impaired Class has accepted the Plan without regard to the acceptance of insiders, and the Plan does not discriminate unfairly against, and is otherwise fair and equitable to, such impaired Class. To the extent confirmation by "cramdown" is necessary or required, the Debtors by the filing of the Plan requests confirmation thereof pursuant to Section 1129(b) without further motion or notice, which request shall be considered (if necessary) at the conclusion of the Confirmation Hearing.

DISCHARGE AND RELEASE.

Except for the obligations imposed by this Plan, the distributions and rights that are provided in the Plan shall be in complete satisfaction, discharge and release of all (i) Claims against, liabilities of, liens on, and obligations of the Debtors, or the assets and properties of the

Debtors and the Reorganized Debtors, whether known or unknown, and (ii) causes of action, directly or derivatively through the Debtors, based on the same subject matter as any Claim.

All proceedings and court actions seeking to establish or enforce pre-petition liabilities and claims of any nature against property of the estate or priorities received or retained by any creditor with respect to debts and obligations of the Debtors shall be permanently stayed and treated as specifically provided for in this Plan.

DISPUTED CLAIMS AND OBJECTIONS TO CLAIMS

The Debtors, a Committee, or any party in interest may file an objection to any claim within one hundred twenty (120) days after entry of the Order confirming the Plan. Objections not filed within such time shall be deemed waived unless the period within which to file objections to claims is extended by Order of this Court as provided in the Plan.

The absence of an objection prior to the Confirmation Date, whether as to a scheduled or filed claim, shall not be deemed an acceptance of any Claim nor a waiver of the right to object to any Claim, and the holder of any such Claim shall not be entitled to assert reliance upon any implied acceptance of such Claim when voting to accept or reject the Plan.

Any claim, or portion thereof, which is to be paid in cash under the Plan and which is challenged, shall be protected by requiring the Reorganized Debtors to segregate and set aside in an escrow account a reserve based on the Court's estimate of such claim and sufficient to treat said claim in the same fashion as though the objection were denied. The reserve so segregated shall be distributed in accordance with the Plan in the event the objection is overruled or a dispute is resolved in favor of the party asserting the claim. In the event the disputed claim is disallowed, the retained cash so segregated shall be retained by the Reorganized Debtors and available for distribution in accordance with the provisions of this Plan, with the disallowed claimant being excluded from the appropriate Class.

MATTERS TO CONSIDER BEFORE VOTING ON THE PLAN

Who May File a Plan.

The confirmation of the Plan of Reorganization is the ultimate goal of the Chapter 11 proceeding. Consequently, your decision whether to accept or reject the Plan must be made in the context established by the Bankruptcy Code. In a Chapter 11 case, only the Debtor may file a plan of reorganization within the exclusivity period provided by §1121(b).

Conditions Precedent to Confirmation.

There are no conditions precedent to confirmation of Plan, except to the extent the Effective Date is defined in such a way as to be conditional upon the entry of a final order confirming the Plan.

What is Necessary for Court Approval of a Plan.

Chapter 11 permits the adjustment of secured debt, unsecured debt and equity interests. A Chapter 11 Plan may provide for less than full satisfaction of senior indebtedness and payment of junior indebtedness, and may even provide some return to equity owners absent full satisfaction of indebtedness, so long as no impaired class votes against the Plan (except as provided below).

Even if an impaired class votes against the Plan, implementation of the Plan is still possible so long as (i) the Plan is fair and equitable and (ii) that class is afforded certain treatment defined by the Code, broadly defined as giving a claimant the full value of his claim or interest. Such value is determined by the Court and balanced against the treatment afforded the dissenting class of creditors.

In particular, senior claims must be satisfied in full prior to payment of junior claims or interests, unless the holders of senior claims agree to different treatment. This principle (commonly known as the “absolute priority rule”) applies only in cases when a class of unsecured claims or equity interests is impaired and does not accept the proposed Plan. In that event, the absolute priority rule does not apply to all classes of unsecured claims and equity interests, but only to the dissenting class and classes junior to the dissenting class.

In the event a class is unimpaired, it is automatically deemed to have accepted the Plan. If there is no dissenting class, the test for confirmation (*i.e.*, approval) by the Court of a Chapter 11 Plan is whether the Plan is feasible and in the best interests of the creditors and equity interest holders. In simple terms, this test requires that creditors and equity interest holders receive more under the Plan than they would obtain if the Debtors were liquidated and the proceeds distributed in accordance with bankruptcy liquidation priorities. The Court, in considering this factor, need not consider any other alternatives to the Plan but liquidation.

In considering “feasibility” the Court is only required to determine whether the Plan can be accomplished, which entails determining the projected availability of cash for payments required to be made at and after the Effective Date, and any other factor which might make it impossible for the Reorganized Debtors to accomplish that which is proposed in the Plan. In

addition, in order to confirm a Plan the Court must find that such Plan was proposed in good faith and that the Plan and the Debtors are in compliance with the applicable provisions of Chapter 11. Finally, similar to the requirement that the Court find the Plan to be feasible, the Court must find that liquidation or further reorganization is not likely to occur after implementation of the Plan, except to the extent the Plan provides for such liquidation.

The determination by the Court that the Plan is fair, equitable and feasible occurs at the confirmation hearing. The Court's adjudication of these matters does not constitute an expression of the Court's opinion as to whether the Plan is a good one nor does it constitute an opinion by the Court regarding any debt or equity interest or securities issued to creditors under the Plan.

Specific Considerations in Voting.

While the Plan provides for certain payments to creditors, such payments will only be made to the holders of Allowed Claims. Under the Bankruptcy Code, a claim may not be paid until it is "allowed" pursuant to §502. A filed or scheduled claim will be allowed in the absence of an objection. A claim to which an objection has been filed will be heard by the Court at a regular evidentiary hearing and will be allowed in full or in part or disallowed. While the Debtors will bear the principal responsibility for claim objections, any interested party may file claim objections. Accordingly, payment on all claims may be delayed until all pending objections to such claims are ultimately adjudicated or settled.

For Classes of Claims which do not receive payment in full on the Effective Date, there are certain risks inherent in accepting the Plan, including the absence of absolute certainty of ultimate payment, especially with respect to Claims which are to be paid from future revenues.

The materials provided in this Disclosure Statement are intended to assist you in voting on the Plan in an informed fashion. If the Plan is confirmed, you will be bound by its terms; therefore, you are urged to review this material and to make such further inquiries as you may deem appropriate, then cast an informed vote on the Plan. The Debtors solicit your acceptance of the Plan as being in the best interests of creditors in these cases.

Respectfully submitted on behalf of the Debtors, this the 20th day of October, 2011.

/s/ John A. Northen

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Exhibits to Disclosure Statement:

1. Plan Of Reorganization Dated October 20, 2011.
2. Closing Statement
3. Schedule of Scheduled, Filed, And Estimated Claims, By Class.
4. Allocation of Proceeds
5. Liquidation Analysis