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UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Alexandria Division

DEC -4 AM 8:55

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS)	
INC., et al.,	)	Case Nos. 01-12264-SSM;
	)	01-12265-SSM
Debtors.	)	Jointly Administered

NOTICE OF HEARING ON MOTION OF DEBTORS AND THE CREDITORS' COMMITTEE FOR ORDER (1) APPROVING PROPOSED DISCLOSURE STATEMENT; (2) SCHEDULING HEARING TO CONFIRM JOINT PLAN OF LIQUIDATION OF PATHNET TELECOMMUNICATIONS, INC. AND PATHNET, INC.; (3) ESTABLISHING PLAN OBJECTION DEADLINE; (4) APPROVING FORM OF BALLOTS, VOTING DEADLINE AND SOLICITATION PROCEDURES; AND (5) APPROVING FORM OF NOTICE

Pathnet Telecommunications, Inc. ("PTI"), and Pathnet, Inc. ("PNI" and collectively with PTI, the "Debtors") and the Creditors' Committee have filed their Motion of Debtors and the Creditors' Committee for Order (1) Approving Proposed Disclosure Statement; (2) Scheduling Hearing to Confirm Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc.; (3) Establishing Plan Objection Deadline; (4) Approving Form of Ballots, Voting Deadline and Solicitation Procedures; and (5) Approving Form of Notice ("Motion"), a copy of which has been served on you.

A hearing on the Motion will be held at:

Place of Hearing: Courtroom I, 2d Floor United States Bankruptcy Court 200 South Washington Street Alexandria, VA 22314	Date and Time of Hearing: January 11, 2002 At 1:30 p.m.
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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

Your rights may be affected. You should read these papers carefully and discuss them with your attorney, if you have one in this bankruptcy case. (If you do not have an attorney, you may wish to consult one.)

If you do not want the Court to approve the Debtors' Motion, either in whole or in part, or if you want the Court to consider your views on the Motion, then on or before January 1, 2001, you or your attorney must:

1. File with the Court, at the address shown below, a written response with supporting memorandum as required by Local Bankruptcy Rule 9013-1(H). **UNLESS A WRITTEN RESPONSE AND SUPPORTING MEMORANDUM ARE FILED AND SERVED BY THE DATE SPECIFIED, THE COURT MAY DEEM ANY OPPOSITION WAIVED, TREAT THE MATTER AS CONCEDED, AND ISSUE AN ORDER GRANTING THE REQUESTED RELIEF WITHOUT FURTHER NOTICE OR HEARING.** If you mail your response to the Court for filing, you must mail it early enough so the Court will receive it on or before the date stated above. The address of the Clerk's Office is:

Clerk of Court
United States Bankruptcy Court
200 South Washington Street
P.O. Box 19247
Alexandria, Virginia 22320

You must also mail **and telecopy**¹ a copy of your response with supporting memorandum to the persons listed below:

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¹ Given the disruption in the U.S. Mail Service stemming from the anthrax scare, the Debtors require delivery of any opposition to this Motion via telecopier to ensure timely delivery prior to the hearing date.

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and to:

United States Trustee, Region 4
115 South Union Street, Suite 210
Alexandria, Virginia 22314

2. You (or your attorney if you have one) must also attend the hearing at the place and on the date shown above if any objections are filed to the Motion.

If no timely response is filed opposing the approval of the Motion, the Court may approve the Motion without holding a hearing. If you or your attorneys do not take these steps, the Court may decide that you do not oppose approval of the Debtors' Motion and may enter an order approving it.

Dated: November 30, 2001.

Respectfully submitted,

/s/
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**THIS JOINT DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE
BANKRUPTCY COURT AND NO ONE MAY SOLICIT ACCEPTANCES OR
REJECTIONS UNTIL IT HAS BEEN SO APPROVED**

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)
)
PATHNET TELECOMMUNICATIONS) **Chapter 11**
INC., et al.) **Case Nos. 01-12264-SSM**
) **and 01-12265-SSM**
Debtors.) **Jointly Administered**

**JOINT DISCLOSURE STATEMENT OF
PATHNET TELECOMMUNICATIONS, INC. AND PATHNET, INC**

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TABLE OF CONTENTS

I.	INTRODUCTION.....	1
A.	Preliminary Statement	1
B.	Background	2
1.	Pathnet's Business	2
2.	Attempts to Sell the Pathnet Business	4
3.	Conversion of POI, PRE and PFE	5
4.	Creditors' Committee	5
5.	Professionals.....	5
6.	Cash Collateral Stipulation.....	6
7.	The Bar Date	6
C.	Liquidation of Assets	6
II.	PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES	7
III.	SUMMARY, CLASSIFICATION AND TREATMENT OF PTI CLAIMS AND EQUITY INTERESTS	8
A.	PTI Class 1 (Priority Claims)	9
B.	PTI Class 2 (Secured Claims)	9
C.	PTI Class 3 (Unsecured Claims)	9
D.	PTI Class 4 (Subordinated Claims)	10
E.	PTI Class 5 (Equity Interests)	10
IV.	SUMMARY, CLASSIFICATION AND TREATMENT OF PNI CLAIMS AND EQUITY INTERESTS	10
A.	PNI Class 1 (Priority Claims).....	11
B.	PNI Class 2 (Secured Claims).....	12
C.	PNI Class 3 (Unsecured Claims).....	12
D.	PNI Class 4 (Subordinated Claims).....	13
E.	PNI Class 5 (Equity Interests).....	13
V.	IDENTIFICATION OF CLASSES OF CLAIMS AND INTERESTS IMPAIRED AND NOT IMPAIRED BY THE PLAN	13
A.	Classes Not Impaired by the Plan.....	13
B.	Classes Impaired by the Plan.....	13
C.	Classes Presumed to Reject the Plan.....	14
VI.	IMPLEMENTATION OF THE PLAN	14
A.	LIQUIDATING LLCs.....	14
1.	Liquidating Agent.....	14

2.	PTI Liquidating LLC.....	15
3.	PNI Liquidating LLC	15
4.	Distributions by PTI Liquidating LLC	16
5.	Distributions by PNI Liquidating LLC	17
6.	Periodic Reports by Liquidating Agent.....	17
7.	Committee Election.....	18
8.	Termination of Liquidating LLCs	18
B.	DISTRIBUTIONS BY PTI	18
C.	DISTRIBUTIONS BY PNI.....	19
D.	DISTRIBUTIONS UNDER ONE HUNDRED DOLLARS.....	19
E.	DISPUTED CLAIMS RESERVES.....	19
F.	TIME BAR TO CASH PAYMENTS	19
G.	DEBTORS' POST-CONFIRMATION ROLE	19
H.	POST-EFFECTIVE DATE PROFESSIONAL FEES	20
I.	CONDITION TO CONFIRMATION.....	20
J.	CONDITIONS TO THE EFFECTIVE DATE.....	20
VII.	MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN.....	21
A.	Modification of the Plan.....	21
B.	Revocation or Withdrawal of the Plan.....	21
C.	Amendment of Plan Documents.....	21
VIII.	PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS	21
A.	Objections to Claims	21
B.	Claims Settlement Guidelines	21
C.	Distributions on Account of Disputed Claims	22
D.	Reserves for Disputed Claims	23
IX.	SELECTED PLAN ISSUES	23
A.	Executory Contracts and Unexpired Leases.....	23
1.	Rejection of Executory Contracts and Unexpired Leases.....	23
2.	Claims Arising From Rejection or Termination.....	23
3.	Previously Scheduled Contracts	23
4.	Assumption of Executory Contracts and Unexpired Leases.....	24
5.	Insurance Policies.....	24
6.	Compensation and Benefit Programs	25
B.	Retention of Jurisdiction	25
X.	CONFIRMATION PROCEDURE.....	25
A.	Solicitation of Votes.....	25
B.	Confirmation Hearing.....	26
1.	Acceptance	27
2.	Unfair Discrimination and Fair and Equitable Tests.....	27
3.	Feasibility	28

4. Best Interests Test 28

XI. CERTAIN RISK FACTORS TO BE CONSIDERED 29

 1. Overall Risks to Recovery by Holders of Claims 29

 2. Failure to Obtain Cram-Down..... 29

 3. Risk of Non-Occurrence of the Effective Date 29

XII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN..... 29

XIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE
PLAN..... 31

XIV. CONCLUSION AND RECOMMENDATION 31

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Debtors.)	Jointly Administered

**JOINT DISCLOSURE STATEMENT OF
PATHNET TELECOMMUNICATIONS, INC. AND PATHNET, INC**

Pathnet Telecommunications, Inc. (“PTI”), Pathnet, Inc. (“PNI” and together with PTI, the “Debtors”) and the Official Committee of Unsecured Creditors (the “Committee”) hereby file this Joint Disclosure Statement (the “Disclosure Statement”) pursuant to Section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) in connection with the solicitation of acceptances of the Joint Plan of Liquidation (the “Plan”). A copy of the Plan is attached hereto as Exhibit “A”. The Plan separately administers the assets of each of the Debtors. All capitalized terms used in this Disclosure Statement and not otherwise defined herein have the meanings ascribed to them in the Plan.

I. INTRODUCTION

A. Preliminary Statement

The purpose of this Disclosure Statement is to provide creditors and holders of interests with such information as would enable a hypothetical, reasonable individual or entity typical of the holders of Claims and Equity Interests to make informed judgments on voting on the Plan.

THIS DISCLOSURE STATEMENT DOES NOT PURPORT TO BE A COMPLETE DESCRIPTION OF THE PLAN, THE FINANCIAL STATUS OF THE DEBTORS, THE APPLICABLE PROVISIONS OF THE BANKRUPTCY CODE OR OF OTHER MATTERS THAT MAY BE DEEMED SIGNIFICANT BY CREDITORS OR OTHER PARTIES IN INTEREST. THIS DISCLOSURE STATEMENT SHOULD NOT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS OR EQUITY INTERESTS. YOU SHOULD EXAMINE THE PLAN CAREFULLY AND CONSULT YOUR OWN LEGAL AND FINANCIAL ADVISORS.

The Proponents believe that the Plan will yield to holders of Claims and Equity Interests an amount at least equal to what would be available for their respective Claims and Equity Interests in a Chapter 7 liquidation. Holders of PTI Class 3 Claims and PNI Class 3 Claims will enjoy a greater recovery due to avoiding the increased costs and expenses of a Chapter 7 liquidation associated with fees payable to a Chapter 7 trustee and its professionals. In addition, the Proponents believe that the Plan is a more efficient, effective and speedy way to administer the Debtors' Assets. As a result of these factors, the Proponents believe that the Plan provides a superior recovery for holders of Claims. With regard to holders of Equity Interests, the Plan does not provide for the distribution to Equity Interest holders of any property and the Proponents believe that holders of Equity Interests would not receive any distribution of property in a Chapter 7 liquidation.

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS IS A CO-PROPONENT OF THE PLAN. THE COMMITTEE BELIEVES THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF ALL UNSECURED CREDITORS AND URGES ALL HOLDERS OF UNSECURED CLAIMS TO VOTE TO ACCEPT THE PLAN.

This Disclosure Statement contains only a summary of the Plan. All creditors, holders of Equity Interests and other interested parties are encouraged to review the full text of the Plan, and to read carefully this entire Disclosure Statement, before deciding how to vote (if such persons are eligible to vote). To the extent any inconsistencies exist between the Plan and this Disclosure Statement, the terms of the Plan are controlling.

Exhibits to this Disclosure Statement include the following documents:

- The Plan (**Exhibit "A"**).
- Order of the Bankruptcy Court approving this Disclosure Statement and Approving Ballot Tabulation and Solicitation Procedures (the "**Voting Procedures Order**") (**Exhibit "B"**).
- Hypothetical Chapter 7 Liquidation Analysis (**Exhibit "C"**).

In addition, the Ballot for acceptance or rejection of the Plan is enclosed with this Disclosure Statement, if you are entitled to vote to accept or reject the Plan.

B. Background

1. Pathnet's Business

On April 2, 2001 (the "**Petition Date**"), each of the Debtors and their affiliates, Pathnet Operating Inc. ("**POI**"), Pathnet Real Estate LLC ("**PRE**"), Pathnet Fiber Equipment LLC ("**PFE**") and Pathnet Operating of Virginia Inc. ("**POV**") filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the "**Delaware Bankruptcy Court**") under Chapter 11 of the Bankruptcy Code. On May 18,

2001, the Delaware Bankruptcy Court transferred venue of these cases to the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division).

On or about July 19, 2001, the cases of POI, PRE and PFE were converted to Chapter 7 pursuant to a stipulation and consent order. On July 24, 2001, the case of POV, a direct, wholly owned subsidiary of POI, was also converted to Chapter 7. (POI, PRE, PFE and POV are collectively referred to as the “**Converted Debtors.**”) On or about July 20, 2001, Gordon Peyton was appointed the Chapter 7 Trustee for the Converted Debtors. The Debtors and the Converted Debtors are referred to collectively as the “**Pathnet Group.**”

The Debtors continue as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

PNI was formed on August 25, 1995, under the laws of the State of Delaware. It is a wholesale telecommunications provider and has built a network designed to provide other wholesale and retail telecommunications service providers with access to underserved and second- and third-tier markets throughout the United States.

PTI was formed on November 1, 1999, under the laws of the State of Delaware, by the former shareholders of PNI to facilitate a corporate reorganization transaction, which became effective on March 30, 2000, and to continue the activity of PNI. Upon finalization of the corporate reorganization transaction, PNI became a wholly-owned subsidiary of PTI.

POI was formed on April 6, 2000, under the laws of the State of Delaware, to facilitate the development of the Pathnet Group’s fiber optic business. POI is a wholly owned subsidiary of PTI. POV was formed on June 26, 2000, under the laws of the Commonwealth of Virginia, to hold certain licenses used in the development of the Debtors’ fiber optic business. POV is a wholly-owned subsidiary of POI. PFE was formed on June 23, 2000, under the laws of the State of Delaware, to hold certain fiber assets used in the development of the Debtors’ fiber optic business. PFE is a wholly owned subsidiary of POI. PRE was formed on June 23, 2000, under the laws of the State of Delaware, to hold certain real estate assets used in the development of the Debtors’ fiber optic business. PRE is a wholly owned subsidiary of POI.

The Pathnet Group’s telecommunications network was intended to enable its customers, including existing local telephone companies, long-distance companies, internet service providers, competitive telecommunications companies, cellular operators and other telecommunications providers, to offer additional services to new and existing customers in the markets the Pathnet Group serves without having to expend their own resources to build, expand or upgrade their own networks.

The original Pathnet company, PNI, was formed for the purpose of building a network using wireless microwave technology. As a result of the rapid advancement of fiber optic technology, it became apparent that the future of a wireless microwave network was limited. The use of fiber optic cables allowed an exponential increase in

communications traffic compared to wireless technology. Consequently, in 1999, the business strategy was expanded to integrate fiber optic technology with the microwave network. This enabled the Pathnet Group to deliver higher bandwidth services as well as dark fibers to its customers.

The costs of building the Pathnet network proved substantial. The Pathnet Group incurred losses from operations every year since inception. In May, 2000, the Pathnet Group engaged Goldman Sachs & Co. to advise on potential equity investors to help fund the Pathnet Group's business plan. Unfortunately, the capital markets did not look favorably on telecommunications companies, and Pathnet was no exception. Despite diligent efforts, equity investment was not available. The Goldman Sachs engagement was terminated prior to the Petition Date. The Pathnet Group subsequently retained FTI/Policano & Manzo as financial advisors to assist in financial forecasting, financial management and the conservation of cash in an effort to preserve the value of the Debtors' businesses and to maximize the value of the Debtors' assets. The Pathnet Group also retained Houlihan Lokey Howard & Zukin as investment bankers to assist in effecting an orderly sale, merger, or other disposition of all, part or parts of the Pathnet assets, so as to maximize the value of the assets for the benefit of creditors.

2. Attempts to Sell the Pathnet Business

On June 22, 2001, the Bankruptcy Court approved a sale procedure order that was intended to facilitate the sale by auction of the assets of the Pathnet Group. In connection with the planned auction of the Pathnet assets, sales memoranda were distributed to potential buyers. An on-line data room was set up for prospective buyers. Notice of the auction and the sale procedure was distributed to all creditors.

In connection with the planned auction, substantial time and effort was expended to identify and negotiate with a stalking-horse bidder who expressed an interest in buying substantially all of the Pathnet assets on a going-concern basis at a price of approximately \$130 million. This was a going-concern sale, which involved the sale of the on-going business of POI and the transfer to the buyer of about 110 employees. This was the only going-concern bid received by the Pathnet Group, and its stated value dwarfed all of the other piecemeal bids combined. The Pathnet Group focused its efforts on negotiating and documenting this bid. These negotiations occurred with the knowledge and, at times, the participation of the Committee and POI's two secured creditors, Cisco Systems Capital Corporation ("**Cisco**") and Nortel Networks Inc. ("**Nortel**"). The Pathnet Group hoped to turn this going-concern bid into a stalking-horse, and to use it to promote higher or better bids at the auction.

On or about June 29, 2001, the bidder decided, for reasons best known only to it, to drop out of the sale process. As a result, the Pathnet Group was less than two weeks from the scheduled auction July 11 auction without a going-concern bid. Since the auction had already been scheduled and the assets marketed by the Pathnet investment banker, a decision was first made to go forward with the auction as scheduled. As the auction date approached, however, events led to a reconsideration of this decision, and ultimately to the cancellation of the auction.

3. Conversion of POI, PRE and PFE

On July 3, 2001, Cisco and Nortel file a motion to convert the cases of POI, PRE and PFE. Cisco and Nortel are secured creditors in only those three cases and are owed approximately \$70 million in the aggregate.

In the absence of a going-concern bidder, the Pathnet Group concluded that the sale process had to be re-tooled to focus, not on end-users of the assets, as was the original strategy, but on wholesalers and liquidators. As a result, the Pathnet Group decided, with the agreement of the Committee, to postpone the auction. Subsequent to the postponement of the auction and after consultation with the Committee, the Pathnet Group concluded that the prospects of realizing more than \$70 million at any auction for the assets of POI, PRE and PFE were remote, at best. As a result, since Cisco and Nortel were demanding a conversion of POI, PRE and PFE, the Pathnet Group determined that it was appropriate to consent to conversion of these three case. The Pathnet Group believed that a Chapter 11 liquidation not a Chapter 7 liquidation was the most effective way to administer the assets of the POI, PRE and PFE. However, since there was nothing in these cases for unsecured creditors, the Debtors determined that Cisco and Nortel were entitled to convert the cases if they believed that was in their interests. POV was later converted voluntarily to Chapter 7 because it is a wholly owned subsidiary of POI.

PTI and PNI remain in Chapter 11. The Debtors and the Committee believe that the assets can be administered more efficiently and effectively in Chapter 11.

4. Creditors' Committee

On or about April 19, 2001, the United States Trustee appointed an Official Committee of Unsecured Creditors (the "**Committee**"). The Committee currently consists of the following unsecured creditors:

Magten Asset Management Co. LLC
The Bank of New York
Varde Partners, Inc.
NEC America

5. Professionals

The Debtors have retained Covington & Burling as their lead counsel and Gold Morrison & Laughlin P.C. as their local counsel. The Debtors have also retained FTI/Policano & Manzo as financial adviser and Reznick Fedder & Silverman as special accountants. Houlihan Lokey Howard & Zukin Capital was retained as investment bankers but that engagement was terminated by stipulation and consent order entered on or about October 4, 2001. While the cases were pending in the Delaware Bankruptcy Court, the Debtors engaged Saul Ewing LLP as local counsel.

The Committee has retained Stroock & Stroock & Lavan LLP, as its lead counsel, Vorys, Sater, Seymour and Pease LLP as its local counsel, and Ernst & Young

LLP as its financial adviser. While the cases were pending in the Delaware Bankruptcy Court, the Committee engaged the services of The Bayard Firm as local counsel.

6. Cash Collateral Stipulation

On May 18, 2001, the Pathnet Group entered into a cash collateral stipulation with Cisco and Nortel to provide the necessary funds to continue its operations while it engaged in efforts to sell its assets on a going-concern basis. The cash collateral stipulation provided a budget for the operation of the Pathnet Group and for the compensation of the professionals of the Pathnet Group and the Committee. Pursuant to the cash collateral stipulation, Cisco and Nortel agreed that their cash collateral could be used to pay one-half of the expenses and the professional fees of up to an aggregate amount of \$1.5 million, exclusive of retainers, of the Pathnet Group and the Committee through June 29, 2001. The other half of the expenses and fees were paid by the Debtors.

7. The Bar Date

The Bankruptcy Court established July 31, 2001, as the bar date for the filing of prepetition claims against the Debtors. Separate bar dates were established by order of the Bankruptcy Court for the filing of claims arising from the rejection of executory contracts.

C. Liquidation of Assets

With the loss of its only going-concern bidder, the Debtors have focused on an orderly liquidation of their assets for the benefit of creditors. The Debtors distributed extensive bid packages to liquidators and wholesalers, and received written bids for their assets. The Debtors have accepted and the Bankruptcy Court has approved a variety of sales of the Debtors' assets. The Committee has been involved in and has approved all of the sales. These sales have produced an aggregate sale price of approximately \$2 million. While the Debtors and the Committee are disappointed that higher prices were not realized, they believe that the sale price represents the best currently available price of the assets sold.

Virtually all of the Debtors assets have been sold. The Debtors are in the process of abandoning some assets where the cost to recover and store the assets is estimated to exceed any potential sales proceeds.

Through litigation or settlements, the Debtors have realized the distribution to the Debtors of approximately \$5.8 million in cash from certain escrow or collateral accounts. In addition, through litigation or settlements to date, the Debtors have eliminated approximately \$645,000 in administrative claims against the estates. As a result of these substantial efforts, the amount of assets available for distribution to unsecured creditors has been increased.

In addition to disposing of the remaining assets, the Debtors have engaged in an orderly shutdown so as to maximize the proceeds received by the asset dispositions. The Debtors have rejected all PNI's substantial executory contracts thereby reducing or

eliminating associated administrative expense obligations. The Debtors have further significantly reduced operating expenses by eliminating their office space in Richardson, Texas, and by renegotiating the Reston, Virginia office lease to reduce the monthly cost from approximately \$110,000 at the Petition Date to approximately \$12,500. Finally, since the going-concern sale process ended, the Debtors' employee staff has been reduced from 202 at the Petition Date to approximately 8 employees; those who remain are mostly clerical personnel retained to address claims resolution.

II. PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES

In general, the Plan provides for the payment in cash of Allowed Administrative Claims. The Allowed Amount of each Administrative Claim shall be paid in full, in cash, as soon as practicable after the later of the Effective Date or as soon as practicable after a later date on which an Allowed Amount for such Administrative Claim is determined.

The bar date for seeking the allowance of Administrative Expenses, other than compensation of professionals pursuant to sections 330 and 331 of the Bankruptcy Code, shall be the 30th day following the Confirmation Date. The bar date for seeking the allowance of Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code shall be the 30th day following the Effective Date. The failure to seek the allowance of Administrative Expenses by the applicable bar date shall constitute a waiver of such Administrative Expense. One-half of the Allowed Administrative Expenses for compensation of professionals pursuant to sections 330 and 331 of the Bankruptcy Code and for the fees and expenses of the Bond Trustee (including fees and expenses of its counsel) shall be paid by PTI or from the Assets of the PTI estate, and one-half shall be paid by PNI or from the Assets of the PNI estate.

Objections to any Administrative Expense (other than Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code) shall be filed and served within forty-five (45) days after the bar date for the filing of such Administrative Expense. If an objection is filed within the applicable period, the Administrative Expense shall become an Allowed Administrative Expense only to the extent allowed by a Final Order of the Bankruptcy Court. Objections to any Administrative Expense pursuant to sections 330 and 331 of the Bankruptcy Code shall be filed and served within twenty (20) days after the filing of such Administrative Expense. Objections to Administrative Expenses may be filed by the Debtors or the Committee.

The Proponents estimate that the aggregate amount of Allowed Administrative Expenses comprised of legal and other professional fees incurred by the Debtors and the Committee will be approximately \$__ million through the confirmation hearing, assuming that confirmation occurs by March 2002, and subject to litigation contingencies.

III. SUMMARY, CLASSIFICATION AND TREATMENT OF PTI CLAIMS AND EQUITY INTERESTS

The Plan classifies holders of PTI Claims and PTI Equity Interests separately and provides different treatment for different classes of PTI Claims and Equity Interests in accordance with the Bankruptcy Code.

In general, the Plan provides for the payment in cash of Allowed Priority Claims. The Plan creates PTI Liquidating LLC, a liquidating entity that will be managed by a person selected by the Committee, and will be administered for the benefit of PTI unsecured creditors. Holders of PTI Allowed Unsecured Claims will be entitled to receive membership interests in PTI Liquidating LLC and the resulting distributions on account of their respective interests. The recoveries to be received by holders of PTI Allowed Unsecured Claims will depend in part upon the success which PTI Liquidating LLC has liquidating the assets transferred to it. The holders of PTI Subordinated Claims and the holders of PTI Equity Interests will not receive any distribution under the Plan.

