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IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF ARIZONA

In re:

ARMORWORKS ENTERPRISES, LLC, ☐
TECHFIBER, LLC, ☐

Debtors.

Chapter 11 Proceedings

Case No. 2:13-bk-10332-BMW

Case No. 2:13-bk-10333-BMW

(Jointly Administered)

This Filing Applies to:

☒ Both Debtors
☐ Specified Debtor

**THIRD AMENDED DISCLOSURE STATEMENT IN SUPPORT OF THIRD
AMENDED JOINT PLAN OF REORGANIZATION
DATED DECEMBER 16, 2013**

I.
INTRODUCTION

Pursuant to 11 U.S.C. § 1125, this Third Amended Disclosure Statement in support of Third Amended Joint Plan of Reorganization (the “Disclosure Statement”) is submitted by ArmorWorks Enterprises, LLC (“ArmorWorks”), its wholly-owned subsidiary TechFiber, LLC (“TechFiber” and together with ArmorWorks, the “Debtors”), the Official Joint Committee of Unsecured Creditors (the “Committee”), C Squared Capital Partners, LLC (“C Squared”), Anchor Management, LLC (“Anchor Management”), ArmorWorks, Inc. (“AWI”) and William J. Perciballi (“Perciballi”) (the Debtors, Committee, C Squared, Anchor Management, AWI and Perciballi are sometimes collectively referred to herein as the “Plan Proponents”). The purpose of this Disclosure Statement is to provide adequate information to the holders of claims or interests in this matter so that they may make an informed judgment in exercising their right to vote for acceptance or rejection of the Third Amended Joint Plan of Reorganization dated December 16, 2013 (the “Plan”), a copy of which is attached as Exhibit “A”. IN SHORT, THE PLAN PROPONENTS PROPOSE TO PAY ALL CLAIMS AGAINST AND MEMBER EQUITY INTERESTS IN THE DEBTORS, IN WHOLE OR IN PART, THROUGH A SALE OR SALES OF THE ASSETS OR EQUITY OF THE DEBTORS AND THE NON-DEBTOR SUBSIDIARIES OF ARMORWORKS UNDER THE PLAN. FOLLOWING THE CLOSING OF SUCH A SALE OR SALES, THE PROCEEDS WILL BE DISTRIBUTED TO CREDITORS AND THE MEMBERS OF ARMORWORKS IN ACCORDANCE WITH THE PLAN.

THE PLAN PROPONENTS RECOMMEND THAT YOU VOTE TO ACCEPT THE PLAN IN ORDER TO MAXIMIZE THE RECOVERY OF YOUR CLAIM. UNLESS OTHERWISE STATED, THE FACTUAL STATEMENTS AND PROJECTIONS MADE HEREIN HAVE NOT BEEN INDEPENDENTLY VERIFIED BY AWI, THE COMMITTEE, ANCHOR, C SQUARED OR THEIR RESPECTIVE

1 ATTORNEYS OR FINANCIAL ADVISORS, NOR HAVE AWI, THE COMMITTEE,
2 ANCHOR, OR C SQUARED PARTICIPATED IN FORMULATING THE
3 DESCRIPTION OF THE DEBTOR'S BUSINESS, ITS BACKGROUND, THE
4 FACTORS LEADING TO BANKRUPTCY, OR THE DEBTOR'S PROJECTIONS
5 AND OTHER FINANCIAL DATA AND AWI, THE COMMITTEE, ANCHOR, AND
6 C SQUARED TAKE NO POSITION WITH RESPECT TO ANY SUCH MATTERS.
7 WITHOUT LIMITING THE FOREGOING, ALL STATEMENTS AND
8 ALLEGATIONS REGARDING PENDING LITIGATION INVOLVING THE
9 DEBTORS ARE MADE SOLELY BY THE DEBTORS.

10 Capitalized terms used in this Disclosure Statement will correspond to terms
11 defined in the Plan and the Bankruptcy Code. Terms used in this Disclosure Statement
12 that are also defined in the Plan are defined solely for convenience; and the Debtors do
13 not intend to change the definitions of those terms from the Plan. If there is any
14 inconsistency between the Plan and this Disclosure Statement, the Plan is, and will be,
15 controlling.

16 **II.** 17 **OVERVIEW OF CHAPTER 11**

18 **A. Information Regarding the Plan and Disclosure Statement.**

19 The objective of a Chapter 11 case is the confirmation (*i.e.*, approval by the
20 Bankruptcy Court) of a plan of reorganization or liquidation. A Chapter 11 plan
21 describes in detail (and in language appropriate for a legal contract) the means for
22 satisfying the claims against and equity interests in a debtor, or in this case, the Debtors.
23 After a plan has been filed, the holders of claims and equity interests that are impaired by
24 the plan are permitted to vote to accept or reject the plan. Before a debtor can solicit
25 acceptances of its plan, however, Section 1125 of the Bankruptcy Code requires the
26 debtor to prepare a disclosure statement containing adequate information of a kind, and in

1 sufficient detail, to enable those parties entitled to vote on the plan to make an informed
2 judgment about the plan and about whether they should accept or reject the plan.

3 The purpose of this Disclosure Statement is to provide sufficient information
4 about the Debtors and the Plan to enable you to make an informed decision in exercising
5 your right to accept or reject the Plan. Therefore, this Disclosure Statement provides
6 relevant information about the Debtors, their property and financial condition, and the
7 Plan.

8 This Disclosure Statement will be used to solicit acceptances of the Plan only after
9 the Bankruptcy Court has entered an order approving this Disclosure Statement.
10 Approval by the Bankruptcy Court of this Disclosure Statement means only that the
11 Bankruptcy Court has found that this Disclosure Statement contains sufficient
12 information for the Debtors to transmit the Plan and Disclosure Statement to Creditors
13 and to solicit acceptances of the Plan.

14 After the Bankruptcy Court has granted approval of this Disclosure Statement and
15 there has been voting on the Plan, the Bankruptcy Court will conduct a Confirmation
16 Hearing concerning whether the Plan should be approved. At the Confirmation Hearing,
17 the Bankruptcy Court will consider whether the Plan satisfies the various requirements of
18 the Bankruptcy Code. The Bankruptcy Court also will receive and consider a ballot
19 report prepared by the Plan Proponents that will present a tally of the votes accepting or
20 rejecting the Plan cast by those entitled to vote. Accordingly, all votes are important
21 because they can determine whether the Plan will be confirmed. Once confirmed, the
22 Plan is essentially a new contract between the Debtors, their Creditors, and Member
23 Equity Interest holders and is binding on all Creditors, Member Equity Interest holders
24 and other parties-in-interest in the Debtors' Bankruptcy Case regardless of whether any
25 particular Creditor or Member Equity Interest holder voted to accept the Plan.

26 **THIS DISCLOSURE STATEMENT IS NOT THE PLAN. FOR THE
CONVENIENCE OF CREDITORS AND HOLDERS OF MEMBER**

1 EQUITY INTERESTS, THE PLAN IS SUMMARIZED IN THIS
2 DISCLOSURE STATEMENT. ALL SUMMARIES OF THE PLAN
3 ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN ITSELF.
4 IN THE EVENT OF ANY INCONSISTENCY BETWEEN THIS
5 DISCLOSURE STATEMENT AND THE PLAN, THE PLAN WILL
6 CONTROL.

7 **B. Representations.**

8 This Disclosure Statement has not been subjected to a certified audit; however, it
9 has been prepared in part from information compiled by the Debtors from records
10 maintained in the ordinary course of business or from information received by the
11 Debtors from third parties. Every effort has been made to be as accurate as possible in
12 the preparation of this Disclosure Statement. Nevertheless, the inclusion of financial
13 information in this Disclosure Statement and exhibits is subject to adjustment, and the
14 Debtors reserve all rights to object to or challenge any Claims that are filed or asserted in
15 the Case.

16 This is a solicitation by the Plan Proponents only and is not a solicitation by the
17 individual Committee members, or the attorneys, agents, financial advisors, and
18 accountants retained by the Plan Proponents. No statement or information concerning the
19 Debtors or their assets or securities is authorized, other than as set forth in the Disclosure
20 Statement. WHILE ANCHOR, C SQUARED, AWI AND PERCIBALLI ARE PLAN
21 PROPONENTS, THE FACTS AND STATEMENTS MADE IN THIS DISCLOSURE
22 STATEMENT: (I) HAVE NOT BEEN APPROVED BY, CONSENTED TO, OR
23 ENDORSED BY ANCHOR, C SQUARED, AWI, OR PERCIBALLI; (II) ANCHOR, C
24 SQUARED, AWI, AND/OR PERCIBALLI MAY DISPUTE IN WHOLE OR IN PART
25 THE STATEMENTS MADE IN THIS DISCLOSURE STATEMENT; AND (III) THE
26 STATEMENTS MADE IN THIS DISCLOSURE STATEMENT SHALL NOT,
NOTWITHSTANDING ANY OTHERWISE APPLICABLE PRINCIPLE OF LAW OR
EQUITY, INCLUDING, WITHOUT LIMITATION, ANY PRINCIPLES OF JUDICIAL
ESTOPPEL, RES JUDICATA, COLLATERAL ESTOPPEL, ISSUE PRECLUSION,

1 OR ANY SIMILAR DOCTRINE, HAVE ANY PRECLUSIVE OR DETERMINATIVE
2 EFFECT WITH RESPECT TO ADJUDICATION OF THE C SQUARED PARTIES'
3 CLAIMS, THE AWI PARTIES' CLAIMS, ANY CLAIMS THAT THE C SQUARED
4 PARTIES OR THE AWI PARTIES HAVE OR ASSERT AGAINST THE ESTATE OR
5 IN ANY INTEREST IN THE PROCEEDS OF THE TRANSACTION, AND/OR ANY
6 CLAIMS ASSIGNED TO EITHER THE C SQUARED PARTIES OR THE AWI
7 PARTIES UNDER THE PLAN.

8 **III.**
9 **BACKGROUND & EVENTS LEADING TO FILING**

10 **A. The Companies.**

11 ArmorWorks and its wholly-owned subsidiaries develop advanced survivability
12 technology and design and manufacture high-tech military personal body armor, vehicle
13 armor, aircraft and marine armor, and energy attenuating seats for protection against a
14 broad spectrum of ballistic threats primarily for use in military and nuclear safety and
15 security applications. ArmorWorks systems are in-service around the world in several
16 United States Military applications.

17 ArmorWorks' engineering and fabrication services take armor systems projects
18 from concept to production with customer input and collaboration throughout the process.
19 ArmorWorks specializes in all aspects of military armor technology. ArmorWorks has
20 produced over 1.25 million ceramic armor and composite armor protection components
21 for a variety of personnel armor, aircraft, and vehicle applications. ArmorWorks
22 primarily is known for, and attributes its success to:

- 23 • State-of-the-art ceramic armor and composite armor systems technology;
- 24 • High-performance military armor products & designs;
- 25 • Engineering & R&D capability to apply technology & designs to
26 production;
- Ballistic testing & analysis capability;
- Military armor production capacity and experience;

- Understanding of Military Armor: Aerospace, Personnel, Vehicle, and Ship Armor Applications; and
- Patented Armor Systems Technologies.

ArmorWorks sells the majority of its products through two channels. The primary channel is as a prime contractor for United States Military agencies. ArmorWorks has contractual relationships with many government entities for the purchase and service of its products, and provides a substantial amount of the armor and protective equipment used by all branches of the United States Military. The second primary channel involves ArmorWorks subcontracting with other prime government contractors to U.S. Military agencies.

Because of (i) the life-critical nature of its products, (ii) the use of critical defense technology including classified national defense, intelligence, and nuclear security information and (iii) the United States Military's critical need for armor to protect its troops in a time of war, ArmorWorks' contracts include special delivery priorities and security and secrecy requirements which subject ArmorWorks to stringent government regulations, requirements, and oversight.

B. Ownership Structure.

ArmorWorks is an Arizona limited liability company. ArmorWorks, Inc. ("AWI") is the majority member of ArmorWorks with a 60% interest. C Squared Capital Partners, L.L.C. ("C Squared") owns a 40% minority interest in ArmorWorks.

C. Debtor Subsidiary.

ArmorWorks is vertically integrated with several wholly-owned subsidiaries providing complementary survivability products as well as components used by ArmorWorks to manufacture the armor products and systems it sells.

The only ArmorWorks' subsidiary that filed a Chapter 11 petition is TechFiber, a wholly-owned Delaware limited liability company that supplies ballistic fiber to ArmorWorks and the armor industry. The ballistic fiber is used by ArmorWorks to

1 manufacture ceramic armor and composite armor systems. ArmorWorks filed a Chapter
2 11 petition for TechFiber to facilitate a sale of the business as part of ArmorWorks'
3 restructuring of its business operations.

4 **D. Non-Debtor Subsidiaries.**

5 Non-debtor subsidiary ShockRide, LLC ("ShockRide") is a wholly-owned
6 Arizona limited liability company that designs, manufactures, and sells energy
7 attenuating seats, which protect passengers from the shock of IED and mine blasts
8 beneath a vehicle. ShockRide's energy absorption, rollover, and crash protection
9 technology is used in a wide variety of military vehicles with over 70,000 seats in service
10 worldwide. ShockRide is self-sufficient and does not require any significant
11 restructuring at this time. Therefore, ArmorWorks did not file a chapter 11 petition for
12 ShockRide.

13 Non-debtor subsidiary Mandall BarrierWorks, LLC ("MBW") is a wholly-owned
14 Delaware limited liability company that designs and produces high-end vaults, vault
15 doors, and armored door systems providing architectural blast protection and security,
16 including passive and reactive high value asset protection systems, safes, security doors,
17 and fixed and portable guard stations for government, military, nuclear, and commercial
18 installations. The company's work in the area of nuclear safety and security requires
19 additional security clearances beyond those required by the Department of Defense.
20 MBW is self-sufficient and does not require any significant restructuring at this time.
21 Therefore, ArmorWorks did not file a chapter 11 petition for MBW.

22 Non-debtor subsidiary Applied Heat Technologies, LLC ("AHT") is an Arizona
23 limited liability company wholly owned by ArmorWorks that provides portable armor
24 and composite repair products and services. AHT is self-sufficient and does not require
25 any restructuring, and therefore did not file a chapter 11 case.
26

1 Non-debtor Protective Ceramics, LLC is a Delaware limited liability company
2 wholly owned by ArmorWorks. Protective Ceramics does not conduct any business
3 operations and likely will be dissolved.

4 **E. Foreign Non-Debtor Subsidiaries.**

5 ArmourWorks International Limited (AIL) is a wholly-owned subsidiary of
6 ArmorWorks located in the United Kingdom that supplies armor and protective products
7 to customers in the United Kingdom and internationally. ArmorWorks Enterprises
8 Canada, ULC is a wholly-owned subsidiary of ArmourWorks International Limited
9 (AIL) located in British Columbia that supplies soft body armor products to the Canadian
10 military and law enforcement communities.

11 **F. Management Team.**

12 William J. Perciballi (“Perciballi”) is a Manager and Founder of ArmorWorks.
13 Prior to founding ArmorWorks in 1996, Perciballi was a product manager in the Armor
14 Products Division of Simula, Inc. He began his military career in the U.S. Army ROTC
15 program while attending the University of Massachusetts, Lowell. Perciballi was
16 commissioned as a second lieutenant of the United States Army during his junior year of
17 college. Before being called to active duty during the Persian Gulf War, Perciballi was a
18 mechanical engineer in the U.S. Army Materials Technology Laboratory in Watertown,
19 Massachusetts where he performed critical research and development of armor materials
20 and systems. Perciballi later worked as an engineer in the U.S. Army Ballistic Research
21 Laboratory in Aberdeen Proving Ground, Maryland where he conducted applied research
22 and development of advanced armor systems for combat vehicles. He is a member of the
23 Society of Automotive Engineers (SAE), National Defense Industrial Association
24 (NDIA), Society for the Advancement of Material and Process Engineering (SAMPE),
25 and the National Armor Advisory Board to the National Institute of Justice, the standards
26 organization that issues armor protection standards and protocol. Perciballi has a

1 Bachelor of Science degree in industrial engineering technology from the University of
2 Massachusetts, Lowell. He holds several security clearances issued by the Department of
3 Defense for national security information, and the Department of Energy for Nuclear
4 Security information. Perciballi is the Facility Security Officer for ArmorWorks, Inc.,
5 which sponsors ArmorWorks employees' security clearances. He is an internationally
6 published and recognized researcher in the field of ballistic protection, impact energy
7 absorption, and the effects of blast and acceleration on the human body. Perciballi is an
8 inventor listed on several patents issued by the US Patent and Trademark Office. And, he
9 serves on the Secretary of the Army's Advisory Board for armor protection.