PTI Claims and Equity Interests are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

CLASS	STATUS
PTI Class 1 (Priority Claims). To be paid in full in cash on or about the Effective Date.	Unimpaired — not entitled to vote
PTI Class 2 (Secured Claims). To be satisfied in full by the retention of the collateral securing the Claim.	Unimpaired — not entitled to vote
PTI Class 3 (Unsecured Claims). To receive in satisfaction of the Claim a Pro Rata Share of the membership interests in PTI Liquidating LLC. Holders are expected to receive approximately __% of their Allowed Claims.	Impaired — entitled to vote
PTI Class 4 (Subordinated Claims). No distribution under the Plan.	Impaired — deemed to reject the Plan
PTI Class 5 (Equity Interests). No distribution under the Plan.	Impaired — deemed to reject the Plan

A. PTI Class 1 (Priority Claims)

Class 1 consists of all Allowed Priority Claims against PTI. On the Effective Date or as soon thereafter as practicable, each holder of an Allowed Priority Claim, shall be paid, in cash, the Allowed Amount of such holder's Priority Claim. Interest shall neither accrue nor be payable with respect to Allowed Priority Claims. PTI Class 1 is unimpaired with respect to each holder. The holders of the Claims in PTI Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

B. PTI Class 2 (Secured Claims)

PTI Class 2 consists of all Allowed Secured Claims against PTI. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan. The holder of each Allowed Secured Claim shall be authorized to repossess its collateral securing its Allowed Secured Claim in full satisfaction thereof. PTI Class 2 is not impaired. The holders of the Claims in PTI Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

C. PTI Class 3 (Unsecured Claims)

PTI Class 3 consists of all Allowed Unsecured Claims against PTI. On the later of the Effective Date and the date on which an Unsecured Claim becomes Allowed, each holder of an Allowed Unsecured Claim shall be entitled to receive, in accordance with Article 8 of the Plan, and subject to section 3.2.3.3 of the Plan, each holder's Pro Rata Share of the membership interests in PTI Liquidating LLC. As of the Effective Date, all notes, Bonds, agreements, and securities evidencing Unsecured Claims and the rights thereunder of the holders thereof shall be canceled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided in section 3.2.3.2 of the Plan. However, notwithstanding the cancellation of the Bonds, the provisions of the Bond Indenture governing the relationship between the Bondholders and the Bond Trustee, including the Bond Trustee's right to assert a lien against property to be distributed to the Bondholders shall not be affected. Interest shall neither accrue nor be payable with respect to Allowed Unsecured Claims. PTI Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in PTI Class 3 are entitled to vote to accept or reject the Plan.

The Assets to be transferred to the PTI Liquidating LLC for the benefit of the holders of PTI Class 3 includes the following:

(i) Subject to the provisions of section VI.A.(g) below, all PTI funds remaining after (A) the payment of PTI Allowed Administrative Claims, PTI Allowed Priority Claims, and PTI Allowed Secured Claims, (B) the creation of the PTI Disputed Administrative, Priority and Secured Claims Reserve, and (C) the creation of the Winding-Up Reserve ("PTI Liquid Assets");

(ii) All claims, Causes of Action, demands or obligations arising or existing in favor of PTI or its bankruptcy estate under sections 544, 547, 548, 549, 550, and 553(b) of the Bankruptcy Code, and any similar statutes under applicable nonbankruptcy law;

(iii) Any rights of PTI or its bankruptcy estate arising under any insurance policies providing coverage for the acts or omissions of PTI's officers and directors; and

(iv) any other Assets of PTI transferred to the PTI Liquidating LLC.

The PTI Liquid Assets are estimated to be \$___ million. For purposes of the Disclosure Statement, the Proponents have not assigned a specific value to the other assets to be transferred to the PTI Liquidating LLC.

The ultimate cash distribution to holders of PTI Class 3 Claims depends upon (i) the total Claims in PTI Class 3 that are ultimately Allowed, (ii) the value received upon liquidation of the assets in the PTI Liquidating LLC, and (iii) ultimate success of certain Causes of Action the PTI Liquidating Agent may pursue.

The Proponents estimate the amount of PTI Class 3 Claims will be approximately \$__ million.

D. PTI Class 4 (Subordinated Claims)

PTI Class 4 consists of Subordinated Claims against PTI. The holders of Subordinated Claims will not receive or retain any interest or property under the Plan. PTI Class 4 is impaired. The holders of Claims in PTI Class 4 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan. The Proponents are not presently aware of any Allowed Subordinated Claims.

E. PTI Class 5 (Equity Interests)

PTI Class 5 consists of PTI Equity Interests. The holders of PTI Equity Interests will not receive or retain any interest or property under the Plan. On the Effective Date, the certificates that previously evidenced ownership of Existing PTI Stock shall be canceled and shall be null and void, the holders thereof shall have no rights thereunder, and such certificates shall evidence no rights. PTI Class 5 is impaired, The holders of PTI Class 5 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

IV. SUMMARY, CLASSIFICATION AND TREATMENT OF PNI CLAIMS AND EQUITY INTERESTS

The Plan classifies holders of PNI Claims and PNI Equity Interests separately and provides different treatment for different classes of PNI Claims and PNI Equity Interests in accordance with the Bankruptcy Code.

In general, the Plan provides for the payment in cash of PNI Allowed Priority Claims. The Plan creates PNI Liquidating LLC, a liquidating entity that will be managed by a person selected by the Committee, and will be administered for the benefit of PNI unsecured creditors. Holders of PNI Allowed Unsecured Claims will be entitled to receive membership interests in PNI Liquidating LLC and the resulting distributions on account of their respective interests. The recoveries to be received by holders of PNI Allowed Unsecured Claims will depend in part upon the success which PNI Liquidating LLC has liquidating the assets transferred to it. The holders of PNI Subordinated Claims and the holders of PNI Equity Interests will not receive any distribution under the Plan.

PNI Claims and PNI Equity Interests are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

CLASS	STATUS
PNI Class 1 (Priority Claims). To be paid in full in cash on or about the Effective Date.	Unimpaired — not entitled to vote
PNI Class 2 (Secured Claims). To be satisfied in full by the retention of the collateral securing the Claim.	Unimpaired — not entitled to vote
PNI Class 3 (Unsecured Claims). To receive in satisfaction of the Claim a Pro Rata Share of the membership interests in PNI Liquidating LLC. Holders are expected to receive approximately ___% of their Allowed Claims.	Impaired — entitled to vote
PNI Class 4 (Subordinated Claims). No distribution under the Plan.	Impaired — deemed to reject the Plan
PNI Class 5 (Equity Interests). No distribution under the Plan.	Impaired — deemed to reject the Plan

A. PNI Class 1 (Priority Claims)

Class 1 consists of all Allowed Priority Claims against PNI. On the Effective Date or as soon thereafter as practicable, each holder of a Priority Claim, shall be paid, in cash, the Allowed Amount of such holder's Priority Claim. Interest shall neither accrue nor be payable with respect to Allowed Priority Claims. PNI Class 1 is unimpaired with respect to each holder. The holders of the Claims in PNI Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

B. PNI Class 2 (Secured Claims)

PNI Class 2 consists of all Allowed Secured Claims against PNI. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan. The holder of each Allowed Secured Claim shall be authorized to repossess its collateral securing its Allowed Secured Claim in full satisfaction thereof. PNI Class 2 is not impaired. The holders of the Claims in PNI Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

C. PNI Class 3 (Unsecured Claims)

PNI Class 3 consists of all Allowed Unsecured Claims against PNI. On the later of the Effective Date and the date on which an Unsecured Claim becomes Allowed, each holder of an Unsecured Claim shall be entitled to receive, in accordance with Article 8 of the Plan, and subject to section 3.2.3.3 of the Plan, each holder's Pro Rata Share of the membership interests in PNI Liquidating LLC. As of the Effective Date, all notes, Bonds, agreements, and securities evidencing Unsecured Claims and the rights thereunder of the holders thereof shall be canceled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided in section 3.2.3.2 of the Plan. However, notwithstanding the cancellation of the Bonds, the provisions of the Bond Indenture governing the relationship between the Bondholders and the Bond Trustee, including the Bond Trustee's right to assert a lien against property to be distributed to the Bondholders shall not be affected. Interest shall neither accrue nor be payable with respect to Allowed Unsecured Claims. PNI Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in PNI Class 3 are entitled to vote to accept or reject the Plan.

The Assets to be transferred to the PNI Liquidating LLC for the benefit of the holders of PNI Class 3 includes the following:

(i) Subject to the provisions of section VI.A.(g) below, all PNI funds remaining after (A) the payment of PNI Allowed Administrative Claims, PNI Allowed Priority Claims, and PNI Allowed Secured Claims, (B) the creation of the PNI Disputed Administrative, Priority and Secured Claims Reserve, and (C) the creation of the Winding-Up Reserve ("**PNI Liquid Assets**");

(ii) All claims, Causes of Action, demands or obligations arising or existing in favor of PNI or its bankruptcy estate under sections 544, 547, 548, 549, 550, and 553(b) of the Bankruptcy Code, and any similar statutes under applicable nonbankruptcy law;

(iii) Any rights of PNI or its bankruptcy estate arising under any insurance policies providing coverage for the acts or omissions of the Debtor's officers and directors; and

(iv) Any other Assets of PNI transferred to the PNI Liquidating LLC.

The PNI Liquid Assets are estimated to be \$___ million. For purposes of the Disclosure Statement, the Proponents have not assigned a specific value to the other assets to be transferred to the PNI Liquidating LLC.

The ultimate cash distribution to holders of PNI Class 3 depends upon (i) the total Claims in PNI Class 3 that are ultimately Allowed, (ii) the value received upon liquidation of the Assets, and (iii) ultimate success of certain Causes of Action the Liquidating Agent may pursue.

The Proponents estimate the amount of PNI Class 3 Claims will be approximately \$__ million.

D. PNI Class 4 (Subordinated Claims)

PNI Class 4 consists of Subordinated Claims against PNI. The holders of Subordinated Claims will not receive or retain any interest or property under the Plan. PNI Class 4 is impaired. The holders of Claims in PNI Class 4 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan. The Proponents are not presently aware of any PNI Class 4 Claims.

E. PNI Class 5 (Equity Interests)

PNI Class 5 consists of PNI Equity Interests. The holders of PNI Equity Interests will not receive or retain any interest or property under the Plan. On the Effective Date, the certificates that previously evidenced ownership of Existing PNI Stock shall be canceled and shall be null and void, the holders thereof shall have no rights thereunder, and such certificates shall evidence no rights. PNI Class 5 is impaired, The holders of PNI Class 5 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

V. IDENTIFICATION OF CLASSES OF CLAIMS AND INTERESTS IMPAIRED AND NOT IMPAIRED BY THE PLAN

A. Classes Not Impaired by the Plan

PTI Classes 1 and 2, and PNI Classes 1 and 2 are not impaired. Under Section 1126(f) of the Bankruptcy Code, holders of Allowed Claims in such classes are conclusively presumed to have voted to accept the Plan, and, therefore, the votes of such holders will not be solicited.

B. Classes Impaired by the Plan

PTI Classes 3, 4 and 5, and PNI Classes 3, 4 and 5 are impaired by the Plan, and holders of Allowed Claims in such classes shall be entitled to vote to accept or reject the Plan to the extent and in the manner provided by the Voting Procedures Order.

Acceptance of the Plan by an impaired class of Claims shall be determined in accordance with the Voting Procedures Order.

C. Classes Presumed to Reject the Plan

PTI Classes 4 and 5, and PNI Classes 4 and 5 will not receive any distribution under the Plan. Under Bankruptcy Code Section 1126(g), holders of these Claims and Interests are conclusively deemed to have rejected the Plan and, therefore, the votes of such holders will not be solicited. The Proponents intend to request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to PTI Classes 4 and 5, and PNI Classes 4 and 5.

In the event that any other impaired class of Claims fails to accept the Plan in accordance with section 1129(a) of the Bankruptcy Code, the Proponents reserve the right (i) to request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such non-accepting class, in which case the Plan shall constitute a motion for such relief, or (ii) to amend the Plan in accordance with section 5.1 of the Plan.

VI. IMPLEMENTATION OF THE PLAN

A. LIQUIDATING LLCs

1. Liquidating Agent

On or before the Confirmation Date, the Committee shall designate and appoint the PTI Liquidating Agent and the PNI Liquidating Agent for the purpose of implementing and administering the PTI Liquidating LLC and the PNI Liquidating LLC as the case may be. The same person may serve as both the PTI Liquidating Agent and the PNI Liquidating Agent. Upon the Effective Date, and subject to sections 8.2 and 9.2 of the Plan, all right, title and interest in and to the PTI Assets shall be assigned and transferred to the PTI Liquidating LLC, and all right, title and interest in and to the PNI Assets shall be assigned and transferred to the PNI Liquidating LLC. Such transfer shall be free and clear of any Claims, Interests or Encumbrances, except the rights of members of the Liquidating LLC under the Plan and under the LLC Operating Agreement.

The Liquidating Agent shall, in an expeditious but orderly manner, liquidate and convert to cash the assets, make timely distributions, and not unduly prolong the duration of the Liquidating LLC. In so doing, the Liquidating Agent shall exercise its reasonable business judgment in liquidating the assets to maximize recoveries. The liquidation of such assets may be accomplished either through the sale of assets (in whole or in combination, and including the sale of any claims, rights, or Causes of Action) or through the prosecution, compromise and settlement, abandonment or dismissal of any or all claims, rights, or causes of action, or otherwise. The Liquidating Agent shall have the absolute right to pursue or not to pursue any and all claims, rights, or causes of action as the Liquidating Agent determines are in the best interests of the members of the Liquidating LLC, consistent with the purposes of the Liquidating LLC, and the Liquidating Agent shall have no liability for the outcome of his or her decisions in this regard. The

Liquidating Agent may incur any reasonable and necessary expenses in liquidating and converting the Assets in the Liquidating LLC to cash.

The Liquidating Agent and its professionals shall be entitled to reasonable compensation. The duties and powers, of the Liquidating Agent shall include all powers necessary to implement the Plan, including, but not limited to, the following: (i) to compromise, dismiss or pursue in litigation any and all Claims of the Debtor and its creditors (except claims comprising a portion of the Collateral) existing at confirmation (whether or not pending); (ii) to retain professionals to assist it in performing its duties hereunder; (iii) to object to or seek to subordinate claims against the estate; and (iv) to serve as manager of the Liquidating LLC.

2. PTI Liquidating LLC

On the Effective Date, the PTI LLC Operating Agreement shall become effective and form the PTI Liquidating LLC, designating the PTI Liquidating Agent as the manager of such limited liability company. The PTI Liquidating Agent shall thereupon be authorized to take all other steps necessary to complete the formation of the PTI Liquidating LLC. The PTI Liquidating LLC shall have all duties, powers, standing and authority necessary to implement the Plan and to administer and liquidate the Assets for the benefit of the members the PTI Liquidating LLC. Such powers shall include, without limitation the following: (i) to investigate, institute, compromise, dismiss or pursue in litigation, any and all claims of PTI, existing, whether or not pending in litigation, at confirmation, including but not limited to Avoidance Actions; (ii) to retain professionals; and (iii) to object to or seek to subordinate claims against PTI's estate.

On the Effective Date, each holder of a PTI Allowed Class 3 Claim shall, by operation of the Plan (i) be admitted to the PTI Liquidating LLC as a member of the PTI Liquidating LLC, (ii) become bound by the PTI LLC Operating Agreement, and (iii) receive an uncertificated membership interest in the PTI Liquidating LLC in proportion to its Pro Rata Share of Allowed PTI Class 3 Claims, as such membership interests are more particularly described in the PTI LLC Operating Agreement. On the Effective Date, the PTI Liquidating Agent shall reserve or escrow for the benefit of each holder of a Disputed PTI Class 3 Claim the membership interests in PTI Liquidating LLC that the holder of such Disputed PTI Class 3 Claim would have received if such Disputed PTI Class 3 Claim had been Allowed in the Disputed Claim Amount as of the Effective Date. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PTI Liquidating LLC or the Assets upon their assignment and transfer to the PTI Liquidating LLC.

3. PNI Liquidating LLC

On the Effective Date, the PNI LLC Operating Agreement shall become effective and form the PNI Liquidating LLC, designating the PNI Liquidating Agent as the manager of such limited liability company. The PNI Liquidating Agent shall thereupon be authorized to take all other steps necessary to complete the formation of the PNI Liquidating LLC. The PNI Liquidating LLC shall have all duties, powers, standing and

authority necessary to implement the Plan and to administer and liquidate the Assets for the benefit of the members the PNI Liquidating LLC. Such powers shall include, without limitation the following: (i) to investigate, institute, compromise, dismiss or pursue in litigation, any and all claims of PNI, existing, whether or not pending in litigation, at confirmation, including but not limited to Avoidance Actions; (ii) to retain professionals; and (iii) to object to or seek to subordinate claims against PNI's estate.

On the Effective Date, each holder of a PNI Allowed Class 3 Claim shall, by operation of the Plan (i) be admitted to the PNI Liquidating LLC as a member of the PNI Liquidating LLC, (ii) become bound by the PNI LLC Operating Agreement, and (iii) receive an uncertificated membership interest in the PNI Liquidating LLC in proportion to its Pro Rata Share of Allowed PNI Class 3 Claims, as such membership interests are more particularly described in the PNI LLC Operating Agreement. On the Effective Date, the PNI Liquidating Agent shall reserve or escrow for the benefit of each holder of a Disputed PNI Class 3 Claim the membership interests in PNI Liquidating LLC that the holder of such Disputed PNI Class 3 Claim would have received if such Disputed PNI Class 3 Claim had been Allowed in the Disputed Claim Amount as of the Effective Date. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PNI Liquidating LLC or the PNI Assets upon their assignment and transfer to the PNI Liquidating LLC.

4. Distributions by PTI Liquidating LLC

All recoveries from the liquidation of the PTI Assets assigned to the PTI Liquidating LLC shall be distributed as follows: (i) first, to compensate the PTI Liquidating Agent and its professionals for expenses and services incurred in connection with liquidating and administering the assets pursuant to the terms of the PTI LLC Operating Agreement; and (ii) second, pro rata among all holders of membership interests in the PTI Liquidating LLC, based upon their relative membership interests in accordance with, and subject to, the terms of the Plan. Except as provided in the Plan, no Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PTI Liquidating LLC or the Assets upon their assignment and transfer to the PTI Liquidating LLC. All distributions from the PTI Liquidating LLC allocable to the PTI Class 3 claim of Bondholders shall be paid directly to the Bond Trustee, which shall be responsible for distributing such payments to the Bondholders net of any applicable fees, charges or other amounts due.

The PTI Liquidating Agent shall distribute periodically to the holders of membership interests in the PTI Liquidating LLC all net cash income and all other cash received, whether from the liquidation of assets or the transfer of assets to the PTI Liquidating LLC (including as cash for this purpose all Cash Equivalents); provided, however, that the PTI Liquidating LLC may retain, with the approval of the Oversight Committee, such amounts (i) as are reasonably necessary to meet contingent liabilities and to maintain the value of the assets of the PTI Liquidating LLC during liquidation, (ii) to pay reasonable administrative expenses which have been incurred, and (iii) to satisfy other liabilities incurred or assumed by the PTI Liquidating LLC (or to which the assets are otherwise subject) in accordance with the Plan or the PTI LLC Operating Agreement.

The PTI Liquidating Agent may withhold from amounts distributable to any Entity any and all amounts, determined in the PTI Liquidating Agent's reasonable sole discretion, to be required by any law, regulation, rule, ruling, directive or other governmental requirement.

5. Distributions by PNI Liquidating LLC

All recoveries from the liquidation of the PNI Assets assigned to the PNI Liquidating LLC shall be distributed as follows: (i) first, to compensate the PNI Liquidating Agent and its professionals for expenses and services incurred in connection with liquidating and administering the assets pursuant to the terms of the PNI LLC Operating Agreement; and (ii) second, pro rata among all holders of membership interests in the PNI Liquidating LLC, based upon their relative membership interests in accordance with, and subject to, the terms of the Plan. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PNI Liquidating LLC or the Assets upon their assignment and transfer to the PNI Liquidating LLC. All distributions from the PNI Liquidating LLC allocable to the PNI Class 3 claim of Bondholders shall be paid directly to the Bond Trustee, which shall be responsible for distributing such payments to the Bondholders net of any applicable fees, charges or other amounts due.

The PNI Liquidating Agent shall distribute periodically to the holders of membership interests in the PNI Liquidating LLC all net cash income and all other cash received, whether from the liquidation of assets or the transfer of assets to the PNI Liquidating LLC (including as cash for this purpose all Cash Equivalents); provided, however, that the PNI Liquidating LLC may retain, with the approval of the Oversight Committee, such amounts (i) as are reasonably necessary to meet contingent liabilities and to maintain the value of the assets of the PNI Liquidating LLC during liquidation, (ii) to pay reasonable administrative expenses which have been incurred, and (iii) to satisfy other liabilities incurred or assumed by the PNI Liquidating LLC (or to which the assets are otherwise subject) in accordance with the Plan or the PNI LLC Operating Agreement. The PNI Liquidating Agent may withhold from amounts distributable to any Entity any and all amounts, determined in the PNI Liquidating Agent's reasonable sole discretion, to be required by any law, regulation, rule, ruling, directive or other governmental requirement.

6. Periodic Reports by Liquidating Agent

The Liquidating Agent shall provide on at least an annual basis a report detailing all receipts and disbursements from the Liquidating LLC, all contingent and accrued liabilities incurred by the Liquidating Agent or the Liquidating LLC, the available cash balances of the Liquidating LLC, and a narrative summary describing the status of the liquidation of the Assets and any litigation relating thereto. The Liquidating Agent shall furnish a copy of this report to each member of the Liquidating LLC requesting a copy of the report.

7. Committee Election

At any time before the Effective Date: (i) the Committee may elect not to use the PTI Liquidating LLC and/or the PNI Liquidating LLC and the PTI Liquidating Agent and/or the PNI Liquidating Agent in the distribution of Cash Equivalents and, instead, instruct PTI or the PTI Liquidating Agent and/or PNI or the PNI Liquidating Agent to distribute promptly to the holders of the Allowed Claims in PTI Class 3 or PNI Class 3 (as the case may be) their Pro Rata Share of the Cash Equivalents available for distribution to such holders; or (ii) the Committee may elect not to use the PTI Liquidating LLC and/or the PNI Liquidating LLC, and the PTI Liquidating Agent and/or the PNI Liquidating Agent in the liquidation of the PTI Assets or the PNI Assets, and instead instruct PTI and/or PNI to abandon any unliquidated PTI Assets or PNI Assets and to distribute promptly to the holders of the Allowed Claims in PTI Class 3 or PNI Class 3 (as the case may be) their Pro Rata Share of the Assets available for distribution to such holders. At any time before the Effective Date, the Committee may elect to use the vehicle of a trust for the liquidation of the PTI Assets and/or the PNI Assets rather than the PTI Liquidating LLC or the PNI Liquidating LLC. In such event, the provisions of the Plan that apply to the PTI Liquidating LLC, the PNI Liquidating LLC, the PTI Liquidating Agent and the PNI Liquidating Agent shall apply mutatis mutandis to the trust and the trustee.

8. Termination of Liquidating LLCs

Each of the PTI Liquidating LLC and the PNI Liquidating LLC will terminate after its liquidation, administration and distribution and/or abandonment of the assets in the PTI Liquidating LLC or the PNI Liquidating LLC (as the case may be) in accordance with the Plan and its full performance of all other duties and functions set forth herein or in the PTI LLC Operating Agreement or the PNI LLC Operating Agreement.

B. DISTRIBUTIONS BY PTI

As soon as practical following the Effective Date, PTI shall make all payments to holders of Allowed PTI Administrative Claims and Allowed PTI Priority Claims required by the Plan, including, without limitation Disputed PTI Administrative and PTI Priority Claims as they become Allowed. PTI shall also make the payments and other transfers to holders of Allowed PTI Secured Claims in satisfaction of their respective claims. PTI shall have no responsibility for making the Distributions to holders of Allowed PTI Unsecured Claims other than the execution and delivery of the PTI LLC Operating Agreement and effecting the transfer of the assets to the PTI Liquidating LLC unless the election referred to in section VI.A.7 above is made. For federal income tax purposes, a Distribution will be allocated to the principal amount of an Allowed Claim first and then, to the extent the Distribution exceeds the principal amount of the Allowed Claim, to the portion of the Allowed Claim representing accrued but unpaid interest.

C. DISTRIBUTIONS BY PNI

As soon as practical following the Effective Date, PNI shall make all payments to holders of Allowed PNI Administrative Claims and Allowed PNI Priority Claims required by the Plan, including, without limitation Disputed PNI Administrative and PNI Priority Claims as they become Allowed. PNI shall also make the payments and other transfers to holders of Allowed PNI Secured Claims in satisfaction of their respective claims. PNI shall have no responsibility for making the Distributions to holders of Allowed PNI Unsecured Claims other than the execution and delivery of the PNI LLC Operating Agreement and effecting the transfer of the assets to the PNI Liquidating LLC unless the election referred to in section VI.A.7 above is made. For federal income tax purposes, a Distribution will be allocated to the principal amount of an Allowed Claim first and then, to the extent the Distribution exceeds the principal amount of the Allowed Claim, to the portion of the Allowed Claim representing accrued but unpaid interest.

D. DISTRIBUTIONS UNDER ONE HUNDRED DOLLARS

No Distribution of less than one hundred dollars (\$100.00) shall be made to the holder of any Claim unless a request therefor is made in writing to the Debtor or the Liquidating Agent, as applicable.

E. DISPUTED CLAIMS RESERVES

The Plan contains extensive provisions dealing with Disputed Unsecured Claims, Disputed Administrative Claims, Disputed Priority Claims, and Disputed Secured Claims and the creation of reserves or escrows to insure that holders of such Disputed Claims are treated fairly with respect to distributions from the Liquidating LLC. See Sections 11.1 and 12.1.2 of the Plan for these provisions.

F. TIME BAR TO CASH PAYMENTS

Checks issued by the Debtors or the Liquidating Agent in respect of Allowed Claims shall be null and void if not negotiated within ninety (90) days after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the party issuing such check, by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of such a voided check shall be made on or before the first anniversary of the date on which such Distribution was made. After such date, all Claims in respect of void checks shall be discharged and forever barred.

G. DEBTORS' POST-CONFIRMATION ROLE

The Debtors shall administer the payment of Allowed Administrative Claims, Allowed Priority Claims and Allowed Secured Claims. Upon the full payment of Administrative Claims, Priority Claims, and Secured Claims which are or become Allowed, and the transfer of the assets described in sections 8.2 and 9.2 of the Plan, the Debtors shall have no further responsibilities with respect to making Distributions under the Plan. The Debtors shall reserve from their Assets an amount, determined with the consent of the Committee, to be sufficient to pay the expenses of winding up the estates of

the Debtors, including any taxes payable in respect of the transfers of property pursuant to the Plan, which shall be effected as soon as practicable following the Effective Date. The Debtors will also shall perform such other acts as are provided in the Plan.

H. POST-EFFECTIVE DATE PROFESSIONAL FEES

Professional fees and expenses incurred by the Debtors, the Committee, the Bond Trustee and the Oversight Committee after the Effective Date in connection with the effectuation of the Plan shall be paid in the ordinary course of business without application to or approval by the Bankruptcy Court. Professional fees and expenses incurred by the Liquidating Agent after the Effective Date in connection with the effectuation of the Plan shall be paid in the ordinary course of business from the Liquidating LLC without application to or approval by the Bankruptcy Court.

I. CONDITION TO CONFIRMATION

It is a condition to the confirmation of the Plan that the Confirmation Order shall be in form and substance acceptable to the Proponents.

J. CONDITIONS TO THE EFFECTIVE DATE

The “effective date of the plan,” as used in section 1129 of the Bankruptcy Code, shall not occur, and the Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective Date is subject to satisfaction of the following conditions precedent:

1. The Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court and shall have become a Final Order;
2. The Committee has appointed the PTI Liquidating Agent and the PNI Liquidating Agent;
3. The Debtors and the Liquidating Agent have executed the PTI LLC Operating Agreement and the PNI LLC Operating Agreement; and
4. The Debtors shall have sufficient funds to pay Allowed Administrative Claims, Allowed Priority Claims and Allowed Secured Claims in cash and to establish the Disputed Administrative, Priority and Secured Claims Reserve, and the Winding-Up Reserve.

Notwithstanding the foregoing, the Proponents reserve the right, in their sole and absolute discretion, to waive the occurrence of any of the foregoing conditions precedent to the Effective Date or to modify any of such conditions precedent. Any such waiver of a condition precedent hereof may be effected at any time, without notice, without leave or order of the Bankruptcy Court, and without any formal action other than proceeding to consummate the Plan.

VII. MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

A. Modification of the Plan

The Proponents may alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date so long as the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code. After the Confirmation Date and prior to the Effective Date, the Proponents may alter, amend, or modify the Plan in accordance with section 1127(b) of the Bankruptcy Code.

B. Revocation or Withdrawal of the Plan

The Plan may be revoked or withdrawn prior to the Confirmation Date by the Proponents. If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claims by the Debtors or any other Entity or to prejudice in any manner the rights of the Debtors or any Entity in any further proceedings involving the Debtors.

C. Amendment of Plan Documents

From and after the Effective Date, the authority to amend, modify, or supplement the Exhibits to the Plan and any documents attached to such Exhibits shall be provided in such exhibits and their respective attachments.

VIII. PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

A. Objections to Claims

Prior to the Effective Date, the Debtors and the Committee may object to the allowance of Claims with respect to which any of them disputes the Debtors' liability therefor in whole or in part. After the Effective Date, the Liquidating Agent may object to the allowance of Claims with respect to which the Debtors or the Liquidating Agent disputes liability in whole or in part. All objections that are filed and prosecuted as provided herein shall be litigated to Final Order or compromised and settled in accordance with section 6.2 of the Plan. Unless otherwise provided herein or ordered by the Bankruptcy Court, all objections to Claims shall be served and filed no later than ninety (90) days after the Effective Date.

B. Claims Settlement Guidelines

Notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, from and after the Effective date all Claims and all claims that either the Debtor or the Liquidating Agent has asserted against other parties may be compromised and settled according to certain procedures set forth under Section 6.2 of the Plan.

Subject to certain exceptions described below, the following settlements or compromises do not require the review or approval of the Bankruptcy Court or other party in interest:

1. The settlement or compromise by the Debtors or the Liquidating Agent of a Claim pursuant to which such Claim is Allowed in an amount of \$ 250,000 or less;
2. The settlement or compromise of a Claim where the difference between the amount of the Claim listed on the Schedules and the amount of the Claim proposed to be allowed under the settlement is \$250,000 or less; and
3. The settlement or compromise of a claim asserted by the Debtor or the Liquidating Agent against a party where the difference between the amount sought to be recovered by the Debtors or the Liquidating Agent and the amount to be paid to the Debtors or the Liquidating Agent under the proposed settlement is \$250,000 or less.

The following settlements or compromises shall be submitted to the Bankruptcy Court for approval:

1. Any settlement or compromise not described in section 6.2.1 of the Plan; and
2. Any settlement or compromise of Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code; and
3. Any settlement or compromise of a Claim or a claim asserted by the Debtor or the Liquidating Agent that involves an "insider," as defined in section 101 (31) of the Bankruptcy Code.

Notices of any settlements requiring Bankruptcy Court approval in accordance with section 6.2.2 of the Plan shall be sent to those creditors and other parties in interest appearing on the Rule 2002 list maintained by the Bankruptcy Court.

C. Distributions on Account of Disputed Claims

A Distribution shall only be made to the holder of a Disputed Claim when, and to the extent that, such Disputed Claim becomes Allowed. No interest shall be paid on account of Disputed Claims that later become Allowed except to the extent that payment of interest is required under section 506(b) of the Bankruptcy Code. No Distribution shall be made with respect to all or any portion of any Disputed Claim pending the entire resolution thereof in the manner prescribed by section 6.1 of the Plan.

D. Reserves for Disputed Claims

Upon the Effective Date, the Disputed Unsecured Claims Reserve and, the Disputed Administrative, Priority and Secured Claims Reserves shall be established pending the resolution of all Disputed Unsecured Claims, Disputed Administrative Claims, Disputed Priority Claims, and Disputed Secured Claims.

IX. SELECTED PLAN ISSUES

A. Executory Contracts and Unexpired Leases

1. Rejection of Executory Contracts and Unexpired Leases

Except as set forth on **Exhibit 13.4** to the Plan, any executory contract or unexpired lease of the Debtors that (i) has not been approved by the Bankruptcy Court prior to the Confirmation Date for assumption and/or assignment by the Debtors, (ii) is not the subject of pending motions to assume at the Confirmation Date, or (iii) has not been previously rejected, shall be deemed to have been rejected by the Debtor on the Effective Date. The Plan shall constitute a motion to reject such executory contracts and unexpired leases, and the Liquidating LLC shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejections pursuant to section 365(a) of the Bankruptcy Code.

2. Claims Arising From Rejection or Termination

Claims created by the rejection of executory contracts or unexpired leases rejected by the Debtors prior to the Confirmation Date must be filed with the Bankruptcy Court and served on the Debtors prior to the Confirmation Date in accordance with the bar date previously ordered in connection with such rejection. Claims created by the rejection of an executory contract or unexpired lease rejected pursuant to section 13.1 of the Plan must be filed with the Bankruptcy Court and served on the Debtors and the Committee no later than thirty (30) days after the Confirmation Date. Any Claim for which a proof of claim is not filed and served within such time will be forever barred from assertion and shall not be enforceable against the Debtors, their estates, assets, properties, or interests in property, or the Liquidating LLC. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be treated as Unsecured Claims under the Plan.

3. Previously Scheduled Contracts

Exhibit 13.3 to the Plan sets forth a list of agreements that may have been listed on the Schedules as executory contracts, but which the Debtors believe should not be considered executory contracts. If any such agreements are determined to be executory contracts, the Proponents or the Liquidating Agent, as the case may be, reserves the right to seek the assumption or rejection of any such contracts, and the time within which the Debtors or the Liquidating Agent, as the case may be, may seek to assume or reject any such agreements shall be tolled until ten (10) Business Days after the date on which an

order determining that any such agreement is an executory contract becomes a Final Order. Set forth on **Exhibit 13.3** is the amount that the Debtors intend to treat as an Allowed Unsecured Claim for each such agreement. Such amount and the treatment of each such agreement shall be binding unless, on or before thirty (30) days after the Confirmation Date, the other party to any such agreement either (i) files a proof of claim (which proof of claim shall be deemed timely filed) or (ii) files a motion seeking to compel assumption or rejection of such agreement.

4. Assumption of Executory Contracts and Unexpired Leases

Any executory contracts or unexpired leases listed on **Exhibit 13.4** to the Plan shall be deemed to have been assumed by the Debtors on the Effective Date and transferred to the Liquidating LLC. The Plan shall constitute a motion to assume (and, if applicable, assign to the Liquidating LLC) such executory contracts and unexpired leases. Subject to the occurrence of the Effective Date, entry of the Confirmation Order shall constitute approval of such assumptions (and, if applicable, assignments) pursuant to section 365(a) of the Bankruptcy Code. With respect to each such executory contract or unexpired lease assumed by the Debtors, unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, the dollar amount required to cure any defaults of the Debtors existing as of the Confirmation Date shall be conclusively presumed to be the amount set forth in **Exhibit 13.4** with respect to such executory contract or unexpired lease. Subject to the occurrence of the Effective Date, any such cure amount shall be treated as an Allowed Administrative Expense under the Plan, and, upon payment of such Allowed Administrative Expense, all defaults of the Debtor existing as of the Confirmation Date with respect to such executory contract or unexpired lease shall be deemed to be cured.

5. Insurance Policies

To the extent that any or all of the insurance policies of the Debtors set forth on **Exhibit 13.5.1** to the Plan are considered to be executory contracts, then, notwithstanding anything contained in sections 13.1 and 13.2 and of the Plan to the contrary, the Plan shall constitute a motion to assume the insurance policies set forth on **Exhibit 13.5.1** to the Plan. Subject to the occurrence of the Effective Date, the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to section 365(a) of the Bankruptcy Code. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of the Debtors existing as of the Confirmation Date with respect to each such insurance policy set forth on **Exhibit 13.5.1** to the Plan. To the extent that the Bankruptcy Court determines otherwise as to any such insurance policy, the Debtors reserve the right to seek rejection of such insurance policy or other available relief.

To the extent that any or all of the insurance agreements set forth on **Exhibit 13.5.2** to the Plan are considered to be executory contracts, then, notwithstanding anything contained in sections 13.1 and 13.2 of the Plan to the contrary, the Plan shall constitute a motion to reject the insurance agreements set forth on **Exhibit 13.5.2** to the

Plan, and the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejection pursuant to section 365(a) of the Bankruptcy Code.

6. Compensation and Benefit Programs

All employment and severance policies (excluding only the KERP), and all compensation and benefit plans, policies and programs of the Debtors applicable to its present and former employees, officers, and directors, including, without express or implied limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit plans, incentive plans, and life, accidental death, and dismemberment insurance plans, shall be deemed to be, and shall be treated as though they are, executory contracts that are deemed rejected under the Plan, and the Debtor's obligations under such plans, policies, and programs shall be deemed rejected pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date. The KERP shall remain in effect until the Effective Date, and all benefits shall be payable thereunder by the Debtors in accordance with the terms thereof as if all remaining participants in the KERP were terminated without cause.

B. Retention of Jurisdiction

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Plan provides for the Bankruptcy Court to retain exclusive jurisdiction over all matters relating to the implementation of the Plan, Avoidance Actions, Disputed Claims, and other matters, as more fully set forth in Article 14 of the Plan.

X. CONFIRMATION PROCEDURE

Under the Bankruptcy Code, the following steps must be taken to confirm the Plan:

A. Solicitation of Votes

In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims in each of PTI Class 3 and PNI Class 3 are impaired, and the holders of Claims in each of such Classes are entitled to vote to accept or reject the Plan in the manner and to the extent set forth in the Voting Procedures Order. Pursuant to the Voting Procedures Order, any Creditor holding a Claim in PTI Class 3 or PNI Class 3 may vote on the Plan so long as such Claim has not been disallowed and is not the subject of an objection pending as of the voting record date. Nevertheless, if a Claim is the subject of such an objection, the holder thereof may vote if, prior to the voting deadline, such holder obtains an order of the Bankruptcy Court, or the Bankruptcy Court approves a stipulation between the Proponents and such holder fully or partially allowing such Claim, whether for all purposes or for voting purposes only.

Claims in each of PTI Classes 1 and 2, and PNI Classes 1 and 2 are unimpaired. The holders of Allowed Claims in each of such classes are conclusively presumed to have accepted the Plan, and the solicitation of acceptances with respect to each such Class is not required under section 1126(f) of the Bankruptcy Code.

The Plan provides that the holders of Claims in PTI Class 4 and PNI Class 4 and the holders of Equity Interests in PTI Class 5 and PNI Class 5 will not receive any distributions of property or retain any interest in the Debtors. In accordance with section 1126(g) of the Bankruptcy Code, such classes are conclusively presumed to have rejected the Plan.

As to PTI Class 3 and PNI Class 3, which are entitled to vote on the Plan, the Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the claims of that class that have timely voted to accept or reject a plan.

With respect to the tabulation of ballots for all Claims, the amount to be used to tabulate acceptance or rejection of the Plan is as follows (in order of priority): (i) if prior to the voting deadline, the Bankruptcy Court enters an order or approves a stipulation between the Proponents and the Creditor fully or partially allowing a Claim, whether for all purposes or for voting purposes only, the amount allowed thereunder; (ii) the liquidated amount specified in a proof of claim filed on or before the voting record date so long as such proof of claim has not been disallowed by the Bankruptcy Court or is not the subject of an objection pending as of the voting record date; (iii) the Claim amount listed in the Schedules as liquidated, undisputed, and not contingent; and (iv) if a proof of claim has been filed on or before the voting record date, and such Claim is wholly contingent or unliquidated, the Claim amount, for voting purposes only, will be \$1.00 so long such proof of claim has not been disallowed by the Bankruptcy Court or is not the subject of an objection pending as of the voting record date.

A ballot will not be counted if a Claim has been disallowed or an objection is pending to the Claim as of the voting record date, and the Creditor has not obtained, on or before the voting deadline, a Bankruptcy Court order allowing such Claim, either in whole or in part, for all purposes or for voting purposes only.

A BALLOT WILL NOT BE COUNTED IF IT IS NOT ACTUALLY RECEIVED BY ROBERT L. BERGER & ASSOCIATES LLC BY THE VOTING DEADLINE — _____, 2002, AT 4:00 P.M. PREVAILING PACIFIC TIME. PLEASE FOLLOW THE INSTRUCTIONS ON YOUR BALLOT FOR RETURNING THE BALLOT. In addition, a vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that such acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

B. Confirmation Hearing

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for _____, 2002, at _____.m. E.S.T. before the Honorable Stephen S. Mitchell, United States Bankruptcy Judge, 200 South Washington Street, Alexandria, Virginia. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court.

without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing.

Any objection to confirmation must be made in writing and must specify in detail the name and address of the objector, all grounds of the objection, and the amount and class of the Claim or number of shares of Existing PTI Common Stock held by the objector. Any such objection must be filed with the Bankruptcy Court and served the parties required by the Bankruptcy Rule 3020(b)(i). Any such objection must be received by the Bankruptcy Court, and the Proponents, on or before _____, 2002, at 4:00 p.m. E.S.T. Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

At the Confirmation Hearing, the Bankruptcy Court will confirm the Plan only if all of the requirements of section 1129 of the Bankruptcy Code are met. Among the requirements for confirmation of the Plan are that the Plan is (i) accepted by all impaired classes of claims and equity interests or, if rejected by an impaired class, that the Plan “does not discriminate unfairly” and is “fair and equitable” as to such class, (ii) feasible, and (iii) in the “best interests” of creditors and stockholders that are impaired under the Plan.

1. Acceptance

PTI Class 3 and PNI Class 3 are impaired under the Plan and are entitled to vote to accept or reject the Plan. PTI Classes 1 and 2, and PNI Classes 1 and 2 are unimpaired and are conclusively deemed to have voted to accept the Plan. PTI Classes 4 and 5, and PNI Classes 4 and 5 are conclusively deemed to have voted to reject the Plan. As to PNI Classes 4 and 5, and PTI Classes 4 and 5, the Proponents intend to seek nonconsensual confirmation of the Plan under section 1129(b) of the Bankruptcy Code.

2. Unfair Discrimination and Fair and Equitable Tests

To obtain nonconsensual confirmation of the Plan, at least one impaired Class must vote to accept the Plan (excluding any votes of insiders), and the Proponents must demonstrate to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired, nonaccepting Class. The Bankruptcy Code provides the following non-exclusive definition of the phrase “fair and equitable,” as it applies to secured creditors, unsecured creditors, and equity holders:

(a) *Secured Creditors.* Either (i) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (ii) each impaired secured creditor realizes the “indubitable equivalent” of its allowed secured claim, or (iii) the property securing the claim is sold free and clear of liens, with such liens to attach to the proceeds of the sale and the treatment of such liens on proceeds is provided in clause (i) or (ii) of this subparagraph.

(b) *Unsecured Creditors.* Either (i) each impaired unsecured creditor receives or retains under the plan property of a value

equal to the amount of its allowed claim, or (ii) the holders of claims and interests that are junior to the claims of the rejecting class of unsecured creditors will not receive or retain any property under the plan.

(c) *Equity Interests.* Either (i) each holder of an equity interest will receive or retain under the plan property of a value equal to the greatest of the fixed liquidation preference to which such holder is entitled, the fixed redemption price to which such holder is entitled, or the value of the interest, or (ii) the holder of an interest that is junior to the nonaccepting class will not receive or retain any property under the plan.

The Proponents believe that the Plan and the treatment of all Classes of Claims and Equity Interests under the Plan satisfy the foregoing requirements for nonconsensual confirmation of the Plan.

3. Feasibility

The Bankruptcy Code requires that confirmation of a plan is not likely to be followed by liquidation or the need for further financial reorganization. Since liquidation is proposed in the Plan and no further financial reorganization of the Debtor will be possible, the Proponents believe that the Plan meets the feasibility requirement. In addition, the Proponents believe that sufficient funds will exist at confirmation to make all payments required by the Plan.

4. Best Interests Test

With respect to each impaired Class of Claims and Equity Interests, confirmation of the Plan requires that each holder of a Claim or Equity Interest either (i) accept the Plan or (ii) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code. This requirement is referred to as the “best interests test.”

The Proponents believe that the Plan will yield to holders of Claims and Equity Interests an amount at least equal to what would be available for their respective Claims and Interests in a Chapter 7 liquidation. Holders of PTI Class 3 Claims and PNI Class 3 Claims will enjoy a greater recovery due to avoiding under the Plan the increased costs and expenses of a Chapter 7 liquidation associated with fees payable to a Chapter 7 trustee and its professionals. Holders of PTI Class 4 Claims and PTI Class 5 Equity Interests, and PNI Class 4 Claims and PNI Class 5 Equity Interests would not receive anything a Chapter 7 liquidation. In addition, holders of Administrative and Priority Claims have no assurance of being paid in a Chapter 7 liquidation, while the Plan provides for the full payment of Administrative Claims and Priority Claims in cash upon allowance. As a result of these factors, the Proponents believe that the Plan provides a superior recovery for holders of Claims. With regard to holders of Equity Interests, the Plan does not provide for the distribution to Equity Interest holders of any property of any monetary

value, and the Proponents believe that holders of Interests would receive no distribution of property of value in a Chapter 7 liquidation.

The Proponents also believe that the value of any distributions to each class of Allowed Claims in a Chapter 7 case would be less than the value of distributions under the Plan because such distributions in a Chapter 7 case would not occur for a substantial period of time. It is likely that distribution of the proceeds of the liquidation could be substantially delayed in order to resolve claims and prepare for distributions. In the likely event litigation was necessary to resolve claims asserted in the Chapter 7 case, the delay could be prolonged.

A hypothetical Chapter 7 liquidation analysis is contained in **Exhibit C** to this Disclosure Statement.

XI. CERTAIN RISK FACTORS TO BE CONSIDERED

Holders of Claims against the Debtor should read and consider carefully the factors set forth below, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

1. Overall Risks to Recovery by Holders of Claims

The ultimate recovery under the Plan to holders of PTI Claims 3 Claims and PNI Class 3 Claims depends in part upon the ability of the Liquidating Agent to realize upon the value of the assets in the Liquidating LLC. It is extremely difficult, if not impossible, to provide a reliable quantification of the value of the assets.

2. Failure to Obtain Cram-Down

The Proponents intend to seek confirmation of the Plan pursuant to the cram down provisions of section 1129(b) of the Bankruptcy Code. If this is unsuccessful, the likely result will be a conversion of the Chapter 11 Cases to Chapter 7 of the Bankruptcy Code.

3. Risk of Non-Occurrence of the Effective Date

Although the Proponents believe that the Effective Date should promptly occur following the entry of the Confirmation Order, there can be no assurance as to that timing or that each of the conditions to the Effective Date will occur.

XII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following discussion summarizes certain federal income tax consequences of the implementation of the Plan. The summary is based on the Internal Revenue Code of 1986, as amended (the "Tax Code"), existing and proposed regulations

thereunder (“Treasury Regulations”), pronouncements of the Internal Revenue Service (“IRS”), administrative rulings and court decisions. All of the foregoing is subject to change, possibly on a retroactive basis, and any such change could significantly affect the federal income tax consequences described below. THIS SUMMARY DOES NOT ADDRESS FOREIGN, STATE OR LOCAL TAX CONSEQUENCES OF THE PLAN NOR DOES IT PURPORT TO ADDRESS ALL OF THE FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN.

The federal income tax consequences of the Plan are complex and are subject to significant uncertainties. Thus, no assurance can be given as to the interpretation that the IRS will adopt.

THE FOLLOWING SUMMARY IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR EQUITY INTEREST. EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

Under the Plan, all parties (including, without limitation, the Debtors, the Liquidating Agent(s), and holders of membership interests in the Liquidating LLCs) are required to treat the transfers of assets to the Liquidating LLCs (the “Transfer”) as a transfer to holders of Allowed Claims in PTI Class 3 or PNI Class 3 (as the case may be), followed by a transfer by such holders to the corresponding Liquidating LLC. Accordingly, each holder of a PTI Class 3 Claim or PNI Class 3 Claim generally should recognize gain or loss on the Transfer. The amount of such gain or loss may be affected by subsequent resolution of Disputed Claims.

It is the intent of the Plan that the Liquidating LLCs will be treated as partnerships for federal income tax purposes and, to the extent allowed under applicable law, for state and local purposes. An entity classified as a partnership for federal income tax purposes generally is not a taxable entity and incurs no federal income tax liability. Pursuant to the Plan, taxable income or loss of the Liquidating LLC will be allocated among the holders of interests in the Liquidating LLC (i.e., holders of Allowed Claims in PTI Class 3 or PNI Class 3) consistent with applicable Treasury Regulations taking into account the relative economic interests of such holders in the Liquidating LLC. Each holder of such interests in the Liquidating LLC will be required to take into account its allocable share of the Liquidating LLC income, loss, deduction or credit in determining its taxable income for federal income tax purposes. Holders will be taxed on their allocable shares of Liquidating LLC income for the taxable year regardless of the amount, if any, distributed by the Liquidating LLC to such holders in the applicable taxable year. Distributions of money by the Liquidating LLC to a holder are generally not taxable to the holder unless the amount of such distributions exceeds the holder’s adjusted basis in its membership interests.

Pursuant to the Plan, the escrow created for Disputed Unsecured Claims will receive interests in the Liquidating LLC allocable to Disputed Claims, and any cash distributed with respect to such interests, will be escrowed by the Liquidating Agent until such Disputed Claims are determined to be either Allowed or disallowed. The federal income tax treatment with respect to such escrow and interests it will hold in the Liquidating LLC is uncertain. Such escrow possibly could be treated as a separately taxable corporation or trust, or as a grantor trust owned by the holders of Disputed Claims, by holders of Allowed Claims or by the Debtors or otherwise.