10 David A. Wirthlin ("Wirthlin") is Chief Financial Officer of ArmorWorks. Mr.
11 Wirthlin joined ArmorWorks in June 2004. He has over twenty years' experience in
12 financial and operational management. Prior to joining ArmorWorks, Wirthlin was a
13 management consultant providing capital acquisition and financial management services
14 to a variety of businesses. Wirthlin previously served as CFO of Integrated Information
15 Systems, where he coordinated private placements and helped take the company public,
16 and SkyMall where he led the company through a turnaround and restructuring and later
17 helped take the company public. He began his career with Arthur Andersen as a manager
18 in the firm's operational consulting group. Wirthlin is a certified public accountant. He
19 holds a Bachelor of Arts in accounting from the University of Utah and a Master of
20 Business Administration from the University of Chicago.

21 Robert G. Dick ("Dick") is Vice President of Programs and has been instrumental
22 in the success of the business. He is responsible for the company's armor programs,
23 research and development, and maintaining the company's technical relationships with
24 client engineers and program managers. Dick has over 20 years of experience working
25 with composite materials and military body armor testing. Prior to joining ArmorWorks,
26 Mr. Dick managed an FAA-Certified composites repair station and production operation

1 that serviced the commercial airline industry. He is an FAA-Certified Airframe
2 Technician.

3 Brad Field ("Field") is the ArmorWorks Director of Corporate Development. Mr.
4 Field joined ArmorWorks in January, 2009. Prior to coming to ArmorWorks he was the
5 founder/CEO of Pacific Safety Products Inc. ("PSP"), a publicly traded Canadian
6 company that has been an industry leader in the safety products industry for over 25
7 years. Under his leadership, PSP was named one of Canada's fastest growing companies
8 for three years running from 1999 to 2001, and received an Okanagan Science and
9 Technology Innovation award in 2005. Mr. Fields currently is the General Manager of
10 ArmorWorks Canada.

11 John McGara ("McGara") is the General Manager ShockRide. Mr. McGara is a
12 retired US Army Ordnance Captain who joined ArmorWorks in 2006. After initially
13 serving as Vice President of Programs and Engineering, McGara now has responsibility
14 for all manufacturing operations and related support functions for ShockRide. He has
15 extensive operations and P&L experience in technology businesses, has successfully led
16 several growth businesses and turned struggling operators into industry and quality and
17 performance leaders. McGara holds a Bachelor of Science degree in Industrial
18 Engineering, from the Ohio State University and an MBA from University of Toledo.

19 Elida Voorbrood ("Voorbrood") is the ArmorWorks General Manager. Ms.
20 Voorbrood joined ArmorWorks in April 2001 with over 18 years of experience in
21 manufacturing. Prior to joining ArmorWorks, Voorbrood was an Industrial Engineer for
22 several high profile companies, applying her manufacturing knowledge to processes that
23 expanded from household products to apparel production in companies like Nike, Levi
24 Strauss and Sunbeam-Oster. At Nike, she oversaw the implementation of an innovative
25 "Pay for Performance" program for the company's Distribution Center facility. At
26 Sunbeam-Oster, Voorbrood was responsible for full product and processes transferring

1 as well as setting up new product assembly lines. Originally from Mexico, Ms.
2 Voorbrood is a graduate of the Technological Institute of Matamoros-Mexico where she
3 earned a Bachelor of Science degree in Industrial Engineering.

4 **G. Facilities.**

5 The majority of ArmorWorks' business operations are conducted from leased
6 commercial space in Chandler and Tempe, Arizona. Until recently, ArmorWorks'
7 primary facility, located at 305 N. 54th Street, Chandler, Arizona, housed the corporate
8 headquarters, vehicle armor assembly, body armor, flat armor, and applied heat
9 production facilities, as well as research and development. Additional research and
10 development and storage facilities are located at 205 S. Beck Avenue, Chandler, Arizona.

11 Until February 2013, ShockRide's production facilities and research and
12 development were located at 500 N. 54th Street, Chandler, Arizona. Effective February
13 1, 2013, in an effort to reduce operating costs, ArmorWorks surrendered the premises to
14 the landlord and relocated the Shockride operations to 305 N. 54th Street. The lease for
15 500 N. 54th Street, Chandler, Arizona was rejected by the Debtors pursuant to the *Order*
16 *Rejecting Lease Of Nonresidential Real Property Pursuant To 11 U.S.C. § 365 For*
17 *Premises Located At 10 Chandler As Of The Petition Date* signed on 8/7/2013 (Dkt. 148).
18 ArmorWorks will attempt to negotiate a settlement of the remaining lease obligation with
19 the landlord.

20 In an effort to further consolidate its facilities and reduce operating expenses, on
21 September 6, 2013, the Debtors filed the *Motion to Reject Lease of Non-Residential Real*
22 *Property Pursuant To 11 U.S.C. §365 for Premises Located At 305 N. 54th Street,*
23 *Chandler, Arizona.* On November 25, 2013, the Bankruptcy Court entered an Order
24 approving the rejection of the lease. [Dkt. 412]. Operations formerly conducted from
25 305 N. 54th Street are being relocated to other existing facilities.

26 TechFiber production facilities are located at 6955 South Priest, Tempe, Arizona.

1 On October 25, 2013, the Debtors filed a *Motion to (I) Reject Lease Of Real Property*
2 *Located at 6955 South Priest Drive Lease; and (II) Approve Lease Of Real Property*
3 *Located at 901 E. Madison Ave.* On November 25, 2013, the Bankruptcy Court entered
4 an Order approving the rejection of the lease. [Dkt. 413]. By Order entered November
5 25, 2013, the Bankruptcy Court also granted the Debtors an extension to assume or reject
6 any other unexpired leases of non-residential real property up through and including the
7 earlier of: (i) the date of entry of an order confirming a plan of reorganization; and (ii)
8 January 13, 2014. [Dkt. 414].

9 Mandall Barrier Works operates from a facility located at 7071 W. Frye Road,
10 Chandler, Arizona.

11 ArmourWorks International Limited (AIL) leases commercial space located at 26
12 Bamel Way, Gloucester Business Park, Brockworth Gloucester GL3 4BH, United
13 Kingdom. ArmorWorks Enterprises Canada, ULC leases commercial space located at
14 Suite B2-8775 Jim Bailey Crescent, Kelowa, BC V4V 2L7, Canada.

15 **H. U.S. Government Regulations and Compliance.**

16 As a prime contractor and sub-contractor to the U.S. Government, ArmorWorks is
17 subject to stringent government rules, regulations, and compliance. The primary
18 regulatory requirements applicable to ArmorWorks are summarized below, although the
19 discussion certainly is not exhaustive.

20 The Federal Acquisition Regulation (FAR) is the principal set of rules in the
21 Federal Acquisition Regulation System. This system consists of sets of regulations
22 issued by agencies of the Federal government of the United States to govern what is
23 called the “acquisition process,” that is, the process through which the government
24 purchases goods and services. The FAR is codified in Title 48 of the United States Code
25 of Federal Regulations.
26

1 The False Claims Act (31 U.S.C. §§ 3729–3733) (FCA) imposes liability on
2 persons and companies (typically federal contractors) who defraud governmental
3 programs. The FCA establishes liability when any person or entity improperly receives
4 from, or avoids payment to, the Federal government (tax fraud is excepted).

5 The Truth in Negotiations Act (TINA) requires government contractors to submit
6 cost or pricing data and to certify that such data is current, accurate and complete on the
7 date of final agreement on price, commonly referred to as the “handshake.” Compliance
8 with TINA is an essential part of doing business with the U.S. Government.

9 International Traffic in Arms Regulations (ITAR) is a set of U.S. Government
10 regulations that control the export and import of defense-related articles and services on
11 the United States Munitions List (USML). The goal of ITAR is to safeguard U.S.
12 national security and further U.S. foreign policy objectives.

13 In an effort to ensure continued compliance with all applicable government
14 regulations, ArmorWorks has comprehensive government compliance procedures and
15 programs, which include self-reporting requirements, annual reviews, and employee
16 training programs.

17 **I. Dispute with Minority Owner.**

18 Over the past several years, Perciballi and AWI have been involved in litigation
19 with C Squared and Anchor over, among other things, control of ArmorWorks. Perciballi
20 and AWI contend that C Squared is a passive investor and that Anchor does not have co-
21 management authority over ArmorWorks. C Squared and Anchor contend that C
22 Squared is not merely a passive investor and that Anchor does have co-management
23 authority over ArmorWorks. Pursuant to the Plan, this ongoing dispute has been
24 deferred, with all parties reserving all of their rights, claims, causes of actions and
25 defenses as described more specifically in the Plan, until after the close of a Transaction,
26 which is described in more detail below. Both the Sale Protocol and the Plan call for an

1 independent third party, the “Independent Debtor Representative”, to take control of the
2 effort to sell the Debtors’ assets or equity interests and over any and all proposed
3 transactions that are outside the ordinary course of the Debtors’ business. Accordingly,
4 the dispute over control should not delay the sale or impede Debtors’ business operations
5 pending the closing of the sale.

6 **J. Financial Performance and Events Leading to Chapter 11 Restructuring.**

7 Historically, the independent certified public accounting firm of Mayer Hoffman
8 McCann P.C. has audited the financial statements of ArmorWorks and its subsidiaries on
9 a consolidated basis. ArmorWorks uses a calendar year accounting cycle.

10 In 2009, ArmorWorks and its subsidiaries had net income of \$14,838,000 on total
11 sales of \$190,531,000. Sales declined materially in 2010, to \$128,375,000, and
12 ArmorWorks realized a net loss from operations of \$11,475,000 based in large measure
13 on a \$20 million inventory write-off recorded by the company.

14 Sales increased dramatically in 2011 to \$313,763,000 based in large measure on a
15 \$236,247,162 contract awarded to ArmorWorks in late 2010 by AM General for the
16 production of upgraded armor for the U.S. Military’s HMMWV fleet. The increased
17 sales 2011 generated net income of \$27,917,000 in 2011. ArmorWorks completed the
18 AM General contract in 2011. ArmorWorks’ record sales in 2011 enabled the company
19 to pay-off substantially all of its secured debt, including a \$40 million revolving line of
20 credit from JPMorgan Chase, and approximately \$3.0 million of secured equipment
21 financing from Chase Equipment Financing.

22 Despite ArmorWorks strong performance in 2011, the business deteriorated
23 substantially in 2012 tracking an industry-wide defense trend. ArmorWorks experienced
24 a net loss of \$9,988,000 on total sales of \$100,229,000 in 2012. ArmorWorks’ poor
25 performance in 2012 in many ways mirrored that of the defense industry as a whole that
26 continues to suffer from the anticipated and actual implementation of sequestration; from

1 a federal government that cannot agree on a budget; from military force reductions and
2 planned pull-outs in both Iraq and Afghanistan; and from a general belief that defense
3 spending will most likely decrease in the foreseeable future. In this environment,
4 government funding simply is not flowing to military and defense contracts like it once
5 did. For ArmorWorks, the slow-down has manifested itself in follow-on orders to its
6 largest vehicle armor contract that have not materialized, seat programs being delayed or
7 cancelled, and military demand for body armor plates virtually disappearing. As a result,
8 ArmorWorks, like many other defense contractors, is restructuring and reducing the size
9 of its operations.

10 However, despite the slowdown, ArmorWorks remains optimistic for the future
11 and there are many positives. The company's core strength has been and will continue to
12 be innovation. The company innovated from hard body armor to vehicle armor to seats
13 and to soft protective under and over garments. ArmorWorks has a number of other new
14 technologies and products in the queue. It is in a good market and resource position to
15 continue innovating and delivering new solutions to customers for the long-run.

16 In the near-term, ArmorWorks continues to operate its business and prepare for
17 the future. The company has contracts and continues to bid on new orders. The numbers
18 are smaller than the company would like, but it does have business and there are
19 prospects for profitable business in the short-term.

20 As of May 26, 2013, on a consolidated basis, ArmorWorks had total assets (at
21 book value) of approximately \$30,949,00 consisting of: (i) cash of \$959,000, (ii)
22 accounts receivable of \$3,676,000, (iii) inventory of \$8,608,000, (iv) other current assets
23 of \$889,000, (v) personal property and equipment of \$12,054,000, (vi) intellectual
24 property and intangibles assets of \$1,188,000, and (vii) other assets of \$3,575,000.

25 As of May 26, 2013, on a consolidated basis, ArmorWorks had total liabilities (at
26 book value) of approximately \$12,040,000 consisting of: (i) trade accounts payable of

1 \$5,973,000, (ii) accrued expenses of \$2,328,000, (iii) deferred revenue of \$1,354,000,
2 (iv) notes payable of \$1,810,000, and (v) other long term liabilities of \$575,000. More
3 detailed information concerning the assets, liabilities, and financial condition of the
4 Debtors may be found in the statement of financial affairs and schedules filed by each of
5 the Debtors.

6 At the time the Bankruptcy Cases were filed, the Debtors believed that the debtor
7 in possession financing would be sufficient to allow ArmorWorks to continue to operate
8 and restructure its operations, including (i) divesting business units that no longer fit
9 within the strategic framework of ArmorWorks' long-term plan; and (ii) reducing the
10 companies' Arizona facilities footprint through the rejection of burdensome long-term
11 leases.

12 **IV.** **POSTPETITION PROCEEDINGS AND EVENTS**

13 **A. Summary of Key Events Related to the Bankruptcy Cases.**

14 While more detailed information related to the events in the Bankruptcy Cases can
15 be obtained by assessing the Bankruptcy Court's CM/ECF filing system and reviewing
16 the pleadings filed in the jointly administered cases, the following is a summary of
17 certain key bankruptcy-related proceedings and events associated with this Bankruptcy
18 Cases.

19 1. **The Commencement of the Cases.**

20 On June 17, 2013, the Debtors each filed voluntary petitions for relief under
21 chapter 11 of title 11 of the United States Code, 11 U.S.C. §§ 101 et seq. (the
22 "Bankruptcy Code"). The Debtors continue in possession of their property and the
23 management of their businesses as debtors-in-possession pursuant to §§ 1107 and 1108 of
24 the Bankruptcy Code. No trustee or examiner has been appointed.

25 2. **First Day Motions.**

26 In order to efficiently administer the Chapter 11 case and accomplish a

1 reorganization of the Debtors that should result in the payment in full of all creditors and
2 equity holders, the Debtors immediately sought: (i) an order providing for the joint
3 administration of the Chapter 11 cases of ArmorWorks and its subsidiaries; (ii)
4 authorization to retain Gallagher & Kennedy, P.A. (“G&K”) as the company’s general
5 bankruptcy and restructuring counsel; (iii) authorization to retain MCA Financial Group,
6 Ltd. (“MCA”) as the company’s financial advisor; (iv) authorization to obtain up to \$3.5
7 million of debtor in possession financing, including \$875,000 on an emergency basis to
8 fund cash shortfalls; (v) authorization to pay certain prepetition employee wages and
9 continue to honor employee benefits in the ordinary course of business; and (vi) an order
10 determining adequate assurance of payment for future utility services.

11 Accordingly, concurrent with the filing of their Chapter 11 petitions, the Debtors
12 filed, for the Court’s approval on an interim and final basis, a number of motions and
13 applications (the “First Day Motions”) that are necessary to enable the Debtors to operate
14 in Chapter 11 with a minimum disruption and loss of productivity. The Debtors have
15 sought approval of each of the First Day Motions as a critical element in achieving an
16 efficient and successful reorganization of the companies. A description of each of the
17 First Day Motions is provided below.

18 Motion for Joint Administration

19 The Debtors asked the Court to enter an Order transferring the assignment of the
20 TechFiber case to the Judge assigned to the ArmorWorks’ (lowest numbered) case and
21 authorizing the joint administration of the Debtors’ chapter 11 cases. Joint administration
22 is necessary and appropriate to preserve judicial and estate resources, avoid duplication
23 of efforts and reduce the time and expense associated with administering the Debtors’
24 cases. The Court granted the request for joint administration on June 20, 2013. Dkt. #45.

25 Applications For Authorization To Retain G&K And MCA

26 The Debtors sought authorization to employ G&K and MCA as estate

professionals (the “Professionals”). The professional services that the Debtors require, and have requested that G&K perform in the case, include the following:

- provide legal advice with respect to the Debtors’ powers and duties as debtors-in-possession in the continued operation of their businesses and management of their property;
- prepare necessary applications, motions, answers, orders, reports and other legal papers;
- appear in Court and protect the interests of the Debtors before the Court;
- assist the Debtors with financing and with the collection and disposition of assets, by sale or otherwise;
- assist the Debtors with their ongoing corporate and non-defense regulatory legal needs;
- represent the Debtors in any future collection or other litigation commenced (or to be commenced) by and/or against them;
- assist the Debtors in preparing and confirming a Chapter 11 plan; and
- represent the Debtors in connection with all aspects of their bankruptcy cases and perform all legal services which may be necessary and proper for the Debtors in these proceedings.

The professional services that the Debtors require, and have requested that MCA perform in the case, include the following:

- advise the Debtor in connection with, and assist in the preparation of, bankruptcy schedules and statement of financial affairs, monthly operating reports, and other financial reporting requirements;
- advise the Debtors in connection with, and assist in the preparation of, financial projections;
- advise the Debtors in connection with cash collateral and financing issues;

- perform financial analysis of the Debtors' business and operations;
- perform valuation and feasibility analysis;
- advise the Debtors in connection with business and financial restructuring of the company, and in the formulation, negotiation, and confirmation of a chapter 11 reorganization plan;
- provide expert witness and litigation support services in relation to cash collateral, financing, valuation, feasibility, and plan confirmation issues; and
- provide other financial and business consulting services to the Debtors as needed.

The C Squared Parties filed objections to the G&K and MCA Employment Applications, and a hearing was held on July 12, 2013. *See* Dkt. #26, 27, 65, 67, 136. The Court granted the G&K and MCA Employment Applications on July 16, 2013. Dkt. #113, 114.

Motion To Approve Debtor in Possession Financing

The Debtors did not have sufficient available sources of working capital to operate their businesses without working capital financing. Based on the Debtors' consolidated 13-week cash budget (the "Budget"), the Debtors were likely to run out of cash in the short term causing immediate and irreparable harm to the Debtors and their estates. A copy of the Budget is on file with the Court and was updated throughout the case.

With the assistance of MCA Financial, the Debtors actively sought working capital financing for several months to assist the company through the current industry-wide economic slowdown. Subject only to Bankruptcy Court approval, prepetition the Debtors and Lancelot Armor, LLC, an Arizona limited liability company ("Lender"), executed a Senior Secured Super-Priority Debtor-In-Possession Credit And Security Agreement (the "Credit Agreement") pursuant to which Lender agreed to provide up to

1 \$3.5 million of debtor in possession financing to the Debtors (the “DIP Financing”). The
2 primary terms of the proposed financing were as follows:

- 3 • Maximum Loan Amount: \$3.5 million available in two (2) disbursements,
4 (i) an initial disbursement of up to \$875,000 upon entry of an order
5 approving the financing on an interim basis, and (2) the balance upon entry
6 of a final order approving the financing, subject to availability under the
7 Borrowing Base.
- 8 • Use of Proceeds: The Debtors shall use the proceeds of the Loan for (a)
9 working capital; (b) for payment of (i) costs of administration of the Case,
10 and (ii) the fees and expenses described under Section 7.6 of the Credit
11 Agreement; and (c) such Pre-Petition obligations as the Bankruptcy Court
12 shall approve, in each case in a manner consistent with the terms and
13 conditions of the Interim Order and Final Order.
- 14 • Collateral: all real and personal property of the Debtors and the non-debtor
15 subsidiaries of ArmorWorks, including a pledge of 100% of ArmorWorks’
16 member interests in all subsidiaries, and a super-priority administrative
17 expense claim pursuant to 11 U.S.C. § 364(c) and (d). The collateral,
18 priming liens, and super-priority administrative claim are subject to a
19 \$250,000 carve-out for the debtors’ professionals and any professionals
20 retained by any statutory committee appointed in the cases.
- 21 • Interest Rate: 15% with an increase to 21% while any event of default
22 exists.
- 23 • Fees: 5% origination fee paid prepetition upon execution of the DIP loan
24 and security agreement, and \$2,500 a month collateral monitoring fee.
- 25 • Expenses: Debtors are responsible for all attorneys’ fees and expenses
26 incurred by lender. The Debtors provided a \$30,000 expense deposit to the

1 lender prepetition.

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- Lockbox: The Debtors established a lockbox, into which all of their receipts from any source whatsoever are deposited and to which only AWE shall access for so long as there has been no Event of Default on the Loan and only to the extent that the funds deposited therein are used in strict compliance with the Approved Budget (subject to a 20% monthly variance). Sole control of the lockbox and funds contained therein (together with future deposits therein) shall be turned over to Lender upon an Event of Default, and Lender may thereafter, in its sole and absolute discretion, apply such funds to the Indebtedness in such order and manner as Lender may determine. Upon taking sole control of the lockbox, the Lender shall receive a monthly accounting fee of \$5,000 until the Loan has been repaid in full or Borrowers have cured the subject Event of Default to the satisfaction of Lender.
 - Maturity Date: If not paid sooner as provided in the Credit Agreement or any of the Loan Documents, the principal balance outstanding under the Note, together with all accrued interest and all other amounts owed under the Loan Documents shall be due and payable on the earlier to occur of: (1) the effective date of a plan of reorganization confirmed in the Case, (2) entry of an order approving a sale of substantially all of the Debtors' assets under Section 363 of the Bankruptcy Code; or (3) December 31, 2013 (the "Maturity Date"). Subject to there having been no default or Event of Default and written notice not less than twenty (20) days prior to the Maturity Date, the Debtors may either (i) extend the maturity date to March 31, 2014 for a fee of 1% or (ii) extend the Maturity Date to June 30, 2014 for an additional fee of 1.5% (a total of 2.5% if the 6 month extension

1 is requested before the original Maturity Date, in either case as a percentage
2 of the outstanding Loan balance as of the date of the written notice of
3 exercise of the extension with said fee payable at the time of such notice to
4 Lender.

- 5 • Payments: monthly interest only payments with all amounts due and owing
6 paid on the Maturity Date.
- 7 • Stay Relief: automatic stay is modified to permit the Debtors to grant the
8 liens and super-priority administrative claims, perform acts required under
9 the loan documents, incur the obligations under the loan documents, and
10 allow the Debtors to pay, and the lender to apply, payments under the DIP
11 loan.

12 The C Squared Parties objected to the DIP Financing, and the Court held an
13 evidentiary hearing on July 12, 2013. *See* Dkt. #136. Subsequent to the hearing, the
14 parties reached a resolution to the pending objections, and a stipulated form of order was
15 entered by the Court approving the DIP Facility on a final basis. Dkt. #119.

16 The Debtors do not have a prepetition working capital lender. No creditor has, or
17 to the best knowledge of the Debtors claims, a lien in the Debtors' cash collateral other
18 than the DIP Lender.

19 Motion to Pay Prepetition Employee Wages, Salaries and Benefits

20 To minimize the personal hardship that employees will suffer if pre-petition
21 employee-related obligations are not paid when due and to maintain morale of the
22 Debtors' workforce during this critical time, the Debtors sought, on an emergency basis,
23 the entry of an interim order and a final order authorizing the Debtors: (a) to pay and
24 honor certain pre-petition claims that remain outstanding as of the petition date for,
25 among other things, (i) wages, salaries and other compensation, (ii) federal and state
26 withholding taxes and other amounts withheld or deducted (e.g., employees' share of

1 health insurance premiums), and (iii) reasonable and customary business expenses that
2 are reimbursable by the Debtors under company policy; and (b) to pay and honor certain
3 pre-petition claims that remain outstanding as of the petition date related to (i) employee
4 health benefits, (ii) insurance benefits, and (iii) other employee benefits that the Debtors
5 have historically paid in the ordinary course of business. In addition, the Debtors sought
6 an order authorizing and directing banks and other financial institutions to receive,
7 process, honor, and pay all checks presented for payment and electronic payments related
8 to the employee obligations and benefits.

9 The C Squared Parties filed a limited objection to the wage motion. Dkt. #28.
10 The Court granted the Motion to Pay Prepetition Employee Wages, Salaries and Benefits
11 on June 20, 2013. Dkt. #47.

12 Motion For An Order Determining Adequate Assurance Of Payment For
13 Future Utility Services

14 As of the Petition Date, the Debtors used the following utility providers for
15 services essential to the business: (i) mobile telephone – AT&T and Verizon; (ii) electric
16 – SRP; (iii) trash disposal – Waste Management; (iv) telephone – Century Link and
17 Avaya, Inc.; and (v) water/sewer – City of Chandler. ArmorWorks does not have
18 deposits with any of its utility providers. Over the years all deposits were refunded based
19 on the company's good payment history and financial stability.

20 The Debtors sought, on an emergency basis, the entry of an interim order and a
21 final order: (a) finding that the Debtors' utility providers have been provided with
22 adequate assurance of payment within the meaning of Bankruptcy Code §366, pending
23 the entry of a final order; (b) prohibiting the utility providers from altering, refusing, or
24 discontinuing services on account of pre-petition amounts outstanding or the
25 commencement of this case; and (c) determining that the Debtors are not required to
26 provide any additional adequate assurance beyond what is proposed in the motion.
Further, the utility motion seeks immediate entry of an order granting the utility motion

1 on an interim basis.

2 As adequate assurance of future payment, and in lieu of providing any utility
3 deposits, the Debtors have proposed that they pay, and have requested authority to pay,
4 all pre-petition amounts owed to its utility providers in the ordinary course of business.
5 The relief requested in the utility motion is necessary because uninterrupted utility
6 services are critical to the Debtors' continued business operations. If utility companies
7 cease providing service, the Debtors' business and estate will be severely damaged,
8 jeopardizing its reorganization efforts. Moreover, the utility companies will not suffer
9 any tangible economic harm because the Debtors will compensate the utility companies
10 in full for all post-petition services that they provide.

11 Historically, ArmorWorks has made timely and full payments to all utility
12 providers. To the best of the Debtors' knowledge, there currently are no defaults or
13 arrearages with respect to undisputed utility service invoices. If the proposed debtor-in-
14 possession financing is approved as requested, the Debtors will have adequate liquidity to
15 continue paying all utility charges on a current basis. Thus, ArmorWorks has sought
16 authorization to continue its customary practice of paying all utility bills as they become
17 due in the ordinary course of business.

18 The C Squared Parties filed a limited objection to the utility motion. Dkt. #29.
19 The Court granted the Motion For An Order Determining Adequate Assurance Of
20 Payment For Future Utility Services on June 20, 2013. Dkt. #48.

21 3. Official Committee of Unsecured Creditors.

22 The United States Trustee appointed an Official Joint Committee of Unsecured
23 Creditors (the "Committee") and the Committee retained counsel and financial advisors
24 in the Bankruptcy Case pursuant to the following pleadings:

- 25 • Appointment of Official Creditors' Committee (Joint Committee) (Dkt. 83);

- Application to Employ Counsel for the Official Joint Committee of Unsecured Creditors (Dkt. 97);
- Order Authorizing Employment of Counsel for the Official Joint Committee of Unsecured Creditors (Dkt. 111);
- Application to Employ Sierra Consulting Group, LLC as Financial Advisor to the Official Joint Committee of Unsecured Creditors (Dkt. 123);
- Order Authorizing the Employment and Retention of Sierra Consulting Group as Financial Advisor to the Official Joint Committee of Unsecured Creditors (Dkt. 130); and
- Amended Appointment of Official Creditors' Committee (Dkt. 154).

4. Motion to Employ Ordinary Course Professionals.

On August 3, 2013, the Debtors filed the First Application To Employ Professionals And Consultants Used By The Debtors In The Ordinary Course Of Business (“Employment Application”). Dkt. #143.

The Employment Application was filed pursuant to 11 U.S.C. §§ 105, 327(e), and 1108, requesting an order authorizing the Debtors to employ certain professionals and consultants used in the ordinary course of business. An objection to the Employment Application was filed by the C Squared Parties on August 13, 2013. Dkt. #151. A hearing was held on an expedited basis on August 29, 2013. *See* Dkt. #161. The Court overruled the objections and approved the Employment Application as amended at the hearing. *See* Dkt. #178.

5. Motion to Authorize Intercompany Loan.

On August 19, 2013, the Debtors filed the Verified Emergency Motion To Authorize Intercompany Loan To ArmorWorks Enterprises Canada, ULC (the “Loan Motion”). Dkt. #158. The Loan Motion was filed pursuant to 11 U.S.C. §§ 105 and 363(b), requesting an order authorizing ArmorWorks to make a \$500,000 secured loan to

1 ArmorWorks Enterprises Canada, ULC (“AW Canada”) for working capital purposes and
2 to preserve the going concern value of the business. The C Squared Parties filed a
3 response, and a hearing was held on an expedited basis on August 29, 2013. *See* Dkt.
4 #161; 172. The Court approved the Loan Motion. Dkt. #176.

5 6. Motion to Employ Houlihan Lokey Capital, Inc.

6 On September 6, 2013, the Debtors filed the *Application For An Order Approving*
7 *The Employment Of Houlihan Lokey Capital, Inc. As Debtors' Investment Banker* (Dkt.
8 186) to pursue a Transaction for the sale of the assets or equity interests of the Debtors
9 under the Plan. The C Squared Parties filed an objection to the employment of Houlihan
10 Lokey (Dkt. 191). By Order entered October 18, 2013, the Court approved the
11 employment of Houlihan Lokey (Dkt. 319).

12 7. Filings by C Squared and Anchor Management.

13 C Squared and Anchor Management have objected to these proceedings and have
14 filed a number of pleadings in the Bankruptcy Case, including:

- 15 • Emergency Motion to Dismiss Case /Emergency Motion to Dismiss or, in
16 the Alternative, to Abstain (Dkt. 39);
- 17 • Reply in Support of Emergency Motion to Dismiss or, in the Alternative, to
18 Abstain (Dkt. 89);
- 19 • Motion in Limine to Preclude Debtors from Offering SBA Final
20 Determination and Related Exhibits and Testimony (Dkt. 90); and
- 21 • Emergency Motion to Appoint Trustee (Dkt. 195).

22 The Debtors filed the following pleadings in response to the motion to dismiss and
23 motion to appoint Chapter 11 Trustee:

- 24 • Declaration of Morris C. Aaron, MCA Financial Group, Ltd. (Dkt. 71);
- 25 • Response in Opposition to Emergency Motion to Dismiss or, in the
26 Alternative, to Abstain (Dkt. 73);

- Appendix in Support of Response in Opposition to Emergency Motion to Dismiss or, in the Alternative, to Abstain (Dkt. 74 & 75);
- Prehearing Statement of the Debtors Re: Dismissal Motion of C Squared Parties and Request for Entry of Order and Notice of Lodging Proposed Order (Dkt. 79);
- Debtors': (I) Reply In Further Support Of Request For Entry Of Procedures Order; (II) Response To Cross-Motion To Continue Hearing On The Applications To Employ Gallagher & Kennedy, P.A. And MCA Financial Group, Ltd.; And (III) Proposed Agenda For July 12, 2013 Hearing (Dkt. 84); and
- Response To C Squared Parties Motion In Limine To Preclude Debtors From Offering SBA Final Determination And Related Exhibits And Testimony (Dkt. 95).
- Preliminary Response in Opposition to Emergency Motion to Appoint Chapter 11 Trustee (Dkt. 228).