Absent definitive guidance from the IRS or a court of competent jurisdiction to the contrary, the Liquidating Agent shall: (i) treat the escrow as a taxable trust for federal income tax purposes, consisting of separate and independent shares to be established in respect of each Disputed Claim, in accordance with the trust provisions of the Tax Code; and (ii) to the extent permitted by applicable law, report consistently for state and local income tax purposes such treatment of the escrow. In addition, all holders of Claims are required to report consistently with such treatment. Accordingly, the Liquidating Agent will report as subject to a separate entity level tax any amounts earned by the escrow and any taxable income of the Liquidating LLC allocable to the escrow, except to the extent such earnings or income are distributed by the Liquidating Agent during the same taxable year. In such event, any amount earned by the escrow, and any taxable income of the Liquidating LLC allocated to the escrow, that are distributed to a holder during the same taxable year will be includable in such holder's gross income.

THE FOREGOING SUMMARY HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY. EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT ITS TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

XIII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtors' only realistic alternative is for their liquidation under Chapter 7 of the Bankruptcy Code.

If the Plan cannot be confirmed, the Chapter 11 Cases may be converted to cases under Chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors. A discussion of the effect that a Chapter 7 liquidation would have on the recovery of holders of Claims is set forth above in section X.C.4. The Proponents believe that liquidation under Chapter 7 would result in smaller distributions being made to Creditors than those provided for in the Plan.

XIV. CONCLUSION AND RECOMMENDATION

The Proponents believe that confirmation and implementation of the Plan is preferable to any other available alternative, including a Chapter 7 liquidation, because it

will provide the greatest recoveries to holders of Claims. The Proponents urge holders of impaired Claims to vote to accept the Plan.

Respectfully submitted,

PATHNET TELECOMMUNICATIONS, INC.,
Debtor and Debtor in Possession

By: _____ /s/

James Craig
Executive Vice President, Chief Financial
Officer and Responsible Officer

PATHNET, INC.,
Debtor and Debtor in Possession

By: _____ /s/

James Craig
Executive Vice President, Chief Financial
Officer and Responsible Officer

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF PATHNET
TELECOMMUNICATIONS, INC.,
AND PATHNET, INC.

By: _____ /s/

Allan A. Brown
Chairman

November 28, 2001

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

Alexandria Division

In re:)
)
PATHNET TELECOMMUNICATIONS) Chapter 11
INC., et al.)
) Case Nos. 01-12264-SSM
) and 01-12265-SSM
Debtors.) Jointly Administered

**JOINT PLAN OF LIQUIDATION OF
PATHNET TELECOMMUNICATIONS, INC. AND PATHNET, INC**

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TABLE OF CONTENTS

ARTICLE 1 DEFINITIONS.....	1
1.1. Defined Terms.....	1
1.2. Other Terms	9
1.3. Exhibits	9
1.4. Conflicting Terms	9
1.5. Consolidation	9
ARTICLE 2 PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES	9
2.1. Payment of Allowed Administrative Expenses	9
2.2. Objections to Asserted Administrative Expenses	10
ARTICLE 3 CLASSIFICATION AND TREATMENT OF PTI CLAIMS AND EQUITY INTERESTS	10
3.1. Summary.....	10
3.2. Classification and Treatment	11
3.3. Controversy Concerning Impairment.....	13
ARTICLE 4 CLASSIFICATION AND TREATMENT OF PNI CLAIMS AND EQUITY INTERESTS	13
4.1. Summary.....	13
4.2. Classification and Treatment	13
4.3. Controversy Concerning Impairment.....	15
ARTICLE 5 MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN	15
5.1. Modification of the Plan	15
5.2. Revocation or Withdrawal.....	16
5.3. Amendment of Plan Documents	16
ARTICLE 6 PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS.....	16
6.1. Objections to claims; Prosecution of Disputed claims.....	16
6.2. Claims Settlement Guidelines.....	16
6.3. Distributions on Account of Disputed Claims	17
6.4. Reserves for Disputed Claims	17
ARTICLE 7 ACCEPTANCE OR REJECTION OF THE PLAN	18
7.1. Impaired Classes to Vote	18

7.2. Acceptance by Class of Claims	18
7.3. Nonconsensual Confirmation.....	18
ARTICLE 8 PTI LIQUIDATING ENTITY	18
8.1. PTI Liquidating Agent	18
8.2. PTI Liquidating LLC	19
8.3. Distributions; Beneficial Interests.....	19
8.4. Purpose of the PTI Liquidating LLC	20
8.5. Tax Treatment of Transfer of Assets	20
8.6. Committee Election.....	20
ARTICLE 9 PNI LIQUIDATING ENTITY.....	20
9.1. PNI Liquidating Agent.....	20
9.2. PNI Liquidating LLC	21
9.3. Distributions; Beneficial Interests.....	21
9.4. Purpose of the PNI Liquidating LLC.....	22
9.5. Tax Treatment of Transfer of Assets	22
9.6. Committee Election.....	22
ARTICLE 10 THE LIQUIDATION OF ASSETS	22
10.1. Application.....	22
10.2. Liquidation of Assets; Responsibilities of Liquidating Agent.....	22
10.3. Investment Powers.....	23
10.4. Distribution and Withholding.....	23
10.5. Reporting Duties	24
10.6. Implementation of Liquidating LLC.....	24
10.7. Registry of Beneficial Interests.....	24
10.8. Termination.....	25
10.9. Oversight Committee.....	25
ARTICLE 11 DISPUTED UNSECURED CLAIMS RESERVE.....	25
11.1. Disputed Unsecured Claims Reserve.....	25
ARTICLE 12 IMPLEMENTATION OF THE PLAN.....	26
12.1. Debtors' Post-Confirmation Role; Dissolution.....	26
12.2. Transfers to the PTI Liquidating LLC	27
12.3. Transfers to the PNI Liquidating LLC.....	27
12.4. Books and Records.....	27
12.5. Distributions Under the Plan.....	28
12.6. Timing of Distributions Under the Plan.....	28
12.7. Address for Delivery of Distributions Under the Plan.....	28
12.8. Distributions Under One Hundred Dollars	28

12.9. Time Bar to Cash Payments	28
12.10. Manner of Payment Under the Plan.....	29
12.11. Post-Effective Date Professional Fees.....	29
12.12. Periodic Reports by Liquidating Agent	29
12.13. Conditions to the Effective Date	29
12.14. Distribution of Unclaimed Property.....	30
12.15. Key Employee Retention Program	30
12.16. Corporate Action.....	30
12.17. Effectuating Documents and Further Transactions.....	30
 ARTICLE 13 EXECUTORY CONTRACTS AND UNEXPIRED LEASES	 30
13.1. Rejection of Executory Contracts and Unexpired Leases.....	30
13.2. Claims Arising from Rejection or Termination.....	31
13.3. Previously Scheduled Contracts.....	31
13.4. Assumption of Executory Contracts and Unexpired Leases.....	31
13.5. Insurance Policies	32
13.6. Compensation and Benefit Programs	33
 ARTICLE 14 RETENTION OF JURISDICTION.....	 33
 ARTICLE 15 MISCELLANEOUS PROVISIONS.....	 34
15.1. Payment of Statutory Fees	34
15.2. Binding Effect; Discharge of the Debtor	34
15.3. Rights of Action.....	35
15.4. Third-Party Agreements.....	35
15.5. Dissolution of Committee	35
15.6. Exculpation.....	35
15.7. Title to Assets.....	36
15.8. Surrender and Cancellation of Instruments.....	36
15.9. Notices	36
15.10. Headings.....	37
15.11. Severability	37
15.12. Governing Law	37
15.13. Filing of Additional Documents	37
15.14. Compliance with Tax Requirements	37
15.15. Expedited Tax Determinations.....	38
15.16. Exemption from Transfer Taxes	38
15.17. Income Tax and Related Information	38
15.18. No Admissions	38

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS)	
INC., et al.	)	Case Nos. 01-12264-SSM
	)	and 01-12265-SSM
Debtors.	)	Jointly Administered

**JOINT PLAN OF LIQUIDATION OF
PATHNET TELECOMMUNICATIONS, INC. AND PATHNET, INC**

Pathnet Telecommunications, Inc., Pathnet, Inc., and the Official Committee of Unsecured Creditors hereby jointly propose the following plan of liquidation in respect of the above-captioned cases, which have been consolidated for procedural purposes only. The plan separately administers the assets of each of the Debtors.

ARTICLE 1

DEFINITIONS

1.1. Defined Terms. As used herein, the following terms shall have the respective meanings specified below, unless the context otherwise requires.

- 1.1.1. Administrative Claim or Administrative Expense:* Any Claim constituting a cost or expense of administration in the Chapter 11 Cases under section 503 of the Bankruptcy Code, including, without express or implied limitation, any actual and necessary costs and expenses of preserving the estates of the Debtors, any actual and necessary costs and expenses of operating the businesses of the Debtors, including, without limitation, allowed compensation or reimbursement of expenses under section 503(b)(2)-(5) of the Bankruptcy Code, and any fees or charges assessed against the estates of the Debtors under 28 U.S.C. § 1930.
- 1.1.2. Administrative Expense Creditor:* Any Creditor entitled to payment of an Administrative Expense.
- 1.1.3. Administrative, Secured and Priority Claim Escrow:* Has the meaning ascribed to such term in section 12.1.2.

1.1.4. *Allowed:*

1.1.4.1. With respect to any Claim, other than an Administrative Claim, proof of which was filed by the Bar Date or within the applicable period of limitation fixed in accordance with Bankruptcy Rule 3003(c)(3) by the Bankruptcy Court (i) as to which no objection to the allowance thereof has been interposed within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent asserted in the proof of such Claim, or (ii) as to which an objection has been interposed, such Claim to the extent that it has been allowed in whole or in part by a Final Order of the Bankruptcy Court or pursuant to section 6.2.

1.1.4.2. With respect to any Claim, other than an Administrative Claim, as to which no proof of claim was filed by the Bar Date or within the applicable period of limitation fixed by the Plan, the Bankruptcy Code, the Bankruptcy Rules, or a Final Order of the Bankruptcy Court, such Claim to the extent that it has been listed by the Debtor in its Schedules as liquidated in amount and not disputed or contingent, unless such Claim has been objected to by the Committee or the Debtors in accordance with the terms hereof.

1.1.4.3. With respect to any Claim that is timely asserted to constitute an Administrative Claim (i) that represents an actual or necessary expense of preserving the estate or operating the business of the Debtors, any such Claim to the extent that the Debtors determine it to constitute an Administrative Expense without objection by the Committee; (ii) other than with respect to a Claim of a professional person under clause (iii) below, that the Debtors or the Committee do not believe constitutes an Administrative Expense, any such Claim to the extent it is allowed in whole or in part by a Final Order of the Bankruptcy Court and only to the extent that such allowed portion is deemed, pursuant to a Final Order of the Bankruptcy Court, to constitute a cost or expense of administration under sections 503(b) and 507(a)(1) of the Bankruptcy Code; or (iii) that represents a Claim of a professional person employed under section 327 or 1103 of the Bankruptcy Code that is required to apply to the Bankruptcy Court for the allowance of compensation and reimbursement of expenses pursuant to sections 330 and/or 331 of the Bankruptcy Code, such Claim to the extent it is allowed by a Final Order of the Bankruptcy Court under section 330 or 331 of the Bankruptcy Code.

1.1.5. *Allowed Amount:* The lesser of: (i) the dollar amount of an Allowed Claim, or (ii) the Estimated Amount of such Claim, in each case minus any amount paid by the Debtor on account of such Claim prior to the first Distribution occurring

under the Plan with respect to such Claim. Unless otherwise specified herein or by Final Order of the Bankruptcy Court, the Allowed Amount of an Allowed Claim shall not include interest accruing on such Allowed Claim from and after the Petition Date.

- 1.1.6. *Assets*: All of the right, title, and interest of the Debtors in any and all assets and property, whether tangible, intangible, real, or personal, that constitute property of the Debtors' estates within the purview of section 541 of the Bankruptcy Code, including, without limitation, Avoidance Actions and any and all claims, Causes of Action, or rights of the Debtors under federal or state law.
- 1.1.7. *Avoidance Actions*: Any and all Causes of Action which a trustee, debtor-in-possession, the estate or other appropriate party in interest or estate representative may assert under sections 502, 510, 522(f), 522(h), 542, 543, 544, 545, 547, 548, 549, 550, 551, 553 and 724(a) of the Bankruptcy Code (other than those which are released, dismissed or compromised as part of and pursuant to the Plan), including, without limitation, the Debtors' rights of setoff, recoupment, contribution, reimbursement, subrogation or indemnity (as those terms are defined by the non-bankruptcy law of any relevant jurisdiction) and any other indirect claim of any kind whatsoever, whenever and wherever arising or asserted.
- 1.1.8. *Bankruptcy Code*: The Bankruptcy Reform Act of 1978, as amended and codified in Title 11, United States Code.
- 1.1.9. *Bankruptcy Court*: The United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division).
- 1.1.10. *Bankruptcy Rules*: The Federal Rules of Bankruptcy Procedure, as amended, including the Local Rules of the Bankruptcy Court.
- 1.1.11. *Bar Date*: July 31, 2001, unless otherwise provided by Order of the Bankruptcy Court.
- 1.1.12. *Board of Directors*: The board of directors of the Debtors as such boards may have existed from time to time.
- 1.1.13. *Bonds*: The 12-1/4% Senior Notes due 2008 in the face amount of \$350 million issued by PNI and guaranteed by PTI under the Bond Indenture.
- 1.1.14. *Bondholders*: The holders of the Bonds.
- 1.1.15. *Bondholder Claims*: The general unsecured claims of the Bondholders and the Bond Trustee against the Debtors arising under the Bonds.

- 1.1.16. *Bond Indenture:* Trust Indenture dated as of April 8, 1998, between PNI and the Bond Trustee, as amended by a Supplemental Indenture dated as of March 30, 2000, between PNI, PTI as guarantor, and the Bond Trustee.
- 1.1.17. *Bond Trustee:* The Bank of New York.
- 1.1.18. *Business Day:* Any day on which commercial banks are required to be open for business in Alexandria, Virginia.
- 1.1.19. *Cash Equivalents:* Equivalents of cash in the form of readily marketable securities or instruments constituting (i) readily marketable direct obligations of, or obligations guaranteed by, the United States of America, (ii) commercial paper of domestic corporations carrying a Moody's Rating of "A" or better, or equivalent rating of any other nationally recognized rating service, or (iii) interest-bearing certificates of deposit or other similar obligations of domestic banks or other financial institutions having a shareholders' equity or equivalent capital of not less than \$200 million, having maturities of not more than one hundred eighty (180) days, at the then best generally available rates of interest for like amounts and like periods.
- 1.1.20. *Causes of Action:* Any and all actions, claims, rights, defenses, third-party claims, cross-claims, counterclaims, suits, causes of action, chooses in action, controversies, agreements, promises, rights to legal remedies, rights to equitable remedies, rights to payment and claims, whether known, unknown, reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured, and whether asserted or assertable directly or indirectly or derivatively, at law, in equity or otherwise, accruing to the Debtors, including, but not limited, to the Avoidance Actions.
- 1.1.21. *Chapter 11 Cases:* The cases of the Debtors commenced by the filing by the Debtors of voluntary petitions for relief under chapter 11 of the Bankruptcy Code on the Petition Date and pending in the Bankruptcy Court.
- 1.1.22. *Claim:* A "claim," as defined in section 101(5) of the Bankruptcy Code, against the Debtors, whether or not asserted, whether or not the facts of or legal bases therefor are known or unknown, and specifically including, without limitation, any rights under sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, any claim of a derivative nature, any potential or unmatured contract claims, and any other Contingent Claim, including a Contingent Avoidance Claim.
- 1.1.23. *Committee:* The Official Unsecured Creditors' Committee consisting of Entities appointed as members in the Chapter 11 Cases in accordance with section 1102(a) of the Bankruptcy Code and their duly appointed successors, if any, as the same may be reconstituted from time to time.

- 1.1.24. *Confirmation Date:* The date on which the Confirmation Order is entered by the Clerk of the Bankruptcy Court.
- 1.1.25. *Confirmation Order:* The order of the Bankruptcy Court confirming the Plan in accordance with the provisions of chapter 11 of the Bankruptcy Code.
- 1.1.26. *Contingent Claim:* Any Claim, the liability for which attaches or is dependent upon the occurrence or happening of, or is triggered by, an event, which event has not yet occurred, happened, or been triggered, as of the date on which such Claim is sought to be estimated or an objection to such Claim is filed, whether or not such event is within the actual or presumed contemplation of the holder of such Claim and whether or not a relationship between the holder of such Claim and the Debtor now or hereafter exists or previously existed.
- 1.1.27. *Contingent Avoidance Claim:* Those Unsecured Claims anticipated by the Liquidating Agent to arise from the recovery of property under section 550 or 553 of the Bankruptcy Code and allowed in accordance with section 502 of the Bankruptcy Code in connection with the prosecution of the Avoidance Actions.
- 1.1.28. *Creditor:* Any Entity that holds a Claim against the Debtors.
- 1.1.29. *Debtors:* Pathnet Telecommunications, Inc., and Pathnet, Inc.
- 1.1.30. *Debtor in Possession:* The Debtors in their capacity as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.
- 1.1.31. *Disallowed Claim:* A Claim that is disallowed by a Final Order of the Bankruptcy Court or other court of competent jurisdiction; provided, however, that, with respect to Contingent Avoidance Claims, such Claim shall become a Disallowed Claim upon the earlier of (i) the entry of such Final Order determining that such holder is not liable with respect to such Avoidance Action, and (ii) the failure of the Debtors or the Liquidating LLC to initiate such Avoidance Action within the time provided in section 546(a) of the Bankruptcy Code.
- 1.1.32. *Disputed Claim:* A Claim with respect to which an objection has been filed and not yet settled or determined to be an Allowed Claim. For purposes of the Plan, Disputed Claims shall also include the Contingent Avoidance Claims.
- 1.1.33. *Disputed Claim Amount:* The Estimated Amount of a Disputed Claim, or, if no Estimated Amount exists, the amount set forth in the proof of claim relating to such Disputed Claim as the liquidated amount of such Disputed Claim; provided, however, that, in the case of a Contingent Avoidance Claim, the Disputed Claim Amount of such Disputed Claim will be the maximum amount estimated by the Debtors or the Liquidating Agent in their discretion as of the Effective Date.

- 1.1.34. *Disputed Administrative, Priority and Secured Claims Reserve:* Has the meaning ascribed to such term in section 12.1.2.
- 1.1.35. *Disputed Unsecured Claims Reserve:* Has the meaning ascribed to such term in section 11.1.1.
- 1.1.36. *Distribution:* The payment or distribution under the Plan of property or interests in property to the holders of Allowed Claims.
- 1.1.37. *Effective Date:* The first Business Day on which all of the conditions precedent to the effectiveness of the Plan specified in section 12.13 have been satisfied or waived.
- 1.1.38. *Encumbrance:* With respect to any asset, any mortgage, lien, pledge, charge, security interest, assignment, or encumbrance of any kind or nature in respect of such asset (including, without express or implied limitation, any conditional sale or other title retention agreement, any security agreement, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction).
- 1.1.39. *Entity:* An individual, corporation, partnership, association, joint stock company, joint venture, estate, trust, unincorporated organization, or government or any political subdivision, thereof, or other person or entity.
- 1.1.40. *Equity Interest.* Any interest in PNI or PTI represented by shares of Existing PTI or PNI Stock or warrants, options, or other rights to purchase any shares of Existing PTI or PNI Stock.
- 1.1.41. *Estimated Amount:* The estimated dollar value of an Unliquidated Claim, Disputed Claim, or Contingent Claim pursuant to section 502(c) of the Bankruptcy Code.
- 1.1.42. *Existing PTI or PNI Stock:* All stock having been authorized pursuant to PTI's or PNI's Certificate of Incorporation as in effect immediately prior to the Effective Date.
- 1.1.43. *Final Order:* An order as to which the time to appeal, petition for certiorari, or move for reargument or rehearing has expired and as to which no appeal, petition for certiorari, or other proceedings for reargument or rehearing shall then be pending or as to which any right to appeal, petition for certiorari, reargue, or rehear shall have been waived in writing, or in the event that an appeal, writ of certiorari, or reargument or rehearing thereof has been sought, such order shall have been affirmed by the highest court to which such order was appealed or from which reargument or rehearing was sought, or certiorari has been denied, and the time to take any further appeal, petition for certiorari or move for reargument or rehearing shall have expired.

- 1.1.44. *Internal Revenue Code*: The Internal Revenue Code of 1986, as amended, and any applicable rulings, regulations (including temporary and proposed regulations) promulgated thereunder, judicial decisions, and notices, announcements, and other releases of the United States Treasury Department or the IRS.
- 1.1.45. *IRS*: The United States Internal Revenue Service.
- 1.1.46. *KERP*: The Key Employee Retention Program as approved and authorized by the U.S. Bankruptcy Court for the District of Delaware.
- 1.1.47. *Liquidating Agent*: The PTI Liquidating Agent and/or the PNI Liquidating Agent, as the context may require.
- 1.1.48. *Liquidating LLC*: The PTI Liquidating LLC and/or the PNI Liquidating LLC, as the context may require.
- 1.1.49. *LLC Operating Agreement*: The PTI LLC Operating Agreement and/or the PNI LLC Operating Agreement, as the context may require.
- 1.1.50. *Oversight Committee*: The post-Effective Date committee consisting of those members of the Official Committee of Unsecured Creditors who consent to serve as members of the Oversight Committee.
- 1.1.51. *Petition Date*: April 2, 2001.
- 1.1.52. *Plan*: This plan of liquidation, either in its present form or as it may be amended, supplemented, or otherwise modified from time to time, and the exhibits and schedules to the foregoing, as the same may be in effect at the time such reference becomes operative.
- 1.1.53. *PNI*: Pathnet, Inc.
- 1.1.54. *PNI Liquidating Agent*: The person or firm selected by the Committee to be the manager of the PNI Liquidating LLC for all purposes set forth in the Plan.
- 1.1.55. *PNI Liquidating LLC*: The limited liability company formed in accordance with the provisions of Article 9 hereof and the PNI LLC Operating Agreement.
- 1.1.56. *PNI LLC Operating Agreement*: The Limited Liability Company Agreement of PNI Liquidating LLC, substantially in the form of the exhibit to the Plan to be filed.
- 1.1.57. *Priority Claim*: Any Claim to the extent such claim is entitled to priority in right of payment under section 507(a) of the Bankruptcy Code, other than an Administrative Expense.
- 1.1.58. *Proponents*: PTI, PNI and the Committee.

- 1.1.59. *Pro Rata Share:* With respect to (i) Priority Claims, the amount obtained by dividing the Allowed Amount of an Allowed Priority Claim by the sum of the Allowed Amount of all Allowed Priority Claims and the Disputed Claim Amount of all Priority Claims that are Disputed Claims, and (ii) Unsecured Claims, the amount obtained by dividing the Allowed Amount of an Allowed Unsecured Claim by the sum of the Allowed Amount of all Allowed Unsecured Claims and the Disputed Claim Amount of all Unsecured Claims that are Disputed Claims.
- 1.1.60. *PTI:* Pathnet Telecommunications, Inc.
- 1.1.61. *PTI Liquidating Agent:* The person or firm selected by the Committee to be the manager of the PTI Liquidating LLC for all purposes set forth in the Plan.
- 1.1.62. *PTI Liquidating LLC:* The limited liability company formed in accordance with the provisions of Article 8 hereof and the PTI LLC Operating Agreement.
- 1.1.63. *PTI LLC Operating Agreement:* The Limited Liability Company Agreement of PTI Liquidating LLC, substantially in the form of the exhibit to the Plan to be filed.
- 1.1.64. *Schedules.* The schedules of, assets and liabilities, and the statements of financial affairs filed by the Debtors with the Bankruptcy Court, as required by section 521 of the Bankruptcy Code and the Official Bankruptcy Forms of the Bankruptcy Rules, as such schedules and statements may be amended by the Debtors from time to time in accordance with Bankruptcy Rule 1009.
- 1.1.65. *Secured Claim:* Any Claim against the Debtors to the extent of the value of any interest in property of the Debtors' estate securing such Claim.
- 1.1.66. *Subordinated Claim:* Any Claim (i) for any fine, penalty, collection fee, or forfeiture, or for multiple, exemplary, or punitive damages to the extent that such fine, penalty, forfeiture, or damages are not compensation for actual pecuniary loss suffered by the holder of such Claim, (ii) arising from rescission of a purchase or sale of a security of the Debtors or of an affiliate of the Debtors, for damages arising from the purchase or sale of such a security, or for reimbursement or contribution allowed under section 502 of the Bankruptcy Code on account of such a Claim, or (iii) that, pursuant to an order of the Bankruptcy Court or the agreement of the holder thereof, is subordinated for purposes of distribution to all Allowed Unsecured Claims.
- 1.1.67. *Unliquidated Claim:* Any Claim, the amount of liability for which has not been fixed, whether pursuant to agreement, applicable law, or otherwise, as of the date on which such Claim is sought to be estimated.
- 1.1.68. *Unsecured Claim:* Any Claim that is not an Administrative Expense, a Priority Claim, a Subordinated Claim, or a Secured Claim.

1.1.69. *Voting Procedures Order.* An order of the Bankruptcy Court approving procedures relating to the solicitation and tabulation of votes with respect to the Plan.

1.1.70. *Winding-Up Reserve:* Has the meaning ascribed to such term in section 12.1.

1.2. Other Terms. Wherever from the context it appears appropriate, each term stated in either the singular or the plural shall include the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, the feminine, and the neuter. The words “herein,” “hereof,” “hereto,” “hereunder,” and others of similar import refer to the Plan as a whole and not to any particular section, subsection, or clause contained in the Plan. An initially capitalized term used herein that is not defined herein shall have the meaning ascribed to such term, if any, in the Bankruptcy Code, unless the context shall otherwise require. For ease of reference and clarity, the interests in the Liquidating LLC to be issued pursuant to the Plan may be referred to as “membership” interests and the holders of such interests referred to as “members”, although applicable Delaware law does not necessarily use such terminology to denominate the interests in a limited liability company or the holder thereof, respectively.

1.3. Exhibits. Certain exhibits to the Plan shall be with the Clerk of the Bankruptcy Court prior to the commencement of the hearing on the disclosure statement. Such exhibits may be inspected in the office of the Clerk of the Bankruptcy Court during normal hours of operation of the Bankruptcy Court.

1.4. Conflicting Terms. To the extent that the terms, conditions or provisions of the Plan conflict with any documents or agreements attached to the Plan or to be submitted with or in connection with the Plan, then the terms, conditions and provisions of the Plan shall control.

1.5. Consolidation. The Chapter 11 Cases have been consolidated for procedural purposes only and are being jointly administered pursuant to an order of the Bankruptcy Court. The Plan does not substantively consolidate the Chapter 11 case but separately administers the assets of each of the Debtors.

ARTICLE 2

PROVISIONS FOR PAYMENT OF ADMINISTRATIVE EXPENSES

2.1. Payment of Allowed Administrative Expenses. The Allowed Amount of each Allowed Administrative Expense shall be paid, in full and in cash, as soon as practicable after the Effective Date or as soon as practicable after a later date on which an Allowed Amount for such Allowed Administrative Expense is determined. The bar date for seeking the allowance of Administrative Expenses, other than compensation of professionals pursuant to sections 330 and 331 of the Bankruptcy Code, shall be the 30th day following the Confirmation Date. The bar date for seeking the allowance of

Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code shall be the 30th day following the Effective Date. The failure to seek the allowance of Administrative Expenses by the applicable bar date shall constitute a waiver of such Administrative Expense. One-half of the Allowed Administrative Expenses for compensation of professionals pursuant to sections 330 and 331 of the Bankruptcy Code and for the fees and expenses of the Bond Trustee (including fees and expenses of its counsel) shall be paid by PTI or from the Assets of the PTI estate, and one-half shall be paid by PNI or from the Assets of the PNI estate.

2.2. Objections to Asserted Administrative Expenses. Objections to any Administrative Expense (other than Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code) shall be filed and served within forty-five (45) days after the bar date for the filing of such Administrative Expense. Objections to any Administrative Expense pursuant to sections 330 and 331 of the Bankruptcy Code shall be filed and served within twenty (20) days after the filing of such Administrative Expense. If an objection is filed within the applicable period, the Administrative Expense shall become an Allowed Administrative Expense only to the extent allowed by a Final Order of the Bankruptcy Court. Objections to Administrative Expenses may be filed by the Debtors or the Committee.

ARTICLE 3

CLASSIFICATION AND TREATMENT OF PTI CLAIMS AND EQUITY INTERESTS

3.1. Summary. Claims and Equity Interests in respect of PTI are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

CLASS	STATUS
PTI Class 1: Priority Claims	Unimpaired — not entitled to vote
PTI Class 2: Secured Claims	Unimpaired — not entitled to vote
PTI Class 3: Unsecured Claims	Impaired — entitled to vote
PTI Class 4: Subordinated Claims	Impaired — deemed to reject the Plan
PTI Class 5: Equity Interests	Impaired — deemed to reject the Plan

3.2. Classification and Treatment.

3.2.1. *PTI Class 1. Priority Claims.*

3.2.1.1. *Classification:* Class 1 consists of all Allowed Priority Claims against PTI.

3.2.1.2. *Treatment:* On the Effective Date or as soon thereafter as practicable, each holder of an Allowed Priority Claim, shall be paid, in cash, the Allowed Amount of such holder's Allowed Priority Claim.

3.2.1.3. *Interest:* Interest shall neither accrue nor be payable with respect to Allowed Priority Claims.

3.2.1.4. *Status:* PTI Class 1 is unimpaired with respect to each holder. The holders of the Claims in Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

3.2.2. *PTI Class 2. Secured Claims.*

3.2.2.1. *Classification:* PTI Class 2 consists of all Allowed Secured Claims against PTI. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan.

3.2.2.2. *Treatment:* The holder of each Allowed Secured Claim shall be authorized to repossess its collateral securing its Allowed Secured Claim in full satisfaction thereof.

3.2.2.3. *Status:* PTI Class 2 is not impaired. The holders of the Claims in PTI Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

3.2.3. *PTI Class 3. Unsecured Claims.*

3.2.3.1. *Classification:* PTI Class 3 consists of all Allowed Unsecured Claims against PTI.

3.2.3.2. *Treatment:* On the later of the Effective Date and the date on which an Unsecured Claim becomes Allowed, each holder of an Allowed Unsecured Claim shall be entitled to receive, in accordance with Article 8 of this Plan, and subject to section 3.2.3.3, each holder's Pro Rata Share of the membership interests in PTI Liquidating LLC. Membership interests in PTI Liquidating LLC shall be uncertificated.

3.2.3.3. *Cancellation of Notes and Bonds:* As of the Effective Date, all notes, Bonds, agreements, and securities evidencing Unsecured Claims and the rights thereunder of the holders thereof shall be canceled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided in section 3.2.3.2 hereof. However, notwithstanding the cancellation of the Bonds, the provisions of the Bond Indenture governing the relationship between the Bondholders and the Bond Trustee, including the Bond Trustee's right to assert a lien against property to be distributed to the Bondholders shall not be affected.

3.2.3.4. *Interest:* Interest shall neither accrue nor be payable with respect to Allowed Unsecured Claims.

3.2.3.5. *Status:* PTI Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in PTI Class 3 are entitled to vote to accept or reject the Plan.

3.2.4. *PTI Class 4. Subordinated Claims.*

3.2.4.1. *Classification:* PTI Class 4 consists of Subordinated Claims against PTI.

3.2.4.2. *Treatment:* The holders of Subordinated Claims will not receive or retain any interest or property under the Plan.

3.2.4.3. *Status:* PTI Class 4 is impaired. The holders of Claims in PTI Class 4 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

3.2.5. *PTI Class 5. Equity Interests.*

3.2.5.1. *Classification:* PTI Class 5 consists of PTI Equity Interests.

3.2.5.2. *Treatment:* The holders of PTI Equity Interests will not receive or retain any interest or property under the Plan. On the Effective Date, the certificates that previously evidenced ownership of Existing PTI Stock shall be canceled and shall be null and void, the holders thereof shall have no rights thereunder, and such certificates shall evidence no rights.

3.2.5.3. *Status:* PTI Class 5 is impaired, The holders of PTI Equity Interests are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

3.3. Controversy Concerning Impairment. In the event of a controversy as to whether any class of PTI Claims or Equity Interests is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy prior to the date set for voting on the Plan.

ARTICLE 4

**CLASSIFICATION AND TREATMENT OF PNI CLAIMS
AND EQUITY INTERESTS**

4.1. Summary. Claims and Equity Interests in respect of PNI are classified for all purposes, including, without express or implied limitation, voting, confirmation, and distribution pursuant to the Plan, as follows:

CLASS	STATUS
PNI Class 1: Priority Claims	Unimpaired — not entitled to vote
PNI Class 2: Secured Claims	Unimpaired — not entitled to vote
PNI Class 3: Unsecured Claims	Impaired — entitled to vote
PNI Class 4: Subordinated Claims	Impaired — deemed to reject the Plan
PNI Class 5: Equity Interests	Impaired — deemed to reject the Plan

4.2. Classification and Treatment.

4.2.1. PNI Class 1. Priority Claims.

4.2.1.1. *Classification:* PNI Class 1 consists of all Allowed Priority Claims against PNI.

4.2.1.2. *Treatment:* On the Effective Date or as soon thereafter as practicable, each holder of an Allowed Priority Claim, shall be paid, in cash, the Allowed Amount of such holder's Allowed Priority Claim.

4.2.1.3. *Interest:* Interest shall neither accrue nor be payable with respect to Allowed Priority Claims.

4.2.1.4. *Status:* PNI Class 1 is unimpaired with respect to each holder. The holders of the Claims in Class 1 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

4.2.2. *PNI Class 2. Secured Claims.*

4.2.2.1. *Classification:* PNI Class 2 consists of all Allowed Secured Claims against PNI. Although placed in one class for purposes of convenience, each Allowed Secured Claim shall be treated as though in a separate class for all purposes under the Plan.

4.2.2.2. *Treatment:* The holder of each Allowed Secured Claim shall be authorized to repossess its collateral securing its Allowed Secured Claim in full satisfaction thereof.

4.2.2.3. *Status:* PNI Class 2 is not impaired. The holders of the Claims in PNI Class 2 are deemed to accept the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

4.2.3. *PNI Class 3. Unsecured Claims.*

4.2.3.1. *Classification:* PNI Class 3 consists of all Allowed Unsecured Claims against PNI.

4.2.3.2. *Treatment:* On the later of the Effective Date and the date on which an Unsecured Claim becomes Allowed, each holder of an Allowed Unsecured Claim shall be entitled to receive, in accordance with Article 7 of this Plan, and subject to section 4.2.3.3, each holder's Pro Rata Share of the membership interests in PNI Liquidating LLC. Membership interests in PNI Liquidating LLC shall be uncertificated.

4.2.3.3. *Cancellation of Notes and Bonds:* As of the Effective Date, all notes, Bonds, agreements, and securities evidencing Unsecured Claims and the rights thereunder of the holders thereof shall be canceled and deemed null and void and of no further force and effect, and the holders thereof shall have no rights, and such instruments shall evidence no rights, except the right to receive the Distributions provided in section 4.2.3.2 hereof. However, notwithstanding the cancellation of the Bonds, the provisions of the Bond Indenture governing the relationship between the Bondholders and the Bond Trustee, including the Bond Trustee's right to assert a lien against property to be distributed to the Bondholders shall not be affected.

4.2.3.4. *Interest:* Interest shall neither accrue nor be payable with respect to Allowed Unsecured Claims.

4.2.3.5. *Status:* PNI Class 3 is impaired. To the extent and in the manner provided in the Voting Procedures Order, the holders of the Claims in PNI Class 3 are entitled to vote to accept or reject the Plan.

4.2.4. *PNI Class 4. Subordinated Claims.*

4.2.4.1. *Classification:* PNI Class 4 consists of Subordinated Claims against PNI.

4.2.4.2. *Treatment:* The holders of Subordinated Claims will not receive or retain any interest or property under the Plan.

4.2.4.3. *Status:* PNI Class 4 is impaired. The holders of Claims in PNI Class 4 are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

4.2.5. *PNI Class 5. Equity Interests.*

4.2.5.1. *Classification:* PNI Class 5 consists of PNI Equity Interests.

4.2.5.2. *Treatment:* The holders of PNI Equity Interests will not receive or retain any interest or property under the Plan. On the Effective Date, the certificates that previously evidenced ownership of Existing PNI Stock shall be canceled and shall be null and void, the holders thereof shall have no rights thereunder, and such certificates shall evidence no rights.

4.2.5.3. *Status:* PNI Class 5 is impaired, The holders of PNI Equity Interests are deemed to reject the Plan and, accordingly, are not entitled to vote to accept or reject the Plan.

4.3. Controversy Concerning Impairment. In the event of a controversy as to whether any class of PNI Claims or Equity Interests is impaired under the Plan, the Bankruptcy Court shall, after notice and a hearing, determine such controversy prior to the date set for voting on the Plan.

ARTICLE 5

MODIFICATION, REVOCATION, OR WITHDRAWAL OF THE PLAN

5.1. Modification of the Plan. The Proponents may alter, amend, or modify the Plan under section 1127(a) of the Bankruptcy Code at any time prior to the Confirmation Date so long as the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code. After the Confirmation Date and prior to the Effective Date, the Proponents may alter, amend, or modify the Plan in accordance with section 1127(b) of the Bankruptcy Code.

5.2. Revocation or Withdrawal.

- 5.2.1. *Right to Revoke.* The Plan may be revoked or withdrawn prior to the Confirmation Date by the Proponents.
- 5.2.2. *Effect of Withdrawal or Revocation.* If the Plan is revoked or withdrawn prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute a waiver or release of any claims by the Debtor or any other Entity or to prejudice in any manner the rights of the Debtor or any Entity in any further proceedings involving the Debtor.

5.3. Amendment of Plan Documents. From and after the Effective Date, the authority to amend, modify, or supplement the Exhibits to the Plan and any documents attached to such Exhibits shall be as provided in such Exhibits and their respective attachments.

ARTICLE 6

PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

6.1. Objections to Claims; Prosecution of Disputed Claims. Prior to the Effective Date, the Debtors and the Committee may object to the allowance of Claims with respect to which any of them disputes the Debtors' liability therefor in whole or in part. After the Effective Date, the Liquidating Agent may object to the allowance of Claims with respect to which the Debtors or the Liquidating Agent disputes liability in whole or in part. All objections that are filed and prosecuted as provided herein shall be litigated to Final Order or compromised and settled in accordance with section 6.2 of the Plan. Unless otherwise provided herein or ordered by the Bankruptcy Court, all objections to Claims shall be served and filed no later than ninety (90) days after the Effective Date.

6.2. Claims Settlement Guidelines. Notwithstanding any requirements that may be imposed pursuant to Bankruptcy Rule 9019, from and after the Effective Date all Claims and all claims that either the Debtors, the Committee or the Liquidating Agent has asserted against other parties may be compromised and settled according to the following procedures:

6.2.1. Subject to section 6.2.2 hereof, the following settlements or compromises do not require the review or approval of the Bankruptcy Court or any other party in interest:

6.2.1.1. The settlement or compromise by the Debtors or the Liquidating Agent of a Claim pursuant to which such Claim is Allowed in an amount of \$ 250,000 or less;

6.2.1.2. The settlement or compromise of a Claim where the difference between the amount of the Claim listed on the

Schedules and the amount of the Claim proposed to be allowed under the settlement is \$250,000 or less; and

6.2.1.3. The settlement or compromise of a claim asserted by the Debtor or the Liquidating Agent against a party where the difference between the amount sought to be recovered by the Debtors or the Liquidating Agent and the amount to be paid to the Debtors or the Liquidating Agent under the proposed settlement is \$250,000 or less.

6.2.2. The following settlements or compromises shall be submitted to the Bankruptcy Court for approval:

6.2.2.1. Any settlement or compromise not described in section 6.2.1 hereof;

6.2.2.2. Any settlement or compromise of Administrative Expenses pursuant to sections 330 and 331 of the Bankruptcy Code; and

6.2.2.3. Any settlement or compromise of a Claim or a claim asserted by the Debtor or the Liquidating Agent that involves an "insider," as defined in section 101 (31) of the Bankruptcy Code.

Notices of any settlements requiring Bankruptcy Court approval in accordance with section 6.2.2 shall be sent to those creditors and other parties in interest appearing on the Rule 2002 list maintained by the Bankruptcy Court.

6.3. Distributions on Account of Disputed Claims. A Distribution shall only be made to the holder of a Disputed Claim when, and to the extent that, such Disputed Claim becomes Allowed. No interest shall be paid on account of Disputed Claims that later become Allowed except to the extent that payment of interest is required under section 506(b) of the Bankruptcy Code. No Distribution shall be made with respect to all or any portion of any Disputed Claim pending the entire resolution thereof in the manner prescribed by section 6.1 hereof.

6.4. Reserves for Disputed Claims. Upon the Effective Date, the Disputed Unsecured Claims Reserve and, the Administrative, Priority and Secured Claims Reserves shall be established pending the resolution of all Disputed Unsecured Claims, Disputed Administrative Claims, Disputed Priority Claims, and Disputed Secured Claims.

ARTICLE 7

ACCEPTANCE OR REJECTION OF THE PLAN

7.1. Impaired Classes to Vote. Each holder of a Claim in an impaired class of Claims shall be entitled to vote to accept or reject the Plan to the extent and in the manner provided by the Voting Procedures Order.

7.2. Acceptance by Class of Claims. Acceptance of the Plan by any impaired class of Claims shall be determined in accordance with the Voting Procedures Order.

7.3. Nonconsensual Confirmation. Because PTI Classes 4 and 5 and PNI Classes 4 and 5 are deemed to have rejected the Plan, the Proponents intend to request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to PTI Classes 4 and 5, and PNI Classes 4 and 5. In the event that any other impaired class of Claims shall fail to accept the Plan in accordance with section 1129(a) of the Bankruptcy Code, the Proponents reserve the right to (i) request that the Bankruptcy Court confirm the Plan in accordance with section 1129(b) of the Bankruptcy Code with respect to such non-accepting class, in which case the Plan shall constitute a motion for such relief, or (ii) amend the Plan in accordance with section 5.1 hereof.

ARTICLE 8

PTI LIQUIDATING ENTITY

8.1. PTI Liquidating Agent. On or before the Confirmation Date, the Committee shall designate and appoint the PTI Liquidating Agent. The same person may serve as both the PTI Liquidating Agent and the PNI Liquidating Agent.

The PTI Liquidating Agent, together with its representatives and professionals, shall be entitled to reasonable compensation. The duties and powers of the PTI Liquidating Agent shall include all powers necessary to implement the Plan and the PTI LLC Operating Agreement, including but not limited to, the following: (i) to compromise, dismiss or pursue in litigation any and all Causes of Action (except claims or Causes of Action released under the Plan) existing at confirmation (whether or not pending in litigation), including but not limited to Avoidance Actions; (ii) to retain professionals to assist it in performing its duties hereunder; (iii) to object to or seek to subordinate claims against the estate; and (iv) to serve as manager of the PTI Liquidating LLC hereunder.

The PTI Liquidating Agent shall be required to disclose his or her connections, if any, with the Debtors, creditors, any other party-in-interest and the United States Trustee.

8.2. PTI Liquidating LLC. Upon the Effective Date, all right, title and interest in and to all Assets (other than the funds necessary for the Debtors to effect the distributions under the Plan to Administrative Claims, Priority Claims, and Secured

Claims, and the Winding-Up Reserve) and Causes of Action of PTI shall be assigned and transferred to the PTI Liquidating LLC. Such transfer shall be free and clear of any Claims, Interests or Encumbrances, except the rights of the members of the PTI Liquidating LLC hereunder and under the PTI LLC Operating Agreement.

On the Effective Date, the PTI LLC Operating Agreement shall become effective and form the PTI Liquidating LLC, designating the PTI Liquidating Agent as the manager of such limited liability company. To the extent necessary or appropriate, PTI shall execute the PTI LLC Operating Agreement. The PTI Liquidating Agent shall thereupon be authorized to take all other steps necessary to complete the formation of the PTI Liquidating LLC. The PTI Liquidating LLC shall have all duties, powers, standing and authority necessary to implement the Plan and to administer and liquidate the Assets for the benefit of the members the PTI Liquidating LLC. Such powers shall include, without limitation the following: (i) to investigate, institute, compromise, dismiss or pursue in litigation, any and all claims of PTI, existing, whether or not pending in litigation, at confirmation, including but not limited to Avoidance Actions; (ii) to retain professionals; and (iii) to object to or seek to subordinate claims against the PNI's estate.

On the Effective Date, each holder of a PTI Allowed Unsecured Claim shall, by operation of the Plan (i) be admitted to the PTI Liquidating LLC as a member of the PTI Liquidating LLC, (ii) become bound by the PTI LLC Operating Agreement, and (iii) receive an uncertificated membership interest in the PTI Liquidating LLC in proportion to its Pro Rata Share of Allowed Unsecured Claims, as such membership interests are more particularly described in the PTI LLC Operating Agreement. On the Effective Date, the Disputed Unsecured PTI Claims Escrow shall receive uncertificated membership interests in the PTI Liquidating LLC in respect of the Disputed PTI Class 3 Claims. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PTI Liquidating LLC or the Assets upon their assignment and transfer to the PTI Liquidating LLC.

8.3. Distributions; Beneficial Interests. All recoveries from the liquidation of the Assets assigned to the PTI Liquidating LLC shall be distributed as follows: (i) first, to compensate the PTI Liquidating Agent and its professionals for expenses and services incurred in connection with liquidating and administering the Assets pursuant to the terms of the PTI LLC Operating Agreement; and (ii) second, pro rata among all holders of membership interests in the PTI Liquidating LLC, based upon their relative membership interests in accordance with, and subject to, the terms of the Plan. Except as provided in the Plan, no Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PTI Liquidating LLC or the Assets upon their assignment and transfer to the PTI Liquidating LLC. All distributions from the PTI Liquidating LLC allocable to the PTI Class 3 claim of Bondholders shall be paid directly to the Bond Trustee, which shall be responsible for distributing such payments to the Bondholders net of any applicable fees, charges or other amounts due.

8.4. Purpose of the PTI Liquidating LLC. The PTI Liquidating LLC shall be established for the sole purpose of liquidating its assets in furtherance of the Plan, for the sole benefit of its members, with no objective to continue or engage in the conduct

of a trade or business. The PTI Liquidating LLC shall be deemed not to be the same legal entity as PTI, but only the assignee of the Assets and a representative of its estate within the meaning of section 1123(b)(3) of the Bankruptcy Code.

8.5. Tax Treatment of Transfer of Assets. For all federal income tax purposes, all parties (including, without limitation, PTI, the PTI Liquidating Agent and holders of membership interests in the PTI Liquidating LLC) shall treat the transfer of assets to the PTI Liquidating LLC in accordance with the terms of the Plan as a transfer to holders of Allowed Claims in PTI Class 3, followed by a transfer by such holders to the PTI Liquidating LLC.

8.6. Committee Election. At any time before the Effective Date: (i) the Committee may elect not to use the PTI Liquidating LLC and the PTI Liquidating Agent in distribution of Cash Equivalents and, instead, instruct PTI or the PTI Liquidating Agent to distribute promptly to the holders of the Allowed Claims in PTI Class 3 their Pro Rata Share of the Cash Equivalents available for distribution to such holders; or (ii) the Committee may elect not to use the PTI Liquidating LLC and the PTI Liquidating Agent in the liquidation of the PTI Assets, and instead instruct PTI to abandon any unliquidated PTI Assets and to distribute promptly to the holders of the Allowed Claims in PTI Class 3 their Pro Rata Share of the Assets available for distribution to such holders. At any time before the Effective Date, the Committee may elect to use the vehicle of a trust for the liquidation of the PTI Assets rather than the PTI Liquidating LLC. In such event, the provisions of the Plan that apply to the PTI Liquidating LLC and the PTI Liquidating Agent shall apply mutatis mutandis to the trust and the trustee.

ARTICLE 9

PNI LIQUIDATING ENTITY

9.1. PNI Liquidating Agent. On or before the Confirmation Date, the Committee shall designate and appoint the PNI Liquidating Agent. The same person shall serve as both the PNI Liquidating Agent and the PTI Liquidating Agent.

The PNI Liquidating Agent, together with its representatives and professionals, shall be entitled to reasonable compensation. The duties and powers of the PNI Liquidating Agent shall include all powers necessary to implement the Plan and the PNI LLC Operating Agreement, including but not limited to, the following: (i) to compromise, dismiss or pursue in litigation any and all Causes of Action (except claims or Causes of Action released under the Plan) existing at confirmation (whether or not pending in litigation), including but not limited to Avoidance Actions; (ii) to retain professionals to assist it in performing its duties hereunder; (iii) to object to or seek to subordinate claims against the estate; and (iv) to serve as manager of the PNI Liquidating LLC hereunder.

The PNI Liquidating Agent shall be required to disclose his or her connections, if any, with the Debtors, creditors, any other party-in-interest and the United States Trustee.

9.2. PNI Liquidating LLC. Upon the Effective Date, all right, title and interest in and to all Assets (other than the funds necessary for the Debtors to effect the distributions under the Plan to Administrative Claims, Priority Claims, and Secured Claims, and the Winding-Up Reserve) and Causes of Action of PNI shall be assigned and transferred to the PNI Liquidating LLC. Such transfer shall be free and clear of any Claims, Interests or Encumbrances, except the rights of the members of the PNI Liquidating LLC hereunder and under the PNI LLC Operating Agreement.

On the Effective Date, the PNI LLC Operating Agreement shall become effective and form the PNI Liquidating LLC, designating the PNI Liquidating Agent as the manager of such limited liability company. To the extent necessary or appropriate, PNI shall execute the PNI LLC Operating Agreement. The PNI Liquidating Agent shall thereupon be authorized to take all other steps necessary to complete the formation of the PNI Liquidating LLC. The PNI Liquidating LLC shall have all duties, powers, standing and authority necessary to implement the Plan and to administer and liquidate the Assets for the benefit of the members the PNI Liquidating LLC. Such powers shall include, without limitation the following: (i) to investigate, institute, compromise, dismiss or pursue in litigation, any and all claims of PNI, existing, whether or not pending in litigation, at confirmation, including but not limited to Avoidance Actions; (ii) to retain professionals; and (iii) to object to or seek to subordinate claims against the PNI's estate.