8. Joint Motion for Approval of Governance Protocol for Sale and Non-Ordinary Course Transactions.

On September 18, 2013, the Debtors and the Committee filed a *Joint Motion for Approval of Governance Protocol for Sale and Non-Ordinary Course Transactions and Retention Grant Lyon as Independent Debtor Representative* (the “Sale Protocol Motion”) (Dkt. 226). The C Squared Parties objected to the Sale Protocol Motion (Dkt. 254). On October 4, 2013, the Court read its decision on the record granting the Sale Protocol Motion (Dkt. 282). On October 7, 2013, the Court entered the *Order Granting Joint Motion for Approval of Governance Protocol for Sale and Non-Ordinary Course Transactions, and Retention of Grant Lyon as Independent Debtor Representative* (Dkt. 291). A copy of the order, as amended, is attached hereto as Exhibit “F”.

1 MORE DETAILED AND UPDATED INFORMATION REGARDING POST-
2 PETITION EVENTS IN THE BANKRUPTCY CASE CAN BE OBTAINED BY
3 ACCESSING THE DOCKET IN THE BANKRUPTCY CASE ON PACER:
4 https://ecf.azb.uscourts.gov/cgi-bin/DktRpt.pl?122083397291529-L_1_0-1.

5 **V.**
6 **BUDGET, FINANCIAL FORECAST & PROJECTIONS, AND VALUATION**

7 Pre-petition, the Debtors prepared a detailed long-term financial forecast and
8 projections and a short-term 13-Week Cash Budget. A copy of the most recent Budget is
9 attached hereto as Exhibit “C” and will be updated throughout the Case as necessary.
10 Based on the Debtors’ financial forecast and projections, prepetition, MCA prepared a
11 valuation of the Debtors and the Member Equity Interests of each of the Members as of
12 June 17, 2013. A true and correct copy of the MCA Valuation Report is attached hereto
13 as Exhibit “D”. THE VALUATION REPORT HAS NOT BEEN UPDATED POST-
14 PETITION. ADDITIONAL FINANCIAL INFORMATION REGARDING THE
15 DEBTORS CAN BE FOUND IN THE BANKRUPTCY SCHEDULES AND
16 STATEMENT OF FINANCIAL AFFAIRS FILED BY EACH OF THE DEBTORS,
17 AND IN THE DEBTORS’ MONTHLY OPERATING REPORTS FILED IN THE
18 BANKRUPTCY CASES BY ACCESSING THE DOCKET IN THE BANKRUPTCY
19 CASE ON PACER: [https://ecf.azb.uscourts.gov/cgi-bin/DktRpt.pl?122083397291529-](https://ecf.azb.uscourts.gov/cgi-bin/DktRpt.pl?122083397291529-L_1_0-1)
20 [L_1_0-1](https://ecf.azb.uscourts.gov/cgi-bin/DktRpt.pl?122083397291529-L_1_0-1).

21 **VI.**
22 **SOURCES OF INFORMATION**

23 The financial information contained in this Disclosure Statement is derived from a
24 number of sources. Values ascribed to Debtors’ Assets were provided by the Debtors
25 with input from MCA. Information on Claims of Creditors was obtained from the
26 financial records of the Debtors, and the statements and schedules on file in the
Bankruptcy Case.

1 The information contained in this Disclosure Statement represents the Debtors'
2 best estimate in light of current market conditions and past experience. All the
3 information provided is subject to change and represents the best information available at
4 the time, the actual results may differ.

5 The accounting and financial information provided by the Debtors is based on
6 Generally Accepted Accounting Principles ("GAAP") and the calculations were prepared
7 by the Debtors' accountants and professionals.

8 **VII.**
9 **SUMMARY OF THE PLAN**

10 The following provides a summary of the overall structure and classification of
11 claims against or interests in the Debtors and is qualified in its entirety by reference to the
12 Plan, which is attached as Exhibit "A". The statements in this Disclosure Statement
13 include summaries of the provisions contained in the Plan. This summary does not
14 purport to be a complete statement of all terms in the Plan, and reference is made to the
15 Plan for the full and complete statement of such terms. The Plan controls the treatment
16 of Claims against and Member Equity Interest in the Debtors and other parties-in-interest.
17 Where Claims are divided into subclasses in the Plan, each subclass will be considered to
18 be a separate class for all confirmation purposes, including treatment and voting on the
19 Plan.

20 **A. Classification and Treatment of Claims and Member Equity Interests.**

21 The Plan classifies Claims and Member Equity Interests in various Classes
22 according to their right to priority of payments as provided in the Bankruptcy Code. The
23 Plan states whether each Class of Claims or Member Equity Interests are impaired or
24 unimpaired. The Plan provides the treatment each Class will receive under the Plan. In
25 accordance with the requirements of the Bankruptcy Code, Allowed Administrative
26 Expense Claims and Priority Tax Claims are not set forth in Classes and are not entitled
to vote on the Plan. The Allowed Claims and Equity Securities against the Debtors'

1 Estates are divided into the following classes:

- 2 a. Class 1 (Priority Non-Tax Claims). Class 1 consists of any Priority
3 Non-Tax Claims against the Debtors existing as of the Confirmation
4 Date.
- 5 b. Class 2 (Secured Tax Claims). Class 2 consists of any Secured Tax
6 Claims against the Debtors existing as of the Confirmation Date.
- 7 c. Class 3 (Secured Claims). Class 3 consists of any Secured Claims
8 against any of the Debtors, except Secured Tax Claims.
- 9 d. Class 4 (ArmorWorks General Unsecured Claims). Class 4 consists
10 of all General Unsecured Claims against ArmorWorks.
- 11 e. Class 5 (TechFiber General Unsecured Claims). Class 5 consists of
12 all General Unsecured Claims against TechFiber.
- 13 f. Class 6 (Member Equity Interests In ArmorWorks). Class 7 consists
14 of the 40% Member Equity Interest of C Squared and the 60%
15 Member Equity Interest of AWI in ArmorWorks.
- 16 g. Class 7 (ArmorWorks' Member Equity Interest in TechFiber). Class
17 7 consists of the 100% Member Equity Interest of ArmorWorks in
18 TechFiber.
- 19 h. Class 8 (Subsidiary General Unsecured Claims). Class 8 consists of
20 all General Unsecured Claims asserted by any Subsidiary against the
21 Debtors.

22 **B. Summary of Treatment for Claims Not Impaired Under the Plan.**

23 1. DIP Obligations. Unless paid sooner, or a different treatment is consented
24 to in writing by DIP Lender, the DIP Obligations shall be paid in full and in cash on the
25 Effective Date before the payment of any other Claims against the Debtors, other than
26 Vendor Administrative Claims. Any dispute regarding the amount of the DIP
Obligations shall be resolved by the Bankruptcy Court on an expedited basis prior to the
occurrence of the Effective Date. Notwithstanding anything to the contrary contained in
the Plan or the Confirmation Order, the terms of the Final DIP Order shall survive and
shall remaining binding and enforceable until the DIP Obligations have been fully paid.

2. Administrative Expense Claims. Every Creditor holding an Allowed
Administrative Claim against the Debtors will be paid, in full satisfaction of their

1 Allowed Claim, after the payment in full of the DIP Obligations: (a) fully and in Cash on
2 or before ten (10) Business Days after the Effective Date if the Claim is then an Allowed
3 Claim; (b) fully and in Cash within ten (10) Business Days after the entry of a Final
4 Order allowing the Claim, if the Claim is not an Allowed Claim as of the Effective Date;
5 (c) as otherwise agreed in writing by the Creditor holding the Allowed Administrative
6 Claim and the Debtors; or (d) as otherwise ordered by the Bankruptcy Court.
7 Administrative Claims are unimpaired pursuant to the Plan and votes to accept or reject
8 the Plan will not be solicited from Creditors holding Administrative Claims.

9 4. Vendor Administrative Claims. The post-petition expenses owed to
10 Vendors will be paid as they are incurred in the ordinary course of business. Any
11 amounts outstanding as of the Effective Date will be paid in full on the later of the
12 Effective Date, or in the ordinary course of the Debtors' business. Vendor
13 Administrative Claims are unimpaired pursuant to the Plan and votes to accept or reject
14 the Plan will not be solicited from Creditors holding Vendor Administrative Claims.

15 5. U.S. Trustee Fees. All fees payable pursuant to section 1930 of Title 28 of
16 the United States Code, as determined by the Bankruptcy Court at the Confirmation
17 Hearing, shall be paid within ten (10) Business Days after the Effective Date, or as due
18 in the normal course of billing and payment. The Reorganized Debtors shall be
19 responsible for timely payment of fees incurred pursuant to 28 U.S.C. § 1930(a)(6). The
20 Reorganized Debtors or the AWE Liquidating Trust, as applicable, shall file with the
21 Bankruptcy Court, and serve on the United States Trustee, a quarterly financial report
22 for each quarter (or portion thereof) that the cases remain open in a format prescribed by
23 the United States Trustee and provided to the Debtor by the United States Trustee, and
24 shall pay such quarterly fees as become due for each quarter post-confirmation that the
25 cases remain open. No motion or application is required to fix fees payable to the
26 Clerks' Office or the Office of the United States Trustee, as those fees are determined by

1 statute.

2 6. Administrative Bar Date. Requests for payment of Administrative
3 Expenses, other than the DIP Obligations, Vendor Administrative Claims and
4 Professional Fee Claims, must be filed and served pursuant to any procedures set forth in
5 the Confirmation Order or notice of entry of the Confirmation Order, no later than thirty
6 (30) days after the Effective Date.

7 7. Professional Fee Claims. The Bankruptcy Court must approve all requests
8 for the payment of professional compensation and expenses to the extent incurred on or
9 before the Effective Date. Each Professional Person requesting compensation or
10 reimbursement of expenses in the Cases pursuant to Sections 327, 328, 330, 331, 503(b)
11 or 1103 of the Bankruptcy Code shall file an application for allowance of final
12 compensation and reimbursement of expenses not later than thirty (30) days after the
13 Effective Date. Nothing herein shall prohibit each Professional Person from requesting
14 interim compensation during the course of the Case pending Confirmation of this Plan.
15 All fees, costs and disbursements of Professional Persons not heretofore paid through the
16 Effective Date of the Plan, shall be paid fully and in Cash on the later of the Effective
17 Date or within ten (10) Business Days after the entry of a Final Order allowing the
18 Claim.

19 8. Priority Tax Claims. Priority Tax Claims are certain pre-Petition Date
20 unsecured income, employment and other taxes described by Section 507(a)(8) of the
21 Bankruptcy Code. To the extent Allowed Priority Tax Claims exist on the Effective
22 Date, holders of Allowed Priority Tax Claims will be paid: (a) fully and in Cash on or
23 before ten (10) Business Days after the Effective Date if the Claim is then an Allowed
24 Claim; or (b) fully and in Cash within ten (10) Business Days after the entry of a Final
25 Order allowing the Claim, if the Claim is not an Allowed Claim as of the Effective Date.
26 Priority Tax Claims will be allowed in the principal amount of the tax due as of the

1 Petition Date, with interest at the applicable statutory rate in accordance with section
2 511 of the Bankruptcy Code. No amounts attributable to penalties imposed or sought to
3 be imposed by holders of Priority Tax Claims will be paid. Priority Tax Claims are
4 unimpaired pursuant to the Plan and votes to accept or reject the Plan will not be
5 solicited from Creditors holding Priority Tax Claims.

6 9. Class 1 (Priority Non-Tax Claims). To the extent Allowed Priority Non-
7 Tax Claims exist on the Effective Date, holders of Allowed Priority Non-Tax Claims will
8 be paid: (a) fully and in Cash on or before ten (10) Business Days after the Effective
9 Date if the Claim is then an Allowed Claim; or (b) fully and in Cash within ten (10)
10 Business Days after the entry of a Final Order allowing the Claim, if the Claim is not an
11 Allowed Claim as of the Effective Date. Class 1 Claims are unimpaired under the Plan,
12 and the holders of Class 1 Claims are not entitled to vote on the Plan.

13 10. Class 8 (ArmorWorks' Member Equity Interest in TechFiber). The 100%
14 Member Equity Interest of ArmorWorks in TechFiber shall be an Allowed interest under
15 the Plan.

16 a. If the Transaction is an asset sale contemplated under section 8.3 of
17 the Plan, ArmorWorks shall retain its Member Equity Interest in TechFiber, and
18 TechFiber shall be reorganized solely for the purpose of liquidating any Excluded
19 Assets and the dissolution of the Reorganized Debtors.

20 b. If the Transaction is an equity sale contemplated under section 8.3 of
21 the Plan, unless the ArmorWorks' Member Interest in Tech Fiber is an Excluded
22 Asset, ArmorWorks' Member Interest in TechFiber shall disposed of through the
23 Transaction at Closing.

24 c. If the Transaction is an equity sale contemplated under section 8.3 of
25 the Plan, and ArmorWorks' Member Interest in Tech Fiber is an Excluded Asset,
26 ArmorWorks' Member Interest in Tech Fiber shall be conveyed to the AWE

1 Liquidating Trust on the Effective Date, along with all other Excluded Assets.

2 d. Class 8 Member Equity Interests are unimpaired under the Plan, and
3 holders of Class 8 Member Equity Interests are not entitled to vote on the Plan.

4 **C. Summary of Treatment of Impaired Classes.**

5 1. Class 2 (Secured Claims). The Debtors do not believe there are any Class
6 2 Secured Claims against the Debtors existing as of the Petition Date. Holders of
7 Allowed Class 2 Secured Claims, if any, will retain their prepetition liens in their
8 collateral. Each Claimant holding an Allowed Class 2 Secured Claim will be placed in a
9 separate sub-class of Class 2 for the purposes of voting on the Plan and the treatment of
10 their respective Claims under the Plan. In the discretion of the Reorganized Debtors or
11 AWE Liquidating Trustee, as applicable, Allowed Class 2 Secured Claims shall be
12 satisfied as follows: (a) through the abandonment or transfer of the collateral to the
13 secured creditor within ten (10) Business Days after the later of the Effective Date or the
14 allowance of the Claim, in which case the Claimant shall have the right to assert a
15 General Unsecured Claim paid under Class 4 or 5, as applicable, for any deficiency to
16 the extent allowable by applicable non-bankruptcy law; or (b) any prepetition default
17 under the applicable contract and security documents will be cured on the Effective Date
18 and regular payments will be made to the holder of the Allowed Class 2 Secured Claim
19 after the Effective Date in accordance with the applicable contract; or (c) the Allowed
20 Class 2 Secured Claim will be paid in full within ten (10) Business Days after the
21 Effective Date with interest from and after the Effective Date at the greater of the non-
22 default contract rate of interest or 3% simple interest per annum. No default interest or
23 other penalties will be paid to holders of Allowed Class 2 Secured Claims. Class 2
24 Secured Claims are impaired, and the holders are entitled to vote to accept or reject the
25 Plan.

26 2. Class 3 (Secured Tax Claims). Class 3 Claims consists of all Secured Tax

1 Claims against the Debtors for 2012 and 2013 real or personal property taxes. Holders
2 of Allowed Class 3 Claims will retain their liens on the Property that serves as security
3 for repayment of Allowed Class 3 Claims. The Allowed Class 3 claims, including post-
4 petition interest in accordance with 11 U.S.C. § 511, will be paid in full within ten (10)
5 Business Days after the Effective Date. Class 3 Claims are impaired and holders are
6 entitled to vote to accept or reject the Plan.

7 3. Class 4 (ArmorWorks Unsecured Claims). Class 4 consists of all
8 Unsecured Claims against ArmorWorks. Allowed Class 4 Claims will accrue interest
9 from and after the Effective Date at the rate of 3.25% per annum simple interest. After
10 the payment in full of all Administrative Claims and all Priority Claims, holders of
11 Allowed Class 4 Claims will be paid on the latest of ten (10) Business Days after the
12 Effective Date or after the entry of a Final Order allowing the Claim. If insufficient
13 funds are available to pay all Allowed Unsecured Claims in full, holders of Allowed
14 Class 4 Unsecured Claims will be paid their Pro Rata share, on a *pari passu* basis with
15 Class 5, of all amounts available to distribute to Unsecured Creditors, except for any
16 Allowed Class 4 Claim that has been subordinated to other Allowed Class 4 Claims by
17 order of the Bankruptcy Court pursuant to section 510 of the Bankruptcy Code or
18 otherwise. Any Allowed Class 4 Claim that is so subordinated shall be paid *pari passu*
19 with any other Allowed Class 4 Claims that are so subordinated, and all such
20 subordinated Allowed Class 4 Claims shall be paid only after all other Allowed Class 4
21 Claims are paid in full. Class 4 ArmorWorks Unsecured Claims are impaired, and the
22 holders are entitled to vote to accept or reject the Plan.