On the Effective Date, each holder of a PNI Allowed Unsecured Claim shall, by operation of the Plan (i) be admitted to the PNI Liquidating LLC as a member of the PNI Liquidating LLC, (ii) become bound by the PNI LLC Operating Agreement, and (iii) receive an uncertificated membership interest in the PNI Liquidating LLC in proportion to its Pro Rata Share of Allowed Unsecured Claims, as such membership interests are more particularly described in the PNI LLC Operating Agreement. On the Effective Date, the Disputed Unsecured PNI Claims Escrow shall receive uncertificated membership interests in the PNI Liquidating LLC in respect of the Disputed PNI Class 3 Claims. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PNI Liquidating LLC or the Assets upon their assignment and transfer to the PNI Liquidating LLC.

9.3. Distributions; Beneficial Interests. All recoveries from the liquidation of the Assets assigned to the PNI Liquidating LLC shall be distributed as follows: (i) first, to compensate the PNI Liquidating Agent and its professionals for expenses and services incurred in connection with liquidating and administering the Assets pursuant to the terms of the PNI LLC Operating Agreement; and (ii) second, pro rata among all holders of membership interests in the PNI Liquidating LLC, based upon their relative membership interests in accordance with, and subject to, the terms of the Plan. No other Entity, including the Debtors, shall have any interest, legal, beneficial, or otherwise, in the PNI Liquidating LLC or the Assets upon their assignment and transfer to the PNI Liquidating LLC. All distributions from the PNI Liquidating LLC allocable to the PNI Class 3 claim of Bondholders shall be paid directly to the Bond Trustee, which shall be responsible for distributing such payments to the Bondholders net of any applicable fees, charges or other amounts due.

9.4. Purpose of the PNI Liquidating LLC. The PNI Liquidating LLC shall be established for the sole purpose of liquidating its assets in furtherance of the Plan for the sole benefit of its members, with no objective to continue or engage in the conduct of a trade or business. The PNI Liquidating LLC shall be deemed not to be the same legal entity as PNI, but only the assignee of the Assets and a representative of its estate within the meaning of section 1123(b)(3) of the Bankruptcy Code.

9.5. Tax Treatment of Transfer of Assets. For all federal income tax purposes, all parties (including, without limitation, PNI, the PNI Liquidating Agent and holders of membership interests in the PNI Liquidating LLC) shall treat the transfer of assets to the PNI Liquidating LLC in accordance with the terms of the Plan as a transfer to holders of Allowed Claims in PNI Class 3, followed by a transfer by such holders to the PNI Liquidating LLC.

9.6. Committee Election. At any time before the Effective Date: (i) the Committee may elect not to use the PNI Liquidating LLC and the PNI Liquidating Agent in the distribution of Cash Equivalents and, instead, instruct PNI or the PNI Liquidating Agent to distribute promptly to the holders of the Allowed Claims in PNI Class 3 their Pro Rata Share of the Cash Equivalents available for distribution to such holders; or (ii) the Committee may elect not to use the PNI Liquidating LLC and the PNI Liquidating Agent in the liquidation of the PNI Assets, and instead instruct PNI to abandon any unliquidated PNI Assets and to distribute promptly to the holders of the Allowed Claims in PNI Class 3 their Pro Rata Share of the Assets available for distribution to such holders. At any time before the Effective Date, the Committee may elect to use the vehicle of a trust for the liquidation of the PNI Assets rather than the PNI Liquidating LLC. In such event, the provisions of the Plan that apply to the PNI Liquidating LLC and the PNI Liquidating Agent shall apply mutatis mutandis to the trust and the trustee.

ARTICLE 10

THE LIQUIDATION OF ASSETS

10.1. Application. This Article is of general application to the PTI Liquidating Agent, the PNI Liquidating Agent, the PTI Liquidating LLC and the PNI Liquidating LLC.

10.2. Liquidation of Assets; Responsibilities of Liquidating Agent.

10.2.1. The Liquidating Agent shall, in an expeditious but orderly manner, liquidate and convert the Assets to cash, make timely distributions, and not unduly prolong the duration of the Liquidating LLC. In so doing, the Liquidating Agent shall exercise its reasonable business judgment in liquidating the Assets to maximize recoveries. The liquidation of such Assets may be accomplished either through the sale of assets (in whole or in combination, and including the sale of any claims, rights, or Causes of Action) or, subject to section 6.2, through the prosecution, compromise and settlement, abandonment or dismissal of any or all claims, rights, or Causes of Action, or otherwise. The

Liquidating Agent shall have the absolute right to pursue or not to pursue any and all claims, rights, or Causes of Action as the Liquidating Agent determines are in the best interests of the members of the Liquidating LLC, consistent with the purposes of the Liquidating LLC, and the Liquidating Agent shall have no liability for the outcome of its decisions in this regard. The Liquidating Agent may incur any reasonable and necessary expenses in liquidating and converting the Assets in the Liquidating LLC to cash.

10.2.2. The Liquidating Agent shall have the power (i) to prosecute for the benefit of the Liquidating LLC all claims, rights and Causes of Action transferred to the Liquidating LLC (whether such suits are brought in the name of the Liquidating LLC or otherwise), (ii) to liquidate the Assets in the Liquidating LLC, and (iii) to otherwise perform the functions and take the actions provided for or permitted herein or in any other agreement executed by the Liquidating Agent pursuant to the Plan. Any and all proceeds generated from such claims, rights, and Causes of Action shall be the property of the Liquidating LLC.

10.2.3. The Liquidating Agent shall not have any responsibility for managing or winding up the affairs of the Debtors, including but not limited to filing of tax returns, payment of Administrative or Priority Claims, or maintaining their books and records other than as provided in section 12.4.

10.3. Investment Powers. The right and power of the Liquidating Agent to invest assets transferred to the Liquidating LLC, the proceeds thereof, or any income earned by the Liquidating LLC shall be limited to the right and power to invest such assets (pending periodic distributions pursuant to the Plan) in Cash Equivalents; provided, however, that (A) the Liquidating Agent may expend the assets of the Liquidating LLC (i) as reasonably necessary to meet contingent liabilities and to maintain the value of the assets of the Liquidating LLC during liquidation, (ii) to pay reasonable administrative expenses which have been incurred (including, but not limited to, any taxes imposed on the Liquidating LLC or fees and expenses in connection with litigation), and (iii) to satisfy other liabilities incurred or assumed by the Liquidating LLC (or to which the assets are otherwise subject) in accordance with the Plan or the LLC Operating Agreement; and (B) the Liquidating Agent may, but shall not be required to, invest any funds held by the Liquidating Agent or the Liquidating LLC (pending distributions pursuant to the Plan) in investments that are exempt from federal, state and local taxes.

10.4. Distribution and Withholding. The Liquidating Agent shall distribute periodically to the holders of membership interests in the Liquidating LLC all net cash income and all other cash received, whether from the liquidation of assets or the transfer of assets to the Liquidating LLC (including as cash for this purpose all Cash Equivalents); provided, however, that the Liquidating LLC may retain, with the approval of the Oversight Committee, such amounts (i) as are reasonably necessary to meet contingent liabilities and to maintain the value of the assets of the Liquidating LLC during liquidation, (ii) to pay reasonable administrative expenses which have been incurred, and (iii) to satisfy other liabilities incurred or assumed by the Liquidating LLC (or to which the Assets are otherwise subject) in accordance with the Plan or the LLC Operating

Agreement. The Liquidating Agent may withhold from amounts distributable to any Entity any and all amounts, determined in the Liquidating Agent's reasonable sole discretion, to be required by any law, regulation, rule, ruling, directive or other governmental requirement.

10.5. Reporting Duties.

10.5.1. Partnership Tax Status. The Liquidating LLC will be treated as a partnership for federal tax purposes and, to the extent permitted under applicable law, for state and local income tax purposes. The Liquidating Agent shall be responsible for filing informational returns on behalf of the Liquidating LLC and distributing information statements to holders of the membership interests in the Liquidating LLC, setting forth each member's allocable share of the income, loss, deduction or credit of the Liquidating LLC.

10.5.2. Allocations of Liquidating LLC Taxable Income or Loss. For federal income tax purposes, the Liquidating LLC's taxable income (or loss) shall be allocated among the holders of the membership interests in the Liquidating LLC in a manner consistent with applicable Treasury Regulations taking into account such holders' relative economic interests in the Liquidating LLC. Each holder of a membership interest in the Liquidating LLC will be required to take into account its allocable share of the income, loss, deduction or credit of the Liquidating LLC in determining its taxable income for federal income tax purposes.

10.5.3. Other. The Liquidating Agent shall file (or cause to be filed) any other statements, returns or disclosures relating to the Liquidating LLC that are required by any governmental unit or applicable law.

10.6. Implementation of Liquidating LLC. On the Effective Date, the PTI Liquidating LLC will be formed and become effective for the benefit of the holders of Allowed Unsecured Claims in PTI Class 3 (whether Allowed on or after the Effective Date) and PNI Liquidating LLC will be formed and become effective for the benefit of the holders of Allowed Unsecured Claims in PNI Class 3 (whether Allowed on or after the Effective Date). The LLC Operating Agreement shall contain provisions customary for agreements of Delaware limited liability companies utilized in comparable circumstances, including, but not limited to, any and all provisions necessary to ensure the continued treatment of the Liquidating LLC as a partnership for federal income tax purposes. Entry of the Confirmation Order and the occurrence of the Effective Date shall automatically cause all right, title and interests in the Assets to be transferred to the Liquidating LLC. In furtherance thereof, the Debtors and the Liquidating Agent shall execute any documents or other instruments as necessary to evidence the transfer of title to such Assets to the Liquidating LLC.

10.7. Registry of Beneficial Interests. The Liquidating Agent shall maintain a registry of the membership interests in the Liquidating LLC.

10.8. Termination. The Liquidating LLC will terminate after its liquidation, administration and distribution and/or abandonment of the Assets in the Liquidating LLC in accordance with the Plan and its full performance of all other duties and functions set forth herein or in the LLC Operating Agreement.

10.9. Oversight Committee. The Oversight Committee shall be formed on or before the Effective Date. The Oversight Committee by majority vote may appoint the successor(s) to the Liquidating Agent. The Oversight Committee may remove and replace the Liquidating Agent at any time with or without cause. At any time after the Effective Date, the Oversight Committee may elect not to continue to use the Liquidating LLC in the liquidation of the Assets, and instead to instruct the Liquidating Agent to promptly distribute all liquidated Assets to the holders of the Allowed Claims in Class 3 and to abandon any unliquidated Assets.

ARTICLE 11

DISPUTED UNSECURED CLAIMS RESERVE

11.1. Disputed Unsecured Claims Reserve.

11.1.1. General. From and after the Effective Date, the Liquidating Agent shall reserve (the “**Disputed Unsecured Claims Reserve**”), for the benefit of each holder of a Disputed Unsecured Claim, the membership interests in the Liquidating LLC (and any cash distributable on account thereof) that the holder of such Disputed Unsecured Claim would have received under section 3.2.3 or 4.2.3 hereof if such Disputed Unsecured Claim had been Allowed in the Disputed Claim Amount as of the Effective Date.

11.1.2. Effect of Allowance of Disputed Unsecured Claims. At such time as a Disputed Unsecured Claim becomes, in, whole or in part, an Allowed Unsecured Claim, by operation of the Plan (i) such holder shall be admitted to the Liquidating LLC as a member of the Liquidating LLC, (ii) such holder shall become bound by the LLC Operating Agreement, and (iii) the Liquidating Agent shall distribute to the holder of such Allowed Claim the membership interests in the Liquidating LLC to which such holder would have been entitled under the Plan had such claim been Allowed as of the Effective Date, together, with any cash and earnings attributable thereto, after reduction for all costs and expenses attributable to such membership interest, cash and earnings (including, without limitation, attorneys’ fees and any taxes imposed on the Disputed Unsecured Claims Reserve). Such distributions shall be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Unsecured Claim becomes a Final Order.

11.1.3. Effect of Disallowance of Disputed Unsecured Claims. To the extent that a Disputed Unsecured Claim ultimately is either disallowed by Final Order or becomes an Allowed Unsecured Claim in an amount less than the Disputed Claim Amount of such Disputed Claim (or, in the case of a Contingent

Avoidance Claim, to the extent no Avoidance Action has been commenced within two (2) years of the Petition Date seeking to recoup amounts that would give rise to such Claim or such action has been withdrawn or determined adversely to the Liquidating LLC), the Liquidating Agent shall distribute the excess balance of any membership interests in the Liquidating LLC previously reserved on account of such Disputed Unsecured Claim to such persons whom such amounts would have been distributed had such Disputed Claim been disallowed, or partially disallowed, on the Effective Date, together with any cash and earnings attributable thereto, after reduction for all costs and expenses attributable to such membership interest, cash and earnings (including, without limitation, attorneys' fees and taxes imposed on the Disputed Unsecured Claims Reserve).

11.1.4. Payment of Tax Attributable to Taxable Income of Liquidating LLC. In the event, and to the extent, the Disputed Unsecured Claims Reserve has insufficient funds to pay taxes attributable to the membership interests held therein, the necessary funds to pay such taxes shall be advanced to the Disputed Unsecured Claims Reserve by the holders of the Disputed Unsecured Claims. The Liquidating LLC shall reimburse such holders of Disputed Unsecured Claims therefor from future distributions and disbursements to or for the benefit of the Disputed Unsecured Claims Reserve.

ARTICLE 12

IMPLEMENTATION OF THE PLAN

12.1. Debtors' Post-Confirmation Role; Dissolution. The Debtors shall administer the payment of Allowed Administrative Claims, Allowed Priority Claims and Allowed Secured Claims. Upon the full payment of Administrative Claims, Priority Claims, and Secured Claims which are or become Allowed, and the transfer of the Assets and Causes of Action described in sections 8.2 and 9.2 hereof, the Debtors shall have no further responsibilities with respect to making Distributions under the Plan. The Debtors shall reserve from their Assets an amount, determined with the consent of the Committee, to be sufficient to pay the expenses of winding up the estates of the Debtors, including any taxes payable in respect of the transfers of property pursuant to the Plan, which shall be effected as soon as practicable following the Effective Date (the "**Winding-Up Reserve**").

In addition to making payments to holders of Allowed Administrative Claims, Allowed Priority Claims, and Allowed Secured Claims, the Debtors shall perform each of the following acts as soon as practicable on or after the Effective Date:

12.1.1. Expedited Tax Return. Complete and file its final federal, state and local tax returns, and pursuant to 11 U.S.C. §505(b) request an expedited determination of any unpaid tax liability of the Debtors or their estates for all taxable periods of the Debtors ending after the Petition Date through the liquidation of the Debtors as determined under applicable tax laws.

- 12.1.2. *Administrative, Priority and Secured Claims Reserve.* Upon the Effective Date, or as soon thereafter as is practicable, reserve sufficient funds for the payment of Administrative Claims, Priority Claims and Secured Claims which are Disputed as of the Confirmation Date (the “**Administrative, Priority and Secured Claims Reserve**”). With respect to each such Disputed Administrative Claim, Disputed Priority Claim, and Disputed Secured Claim, the Debtors shall reserve either (i) the Disputed Claim Amount, (ii) the Estimated Amount, or (iii) such lesser amount approved by the Bankruptcy Court after notice and a hearing. Payment shall be made by the Debtors from the reserve to the holders of such Disputed Claims as their respective Claims become Allowed, or as soon thereafter as is practicable. To the extent that a Disputed Administrative Claim, Disputed Priority Claim or Disputed Secured Claim is ultimately disallowed by Final Order or becomes Allowed in an amount less than the Disputed Claim Amount of such Disputed Claim, then the Debtors shall pay the excess balance of any cash previously reserved on account of such Disputed Claim to the PTI Liquidating LLC or the PNI Liquidating LLC, as the case may be.
- 12.1.3. *Dissolution.* As soon as practicable after completion of the acts required by section 12.1 hereof, file certificates of dissolution, together with all other necessary corporate documentation, to effect dissolution of the Debtors under the applicable laws of the State of Delaware.

12.2. Transfers to the PTI Liquidating LLC. On the Effective Date or as soon as practicable thereafter, PTI shall pay all PTI Allowed Administrative Claims, all PTI Allowed Priority Claims and all PTI Allowed Secured Claims. All PTI funds remaining after (i) the payment of PTI Allowed Administrative Claims, PTI Allowed Priority Claims, and PTI Allowed Secured Claims, (ii) the creation of the PTI Administrative, Priority and Secured Claims Reserve, and (iii) the creation of the Winding-Up Reserve, shall be paid to the PTI Liquidating LLC.

12.3. Transfers to the PNI Liquidating LLC. On the Effective Date or as soon as practicable thereafter, PNI shall pay all PNI Allowed Administrative Claims, all PNI Allowed Priority Claims and all PNI Allowed Secured Claims. All PNI funds remaining after (i) the payment of PNI Allowed Administrative Claims, PNI Allowed Priority Claims, and PNI Allowed Secured Claims, (ii) the creation of the PNI Administrative, Priority and Secured Claims Reserve, and (iii) the creation of the Winding-Up Reserve, shall be paid to the PNI Liquidating LLC.

12.4. Books and Records. Prior to the dissolution of the Debtors, the Debtors shall transfer and assign to the Liquidating LLC full title to, and the Liquidating LLC shall be authorized to take possession of, all of the books and records of the Debtors relating to or supporting the Assets. The former officers and directors of the Debtors shall be entitled to access to any books and records, transferred to the Liquidating LLC for all necessary corporate purposes, including, without limitation, defending or prosecuting litigation, determining insurance coverage, filing tax returns, and addressing personnel matters. For the purpose of this section, books and records include computer generated or

computer maintained books and records and computer data, as well as electronically generated or maintained books and records or data, along with books and records of the Debtors maintained by or in possession of third parties and all of the claims and rights of the Debtors and to their books and records, wherever located.

12.5. Distributions Under the Plan. As soon as practical following the Effective Date, the Debtors shall make all payments to holders of Allowed Administrative Claims and Allowed Priority Claims required by the Plan, including, without limitation Disputed Administrative and Priority Claims as they become Allowed. The Debtors shall also make the payments and other transfers to holders of Allowed Secured Claims in satisfaction of their respective claims. The Debtors shall have no responsibility for making the Distributions to holders of Allowed Unsecured Claims other than the execution and delivery of the LLC Operating Agreement and effecting the transfer of the Assets to the Liquidating LLC. For federal income tax purposes, a Distribution will be allocated to the principal amount of an Allowed Claim first and then, to the extent the Distribution exceeds the principal amount of the Allowed Claim, to the portion of the Allowed Claim representing accrued but unpaid interest.

12.6. Timing of Distributions Under the Plan. Any Distribution to be made pursuant to the Plan shall be deemed to have been timely made if made within ten (10) Business Days after the time therefor specified in the Plan.

12.7. Address for Delivery of Distributions Under the Plan. Subject to Bankruptcy Rule 9010, any Distribution or delivery to a holder of an Allowed Claim shall be made at the address of such holder as set forth on the proof of Claim filed by such holder (or at the last known address of such holder if no proof of claim is filed or if the Debtors, the Liquidating Agent, or the Liquidating LLC, as the case may be, has not been notified of a change of address). If any holder's Distribution or payment is returned as undeliverable, no further Distributions or payments to such holder shall be made unless and until the Liquidating Agent, the Debtors or the Liquidating LLC, as the case may be, is notified of such holder's then current address, at which time any missed Distribution or payment shall be made to such holder without interest.

12.8. Distributions Under One Hundred Dollars. No Distribution of less than one hundred dollars (\$100.00) shall be made to the holder of any Claim unless a request therefor is made in writing to the Debtor or the Liquidating Agent, as applicable.

12.9. Time Bar to Cash Payments. Checks issued by the Debtors or the Liquidating Agent in respect of Allowed Claims shall be null and void if not negotiated within ninety (90) days after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the party issuing such check, by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of such a voided check shall be made on or before the first anniversary of the date on which such Distribution was made. After such date, all Claims in respect of void checks shall be discharged and forever barred.

12.10. Manner of Payment Under the Plan. Unless the Entity receiving a payment agrees otherwise, any payment in cash to be made under the Plan shall be made by check drawn on a domestic bank or by wire transfer from a domestic bank.

12.11. Post-Effective Date Professional Fees. Professional fees and expenses incurred by the Debtors, the Committee, the Bond Trustee and the Oversight Committee after the Effective Date in connection with the effectuation of the Plan shall be paid in the ordinary course of business without application to or approval by the Bankruptcy Court. Professional fees and expenses incurred by the Liquidating Agent after the Effective Date in connection with the effectuation of the Plan shall be paid in the ordinary course of business from the Liquidating LLC without application to or approval by the Bankruptcy Court.

12.12. Periodic Reports by Liquidating Agent. The Liquidating Agent shall provide on at least an annual basis a report detailing all receipts and disbursements from the Liquidating LLC, all contingent and accrued liabilities incurred by the Liquidating Agent or the Liquidating LLC, the available cash balances of the Liquidating LLC, and a narrative summary describing the status of the liquidation of the Assets and any litigation relating thereto. The Liquidating Agent shall furnish a copy of this report to each member of the Liquidating LLC requesting a copy of the report.

12.12.1. Condition to Confirmation. It is a condition to the confirmation of the Plan that the Confirmation Order shall be in form and substance acceptable to the Proponents.

12.13. Conditions to the Effective Date. The “effective date of the plan,” as used in section 1129 of the Bankruptcy Code, shall not occur, and the Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective Date is subject to satisfaction of the following conditions precedents:

12.13.1. The Confirmation Order shall have been entered by the Clerk of the Bankruptcy Court and shall have become a Final Order;

12.13.2. The Committee has appointed the Liquidating Agent;

12.13.3. The Debtors and the Liquidating Agent have executed the LLC Operating Agreement; and

12.13.4. The Debtors shall have sufficient funds to pay Allowed Administrative Claims, Allowed Priority Claims and Allowed Secured Claims in cash and to establish the Administrative, Priority and Secured Claims Reserve, and the Winding-Up Reserve.

Notwithstanding the foregoing, the Proponents reserve the right, in their sole and absolute discretion, to waive the occurrence of any of the foregoing conditions precedent to the Effective Date or to modify any of such conditions precedent. Any such waiver of a condition precedent hereof may be effected at any time, without notice, without leave or order of the Bankruptcy Court, and without any formal action other than proceeding to

consummate the Plan. Any actions required to be taken on the Effective Date shall take place and shall be deemed to have occurred simultaneously, and no such action shall be deemed to have occurred prior to the taking of any other such action. If the Proponents decide that one of the foregoing conditions cannot be satisfied and the occurrence of such condition is not waived by the Proponents, then the Proponents shall file a notice of the failure of the Effective Date with the Bankruptcy Court.

12.14. Distribution of Unclaimed Property. Any Distribution under the Plan that is unclaimed after one hundred eighty (180) days following the date such property is distributed shall be deemed, not to have been made and shall be transferred to the PTI Liquidating LLC or the PNI Liquidating LLC, as the case may be, free and clear of any claims or interests of any Entities, including, without express or implied limitation, any claims or interests of any governmental unit under escheat principles. Nothing contained herein shall affect the discharge of the Claim with respect to which such Distribution was made, and the holder of such Claim shall be forever barred from enforcing such Claim against the Debtors, the Liquidating LLC, the assets, estates, properties, or interests in property of the Liquidating LLC.

12.15. Key Employee Retention Program. The KERP shall remain in effect until the Effective Date, and all benefits shall be payable thereunder by the Debtors in accordance with the terms thereof as if all remaining participants in the KERP were terminated without cause.

12.16. Corporate Action. Upon the Effective Date, the Debtors shall perform each of the actions and effect each of the transfers required by the terms of the Plan, whether or not the Boards of Directors or the responsible officer has authorized any such actions or transfers. The Debtors are authorized and directed, following its completion of all disbursements, other transfers and other actions required by the Plan, to file certificates of dissolution to cease the corporate existence of PTI and PNI. The filing of such certificate of dissolution shall be authorized and approved in all respects without further action under applicable law, regulation, order, or rule, including, without express or implied limitation, any action by the stockholders or the Boards of Directors.

12.17. Effectuating Documents and Further Transactions. Each of the officers of the Debtors is authorized and directed to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

ARTICLE 13

EXECUTORY CONTRACTS AND UNEXPIRED LEASES

13.1. Rejection of Executory Contracts and Unexpired Leases. Except as set forth on **Exhibit 13.4**, any executory contract or unexpired lease of the Debtors that (i) has not been approved by the Bankruptcy Court prior to the Confirmation Date for

assumption and/or assignment by the Debtors, (ii) is not the subject of pending motions to assume at the Confirmation Date, or (iii) has not been previously rejected, shall be deemed to have been rejected by the Debtor on the Effective Date. The Plan shall constitute a motion to reject such executory contracts and unexpired leases, and the Liquidating LLC shall have no liability thereunder except as is specifically provided in the Plan. Entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejections pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such rejected executory contract or unexpired lease is burdensome and that the rejection thereof is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases.

13.2. Claims Arising from Rejection or Termination. Claims created by the rejection of executory contracts or unexpired leases rejected by the Debtors prior to the Confirmation Date must be filed with the Bankruptcy Court and served on the Debtors prior to the Confirmation Date in accordance with the bar date previously ordered in connection with such rejection. Claims created by the rejection of an executory contract or unexpired lease rejected pursuant to section 13.1 of the Plan must be filed with the Bankruptcy Court and served on the Debtors and the Committee no later than thirty (30) days after the Confirmation Date. Any Claim for which a proof of claim is not filed and served within such time will be forever barred from assertion and shall not be enforceable against the Debtors, their estates, assets, properties, or interests in property, or the Liquidating LLC. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be treated as Unsecured Claims under the Plan.

13.3. Previously Scheduled Contracts. Exhibit 13.3 to the Plan sets forth a list of agreements that may have been listed on the Schedules as executory contracts, but which the Debtors believe should not be considered executory contracts. If any such agreements are determined to be executory contracts, the Proponents or the Liquidating Agent, as the case may be, reserves the right to seek the assumption or rejection of any such contracts, and the time within which the Debtors or the Liquidating Agent, as the case may be, may seek to assume or reject any such agreements shall be tolled until ten (10) Business Days after the date on which an order determining that any such agreement is an executory contract becomes a Final Order. Set forth on Exhibit 13.3 is the amount that the Debtors intend to treat as an Allowed Unsecured Claim for each such agreement. Such amount and the treatment of each such agreement shall be binding unless, on or before thirty (30) days after the Confirmation Date, the other party to any such agreement either (i) files a proof of claim (which proof of claim shall be deemed timely filed) or (ii) files a motion seeking to compel assumption or rejection of such agreement.

13.4. Assumption of Executory Contracts and Unexpired Leases. Any executory contracts or unexpired leases listed on Exhibit 13.4 to the Plan shall be deemed to have been assumed by the Debtors on the Effective Date and transferred to the Liquidating LLC. The Plan shall constitute a motion to assume (and, if applicable, assign to the Liquidating LLC) such executory contracts and unexpired leases. Subject to the occurrence of the Effective Date, entry of the Confirmation Order shall constitute approval of such assumptions (and, if applicable, assignments) pursuant to section 365(a) of the

Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases and that the requirements for assignment of any executory contract or unexpired lease to be assigned under section 365 of the Bankruptcy Code have been satisfied. With respect to each such executory contract or unexpired lease assumed by the Debtors, unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, the dollar amount required to cure any defaults of the Debtors existing as of the Confirmation Date shall be conclusively presumed to be the amount set forth in **Exhibit 13.4** with respect to such executory contract or unexpired lease. Subject to the occurrence of the Effective Date, any such cure amount shall be treated as an Allowed Administrative Expense under the Plan, and, upon payment of such Allowed Administrative Expense, all defaults of the Debtor existing as of the Confirmation Date with respect to such executory contract or unexpired lease shall be deemed to be cured.

13.5. Insurance Policies.

13.5.1. Assumed Insurance Policies. To the extent that any or all of the insurance policies of the Debtors set forth on **Exhibit 13.5.1** to the Plan are considered to be executory contracts, then, notwithstanding anything contained in sections 13.1 and 13.2 and of the Plan to the contrary, the Plan shall constitute a motion to assume the insurance policies set forth on **Exhibit 13.5.1** to the Plan. Subject to the occurrence of the Effective Date, the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such assumption pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such assumption is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases. Unless otherwise determined by the Bankruptcy Court pursuant to a Final Order or agreed to by the parties thereto prior to the Effective Date, no payments are required to cure any defaults of the Debtors existing as of the Confirmation Date with respect to each such insurance policy set forth on **Exhibit 13.5.1** to the Plan. To the extent that the Bankruptcy Court determines otherwise as to any such insurance policy, the Debtors reserve the right to seek rejection of such insurance policy or other available relief.

13.5.2. Rejected Insurance Agreements. To the extent that any or all of the insurance agreements set forth on **Exhibit 13.5.2** to the Plan are considered to be executory contracts, then, notwithstanding anything contained in sections 13.1 and 13.2 of the Plan to the contrary, the Plan shall constitute a motion to reject the insurance agreements set forth on **Exhibit 13.5.2** to the Plan, and the entry of the Confirmation Order by the Clerk of the Bankruptcy Court shall constitute approval of such rejection pursuant to section 365(a) of the Bankruptcy Code and a finding by the Bankruptcy Court that each such rejected insurance agreement set forth on **Exhibit 13.5.2** to the Plan is burdensome and that the rejection thereof is in the best interest of the Debtors, their estates, and all parties in interest in the Chapter 11 Cases.

13.5.3. Reservation of Rights. Nothing contained in the Plan, including this section 13.5, shall constitute a waiver of any claim, right, or Cause of Action that the Debtors, the Liquidating Agent, the present or former directors and officers of the Debtors, or any other party asserting claims as an insured or otherwise under any insurance policy, as the case may be, may hold against the insurer under any policy of insurance. Any such Entity asserting rights under any policy of insurance shall be free to pursue whatever rights such Entity may have against the insurer. The rights and interests in insurance policies assumed and transferred to the Liquidating LLC pursuant to the Plan shall consist of only such rights and interests as are held by the Debtors.

13.6. Compensation and Benefit Programs. All employment and severance policies (excluding only the KERP), and all compensation and benefit plans, policies and programs of the Debtors applicable to its present and former employees, officers, and directors, including, without express or implied limitation, all savings plans, retirement plans, health care plans, disability plans, severance benefit plans, incentive plans, and life, accidental death, and dismemberment insurance plans, shall be deemed to be, and shall be treated as though they are, executory contracts that are deemed rejected under the Plan, and the Debtor's obligations under such plans, policies, and programs shall be deemed rejected pursuant to section 365(a) of the Bankruptcy Code as of the Effective Date.

ARTICLE 14

RETENTION OF JURISDICTION

Pursuant to sections 105(a) and 1142 of the Bankruptcy Code, the Bankruptcy Court shall retain and shall have exclusive jurisdiction over any matter (i) arising under the Bankruptcy Code, (ii) arising in or related to the Chapter 11 Cases or the Plan, or (iii) that relates to the following:

14.1. To liquidate the Assets.

14.2. To hear and determine any and all motions or applications pending on the Confirmation Date or thereafter brought in accordance with Article 13 hereof for the assumption and/or assignment or rejection of executory contracts or unexpired leases to which the Debtor is a party or with respect to which the Debtor may be liable.

14.3. To determine any and all adversary proceedings, applications, motions, and contested or litigated matters that may be pending on the Effective Date or that, pursuant to the Plan, may be instituted by the Liquidating LLC after the Effective Date, including, without express or implied limitation, and any claims to avoid any preferences, fraudulent transfers, or other voidable transfers, or otherwise to recover assets for the benefit of the Liquidating LLC.

14.4. To hear and determine any objections to the allowance of Claims, whether filed, asserted, or made before or after the Effective Date, including, without

express or implied limitation, to hear and determine any objections to the classification of any Claim and to allow or disallow any Disputed Claim in whole or in part.

14.5. To issue such orders in aid of execution of the Plan to the extent authorized or contemplated by section 1142 of the Bankruptcy Code.

14.6. To consider any modifications of the Plan, remedy any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without express or implied limitation, the Confirmation Order.

14.7. To hear and determine all applications for allowances of compensation and reimbursement of expenses of professionals under sections 330 and 331 of the Bankruptcy Code and any other fees and expenses authorized to be paid or reimbursed under the Plan;

14.8. To hear and determine all controversies, suits, and disputes that may relate to, impact upon, or arise in connection with the Plan (and all Exhibits to the Plan) or its interpretation, implementation, enforcement, or consummation.

14.9. To the extent that Bankruptcy Court approval is required, to consider and act on the compromise and settlement of any Claim or cause of action by or against the Debtor's estate.

14.10. To determine such other matters that may be set forth in the Plan, the Confirmation Order, the LLC Operating Agreement, or that may arise in connection with the Plan, the Confirmation Order, or the LLC Operating Agreement.

14.11. To hear and determine matters concerning state, local, and federal taxes, fines, penalties, or additions to taxes for which the Debtor, the Liquidating Agent or the Liquidating LLC, may be liable, directly or indirectly, in, accordance with sections 346, 505, and 1146 of the Bankruptcy Code.

14.12. To enter an order or final decree closing the Chapter 11 Cases.

ARTICLE 15

MISCELLANEOUS PROVISIONS

15.1. Payment of Statutory Fees. All fees payable pursuant to section 1930 of title 28 of the United States Code, as determined by the Bankruptcy Court at the hearing on confirmation of the Plan, shall be paid by the Debtor on or before the Effective Date.

15.2. Binding Effect; Discharge of the Debtor. All Entities shall be precluded and forever barred from asserting against the Debtors and their respective successors or assigns, or their assets, properties, or interests in property, any claims or liability based upon any act or omission, transaction, or other activity of any kind to be taken under or in connection with the Plan or in connection with the Chapter 11 Cases or

the administration of the Debtors during the Chapter 11 Cases. The terms of the Plan shall bind all holders of Claims and Equity Interests, whether or not they voted to accept the Plan.

15.3. Rights of Action. Any rights, claims, or Causes of Action accruing to the Debtors pursuant to the Bankruptcy Code or pursuant to any statute or legal theory, including, without express or implied limitation, any Avoidance Actions and any rights to, claims, or Causes of Action for recovery under any policies of insurance issued to or on behalf of the Debtors shall remain assets of the Debtors' estates and, on the Effective Date, shall be transferred to the PTI Liquidating LLC or the PNI Liquidating LLC, as the case may be, pursuant to the terms hereof. From and after the transfer of all such rights to the Liquidating LLC, the Liquidating Agent shall be deemed the appointed representative to, and may, pursue, litigate, and compromise and settle any such rights, claims, or Causes of Action in accordance with what is in the best interests of and for the benefit of the members of the PTI Liquidating LLC or the PNI Liquidating LLC, as the case may be.

15.4. Third-Party Agreements. The Distributions to the various classes of Claims hereunder and to the Liquidating LLC shall not affect the right of any Entity to levy, garnish, attach, or employ any other legal process with respect to such Distributions by reason of any claimed subordination rights or otherwise. All of such rights and any agreements relating thereto shall remain in full force and effect, except as expressly modified by the Plan.

15.5. Dissolution of Committee. Except as set forth in this section 15.5, upon the Effective Date the Committee shall cease to exist and shall thereupon be released and discharged of and from all further authority, duties, responsibilities, and obligations relating to and arising from and in connection with the Chapter 11 Cases. Notwithstanding the foregoing (i) counsel to the Committee may review and object on behalf of the Committee to the final fee applications of all professionals; and (ii) in the event that the Effective Date occurs prior to the Confirmation Order becoming a Final Order, the Committee, at its option, may continue to serve and function for the sole purpose of participating in any appeal of the Confirmation Order until such time as the Confirmation Order becomes a Final Order.

15.6. Exculpation. None of the Debtors, the members of the Committee, the Liquidating Agent, the Liquidating LLC, or any of their respective current or former officers, directors, employees, advisors, or agents (including, without limitation, attorneys and financial advisers) shall have or incur any liability to any Entity for any act or omission in connection with or arising out of the Chapter 11 Cases, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for gross negligence or willful misconduct, and in all respects the Debtors, the members of the Committee, the Liquidating Agent, the Liquidating LLC, or any of their respective current or former officers, directors, employees, advisors, or agents shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

15.7. Title to Assets. Except as otherwise provided in the Plan, on the Effective Date title to all Assets shall vest in the Liquidating LLC free and clear of all Claims, Equity Interests, Encumbrances, and other interests.

15.8. Surrender and Cancellation of Instruments. Each holder of a promissory note, Bond or other instrument evidencing a Claim shall surrender such promissory note, Bond or instrument to the Debtors or the Liquidating Agent or the Bond Trustee (in the case of the Bonds), and the Debtors or the Liquidating Agent shall distribute or cause to be distributed to the holder thereof the appropriate Distribution hereunder or under the LLC Operating Agreement. At the option of the Debtors or the Liquidating Agent in its sole and absolute discretion, no Distribution hereunder shall be made to or on behalf of any holder of any such Claim unless and until such promissory note, Bond or instrument is received or the unavailability of such note, Bond or instrument is reasonably established to the satisfaction of the Debtors or the Liquidating Agent. In accordance with section 1143 of the Bankruptcy Code, any such holder of such a Claim that fails to surrender or cause to be surrendered such promissory note, Bond or instrument or to execute and deliver an affidavit of loss and indemnity reasonably satisfactory to the Debtors or the Liquidating Agent within sixty (60) days after the Effective Date, or such shorter period as the Bankruptcy Court may order, shall be deemed to have forfeited all rights, claims, and interests and shall not participate in any Distribution hereunder or under the LLC Operating Agreement.

15.9. Notices. Any notices, requests, and demands required or permitted to be provided under the Plan, in order to be effective, shall be in writing (including, without express or implied limitation, by facsimile transmission), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

If to the Debtors: Michael St. Patrick Baxter, Esq.
 Dennis B. Auerbach, Esq.
 Covington & Burling
 1201 Pennsylvania Avenue, N.W.
 Washington, D.C. 20004-7566
 Telephone: (202) 662-6000
 Facsimile: (202) 662-6291

- and -

H. Jason Gold, Esq.
Alexander M. Laughlin, Esq.
Gold Morrison & Laughlin P.C.
1660 International Drive, Suite 450
McLean, Virginia 22102-4848
Telephone: (703) 836-7004
Facsimile: (703) 548-9030

If to the Committee: Lawrence M. Handelsman, Esq.
Robert A. Raskin, Esq.
Stroock & Stroock & Lavan LLP
180 Maiden Lane
New York, New York 10038
Telephone: (201) 806-5400
Facsimile: (201) 806-6006

- and -

Malcolm M. Mitchell, Jr., Esq.
Vorys, Sater, Seymour and Pease LLP
277 South Washington Street, Suite 310
Alexandria, Virginia 22314
Telephone: (703) 837-6970
Facsimile: (703) 518-2754

15.10. Headings. The headings used in the Plan are inserted for convenience only and neither constitute a portion of the Plan nor in any manner affect the construction of the provisions of the Plan.

15.11. Severability. At the option of the Proponents acting in their sole discretion, any provision of the Plan, the Confirmation Order, or any of the Exhibits to the Plan that is prohibited, unenforceable, or invalid shall, as to any jurisdiction in which such provision is prohibited, unenforceable, or invalidated, be ineffective to the extent of such prohibition, unenforceability, or invalidation without invalidating the remaining provisions of the Plan, the Confirmation Order, and the Exhibits to the Plan or affecting the validity or enforceability of such provisions in any other jurisdiction.

15.12. Governing Law. Unless a rule of law or procedure is supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules), the laws of the State of Delaware, without giving effect to the conflicts of laws principles thereof, shall govern the construction of the Plan and any agreements, documents, and instruments executed in connection with the Plan, except as otherwise expressly provided in such instruments, agreements or documents.

15.13. Filing of Additional Documents. On or before the Effective Date, the Debtors shall file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

15.14. Compliance with Tax Requirements. In connection with the Plan, the Liquidating Agent and the Liquidating LLC will comply with all withholding and reporting requirements imposed by federal, state and local taxing authorities, and all distributions hereunder shall be subject to such withholding and reporting requirements.

15.15. Expedited Tax Determinations. The Liquidating Agent is hereby authorized to request an expedited determination under section 505(b) of the Bankruptcy Code for all tax returns filed for or on behalf of the Liquidating LLC for all taxable periods through the termination of the Liquidating LLC.

15.16. Exemption from Transfer Taxes. Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer, or exchange of notes or equity securities under the Plan, the creation of any mortgage, deed of trust, or other security interest, the making or assignment of any lease or sublease, or the making or delivery of any deed or other instrument of transfer under, in furtherance of, or in connection with the Plan, including, without limitation, any transfers to or by PTI Liquidating LLC or PNI Liquidating LLC, shall not be subject to any stamp, real estate transfer, sales, mortgage recording, or other similar tax.

15.17. Income Tax and Related Information. The Liquidating Agent shall be authorized to collect such tax and fiscal information from members of the Liquidating LLC (including, without limitation, social security numbers and/or other tax identification numbers) as it in its sole discretion deems necessary to effectuate the Plan. Failure of any member of the Liquidating LLC to furnish this information in a timely fashion may result in the suspension or waiver of any distributions on account of such member's interest until the requisite information is supplied.

15.18. No Admissions. Notwithstanding anything herein to the contrary, if the Effective Date does not occur, nothing contained in the Plan shall be deemed to be an admission by the Debtors, the Committee or any other party with respect to any matter set forth herein, including, without limitation, liability on any Claim or the propriety of any Claims classification. Neither the Debtors nor the Committee are bound by any statements herein or in the Disclosure Statement as judicial admissions.

Respectfully submitted,

PATHNET TELECOMMUNICATIONS, INC.,
Debtor and Debtor in Possession

By: _____ /s/
James Craig
Executive Vice President, Chief Financial
Officer and Responsible Officer

PATHNET, INC.,
Debtor and Debtor in Possession

By: _____ /s/
James Craig
Executive Vice President, Chief Financial
Officer and Responsible Officer

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF PATHNET
TELECOMMUNICATIONS, INC.,
AND PATHNET, INC.

By: _____ /s/_____
Allan Brown
Chairman

November 5, 2001

UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA

Alexandria Division

In re:)
)
PATHNET TELECOMMUNICATIONS,) Chapter 11
INC., et al.) Case Nos. 01-12264 - SSM
) and 01-12265-SSM
)
Debtors.) Jointly Administered

**MOTION OF DEBTORS AND THE CREDITORS' COMMITTEE FOR ORDER
(1) APPROVING PROPOSED DISCLOSURE STATEMENT; (2) SCHEDULING
HEARING TO CONFIRM JOINT PLAN OF LIQUIDATION OF PATHNET
TELECOMMUNICATIONS, INC. AND PATHNET, INC.; (3) ESTABLISHING
PLAN OBJECTION DEADLINE; (4) APPROVING FORM OF BALLOTS,
VOTING DEADLINE AND SOLICITATION PROCEDURES;
AND (5) APPROVING FORM OF NOTICE**

Pathnet Telecommunications, Inc. ("PTI"), Pathnet, Inc. ("PNI")

(collectively, the "Debtors"), and the Official Committee of Unsecured Creditors of the Debtors (the "Committee"), hereby file this motion ("Motion") for an order pursuant to §§ 1125 and 1126 of the Bankruptcy Code and Rules 3017, 3018 and 3020 (1) Approving Proposed Disclosure Statement; (2) Scheduling Hearing to Confirm Joint Plan of Liquidation; (3) Establishing Plan Objection Deadline; (4) Approving Form of Ballots,

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Voting Deadline and Solicitation Procedures; and (5) Approving Form of Notice. In support of this Motion, the Debtors and the Committee respectfully represent as follows:

BACKGROUND

1. On April 2, 2001 (“**Petition Date**”), the Debtors, together with their affiliates Pathnet Operating, Inc. (“**POI**”), Pathnet Real Estate LLC (“**PRE**”), Pathnet Fiber Equipment LLC (“**PFE**”), and Pathnet Operating of Virginia, Inc. (“**POV**”), filed voluntary petitions in the United States Bankruptcy Court for the District of Delaware (the “**Delaware Bankruptcy Court**”) under Chapter 11 of the Bankruptcy Code.

2. On May 18, 2001, the Delaware Bankruptcy Court transferred venue of these cases to the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division).

3. On July 19, 2001, the cases of POI, PRE and PFE were converted to Chapter 7 pursuant to a stipulation and consent order entered from a motion to convert filed by POI’s secured creditors. On July 24, 2001, the case of POV, a direct, wholly owned subsidiary of POI, was also converted to Chapter 7. POI, PRE, PFE and POV are collectively referred to as the “**Converted Debtors.**” The Debtors and the Converted Debtors are referred to collectively as the “**Pathnet Group.**”

4. The Debtors filed for chapter 11 protection based on an inability to obtain sufficient capital to fund operating shortfalls while the Pathnet Group’s telecommunications network was being developed.

5. The Debtors continue to manage their assets as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

6. PNI was formed on August 25, 1995. It is a wholesale telecommunications provider and has built a network designed to provide other wholesale and retail

telecommunications service providers with access to underserved and second- and third-tier markets throughout the United States.

7. PTI was formed on November 1, 1999, by the former shareholders of PNI to facilitate a corporate reorganization transaction, which became effective on March 30, 2000, and to continue the activity of PNI. Upon finalization of the corporate reorganization transaction, PNI became a wholly owned subsidiary of PTI.

8. The Pathnet Group's telecommunications network was intended to enable its customers, including existing local telephone companies, long-distance companies, internet service providers, competitive telecommunications companies, cellular operators and other telecommunications providers, to offer additional services to new and existing customers in the markets the Pathnet Group serves without having to expend their own resources to build, expand or upgrade their own networks.

9. As of the Petition Date, the Pathnet Group employed approximately 202 employees. As a result of reductions in force immediately prior to and after the Petition Date, the Debtors currently have approximately 8 employees. Those who remain are mostly clerical personnel retained to address claims resolution.

10. On April 19, 2001, the United States Trustee appointed an Official Committee of Unsecured Creditors which consisted of (i) Magten Asset Management, Corp; (ii) Varde Partners, Inc.; (iii) Deutsche Bank; (iv) Mas Tec, Inc.; (v) Lucent Technologies; (vi) The Bank of New York as Indenture Trustee, and (vii) NEC America. Deutsche Bank, Lucent Technologies, and Mas Tec, Inc. later resigned from the Committee.

11. On November 5, 2001, the Debtors and the Committee as co-proponents (collectively, the “**Plan Proponents**”) filed the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Plan**”). Simultaneously herewith, the Plan Proponents filed a disclosure statement to the Plan.

RELIEF REQUESTED

12. The Plan Proponents request that this Court approve the proposed disclosure statement to the Plan (the “**Disclosure Statement**”), set a confirmation hearing, establish certain procedures, and approve the form of certain notices in connection with the Plan, and the solicitation of votes in favor of the Plan, all as set forth below.

I. APPROVAL OF PROPOSED DISCLOSURE STATEMENT

13. The Plan Proponents submit that the Disclosure Statement contains adequate information within the definition of § 1125 of the Bankruptcy Code and should be approved by this Court. The Plan Proponents submit that the detailed information in the Disclosure Statement would enable a hypothetical reasonable investor typical of the holders of claims in the only voting classes under the Plan — PTI Class 3 (Unsecured Claims) and PNI Class 3 (Unsecured Claims) — to make an informed judgment about the Plan.

14. Section 1125(b) of the Bankruptcy Code requires that the Disclosure Statement be approved by the Court as containing “adequate information.”

“[A]dequate information” means information of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor’s books and records, that would enable a hypothetical reasonable investor typical of holders of claims or interests of the relevant class to make an informed judgment about the plan, but adequate information need not

include such information about any other possible or proposed plan.

11 U.S.C. § 1125(a)(1).

15. The determination of what is adequate information is subjective, made on a case by case basis, and is largely within the discretion of the bankruptcy court. Abel v. Shugrue (In re Ionosphere Clubs, Inc., 179 B.R. 24 (S.D.N.Y. 1995) (citing In re Texas Extrusion Corp., 844 F.2d 1142, 1157 (5th Cir.), cert. denied, 488 U.S. 926 (1988) and In re Copy Crafters Quickprint, Inc., 92 B.R. 973, 979 (Bankr. N.D.N.Y. 1988) (“What constitutes adequate information is to be determined on a case-specific basis under a flexible standard that can promote the policy of Chapter 11 towards fair settlement through a negotiation process between informed interested parties.”).

16. The categories of information that should be considered for inclusion in a disclosure statement include the following:

- a. The circumstances that gave rise to the filing of the bankruptcy petition;
- b. A description of the available assets and their value;
- c. The anticipated future of the debtor, with accompanying financial projections;
- d. The source of the information provided in the disclosure statement;
- e. The condition and performance of the debtor while in Chapter 11;
- f. Information regarding claims against the estate, including those allowed, disputed, and estimated;
- g. A liquidation analysis setting forth the estimated return that creditors would receive under chapter 7;
- h. The accounting and valuation methods used to produce the financial information in the disclosure statement;
- i. Information regarding the future management of the debtor, including the amount of compensation to be paid to any insiders, directors, and/or officers of the debtor;

- j. A summary of the plan of reorganization;
- k. An estimate of all administrative expenses, including attorneys' fees and accountants' fees;
- l. The collectibility of any accounts receivable;
- m. Any financial information, valuations or pro forma projections that would be relevant to creditors' determinations of whether to accept or reject the plan;
- n. Information relevant to the risks being taken by the creditors and interest holders;
- o. The actual or projected value that can be obtained from avoidable transfers;
- p. The existence, likelihood and possible success of nonbankruptcy litigation;
- q. The tax consequences of the plan; and
- r. The relationship of the debtor with affiliates.