23 Class 5 (TechFiber Unsecured Claims). Class 5 consists of all Unsecured Claims
24 against TechFiber. Allowed Class 5 Claims will accrue interest from and after the
25 Effective Date at the rate of 3.25% per annum simple interest. After the payment in full
26 of all Administrative Claims and all Priority Claims, holders of Allowed Class 5 Claims

1 will be paid on the latest of ten (10) Business Days after the Effective Date or the
2 allowance of the Claim. If insufficient funds are available to pay all Allowed Unsecured
3 Claims in full, holders of Allowed Class 5 Unsecured Claims will be paid their Pro Rata
4 share, on a pari passu basis with Class 4, of all amounts available to distribute to
5 Unsecured Creditors, except for any Allowed Class 5 Claim that has been subordinated to
6 other Allowed Class 5 Claims by order of the Bankruptcy Court pursuant to section 510
7 of the Bankruptcy Code or otherwise. Any Allowed Class 5 Claim that is so
8 subordinated shall be paid pari passu with any other Allowed Class 5 Claims that are so
9 subordinated, and all such subordinated Allowed Class 5 Claims shall be paid only after
10 all other Allowed Class 5 Claims are paid in full. Class 5 TechFiber Unsecured Claims
11 are impaired, and the holders are entitled to vote to accept or reject the Plan.

12 4. Class 6 (Member Equity Interests in ArmorWorks). Class 6 consists of the
13 40% Member Equity Interest of C Squared and the 60% Member Equity Interest of AWI
14 in ArmorWorks, which shall be deemed Allowed under the Plan.

15 a. If the Transaction is an asset sale contemplated under section 8.3 of
16 the Plan, on the Closing Date, at closing, all Member Equity Interests in
17 ArmorWorks shall be retained by the Members. ArmorWorks shall be
18 reorganized solely for the purpose of the liquidation of Excluded Assets and the
19 dissolution of the Reorganized Debtors. In accordance with 11 U.S.C. §
20 1129(b)(2)(C)(i), each Member shall receive the value of their Member Equity
21 Interest from Reorganized ArmorWorks only after: (a) the payment of all Allowed
22 Claims against the Debtor, including all Sale Expenses, all Allowed fees and
23 expenses of the Independent Debtor Representative; (b) all post-petition liabilities
24 of the Reorganized Debtors (to the extent such post-petition obligations are not
25 assumed by the buyer at closing under the Transaction); and (c) the resolution of
26 all of the C Squared Parties' Claims, the AWI Parties' Claims, and any claims or

1 causes of action assigned to either the C Squared Parties or the AWI Parties
2 pursuant to section 9.2 of the Plan, by either settlement or Final Order. Any
3 distribution payable under this Plan on account of an Allowed Member Equity
4 Interest shall be retained by the Reorganized ArmorWorks until the satisfaction of
5 the requirements of the Plan, including resolution of all of the C Squared Parties'
6 Claims, the AWI Parties' Claims, and any claims or causes of action assigned to
7 either the C Squared Parties or the AWI Parties pursuant to section 9.2 of the Plan,
8 by either settlement or Final Order.

9 b. If the Transaction is an equity sale contemplated under section 8.3 of
10 the Plan, on the Closing Date, at closing, all Member Equity Interests in
11 ArmorWorks shall be cancelled. In accordance with 11 U.S.C. § 1129(b)(2)(C)(i),
12 each Member shall receive the value of their Member Equity Interest from the
13 AWE Liquidating Trust only after: (a) the payment of all Allowed Claims against
14 the Debtor, including all Sale Expenses, all Allowed fees and expenses of the
15 Independent Debtor Representative; (b) all post-petition liabilities of the
16 Reorganized Debtors (to the extent such post-petition obligations are not assumed
17 by the buyer at closing under the Transaction); and (c) the resolution of all of the
18 C Squared Parties' Claims, the AWI Parties' Claims, and any claims or causes of
19 action assigned to either the C Squared Parties or the AWI Parties pursuant to
20 section 9.2 of the Plan, by either settlement or Final Order. Any distribution
21 payable under this Plan on account of an Allowed Member Equity Interest shall be
22 retained by the AWE Liquidating Trust until the satisfaction of the requirements of
23 the Plan, including resolution of all of the C Squared Parties' Claims, the AWI
24 Parties' Claims, and any claims or causes of action assigned to either the C
25 Squared Parties or the AWI Parties pursuant to section 9.2 of the Plan, by either
26 settlement or Final Order.

1 Class 6 Member Equity Interests in ArmorWorks are impaired, and the holders
2 are entitled to vote to accept or reject the Plan.

3 5. Class 8 (Subsidiary General Unsecured Claims). Class 8 consists of all
4 General Unsecured Claims asserted by any Subsidiary against the Debtors. All Class 8
5 Claims shall be deemed satisfied as a result of the closing of the Transaction and no
6 distributions will be made under the Plan to holders of Class 8 Claims. Class 8
7 Subsidiary General Unsecured Claims are impaired, and the holders are entitled to vote
8 to accept or reject the Plan.

9 **D. Treatment of Executory Contracts and Unexpired Leases.**

10 The Plan provides for the rejection, as of the Effective Date, pursuant to Section
11 365 of the Bankruptcy Code, of any and all Executory Contracts and Unexpired Leases of
12 the Debtors which are in force on the Effective Date, except (i) those Executory
13 Contracts and Unexpired Leases which are specifically assumed pursuant to an order of
14 the Bankruptcy Court prior to the Effective Date, and (ii) those Executory Contracts and
15 Unexpired Leases which are listed on Schedule 10.1 to the Plan (or on any amendment to
16 Schedule 10.1 filed on or before the Confirmation Date). The provisions of the Plan shall
17 not affect or impair the right of any party in interest, including a Plan Proponent, to object
18 to the assumption or rejection of any Executory Contract or Unexpired Lease, including,
19 but not limited to contesting whether or not a particular contract is or is not an Executory
20 Contract. Notwithstanding any other provision of the Plan or prior notice of any kind
21 from the clerk of the Bankruptcy Court, any and all Creditors or persons with Claims
22 against the Debtors' Estate arising out of or in connection with or due to the rejection of
23 an Executory Contract or Unexpired Lease pursuant to the Plan shall have thirty (30)
24 days from the earlier of: (i) the Effective Date, or (ii) the entry of an order of the
25 Bankruptcy Court rejecting such Executory Contract or Unexpired Lease, within which to
26 file a proof of claim in the true amount of such Claim. If any such Creditor fails to file a

1 proof of claim within said thirty (30) day period, then such Creditor shall have no Claim
2 against the Debtors or their Estates, which Claims arising out of or in connection with or
3 due to the rejection of such Executory Contract or Unexpired Lease, shall be dismissed,
4 released and null and void. Any Person, Entity or Governmental Unit who's Claim arises
5 from the rejection of an Executory Contract or Unexpired Lease shall, to the extent such
6 Claim becomes an Allowed Claim, have the rights of a Claimant in Class 4 or 5, as
7 applicable with respect thereto. Any claim filed in accordance with the provisions of
8 Section 10.1 of the Plan shall be treated as a Disputed Claim until the period of time has
9 elapsed for filing an objection to such Claim.

10 **VIII.**
11 **OVERVIEW OF ADDITIONAL PLAN PROVISIONS**

12 **A. Implementation of the Plan.**

13 1. In General. The Plan is to be implemented in a manner consistent with
14 Section 1123 of the Bankruptcy Code.

15 2. Post Confirmation Pre-Effective Date Management of Debtors.

16 a. Perciballi. Perciballi will direct and manage all of the day-to-day
17 operations of the Debtors post-confirmation until the Effective Date, unless
18 removed by order of the Bankruptcy Court.

19 b. Independent Debtor Representative. Until the Effective Date, the
20 Independent Debtor Representative shall have and shall continue to exercise all of
21 the powers and duties described in the Sale Protocol and Sale Protocol Order.

22 3. Transaction. The holders of Allowed Claims and Member Equity Interests
23 in the Debtor will receive the proceeds of a Transaction solicited and negotiated by the
24 Sale Agent, at the direction of the Independent Debtor Representative, in accordance
25 with the terms of the Sale Protocol, Sale Protocol Order, and the Sale Agent Agreement.
26 The Independent Debtor Representative shall represent the Debtors and their Estates in
connection with all aspects of the Transaction in accordance with the Sale Protocol and

1 Sale Protocol Order.

2 a. Prior to Effective Date, the Independent Debtor Representative shall
3 seek Bankruptcy Court approval for a Transaction, which may include bidding and
4 auction procedures. The closing of the Transaction is subject to the entry of an
5 order of the Bankruptcy Court approving the Transaction. If approved, the
6 Transaction shall close on the Closing Date and all Sale Expenses and the
7 Transaction Fee will be paid from escrow at closing.

8 (1) Asset Sale. If the transaction is structured as an asset sale,
9 then all of the Acquired Assets will be sold free and clear of all liens
10 pursuant to Bankruptcy Code § 1123(a)(5)(D). As set forth in the Plan, all
11 the proceeds from any asset sale, along with the Excluded Assets shall vest
12 in the Reorganized Debtors.

13 (2) Equity Sale. If the Transaction is structured as a sale of the
14 Member Equity Interests of ArmorWorks, then the order of the Bankruptcy
15 Court approving the sale will provide for the issuance of new Member
16 Equity Interests in the Reorganized Debtors to the buyer effective as of the
17 Closing. As set forth in the Plan, all the proceeds from any equity sale,
18 along with the Excluded Assets shall be transferred to the AWE
19 Liquidating Trust.

20 4. Sale Agent. The Confirmation Order will provide for the continued
21 engagement of the Sale Agent. The rights and obligations of the Sale Agent under the
22 Plan shall be governed by the Sale Agent Agreement, the order of the Bankruptcy Court
23 approving the employment of the Sale Agent, the Plan and the Confirmation Order.

24 5. Post-Effective Date Structure and Administration of Debtors.

25 a. If the Transaction is an equity sale contemplated under section 8.3 of
26 the Plan, prior to the Effective Date, the Bankruptcy Court shall approve the

1 formation of the AWE Liquidating Trust in a form substantially similar in all
2 material respects to the proposed AWE Liquidating Trust Agreement, which is to
3 be consistent with the rights, duties and obligations set forth in section 8.5.2, as
4 agreed to by the Plan Proponents, and filed with the Bankruptcy Court prior to
5 Confirmation or, in the absence of such agreement, as approved by the Bankruptcy
6 Court after notice and hearing. All of the proceeds from the Transaction and the
7 Excluded Assets shall be transferred to the AWE Liquidating Trust and
8 administered according to the terms of the AWE Liquidating Trust Agreement as
9 approved by the Bankruptcy Court.

10 (1) Unless the Bankruptcy Court selects a different person, the
11 Independent Debtor Representative shall be the initial Liquidating Trustee
12 under AWE Liquidating Trust and have all of the rights, duties and
13 obligations as set forth in the AWE Liquidating Trust Agreement.

14 (2) If at any time the Independent Debtor Representative is
15 unwilling or unable to serve as the Trustee of the AWE Liquidating Trust,
16 AWI and C Squared will jointly select the successor Trustee of the AWE
17 Liquidating Trust. If AWI and C Squared are unable to agree on a
18 successor Trustee of the AWE Liquidating Trust, the Bankruptcy Court will
19 appoint the successor Trustee of the AWE Liquidating Trust after motion
20 and a hearing.

21 b. If the Transaction is an asset sale contemplated under section 8.3 of
22 the Plan, on the Effective Date, the Debtors will cease, at closing, all day to day
23 activities and the Debtors shall reorganize solely for the purpose of liquidation and
24 dissolution. All of the proceeds from the Transaction and the Excluded Assets
25 shall vest in the Reorganized Debtors and be administered according to the terms
26 of this Plan.

1 (1) The Independent Debtor Representative shall be designated as
2 the sole manager of the Reorganized Debtors for all purposes under the
3 Plan; and, notwithstanding anything to the contrary in any then-existing
4 operating agreements for ArmorWorks or TechFiber, shall exercise the
5 rights, powers and duties set forth in the Plan for the Independent Debtor
6 Representative or as otherwise ordered by the Bankruptcy Court. If at any
7 time the Independent Debtor Representative is unwilling or unable to serve
8 as the sole manager of the Reorganized Debtors, AWI and C Squared will
9 jointly select a successor sole manager. If AWI and C Squared are unable
10 to agree on a successor sole manager, the Bankruptcy Court will appoint
11 the successor sole manager after motion and a hearing.

12 (2) The amount of any reasonable fees and expenses incurred by
13 the Independent Debtor Representative, as the sole manager of the
14 Reorganized Debtors, or any successor sole manager, after the Effective
15 Date (including, without limitation, reasonable attorney and other
16 professional fees and expenses) shall be paid from the proceeds of the
17 Transaction and the sale or other disposition of the Excluded Assets prior to
18 the calculation of any distributions to the Members.

19 (3) The Independent Debtor Representative in return for serving
20 as the sole manager of the Reorganized Debtors shall receive hourly
21 compensation for services rendered in carrying out its duties under the Plan
22 in accordance with the rates set forth in the Bankruptcy Rule 2014
23 statement filed by the Independent Debtor Representative during the
24 Bankruptcy Case.

25 (4) In addition, the Independent Debtor Representative, as the
26 sole manager of the Reorganized Debtors or any successor sole manager, or

1 alternatively, as the sole trustee of the AWE Liquidating Trust or any
2 successor trustee, shall be authorized to:

3 (i) object to Claims, and complete the Claims objection
4 and Claims administration process under the Plan;

5 (ii) investigate and pursue any Claims the Estates may
6 have against any Person or Governmental Unit, and bring any
7 actions to recover property of the Estates, and to that end the
8 Independent Debtor Representative is hereby designated as the estate
9 representative pursuant to and in accordance with Section
10 1123(b)(3)(B) of the Bankruptcy Code;

11 (iii) make all disbursements to holders of Allowed Claims
12 in accordance with the Plan;

13 (iv) make all disbursements to holders of Allowed Member
14 Equity Interests in accordance with the Plan;

15 (v) pay all post-petition operating and other expenses of
16 the Debtors and their Estates after the Closing Date, to the extent not
17 assumed by the buyer at closing through the Transaction, including
18 Quarterly fees pursuant to 28 U.S.C. Section 1930(a)(6) payable to
19 the Office of the United States Trustee;

20 (vi) oversee the completion of any final tax and accounting
21 issues for the Debtors' Estates, including filing all local, state, and
22 federal tax returns and other required filings;

23 (vii) file quarterly post-confirmation reports and a final
24 report and accounting with the Bankruptcy Court;
25
26

1 (viii) to do all other things reasonably necessary to carry out
2 the purpose and intent of the Plan, wind-down the Debtors' Estates,
3 and close the Bankruptcy Case;

4 (ix) seek and obtain the entry of a final decree and an order
5 from the Bankruptcy Court discharging and releasing the
6 Independent Debtor Representative and closing the case; and

7 (x) may retain and compensate professionals (which may
8 include Professional Persons) to reasonably assist in performing its
9 duties under the Plan, on such terms as the Independent Debtor
10 Representative reasonably deems appropriate, without Bankruptcy
11 Court approval.

12 (5) Notwithstanding the foregoing, if the proceeds from the
13 Transaction and the Excluded Assets are sufficient to pay all Allowed
14 Claims including, without limitation, all Sale Expenses, all fees and
15 expenses of the Independent Debtor Representative, all post-petition
16 liabilities of the Reorganized Debtors (to the extent such post-petition
17 obligations are not assumed by the buyer at closing under the Transaction),
18 and all liabilities of the AWE Liquidating Trust, if applicable, in full, and if
19 the funds necessary to pay all of the foregoing Claims, expenses, fees, and
20 liabilities have been received, are being held by, and have been reserved by
21 the Debtors or the AWE Liquidating Trust for such payment, the
22 Independent Debtor Representative's obligation, in any capacity, to: (i)
23 object to Claims, and complete the Claims objection and Claims
24 administration process under Plan; and (ii) investigate and pursue any
25 Claims the Estates may have against any Person or Governmental Unit, and
26 bring any actions to recover property of the Estates, shall not extend to the

1 claims and causes of action against and/or by and between the C Squared
2 Parties and the AWI Parties. Until such time as the conditions set forth
3 above have been met, the Independent Debtor Representative shall take any
4 and all steps necessary to preserve: (i) any objections to Claims held or
5 asserted by any claimant, including, without limitation, the C Squared
6 Parties and/or the AWI Parties; and (ii) any Claims the Estates may have
7 against any party, including, without limitation, the C Squared Parties
8 and/or the AWI Parties.

9 6. Limitation of Liability; Unknown Property.

10 a. If the Transaction is an equity sale contemplated under section 8.3 of
11 the Plan, and the AWE Liquidating Trust has been established, the AWI
12 Liquidating Trustee agreement shall provide that the Independent Debtor
13 Representative, as the Liquidating Trustee and any successor Liquidating Trustee
14 shall not be personally liable with respect to any liabilities or obligations of the
15 Debtors or their Estates, including, without limitation, those arising under the Plan
16 whether before or after the Effective Date, and all persons dealing with the
17 Debtors or Reorganized Debtors must look solely to the Estates for the
18 enforcement of any claims against the Debtors or the Estates. The Independent
19 Debtor Representative, as the Liquidating Trustee and any successor Liquidating
20 Trustee, shall have no duty to make, nor incur any liability for failing to make, any
21 search for unknown property or for unknown liabilities.

22 b. If the Transaction is an asset sale contemplated under section 8.3 of
23 the Plan, the Independent Debtor Representative, as the sole manager of the
24 Reorganized Debtors and any successor manager shall not be personally liable
25 with respect to any liabilities or obligations of the Debtors or their Estates,
26 including, without limitation, those arising under the Plan whether before or after

1 the Effective Date, and all persons dealing with the Debtors or Reorganized
2 Debtors must look solely to the Estates for the enforcement of any claims against
3 the Debtors or the Estates. The Independent Debtor Representative, as the sole
4 manager of the Reorganized Debtors and any successor manager, shall have no
5 duty to make, or incur any liability for failing to make, any search for unknown
6 property or for unknown liabilities.

7 **B. Member Reservation Of Rights And Litigation.**

8 1. Members' Reservation of Rights.

9 a. Notwithstanding anything to the contrary in the Plan, Confirmation
10 Order, and/or the AWE Liquidating Trust Agreement, if applicable, any and all of
11 the C Squared Parties' Claims are hereby preserved and reserved by the C Squared
12 Parties whether or not litigation relating thereto is pending on the Effective Date,
13 and whether or not any such claims, causes of action, and/or defenses have been
14 listed or referred to in the Plan, the Disclosure Statement, or any other document
15 filed with the Bankruptcy Court. The C Squared Parties do not waive, release,
16 relinquish, forfeit, or abandon (and shall not be estopped or otherwise precluded or
17 impaired from asserting) any of the C Squared Parties' Claims and/or defenses that
18 the C Squared Parties held as of the Confirmation Date: (a) whether or not such C
19 Squared Parties' Claims and/or defenses have been listed or referred to in this
20 Plan, the Disclosure Statement, or any other document filed with the Bankruptcy
21 Court, (b) whether or not such C Squared Parties' Claims and/or defenses are
22 currently known to the C Squared Parties, and/or (c) whether or not a defendant in
23 any litigation relating to such C Squared Parties' Claims and/or defenses filed a
24 proof of claim in the Case, filed a notice of appearance or any other pleading or
25 notice in the Case, voted for or against this Plan, was a Plan Proponent and/or
26 received or retained any consideration under this Plan.

1 (i) Without in any manner limiting the scope of any of the
2 foregoing, notwithstanding any otherwise applicable principle of law or
3 equity, including, without limitation, any principles of judicial estoppel, res
4 judicata, collateral estoppel, issue preclusion, or any similar doctrine, the
5 failure to list, disclose, describe, identify, analyze, or refer to any C
6 Squared Parties' Claims or defenses, in the Plan, the Disclosure Statement,
7 and/or any other document filed with the Bankruptcy Court shall in no
8 manner waive, eliminate, modify, release, or alter the C Squared Parties'
9 right to commence, prosecute, defend against, settle, recover on account of,
10 and realize upon any C Squared Parties' Claims or defenses that the C
11 Squared Parties have or may have as of the Effective Date.

12 (ii) Without in any manner limiting the scope of any of the
13 foregoing, notwithstanding any otherwise applicable principle of law or
14 equity, including, without limitation, any principles of judicial estoppel, res
15 judicata, collateral estoppel, issue preclusion, or any similar doctrine, any
16 participation by the C Squared Parties in the Case, including, but not
17 limited to being a Plan Proponent, shall in no manner waive, eliminate,
18 modify, release, or alter the C Squared Parties' right to commence,
19 prosecute, defend against, settle, recover on account of, and realize upon
20 any C Squared Parties' Claims or defenses that the C Squared Parties have
21 or may have as of the Effective Date, including, but not limited, to any and
22 all claims or causes of action related to the filing of the voluntary petition
23 on the Petition Date and the commencement of the Case.

24 b. Notwithstanding anything to the contrary in the Plan, Confirmation
25 Order, and/or the AWE Liquidating Trust Agreement, if applicable, any and all of
26 the AWI Parties' Claims are hereby preserved and reserved by the AWI Parties

1 whether or not litigation relating thereto is pending on the Effective Date, and
2 whether or not any such claims, causes of action, or defenses have been listed or
3 referred to in the Plan, the Disclosure Statement, or any other document filed with
4 the Bankruptcy Court. The AWI Parties do not waive, release, relinquish, forfeit,
5 or abandon (and shall not be estopped or otherwise precluded or impaired from
6 asserting) any of the AWI Parties' Claims or defenses that the AWI Parties held
7 as of the Confirmation Date: (a) whether or not such AWI Parties' Claims or
8 defenses have been listed or referred to in this Plan, the Disclosure Statement, or
9 any other document filed with the Bankruptcy Court, (b) whether or not such AWI
10 Parties' Claims or defenses are currently known to the AWI Parties, and (c)
11 whether or not a defendant in any litigation relating to such AWI Parties' Claims
12 or defenses filed a proof of claim in the Case, filed a notice of appearance or any
13 other pleading or notice in the Case, voted for or against this Plan, was a Plan
14 Proponent or received or retained any consideration under this Plan.

15 (i) Without in any manner limiting the scope of any of the
16 foregoing, notwithstanding any otherwise applicable principle of law or
17 equity, including, without limitation, any principles of judicial estoppel, res
18 judicata, collateral estoppel, issue preclusion, or any similar doctrine, the
19 failure to list, disclose, describe, identify, analyze, or refer to any AWI
20 Parties' Claims or defenses, in the Plan, the Disclosure Statement, or any
21 other document filed with the Bankruptcy Court shall in no manner waive,
22 eliminate, modify, release, or alter the AWI Parties' right to commence,
23 prosecute, defend against, settle, recover on account of, and realize upon
24 any AWI Parties' Claims or defenses that the AWI Parties have or may
25 have as of the Effective Date.

26 (ii) Without in any manner limiting the scope of any of the

1 foregoing, notwithstanding any otherwise applicable principle of law or
2 equity, including, without limitation, any principles of judicial estoppel, res
3 judicata, collateral estoppel, issue preclusion, or any similar doctrine, any
4 participation by the AWI Parties in the Case, including, but not limited to
5 being a Plan Proponent, shall in no manner waive, eliminate, modify,
6 release, or alter the AWI Parties' right to commence, prosecute, defend
7 against, settle, recover on account of, and realize upon any AWI Parties'
8 Claims or defenses that the AWI Parties have or may have as of the
9 Effective Date, including, but not limited, to any and all claims or causes of
10 action related to the filing of the voluntary petition on the Petition Date and
11 the commencement of the Case.

12 c. Both the C Squared Parties and the AWI Parties expressly reserve
13 any all of their respective C Squared Parties' Claims and defenses and the AWI
14 Parties' Claims and defenses for later adjudication by the C Squared Parties and
15 the AWI Parties and therefore, no preclusion doctrine, including the doctrines of
16 res judicata, collateral estoppel, issue preclusion, claim preclusion, waiver,
17 estoppel (judicial, equitable or otherwise) or laches will apply to such C Squared
18 Parties' Claims and defenses and the AWI Parties' Claims and defenses upon or
19 after the Confirmation or consummation of the Plan.

20 d. Nothing in Section 9.1 of the Plan or elsewhere in the Plan shall be
21 interpreted or construed so as to allow the C Squared Parties or the AWI Parties to
22 pursue claims against the Debtors, their estates, or any subsidiaries of the Debtors
23 included in any Transaction, after the closing of the Transaction, other than such
24 Claims as are Allowed Claims. As to Allowed Claims, they may be pursued and
25 paid only in accordance with this Plan.

26 2. Assignment of Debtors' Claims. Both the C Squared Parties and the AWI

1 Parties assert that the Debtors have or may hold claims or causes of actions against the
2 other. If the proceeds from the Transaction and the Excluded Assets are sufficient to pay
3 all Allowed Claims including, without limitation, all Sale Expenses, all fees and
4 expenses of the Independent Debtor Representative, and all post-petition liabilities of the
5 Reorganized Debtors (to the extent such post-petition obligations are not assumed by the
6 buyer at closing under the Transaction), and all liabilities of the AWE Liquidating Trust,
7 if applicable, and if the funds necessary to pay all of the foregoing Claims, expenses,
8 fees, and liabilities have been received, are being held by, and have been reserved by the
9 Debtors or the AWE Liquidating Trust for such payment, then at such time the Debtors
10 and their Estates, the Reorganized Debtors and/or the AWE Liquidating Trust
11 irrevocably assign, transfer and convey:

12 a. To the C Squared Parties any and all claims, cause of action, Claims
13 or any other right the Debtors or their Estates may have or hold against the AWI
14 Parties, including, but not limited to, any interest the Debtors or their Estates may
15 have or hold in the C Squared Parties' Claims.

16 b. To the AWI Parties any and all claims, cause of action, Claims or
17 any other right the Debtors or their Estates may have or hold against the C
18 Squared Parties, including, but not limited to, any interest the Debtors or their
19 Estates may have or hold in the AWI Parties' Claims.

20 **C. Resolution of Claims, Demands, and Causes of Action.**

21 Any objections to Claims shall be served and filed on or before the later of: (i)
22 sixty (60) days after the Effective Date; (ii) thirty (30) days after a request for payment or
23 proof of Claim is timely filed and properly served; or (iii) such other date as may be fixed
24 by the Bankruptcy Court, whether before or after the dates specified in subsections (i)
25 and (ii) herein. Notwithstanding any authority to the contrary, an objection to a Claim
26 shall be deemed properly served on the Creditor if service is effected in any of the

1 following manners: (a) in accordance with Federal Rule of Civil Procedure 4, as modified
2 and made applicable by Bankruptcy Rule 7004; (b) by first class mail, postage prepaid,
3 on any counsel that has appeared on the Creditor's behalf in the Cases; or (c) by first
4 class mail, postage prepaid, on the signatory on the proof of Claim or other representative
5 identified in the proof of Claim or any attachment thereto.

6 Notwithstanding any other provision of the Plan, if any portion of a Claim is a
7 Disputed Claim, no payment or distribution provided hereunder shall be made on account
8 of such Claim unless and until such Disputed Claim becomes an Allowed Claim. After
9 such time as a Disputed Claim becomes an Allowed Claim, the Debtors or the
10 Independent Debtor Representative, as applicable, shall distribute to the holder thereof
11 the distributions, if any, to which such holder is then entitled under the Plan in
12 accordance with the provisions hereof. In respect of Disputed Claims such distributions
13 shall be made within fifteen (15) days after such Disputed Claims become Allowed
14 Claims by Final Order of the Bankruptcy Court or as soon thereafter as practicable.

15 **D. Provisions Concerning Distributions.**

16 Payments and distributions to be made on or after the Effective Date pursuant to
17 the Plan shall be made on such date, or as soon as practicable thereafter, except as
18 otherwise provided for in the Plan, or as may be ordered by the Court, or as may be
19 agreed to by the Independent Debtor Representative and the Holder of the Claim or
20 Member Equity Interest.

21 Whenever any payment or distribution to be made under the Plan shall be due on a
22 day other than a Business Day, such payment or distribution shall instead be made,
23 without interest, on the next Business Day, or as soon as practicable thereafter, or as may
24 be agreed to by the Independent Debtor Representative and the holder of the Claim or
25 Member Equity Interest.

1 Cash payments made pursuant to the Plan shall be made in the currency of the
2 United States, by check drawn on a domestic bank or by wire transfer from a domestic
3 bank. Distributions to all holders of Allowed Claims and Member Equity Interests shall
4 be made (a) at the addresses set forth in the proof of claim filed by such holders (or at last
5 known addresses of such holders if no proofs of claims were filed or the Debtors were
6 notified of a change of address); or (b) at the addresses set forth in any written notices of
7 address change delivered to the Debtors or the Bankruptcy Court; or (c) at the addresses
8 reflected in the Debtors' schedules if no claim shall have been filed and no written notice
9 of an address change has been received by the Debtors. No payments shall be made to a
10 holder of a Disputed Claim unless and until such Claim becomes an Allowed Claim by a
11 Final Order.

12 Any other provision of the Plan to the contrary notwithstanding, no payments of
13 fractions of cents will be made. Whenever any payment of a fraction of a cent would
14 otherwise be called for, the actual payment shall reflect a rounding of such fraction to the
15 nearest whole cent (rounding down in the case of .5).

16 If a Holder of an Allowed Claim, or any other claim or interest fails to negotiate a
17 check issued to such Holder under the Plan within sixty (60) days of the date such check
18 was issued by the Reorganized Debtors or the AWE Liquidating Trust, as applicable,
19 then the amount of Cash or other property attributable to such check shall be deemed to
20 be "Unclaimed Distributions," and the payee of such check shall be deemed to have no
21 further Claim or future Claim against the Debtors, the Reorganized Debtors or the AWE
22 Liquidating Trust. In the event any payment to a holder of a Claim under the Plan
23 remains unclaimed for a period of sixty (60) days after such distribution has been made
24 (or after such delivery has been attempted), such Unclaimed Distribution and all future
25 distributions to be made to such holders shall be deemed forfeited by such holder.
26

1 In the event of any dispute between and among Claimants (including the Entity or
2 Entities asserting the right to receive the disputed payment or distribution) as to the right
3 of any Entity to receive or retain any payment or distribution to be made to such Entity
4 under the Plan, the Reorganized Debtors or the AWE Liquidating Trust, as applicable,
5 may, in lieu of making such payment or distribution to such Entity, make it instead into
6 an escrow account or to a disbursing agent, for payment or distribution as ordered by a
7 court of competent jurisdiction or as the interested parties to such dispute may otherwise
8 agree among themselves.

9 **E. Re-Vesting of the Debtors' Property.**

10 Under the Plan, except as expressly provided for in the Plan or the Confirmation
11 Order, on the Effective Date, the Reorganized Debtors or the AWE Liquidating Trust, as
12 applicable, shall be vested with all proceeds from the Transaction, the Excluded Assets
13 and all remaining property and assets of their respective Estates, free and clear of all
14 claims, liens, charges, and other interests of creditors and interest holders arising prior to
15 the Petition Date.

16 **F. Retention of Jurisdiction.**

17 12.1 Notwithstanding the entry of the Confirmation Order or the occurrence of
18 Effective Date, the Bankruptcy Court shall retain jurisdiction over this Case and any
19 proceedings related thereto to the fullest extent permitted by the Bankruptcy Code or
20 applicable law, and to make such orders as are necessary or appropriate to carry out the
21 provisions of this Plan. In addition, the Bankruptcy Court shall retain jurisdiction to
22 implement the provisions of the Plan in the manner as provided under Section 1142 of the
23 Bankruptcy Code. If the Bankruptcy Court abstains from exercising, or declines to
24 exercise jurisdiction, or is otherwise without jurisdiction over any matter set forth in this
25 Section, or if the Debtors, the C Squared Parties, or the AWI Parties elect to bring an
26 action or proceeding in any other forum, then this Section shall have no effect upon and

1 shall not control, prohibit or limit the exercise of jurisdiction by any other court, public
2 authority, or commission having competent jurisdiction over such matters. More specific
3 information regarding the proposed retention of jurisdiction by the Bankruptcy may be
4 found in Article 12 of the Plan.

5 **G. Effect of Confirmation of Plan.**

6 1. Discharge. Any liability imposed by the Plan will not be discharged. If
7 Confirmation of this Plan and/or the conditions precedent to the effectiveness of the Plan
8 are not satisfied, the Plan shall be deemed null and void. In such event, nothing
9 contained in this Plan shall be deemed to constitute a waiver or release of any claims
10 against the Debtors or their Estates or any other Persons, or to prejudice in any manner
11 the rights of the Debtors, their Estates, and/or any Person in any further proceeding
12 involving the Debtors, their Estates and/or any Person. The provisions of this Plan shall
13 be binding upon the Debtors, all Creditors and all Member Equity Interest holders,
14 regardless of whether such Claims or Member Equity Interest holders are impaired or
15 whether such parties accept this Plan, upon Confirmation thereof.

16 2. Modification of Plan. The Plan Proponents may modify the Plan at any
17 time before Confirmation. However, the Bankruptcy Court may require a new
18 Disclosure Statement or re-voting on the Plan if the Plan Proponents materially modify
19 the Plan before Confirmation. The Plan Proponents may also seek to modify the Plan at
20 any time after Confirmation so long as (a) the Plan has not been substantially
21 consummated, and (b) the Bankruptcy Court authorizes the proposed modification after
22 notice and a hearing. After Confirmation, the Plan Proponents may, upon Order from
23 the Bankruptcy Court, in accordance with Section 1127(b) of the Bankruptcy Code,
24 remedy any defect or omission or reconcile any inconsistency in this Plan in such
25 manner as may be necessary to carry out the purpose of this Plan.

26 3. Post-Confirmation Quarterly Fees. Quarterly fees pursuant to 28 U.S.C.

1 Section 1930(a)(6) continue to be payable to the Office of the United States Trustee by
2 the Reorganized Debtors or the AWE Liquidating Trust, as applicable, until such time as
3 the case is converted, dismissed, or closed pursuant to a final decree.

4 4. Retention of Claims and Causes of Action. Except to the extent any rights,
5 claims, causes of action, defenses, and counterclaims are expressly and specifically
6 released or assigned in connection with this Plan or in any settlement agreement
7 approved during the Case: (i) any and all Claims accruing to the Debtors or the Estates
8 shall remain assets of and vest in the Reorganized Debtors or the AWE Liquidating
9 Trust, as applicable, whether or not litigation relating thereto is pending on the Effective
10 Date, and whether or not any such Claims have been listed or referred to in the Plan, the
11 Disclosure Statement, or any other document filed with the Bankruptcy Court, and (ii)
12 neither the Debtors nor the Estate waive, release, relinquish, forfeit, or abandon (nor
13 shall they be estopped or otherwise precluded or impaired from asserting) any Claims or
14 defenses that constitute property of the Debtors or the Estates: (a) whether or not such
15 Claims or defenses have been listed or referred to in this Plan, the Disclosure Statement,
16 or any other document filed with the Bankruptcy Court, (b) whether or not such Claims
17 are currently known to the Debtors, and (c) whether or not a defendant in any litigation
18 relating to such Claims filed a proof of claim in the Case, filed a notice of appearance or
19 any other pleading or notice in the Case, voted for or against this Plan, or received or
20 retained any consideration under this Plan. Without in any manner limiting the scope of
21 the foregoing, notwithstanding any otherwise applicable principle of law or equity,
22 including, without limitation, any principles of judicial estoppel, res judicata, collateral
23 estoppel, issue preclusion, or any similar doctrine, the failure to list, disclose, describe,
24 identify, analyze or refer to any Claim or cause of action, in the Plan, the Disclosure
25 Statement, or any other document filed with the Bankruptcy Court shall in no manner
26 waive, eliminate, modify, release, or alter the Debtors' right to commence, prosecute,

1 defend against, settle, recover on account of, and realize upon any Claim that the
2 Debtors or their Estates have or may have as of the Effective Date.

3 The Debtors, Reorganized Debtors, or the AWE Liquidating Trust, as applicable,
4 expressly reserves all Claims and defenses for later adjudication by the Reorganized
5 Debtors, or the AWE Liquidating Trust, as applicable, and therefore, no preclusion
6 doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion,
7 claim preclusion, waiver, estoppel (judicial, equitable or otherwise) or laches will apply
8 to such Claims and defenses upon or after the Confirmation or Consummation of the Plan
9 based on the Disclosure Statement, the Plan, and/or the Confirmation Order. In addition,
10 the Debtors, the Reorganized Debtors, or the AWE Liquidating Trust, as applicable,
11 expressly reserve the right to pursue or adopt Claims that are alleged in any lawsuits in
12 which the Debtors are a defendant or an interested party, against any Person or
13 Governmental Entity, including the plaintiffs or co-defendants in such lawsuits. Any
14 Person or Governmental Entity to whom the Debtors have incurred an obligation
15 (whether on account of services, purchase, sale of goods or otherwise), or who has
16 received services from the Debtors, or who has received money or property from the
17 Debtors, or who has transacted business with the Debtors, or who has leased equipment
18 or property from or to the Debtors should assume that such obligation, receipt, transfer or
19 transaction may be reviewed by the Debtors, the Reorganized Debtors or the AWE
20 Liquidating Trust, as applicable, subsequent to the Effective Date and maybe the subject
21 of an action after the Effective Date, whether or not: (a) such Person or Governmental
22 Unit has Filed a proof of Claim against the Debtors in the Case; (b) such Person's or
23 Governmental Unit's proof of Claim has been objected to by the Debtors; (c) such
24 Person's or Governmental Unit's Claim was included in the Debtors' Schedules; or (d)
25 such Person's or Governmental Unit's scheduled Claim has been objected to by the
26 Debtors or has been identified by the Debtors as contingent, unliquidated or disputed.

1 NEITHER THE FAILURE TO LIST A CLAIM IN THE SCHEDULES FILED
2 BY THE DEBTORS, THE FAILURE OF THE DEBTORS OR ANY OTHER PERSON
3 TO OBJECT TO ANY CLAIM FOR PURPOSES OF VOTING, THE FAILURE OF
4 THE DEBTORS OR ANY OTHER PERSON TO OBJECT TO A CLAIM OR
5 ADMINISTRATIVE EXPENSE BEFORE CONFIRMATION OR THE EFFECTIVE
6 DATE, THE FAILURE OF ANY PERSON TO ASSERT A CLAIM OR CAUSE OF
7 ACTION BEFORE CONFIRMATION OR THE EFFECTIVE DATE, THE ABSENCE
8 OF A PROOF OF CLAIM HAVING BEEN FILED WITH RESPECT TO A CLAIM,
9 NOR ANY ACTION OR INACTION OF THE DEBTORS OR ANY OTHER PERSON
10 WITH RESPECT TO A CLAIM, OR ADMINISTRATIVE EXPENSE, OTHER THAN
11 A LEGALLY EFFECTIVE EXPRESS WAIVER OR RELEASE SHALL BE DEEMED
12 A WAIVER OR RELEASE OF THE RIGHT OF THE DEBTORS, BEFORE OR
13 AFTER SOLICITATION OF VOTES ON THE PLAN OR BEFORE OR AFTER
14 CONFIRMATION OR THE EFFECTIVE DATE TO (A) OBJECT TO OR EXAMINE
15 SUCH CLAIM OR ADMINISTRATIVE EXPENSE, IN WHOLE OR IN PART OR (B)
16 RETAIN AND EITHER ASSIGN OR EXCLUSIVELY ASSERT, PURSUE,
17 PROSECUTE, UTILIZE, OTHERWISE ACT OR OTHERWISE ENFORCE ANY
18 CLAIM OR CAUSE OF ACTION AGAINST THE HOLDER OF ANY SUCH CLAIM.

19 **H. General Provisions.**

20 1. Notices Under the Plan.

21 Notices, requests, or demands with respect to this Plan shall be in writing and shall
22 be deemed to have been received within five (5) days of the date of mailing, provided
23 they are sent by registered mail or certified mail, postage prepaid, return receipt
24 requested, and:

25 if sent to the Debtors, addressed to:

26 GALLAGHER & KENNEDY, P.A.
John R. Clemency

3942342v2/22420-0006

Todd A. Burgess
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Telephone: (602) 530-8000
Facsimile: (602) 530-8500
Email: john.clemency@gknet.com
todd.burgess@gknet.com

if sent to the Committee, addressed to:

FORRESTER & WORTH, PLLC
S. Cary Forrester
John R. Worth
3636 North Central Avenue, Suite 700
Phoenix, Arizona 85012-1927
Telephone: (602) 258-2729
Facsimile: (602) 271-4300
Email: scf@forresterandworth.com
jrw@forresterandworth.com

if sent to C Squared or Anchor Management, addressed to:

SNELL & WILMER, LLP
Steven D. Jerome
Evans O'Brien
One Arizona Center
400 E. Van Buren
Phoenix, Arizona 85004-XXXX
Telephone: (602) 382-6344
Facsimile: (602) 382-6070
Email: sjerome@swlaw.com
eobrien@swlaw.com

if sent to AWI or Perciballi, addressed to:

QUARLES & BRADY, LLP
Susan G. Boswell
Lori Winkelman
One South Church Avenue, Suite 1700
Tucson, Arizona 85701-1621
Direct Line: (520) 770-8713
Direct Fax: (520) 770-2222
Mobile: (520) 349-6644
Email: Susan.Boswell@quarles.com
Lori.Winkelman@quarles.com

2. Withholding Taxes/Setoffs. The Reorganized Debtors or the AWE Liquidating Trust, as applicable, shall be entitled to deduct any Federal or State withholding taxes from any payments with respect to Allowed Claims for wages of any kind. The Reorganized Debtors or the AWE Liquidating Trust, as applicable, may, but

1 shall not be required to, set off or recoup against any Claim, and the payments to be
2 made pursuant to the Plan in respect of such Claim, any claims of any nature whatsoever
3 the Debtors or the Estates may have against the holder of such Claim, but neither the
4 failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or
5 release by the Debtors, the Reorganized Debtors or the AWE Liquidating Trust, as
6 applicable, of any such claim the Debtors may have against such holder.

7 3. Committee. On the Effective Date, the Committee shall automatically
8 dissolve and the members thereof and the Professional Persons retained by the
9 Committee in accordance with Section 1103 of the Bankruptcy Code shall be released
10 and discharged from their respective duties and obligations.

11 4. Revocation of Plan. The Plan Proponents reserve the right to revoke and
12 withdraw the Plan at any time before Confirmation.

13 5. Reservation of Rights. Nothing contained herein shall prohibit the Debtors
14 from prosecuting or defending any of its rights as may exist on its own behalf before the
15 Effective Date. If Confirmation of the Plan does not occur, the Plan shall be deemed
16 null and void. In such event, nothing contained in the Plan shall be deemed to constitute
17 a waiver or release of any Claims by or against the Debtors, their Estates, or any other
18 Person, or to prejudice in any manner, the rights and remedies of the creditors, the
19 Debtors, their Estates, or any Person in any further proceedings involving the Debtors or
20 their Estate. The filing of the Plan and or any modifications hereto, and the Plan itself
21 shall not constitute a waiver by the Plan Proponents of any rights, remedies, objections,
22 or causes of action they may have or may wish to raise with respect to anything,
23 including, without limitation, any other plan or plans filed or to be filed in this
24 bankruptcy case, all of which rights and objections are hereby reserved.

25 6. Exemption from Certain Transfer Taxes.

26 Pursuant to Section 1146(a) of the Bankruptcy Code, the issuance, transfer or

1 exchange of a security, or the making or delivery of an instrument of transfer hereunder
2 will not be subject to any stamp, tax, or similar tax.

3 7. Injunction. The plan provides that, except as otherwise provided in the
4 Plan or the Confirmation Order, and except for any actions timely filed pursuant to
5 Section 523 of the Bankruptcy Code or any Claims declared by the Bankruptcy Court to
6 be non-dischargeable pursuant to Section 523 of the Bankruptcy Code, as of the
7 Confirmation Date, but subject to the occurrence of the Effective Date, all Persons who
8 have held, hold or may hold Claims against the Debtors or their Estates, or Member
9 Equity Interest in the Debtors, are, with respect to any such Claims or Member Equity
10 Interests, permanently enjoined from and after the Confirmation Date from: (i)
11 commencing, conducting or continuing in any manner, directly or indirectly, any suit,
12 action or other proceeding of any kind (including, without limitation, any proceeding in
13 a judicial, arbitral, administrative or other forum) with respect to any such Claim
14 against or affecting the Debtors, their Estates or any of their respective property, or any
15 direct or indirect transferee of any property of, or direct or indirect successor in interest
16 to, any of the foregoing Persons, or any property of any such transferee or successor; (ii)
17 enforcing, levying, attaching (including, without limitation, any pre-judgment
18 attachment), collecting or otherwise recovering by any manner or means, whether
19 directly or indirectly, with respect to any judgment, award, decree or order against the
20 Debtors, their Estates or any of their respective property, or any direct or indirect
21 transferee of any property of, or direct or indirect successor in interest to, any of the
22 foregoing Persons, or any property of any such transferee or successor; (iii) creating,
23 perfecting or otherwise enforcing in any manner, directly or indirectly, any encumbrance
24 of any kind against the Debtors, their Estates or any of their respective property, or any
25 direct or indirect transferee of any property of, or successor in interest to, any of the
26 foregoing Persons; (iv) asserting initially after the Effective Date any right of setoff,

1 subrogation, or recoupment of any kind, directly or indirectly, against any obligation due
2 to the Debtors, their Estates or any of their respective property, or any direct or indirect
3 transferee of any property of, or successor in interest to, any of the foregoing Persons;
4 and (v) acting or proceeding in any manner, in any place whatsoever, that does not
5 conform to or comply with the provisions of the Plan to the full extent permitted by
6 applicable law. By accepting a distribution pursuant to the Plan, each holder of an
7 Allowed Claim receiving distributions pursuant to the Plan will be deemed to have
8 specifically consented to the injunctions set forth in this section, and, except as set forth
9 in this Section, waives any and all claims, causes of action, remedies and objections of
10 every kind against the Debtors.

11 8. Term of Injunctions or Stays. The Plan provides that, unless otherwise
12 provided, all injunctions or stays arising before the Confirmation Date in accordance
13 with Sections 105 or 362 of the Bankruptcy Code, or otherwise, and in existence on the
14 Confirmation Date, shall remain in full force and effect until the Effective Date, or such
15 later date as provided under applicable law.

16 9. Injunction Against Interference With Plan. The Plan provides that, upon
17 the entry of the Confirmation Order, all holders of Claims and Member Equity Interests
18 and other parties in interest, including the Debtors, along with its respective present or
19 former employees, agents, officers, directors, or principals, shall be enjoined from taking
20 any actions to interfere with the implementation or consummation of the Plan.

21 10. Exculpation. The Plan provides that, except with respect to obligations
22 under the Plan, neither the Committee, the Independent Debtor Representative, or
23 Odyssey Capital Group, LLC, nor any of their respective managers, members, officers,
24 directors, employees, agents or professionals, all solely in their capacity as such (each an
25 “Exculpated Party”), shall have or incur any liability to the Debtors and/or any holder of
26 any Claim or Member Equity Interest for any act or omission in connection with, or

1 arising out of: (i) the Case; (ii) the confirmation of the Plan; (iii) the consummation of
2 the Plan; or (iv) the administration of the Plan or property to be distributed pursuant to
3 the Plan, except for fraud, willful misconduct, recklessness or gross negligence; and, in
4 all respects, the Committee, the Independent Debtor Representative, and Odyssey
5 Capital Group, LLC, and each of their respective managers, members, officers, directors,
6 employees, advisors and agents shall be entitled to rely upon the advice of counsel with
7 respect to their duties and responsibilities under the Plan. Notwithstanding the
8 foregoing, none of the AWI Parties or C Squared Parties is or shall be an Exculpated
9 Party under the Plan.

10 **IX.**
FEDERAL TAX CONSEQUENCES

11 Each holder of a claim is urged to consult with its own tax advisor regarding the
12 federal, state, local and other tax consequences of the Plan. No rules have been requested
13 from the Internal Revenue Service with respect to any of the tax aspects of the Plan.

14 **X.**
VOTING PROCEDURES AND REQUIREMENTS

15 **A. Parties Entitled to Vote.**

16 If you hold an Allowed Claim that is “impaired” under the Plan, you are entitled to
17 vote to accept or reject the Plan. Accordingly, to be entitled to vote, your Claim must be
18 “allowed” as set forth in Section 502 of the Bankruptcy Code or temporarily allowed as
19 set forth in Bankruptcy Rule 3018(a). Additionally, Section 1126(f) of the Bankruptcy
20 Code permits you to vote to accept or reject the Plan only if your Claim is “impaired.”

21 **B. Procedures for Voting.**

22 **1. Submission of Ballots.**

23 After this Disclosure Statement has been approved by the Bankruptcy Court, all
24 Creditors whose votes are solicited (as explained above) will be sent (a) a ballot, together
25 with instructions for voting (the “Ballot”); (b) a copy of this Disclosure Statement as
26

1 approved by the Bankruptcy Court; and (c) a copy of the Plan. You should read the
2 Ballot carefully and follow the instructions. Please use only the Ballot sent with this
3 Disclosure Statement. You should complete your Ballot and return it to:

4 GALLAGHER & KENNEDY, P.A.
Attn: Rachel Milazzo
5 2575 East Camelback Road, Suite 1100
Phoenix, AZ 85016
6 Telephone: (602) 530-8000

7 **TO BE COUNTED, YOUR BALLOT MUST BE RECEIVED AT THE ADDRESS**
8 **LISTED ABOVE BY 5:00 P.M., MOUNTAIN STANDARD TIME, ON**
9 **_____, 2014. IF YOUR BALLOT IS NOT TIMELY RECEIVED, IT**
10 **WILL NOT BE COUNTED IN DETERMINING WHETHER THE PLAN HAS**
11 **BEEN ACCEPTED OR REJECTED.**

12 A properly addressed, stamped return envelope will be included with your Ballot.

13 2. Procedures for Vote Tabulation.

14 In determining whether the Plan has been accepted or rejected, Ballots will be
15 tabulated in accordance with the Court's Order approving this Disclosure Statement.

16 3. Withdrawal of Ballots.

17 A Ballot may not be withdrawn or changed after it is cast unless the Bankruptcy
18 Court permits you to do so after notice and a hearing to determine whether sufficient
19 cause exists to permit the change.

20 4. Questions and Lost or Damaged Ballots.

21 If you have any questions concerning voting procedures, if your Ballot is damaged
22 or lost, or if you believe you should have received a Ballot but did not receive one, you
23 may contact Debtors' counsel, Todd Burgess, at the address and telephone number listed
24 above.

25 **C. Summary of Voting Requirements.**

1 In order for the Plan to be confirmed, the Plan must be accepted by at least one (1)
2 impaired Class of Claims. For a Class of Claims to accept the Plan, votes representing at
3 least two-thirds in claim amount and a majority in number of the Claims voted in that
4 Class (not including votes of insiders) must be cast to accept the Plan.

5
6 **IT IS IMPORTANT THAT HOLDERS OF ALLOWED IMPAIRED**
7 **CLAIMS EXERCISE THEIR RIGHTS TO VOTE TO ACCEPT OR**
8 **REJECT THE PLAN. THE DEBTORS ASSERT THAT THE**
9 **TREATMENT OF CREDITORS UNDER THE PLAN IS THE BEST**
10 **ALTERNATIVE FOR CREDITORS, AND THE DEBTORS**
11 **RECOMMEND THAT THE HOLDERS OF ALLOWED CLAIMS**
12 **VOTE IN FAVOR OF THE PLAN.**

13 The specific treatment of each Class under the Plan is described in the Plan and is
14 summarized in this Disclosure Statement.

15 **XI.**

16 **LIQUIDATION ANALYSIS**

17 The Debtors' Liquidation Analysis is attached as Exhibit "E" and was prepared by
18 MCA with the input and approval of the Debtors.

19 **XII.**

20 **CONFIRMATION OF THE PLAN**

21 **D. Confirmation Hearing.**

22 Section 1128(a) of the Bankruptcy Code provides that the Bankruptcy Court, after
23 notice, will hold a Confirmation Hearing on the Plan. The Confirmation Hearing will be
24 held at the United States Bankruptcy Court, 230 N. First Avenue, Phoenix, Arizona, on
25 _____, 2014, at _____ a.m./p.m. **THE HEARING MAY BE**
26 **ADJOURNED FROM TIME TO TIME BY THE COURT WITHOUT FURTHER**
NOTICE EXCEPT FOR AN ANNOUNCEMENT MADE AT THE HEARING.

1 **E. Objections to Confirmation.**

2 Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may
3 object to confirmation of the Plan, regardless of whether it is entitled to vote. Objections
4 to confirmation of the Plan are governed by Bankruptcy Rule 9014. **IF AN**
5 **OBJECTION TO CONFIRMATION IS NOT TIMELY MADE, THE COURT**
6 **NEED NOT RECEIVE OR CONSIDER IT. ALL OBJECTIONS TO**
7 **CONFIRMATION OF THE PLAN MUST BE FILED WITH THE BANKRUPTCY**
8 **COURT AND SERVED ON COUNSEL FOR THE PLAN PROPONENTS AT THE**
9 **ADDRESSES SET FORTH ABOVE, ON THE UNITED STATES TRUSTEE, AND**
10 **ON ANY PARTY-IN-INTEREST WHO HAS REQUESTED NOTICE IN THE**
11 **DEBTOR'S BANKRUPTCY CASE, BY _____, 2014.**

12 **F. Requirements for Confirmation of the Plan.**

13 1. Confirmation Under Section 1129(a) of the Bankruptcy Code.

14 At the Confirmation Hearing, the Bankruptcy Court will determine whether the
15 requirements of Section 1129(a) of the Bankruptcy Code have been satisfied, in which
16 event the Bankruptcy Court will enter an order confirming the Plan. Such requirements
17 include, among others:

18 a. That the Debtors have complied with the applicable provisions of
19 Chapter 11, including the provisions of Sections 1122 and 1123 of the Bankruptcy
20 Code governing classification of claims and interests and contents of a plan of
21 reorganization.

22 b. That the Plan Proponents have proposed the Plan in good faith and
23 not by any means forbidden by law.

24 c. That any payment made or promised by the Debtors to any Person
25 for services, costs, or expenses in connection with the Bankruptcy Case or the Plan
26 has been approved by or is subject to approval by the Bankruptcy Court as

1 reasonable.

2 d. That the Plan Proponents have disclosed the identity and affiliations
3 of Persons proposed to serve as officers after confirmation.

4 e. That one or more of the impaired Classes of Claims has voted to
5 accept the Plan.

6 f. That the Plan is in the best interests of holders of Claims and Equity
7 Interests; that is, each holder of an Allowed Claim or Allowed Equity Interest
8 either has accepted the Plan or will receive on account of its Claim or Equity
9 Interest property with a value, as of the Effective Date, that is not less than the
10 amount that the holder of such Claim or Equity Interest would receive if the
11 Debtors were liquidated under Chapter 7 of the Bankruptcy Code on the Effective
12 Date.

13 g. That the Plan is feasible; that is, confirmation is not likely to be
14 followed by the need for liquidation or further reorganization of the Debtors unless
15 that is provided for in the Plan.

16 2. The Plan Satisfies Bankruptcy Code Requirements.

17 (a) Best Interests Test and Liquidation Analysis. Under the best
18 interests test, the Plan is confirmable if, with respect to each impaired Class of
19 Claims or Equity Interests, each holder of an Allowed Claim or Allowed Equity
20 Interest in such Class either: (i) has accepted the Plan; or (ii) will receive or retain
21 under the Plan, on account of its Claim or Interest, property of a value, as of the
22 Effective Date, that is not less than the amount such holder would receive or retain
23 if the Debtors were liquidated under Chapter 7 of the Bankruptcy Code. The Plan
24 Proponents believe the distributions to Creditors under the Plan will meet or
25 exceed the recoveries that Creditors would receive in a Chapter 7 liquidation of
26 the Debtors and their Estates. The Plan Proponents believe that the Plan provides

1 an equal or better return to Creditors than they can otherwise receive under
2 Chapter 7, and therefore the best interests of creditors test is met.

3 (b) Feasibility of the Plan. Section 1129(a)(11) of the Bankruptcy Code
4 includes what is commonly described as the “feasibility” standard. In order for the
5 Plan to be confirmed, the Bankruptcy Court also must determine that the Plan is
6 feasible - that is, that the need for further reorganization or a subsequent
7 liquidation of the Debtors is not likely to result following confirmation of the Plan.
8 As set forth in this Disclosure Statement and in the Plan, the Plan Proponents
9 believe the Plan is feasible.

10 (c) Acceptance by an Impaired Class. Because the Plan impairs some
11 Classes of Claims, Section 1129(a)(10) of the Bankruptcy Code requires that, for
12 the Plan to be confirmed, at least one impaired Class must accept the Plan by the
13 requisite vote without counting the votes of any “insiders” (as that term is defined
14 in Section 101(31) of the Bankruptcy Code) contained in that Class. The Plan
15 Proponents believe that at least one impaired Class will vote to accept the Plan.

16 (d) Confirmation Under Section 1129(b) of the Bankruptcy Code.
17 Although Section 1129(a)(8) of the Bankruptcy Code requires that the Plan be
18 accepted by each Class that is impaired by the Plan, Section 1129(b) of the
19 Bankruptcy Code provides that the Bankruptcy Court may still confirm the Plan at
20 the request of the Debtors if all requirements of Section 1129(a) of the Bankruptcy
21 Code are met except for Section 1129(a)(8) and if, with respect to each Class of
22 Claims or Equity Interests that (a) is impaired under the Plan, and (b) has not
23 voted to accept the Plan, the Plan “does not discriminate unfairly” and is “fair and
24 equitable.” This provision commonly is referred to as a “cramdown.” The Plan
25 Proponents have requested cramdown confirmation of the Plan with respect to any
26 such non-accepting Class of Creditors. The Plan Proponents believe that, with

1 respect to such Class or Classes, the Plan meets the requirements of Section
2 1129(b) of the Bankruptcy Code.

3 (1) Unfair Discrimination. A plan of reorganization “does not
4 discriminate unfairly” if: (i) the legal rights of a non-accepting class are
5 treated in a manner that is consistent with the treatment of other classes
6 whose legal rights are related to those of the non-accepting class; and (ii)
7 no class receives payments in excess of that which it is legally entitled to
8 receive on account of its Claims or Equity Interests. The Debtors and the
9 Committee assert that under the Plan: (i) all classes of impaired Claims are
10 being treated in a manner that is consistent with the treatment of other
11 similar classes of Claims; and (ii) no Class of Claims will receive payments
12 or property with an aggregate value greater than the sum of the Allowed
13 Claims in the Class. Accordingly, the Plan Proponents believe that the Plan
14 does not discriminate unfairly as to any impaired Class of Claims or Equity
15 Interests.

16 (2) Fair and Equitable Test. The Bankruptcy Code establishes
17 different “fair and equitable” tests for Secured Creditors, Unsecured
18 Creditors, and holders of Equity Interests, as follows:

19 (i) Secured Creditors. With respect to a secured claim,
20 “fair and equitable” means that a plan provides that either (A) the
21 holder of the secured claim in an impaired class retains the liens
22 securing such claim, whether the property subject to such liens is
23 retained by the debtor or transferred to another entity, to the extent
24 of the amount of such allowed claim, and that the holder of such
25 claim receives on account of such claim deferred cash payments
26 totaling at least the amount of such allowed claim, of a value, as of

1 the effective date, of at least the value of such holder's interest in the
2 estate's interest in such property; (B) for the sale, subject to Section
3 363(k) of the Bankruptcy Code, of any property that is subject to the
4 liens securing such claim, free and clear of such liens, with such
5 liens to attach to the proceeds of such sale, and the treatment of such
6 liens on proceeds under clauses (A) and (C); or (C) the realization by
7 such holder of the "indubitable equivalent" of such claim.

8 (ii) Unsecured Creditors. With respect to an unsecured
9 claim, "fair and equitable" means that a plan provides that either (A)
10 each impaired unsecured creditor receives or retains property of a
11 value, as of the effective date, equal to the amount of its allowed
12 claim; or (B) the holders of claims and equity interests that are junior
13 to the claims of the dissenting class will not receive or retain any
14 property under the plan.

15 (iii) Equity Interest Holders. With respect to holders of
16 equity interests, "fair and equitable" means that a plan provides that
17 either (A) each holder will receive or retain under the plan property
18 of a value, as of the effective date, equal to the greater of: (1) the
19 fixed liquidation preference or redemption price, if any, of such
20 interest; or (2) the value of such interest; or (B) the holders of equity
21 interests that are junior to the non-accepting class will not receive
22 any property under the plan.

23 The Plan Proponents believe the Plan complies with the Claims priority
24 established by the Bankruptcy Code and thus the "fair and equitable" test of the
25 Bankruptcy Code (including the absolute priority rule) is met with respect to the Secured
26 Creditors and the Equity Interest holders under the Plan.

XIII.
ALTERNATIVES TO THE PLAN

If the Plan is not confirmed, several different events could occur: (1) the Debtors or a third party could propose another plan providing for different treatment of certain Creditors; (2) Secured Creditors, if any, could move for relief from the automatic stay to allow them to foreclose their liens against their collateral, which may be granted by the Court if an alternative plan is not confirmed in a reasonable period of time; or (3) the Bankruptcy Court (after appropriate notice and hearing) could dismiss the Bankruptcy Case or convert such to a case under Chapter 7 if an alternative plan is not confirmed in a reasonable period of time.

XIV.
RECOMMENDATION AND CONCLUSION

The Plan Proponents believe that the Plan provides the best available alternative for maximizing the recoveries that Creditors will receive from the Debtors' Assets. Therefore, the Plan Proponents recommend that all Creditors and Member Equity Interest holders that are entitled to vote on the Plan vote to accept the Plan.

Dated: December 16, 2013 DEBTORS AND DEBTORS-IN-POSSESSION
ARMORWORKS ENTERPRISES, LLC, an
Arizona limited liability company

By and through:

WILLIAM J. PERCIBALLI

By: /s/William J. Perciballi
Name: William J. Perciballi
Its: Authorized Representative

TECHFIBER, LLC, a Delaware limited liability
company by:

ARMORWORKS ENTERPRISES, LLC, an Arizona
limited liability company, its sole Member

By and through:

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WILLIAM J. PERCIBALLI

By: /s/William J. Perciballi
Name: William J. Perciballi
Its: Authorized Representative

**OFFICIAL JOINT COMMITTEE OF
UNSECURED CREDITORS by its Attorneys:**

By: /s/Joseph E. Cotterman
Name: Joseph E. Cotterman
Its: Chairman

C SQUARED CAPITAL PARTNERS, LLC

By and through its Manager:
ANCHOR MANAGEMENT, LLC

By: /s/Matthew Gallaher
Name: Matthew Gallaher
Its: Authorized Representative

ANCHOR MANAGEMENT, LLC

By: /s/Matthew Gallaher
Name: Matthew Gallaher
Its: Authorized Representative

ARMORWORKS, INC.

By: /s/William J. Perciballi
Name: William J. Perciballi
Its: Authorized Representative

WILLIAM J. PERCIBALLI

/s/William J. Perciballi

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