In re Oxford Homes, Inc., 204 B.R. 264, 269 at n.17 (Bankr. D. Me. 1997) (citing In re Ferretti, 128 B.R. 16, 18-19 (Bankr. D.N.H. 1991)).

17. The Disclosure Statement includes all relevant information considering the circumstances of the Debtors and that it proposes a liquidation of the Debtors.

18. Accordingly, the Plan Proponents respectfully request that the Court enter an order approving the Disclosure Statement pursuant to section 1125 of the Bankruptcy Code and Bankruptcy Rule 3017(b).

II. SCHEDULING HEARING TO CONFIRM THE PLAN

19. Pursuant to Bankruptcy Rule 2002, a hearing to consider the adequacy of the Disclosure Statement may be scheduled on no less than 25 days' notice. The Plan Proponents will provide notice (the "**Disclosure Statement Notice**") of such hearing (the "**Disclosure Statement Hearing**"). To ensure that all creditors and parties-in-interest receive adequate notice of the Disclosure Statement Hearing, the Debtors will mail copies

of the Disclosure Statement Notice to (i) the last known address of each creditor of the Debtors' estates, (ii) the United States Trustee, and (iii) all parties who have filed a notice of appearance in this case pursuant to Bankruptcy Rule 2002.

20. Objections, if any, to the Disclosure Statement must be filed with the Court and served upon the following parties: (i) Covington & Burling, counsel for the Debtors, 1201 Pennsylvania Avenue, N.W., Washington, D.C. 20004-7566, Attention: Michael St. Patrick Baxter, Esq.; (ii) Gold Morrison & Laughlin P.C., local counsel for the Debtors, 1660 International Drive, Suite 450, McLean, Virginia 22102-4848, Attention: H. Jason Gold, Esq.; (iii) Stroock & Stroock & Lavan LLP, counsel for the Committee, 180 Maiden Lane, New York, New York 10038-4982, Attention: Lawrence M. Handelsman, Esq., (iv) Vorys, Sater, Seymour and Pease LLP, local counsel for the Committee, 227 South Washington Street, Suite 310, Alexandria, Virginia 22314, Attention: Malcolm M. Mitchell, Jr., Esq., and (v) Office of the United States Trustee, 115 S. Union Street, Suite 210, Alexandria, Virginia 22314, Attention: Jack I. Frankel, Esq. (collectively, the **"Notice Parties"**), in a manner so that the objections are received on or before 4:00 p.m., prevailing Eastern Time, 10 days before the date of the Disclosure Statement Hearing.

21. Assuming that the Disclosure Statement is approved, in order for the Plan Proponents to expeditiously commence the solicitation and confirmation process with respect to the Plan, the Plan Proponents requests that this Court schedule a hearing to consider confirmation of the Plan (the **"Plan Confirmation Hearing"**) in accordance with Bankruptcy Rule 3017(c). The Plan Proponents suggest that the Plan Confirmation Hearing be set for a date within 45 to 60 days after the Disclosure Statement Hearing.

22. Pursuant to Bankruptcy Rule 3017(c), the Plan Proponents request that this Court establish an objection deadline (the “**Plan Objection Deadline**”), that is 20 days prior to the Plan Confirmation Hearing, as the last date for parties to file and serve objections to the confirmation of the Plan. In addition, the Plan Proponents request that, with regard to any timely-filed objection, the Debtors and the Committee be permitted to file a response, if any, to any objections to confirmation of the Plan five days prior to the Plan Confirmation Hearing.

23. The Plan Proponents request that this Court require that all objections to confirmation of the Plan be filed with the Court and served in a manner so that it is received on or before 4:00 p.m., prevailing Eastern Time, on the date of the Plan Objection Deadline, on the Notice Parties.

24. The Plan Proponents further request (a) that this Court consider only timely filed and served written objections; (b) that the Court require all objections to state with particularity the basis and nature of each objection; and (c) that objections not timely filed and served in accordance with the provisions of this Motion be overruled. The proposed timing of service of objections, if any, will enable the Plan Proponents to file and serve a reply to such objections and prepare for the Confirmation Hearing.

III. SOLICITATION PROCEDURES

25. To conduct an effective solicitation of acceptances or rejections of the Plan that is consistent with the requirements of the Bankruptcy Code, the Bankruptcy Rules and due process, the Plan Proponents seek approval of the following solicitation procedures set forth in Section III of this Motion (the “**Solicitation Procedures**”). To the extent that

circumstances arise that require a modification of the Solicitation Procedures, the Plan Proponents reserve the right to supplement and/or amend such Solicitation Procedures.

A. Record Date

26. Bankruptcy Rule 3017(d) provides that, for purposes of voting on a plan of reorganization under Chapter 11 of the Bankruptcy Code, “creditors and equity security holders shall include holders of stock, bonds, debentures, notes and other securities of record on the date the order approving the disclosure statement is entered or another date fixed by the court, for cause, after notice and a hearing.” Fed. R. Bankr. P. 3017(d). Bankruptcy Rule 3018(a) provides that “an equity security holder or creditor whose claim is based on a security of record shall not be entitled to accept or reject a plan unless the equity security holder or creditor is the holder of record of the security on the date the order approving the disclosure statement is entered or another date, fixed by the court, for cause, after notice and hearing.” Fed. R. Bankr. P. 3018(a). In accordance with Bankruptcy Rules 3017 and 3018, the record date is typically the date the order approving the disclosure statement is entered. Accordingly, the Plan Proponents propose that the Court establish the date of the Disclosure Statement Hearing as the record date (the “**Record Date**”) for purposes of determining which creditors and equity security holders are entitled to vote on the Plan.

27. The Plan contemplates certain impaired classes that will be entitled to vote on the Plan. The Plan Proponents propose that only the following holders of claims in such voting classes be entitled to vote with regard to such claims: (a) holders of timely-filed proofs of claim as reflected, as of the close of business on the Record Date, on the official claims register maintained by the Claims Agent; and (b) holders of scheduled claims that are listed in the Debtors’ schedules of liabilities filed with the Court (as may

have been amended, the “**Schedules**”), with the exception of those scheduled claims that are listed as contingent, unliquidated or undisputed claims (excluding such scheduled claims that have been superseded by a timely filed proof of claim); provided, however, that (a) the assignee of a transfer or assigned claim (whether timely filed or scheduled claim) shall be permitted to vote such claim only if the transfer and assignment has been noted properly on the Court’s docket as of the close of business on the Record Date; and (b) holders of claims that have been disallowed or are the subject of an objection pending as of the Record Date are not entitled to vote on the Plan unless, prior to the voting deadline, such holder obtains an order of the Bankruptcy Court, or the Bankruptcy Court approves a stipulation between the Proponents and such holder fully or partially allowing such Claim, whether for all purposes or for voting purposes only.

28. The Plan also contemplates holders of the Bonds voting to accept or reject the Plan, and the Plan Proponents propose that only such holders reflected in the records maintained by the Bond Trustee as of the close of business on the Record Date shall be entitled to vote (collectively, the “**Voting Bondholders**”). The Plan Proponents recognize that the records maintained by the Bond Trustee may reflect only the brokers, dealers, commercial banks, trust companies or other nominees (collectively, the “**Nominee Bondholders**”) through which certain beneficial owners (collectively, the “**Beneficial Bondholders**”) hold the relevant debentures. Procedures for voting on behalf of the Beneficial Bondholders are set forth below.

B. Voting Deadline

29. Bankruptcy Rule 3017(c) provides that, on or prior to approval of a disclosure statement, the court may fix a time within which the holders of claims or equity interests may accept or reject a plan. The Plan Proponents anticipate commencing a

solicitation period as soon as practicable after the entry of an order approving the Disclosure Statement. The Plan Proponents propose that to be counted as votes to accept or reject the Plan, all Ballots be properly executed and returned to the balloting agent so that all Ballots are actually received no later than 4:00 p.m. prevailing Pacific Time five days before the Confirmation Hearing (the “**Voting Deadline**”). This solicitation period should be a sufficient period of time within which creditors can make an informed decision to accept or reject the Plan. The Plan Proponents submit that this solicitation period complies with Bankruptcy Rule 2002(b).

C. Solicitation Procedures

(i) Solicitation Package

30. Bankruptcy Rule 3017(d) sets forth the materials that must be provided to holders of claims and interests for the purposes of soliciting their votes and providing adequate notice of the hearing on the confirmation of a plan reorganization. The Plan Proponents propose that, after entry of the Order Approving the Disclosure Statement, the following materials be distributed to those parties entitled to vote on the Plan (the “**Solicitation Package**”):

- (1) the Confirmation Hearing Notice (as defined in paragraph 42 below);
- (2) the Disclosure Statement approved by the court (with any exhibits thereto, including the Plan¹);
- (3) the appropriate ballot(s) and voting instructions.
- (4) the Order approving the Disclosure Statement; and

¹ The exhibits to the Plan are on file or will be filed with the Bankruptcy Court as part of a Plan Supplement prior to the hearing on the adequacy of the Disclosure Statement. Copies are or will be available from the Clerk of the Bankruptcy Court.

- (5) Any supplemental solicitation materials the Plan Proponents may file with the Court.

(ii) Recipients of the Solicitation Package

31. The Plan Proponents propose to mail the Solicitation Package to all persons or entities entitled to vote on the Plan, the Office of the United States Trustee, and any person or entity specifically requesting a Solicitation Package.

32. To avoid duplication and reduce expense, the Plan Proponents propose that creditors who have more than one claim should only receive one Solicitation Package and one ballot for each claim.

(iii) Non-Voting Status

33. Bankruptcy Rule 3017(d) requires a debtor to mail a form of ballot only to “creditors and equity security holders entitled to vote on the plan.” Fed. R. Bankr. P. 3017(d). In accordance with Bankruptcy Rule 3017(d), the Plan Proponents propose not to send a Solicitation Package to creditors and interest holders whose claims and interests are not classified in accordance with 11 U.S.C. § 1123(a)(1) or who are not entitled to vote because they are deemed to accept or reject the Plan under 11 U.S.C. §§ 1126(f) or 1126(g).

34. Under the Plan, only the holders of claims in PTI Class 3 (Unsecured Claims) and PNI Class 3 (Unsecured Claims) are entitled to vote to accept or reject the Plan. The Plan Proponents intend to send Solicitation Packages to the holders of these claims.

35. Under the Plan, the holders of claims in PTI Class 1 (Priority Claims) and PTI Class 2 (Secured Claims), and PNI Class 1 (Priority Claims) and PNI Class 2 (Secured Claims) are deemed to accept the Plan. To conserve resources and to avoid confusion, the

Plan Proponents do not intend to send Solicitation Packages to the holders of these claims unless otherwise specifically requested. Instead, the Plan Proponents propose sending to these holders a Notice of Non-Voting Status, substantially in the form attached hereto as **Exhibit “A”** and the Confirmation Hearing Notice (defined below). The Notice of Non-Voting Status will inform these holders that if they would like to receive a copy of the Solicitation Package they can contact the balloting agent.

36. The holders of claims and interests in PTI Class 4 (Subordinated Claims) and PTI Class 5 (Equity Interests), and PNI Class 4 (Subordinated Claims) and PNI Class 5 (Equity Interests) are deemed to reject the Plan. To conserve resources and to avoid confusion, the Plan Proponents do not intend to send Solicitation Packages to the holders of these claims and interests unless otherwise specifically requested. Instead, the Plan Proponents propose sending to these holders a Notice of Non-Voting Status substantially in the form attached hereto as **Exhibit “B”** and the Confirmation Hearing Notice (defined below). The Notice of Non-Voting Status will inform these holders that if they would like to receive a copy of the Solicitation Package they can contact the balloting agent.

37. The Plan Proponents submit that limiting the Solicitation Packages in these circumstances satisfies the requirements of the Bankruptcy Code and Bankruptcy Rules. Accordingly, the Plan Proponents request that the Court approve the form and manner of the Notice of Non-Voting Status, authorize the Plan Proponents to limit the distribution of the Solicitation Packages, and otherwise approve the Solicitation Procedures.

(iv) Approval of Form of Ballots

38. The Debtors will prepare ballots for all classes of claims and interests under the Plan that are entitled to vote to accept or reject the Plan. Bankruptcy Rule 3018(c) provides, in relevant part, as follows:

An acceptance or rejection shall be in writing, identify the plan or plans accepted or rejected, be signed by the creditor or equity security holder or authorized agent, and conform to the appropriate Official Form.

Fed. R. Bankr. P. 3018(c).

39. The Plan Proponents propose to mail a ballot (with instructions) substantially in the form of the ballot attached hereto as **Exhibit “C”** (the “**Ballot**”) to each holder of a claim entitled to vote under the Plan. This form of ballot complies with Bankruptcy Rule 3018(c) and is based substantially on Official Form No. 14. In addition, the Plan Proponents propose to mail a master ballot (with instructions), substantially in the form of the ballot (with instructions) attached hereto as **Exhibit “D”** (the “**Master Ballot**”), to each of the Nominee Bondholders for the purpose of summarizing the votes of their respective Beneficial Bondholders.

40. By this Motion and in accordance with Bankruptcy Rule 3017(a), the Plan Proponents seek authority to distribute the Ballots (including the form of a Master Ballot) to the following impaired classes that the Plan Proponents anticipate will be entitled to vote to accept or reject the Plan:

CLASSES ENTITLED TO VOTE	
PTI Class 3	Unsecured Claims
PNI Class 3	Unsecured Claims

41. The following classes of claims and interests under the Plan will not be entitled to vote to accept or reject the Plan as such classes: (a) are unimpaired, within the meaning of 11 U.S.C. § 1124, and therefore are deemed to accept the Plan pursuant to 11

U.S.C. § 1126(f); or (b) are receiving no distribution under the Plan and therefore are deemed to reject the Plan pursuant to 11 U.S.C. § 1126(g):

CLASSES NOT ENTITLED TO VOTE	
PTI Class 1	Priority Claims
PTI Class 2	Secured Claims
PTI Class 4	Subordinated Claims
PTI Class 5	Equity Interests
PNI Class 1	Priority Claims
PNI Class 2	Secured Claims
PNI Class 4	Subordinated Claims
PNI Class 5	Equity Interests

(v) Approval of Form of Confirmation Hearing Notice

42. Bankruptcy Rules 2002(b) and 2002(d) require notice to all creditors and shareholders of the time set for filing objections to confirmation of a Chapter 11 plan and the hearing to consider confirmation of the Chapter 11 plan. In furtherance thereof, the Plan Proponents request approval of the notice substantially in the form attached hereto as **Exhibit “E”** (the **“Confirmation Hearing Notice”**). The Confirmation Hearing Notice contains, among other things (a) the deadline for filing objections to confirmation of the Plan; (b) the deadline for voting on the Plan; and (c) the procedures for vote tabulation. The Plan Proponents submit that the Confirmation Hearing Notice complies with the notice requirements of Bankruptcy Rules 2002(a)(7) and 2002(b). The Plan Proponents propose to include the Confirmation Hearing Notice in the Solicitation Package.

D. Approval of Voting Procedures

(i) Voting Tabulation Procedures

43. The Plan Proponents request that the Court approve the following voting tabulation procedures in accordance with section 1126(c) of the Bankruptcy Code and Bankruptcy Rule 3018. Section 1126(c) of the Bankruptcy Code provides:

A class of claims has accepted a plan if such plan has been accepted by creditors, other than any entity designated under subsection (e) of this section, that hold at least two-thirds in amount and more than one-half in number of the allowed claims of such class held by creditors, other than any entity designated under subsection (e) of this section, that have accepted or rejected such plan.

11 U.S.C. § 1126(c).

44. Further, Bankruptcy Rule 3018(a) provides, in part, that the “court after notice and hearing may temporarily allow the claim or interest in an amount which the court deems proper for the purpose of accepting or rejecting a plan.” Fed. R. Bankr. P. 3018(a).

45. The Plan Proponents request that, in tabulating votes, the following hierarchy should be used to determine the claim amount associated with a creditor’s vote:

- (a) the claim amount temporarily allowed by court order for voting purposes, pursuant to Bankruptcy Rule 3018(a), after notice and a hearing pursuant to the Voting Deadline;
- (b) the claim amount contained on a proof of claim that has been timely filed (or deemed timely filed by the Court under applicable law);
- (c) the claim amount listed on the Debtors’ Schedules provided that such claim is not scheduled as contingent, disputed or unliquidated; and
- (d) in the absence of any of the foregoing, zero.

The Plan Proponents request that the claim amount established pursuant to this paragraph control for voting purposes only and not constitute the allowed amount of any claim for purposes of distribution.

46. Furthermore, if a creditor casts a Ballot and (a) the creditor has not timely filed a proof of claim (or has otherwise had such proof of claim deemed timely filed by the Court under applicable law) and is listed on the Debtors' Schedules as holding a claim that is contingent, unliquidated or disputed; or (b) the creditor has filed a proof of claim and the entirety of the creditor's claim is the subject of an objection to said claim filed on or before the Record Date, such Ballot should not be counted in accordance with Bankruptcy Rule 3018, unless temporarily allowed by the Court for voting purposes, after notice and a hearing, in compliance with Bankruptcy Rule 3018.

47. Ballots cast by creditors whose claims are not listed on the Debtors' Schedules, but who timely file proofs of claim in unliquidated or unknown amounts that are not the subject of an objection filed before the Record Date will count for satisfying the numerosity requirement of section 1126(c) of the Bankruptcy Code and will count as ballots for Claims in the amount of \$1.00 solely for the purposes of satisfying the dollar amount provision of section 1126(c).

48. In addition, the Plan Proponents request that the following voting procedures and standard assumptions be used in tabulating ballots:

- a. Except to the extent the Debtors so determine, or as permitted by the Court, Ballots received after the Voting Deadline will not be accepted or counted in connection with the Plan Proponents' request for confirmation of the Plan;
- b. The method of delivery of Ballots to be sent to the balloting agent is at the risk of each creditor, but, except as otherwise provided in the Disclosure Statement, such delivery will be deemed made only when the original

executed ballot is actually received by the balloting agent by the Voting Deadline.

- c. Delivery of a Ballot by facsimile, email or any other electronic means will not be accepted;
- d. No Ballot should be sent to any of the Debtors, Committee, the Bond Trustee, or their respective financial or legal advisors, and, if so sent, it will not be accepted;
- e. If multiple Ballots are received from an individual creditor with respect to the same claims or equity interests prior to the Voting Deadline, the last ballot timely received will be deemed to reflect the voter's intent and to supersede and revoke any prior Ballot;
- f. Creditors must vote all of their claims or equity interests within a particular Plan class either to accept or reject the Plan and may not split their vote. Accordingly, a Ballot that partially rejects and partially accepts the Plan will not be counted;
- g. If a Ballot is signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, such persons should indicate such capacity when signing and, unless otherwise determined by the Debtors, must submit proper evidence satisfactory to the Debtors to so act on behalf of a beneficial interest holder;
- h. The Debtors, in their sole discretion, subject to contrary order of the Court, may waive any defect in any Ballot at any time, either before or after the close of voting, and without notice. Except as otherwise provided herein, unless the Ballot being furnished is timely submitted on or prior to the Voting Deadline, the Debtors may, in their sole discretion, reject such ballot as invalid and, therefore, decline to utilize it in connection with confirmation of the Plan;
- i. In the event a designation of lack of good faith is requested under Section 1126(e) of the Bankruptcy Code, any vote to accept or reject the Plan cast with respect to such claim will not be counted for purposes of determining whether the Plan has been accepted or rejected, unless the Court orders otherwise;
- j. Unless otherwise ordered by the Court, all questions as to the validity, form, eligibility (including time of receipt) and revocation or withdrawal of ballots will be determined by the Debtors in their sole discretion, after consultation with the Committee, which determination shall be final and binding;

- k. Subject to any contrary order of the Court, the Debtors reserve the right to reject any and all Ballots not proper in form, the acceptance of which, in the opinion of the Debtors or their counsel, after consultation with the Committee, would not be in accordance with the provisions of the Bankruptcy Code or the Bankruptcy Rules;
- l. Subject to any contrary order of the Court, the Debtors further reserve the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot;
- m. The Debtors' interpretation of the terms and conditions of the Plan, after consultation with the Committee, shall be final and binding on all parties, unless otherwise directed by the Court. The Debtors further reserve the right to withdraw or amend the Plan at any time;
- n. Unless waived or as ordered by the Court, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtors in their sole discretion (or the Court) determine;
- o. Neither the Debtors, nor any other person or entity, will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liability for failure to provide such notification. Unless otherwise directed by the Court, delivery of such defective or irregular Ballots will not be deemed to have been made until such defects or irregularities have been cured or waived. Ballots previously furnished (and as to which any defects or irregularities have not theretofore been cured or waived) will not be counted;
- p. Any vote purportedly on behalf of an impaired class will not count for voting purposes unless and until the class is certified by the Court pursuant to a class proof of claim to which no objection has been filed, or if an objection has been filed to such a proof of claim, which has been temporarily certified for purposes of voting in an allowed amount;
- q. If a claim has been estimated or otherwise allowed for voting purposes by final order of the Bankruptcy Court, such Claim shall be temporarily allowed in the amount so estimated or allowed by the Bankruptcy Court for voting purposes only, and not for purposes of allowance or distribution;
- r. Any Ballot that is properly completed, executed and timely returned to the balloting agent but does not indicate acceptance or rejection of the Plan, or indicates both an acceptance and a rejection of the Plan, will be deemed to be a vote to accept the Plan; and
- s. The following Ballots shall not be counted in determining the acceptance or rejection of the Plan: (i) any Ballot that is illegible or contains insufficient information to permit the identification of the creditor; (ii) any Ballot cast by a person or entity that does not hold a claim in a class that is entitled to

vote on the Plan; (iii) any Ballot cast for a claim scheduled as unliquidated, contingent or disputed for which no proof of claim was timely filed; and (iv) any unsigned Ballot.

(ii) Master Ballot Tabulation Procedures

49. In addition, the Plan Proponents propose that the following additional procedures, as well as the aforementioned procedures set forth herein, apply to claims of the Voting Bondholders:

- a. The record date for determining the identity of the Voting Bondholder is the date of the Disclosure Statement Hearing;
- b. The Bond Trustee (unless otherwise empowered to do so) will not vote on behalf of the Voting Bondholders; rather, each such Voting Bondholder must submit his or her own Ballot;
- c. Any Nominee Bondholder which is a bondholder of record shall vote on behalf of the Beneficial Bondholder of such notes by (i) promptly distributing a copy of the Solicitation Package to all such Beneficial Bondholders for which it holds the notes, promptly collecting all such ballots from such Beneficial Bondholders, (iii) compiling and validating the votes of all its Beneficial Bondholders on the Master Ballot and (iv) transmitting the Master Ballot to the balloting agent prior to the Voting Deadline;
- d. Any Beneficial Bondholder holding notes or other securities as a record holder in its own name should vote on the Plan by completing and signing a Ballot and returning it to the balloting agent on or before the Voting Deadline;
- e. Any Beneficial Bondholder holding notes or other securities in "street name" through a Nominee Bondholder should vote on the Plan through such Nominee Bondholder by completing and signing the Ballot and returning such Ballot to the respective Nominee Bondholder as promptly as possible and in sufficient time to allow such Nominee Bondholder to process the Ballot and return it to the balloting agent prior to the Voting Deadline;
- f. Any Ballot returned to a Nominee Bondholder by a Beneficial Bondholder will not be counted for purposes of accepting or rejecting the Plan until such Nominee Bondholder properly completes and delivers to the balloting agent a Master Ballot that reflects the vote of such Beneficial Bondholder;
- g. If a Beneficial Bondholder holds notes through more than one Nominee Bondholder, such Beneficial Bondholder may receive more than one Ballot,

and each such Beneficial Bondholder should execute a separate Ballot for each block of notes that it holds through any Nominee Bondholder and return the Ballot to the respective Nominee Bondholder that holds the notes in record name; and

- h. If a Beneficial Bondholder holds a portion of its notes through a Nominee Bondholder and another portion in its own name as the record holder, such Beneficial Bondholder should follow the procedures described in paragraph 48 above to vote the portion held in its own name and the procedures described in this paragraph to vote the portion held by the Nominee Bondholder(s).

(iii) Returned Solicitation Packages or Notices

50. The Plan Proponents anticipate that some of the Solicitation Packages or Notices may be returned as undeliverable. The Plan Proponents seek the Court's approval for a procedure that excuses the Debtors from re-mailing Solicitation Packages or Notices, as the case may be, to those entities whose addresses differ from the addresses in the claims register or the Debtors' records as of the Record Date. If a creditor changed its mailing address after the Petition Date, the burden is on the creditor, not the Debtors, to advise the Debtors of the new address.

51. The Plan Proponents submit that they have shown good cause for implementing the proposed notice, service and solicitation procedures as set forth above.

STROOCK & STROOCK & LAVAN LLP

Lawrence M. Handelsman

Robert A. Raskin

180 Maiden Lane

New York, New York 10038-4982

(212) 806-5400

*Counsel for the Official Committee of Unsecured
Creditors*

**VORYS, SATER, SEYMOUR AND PEASE
LLP**

/s/

Malcolm M. Mitchell, Jr., Va. Bar No. 18098

277 South Washington Street, Suite 310

Alexandria, Virginia 22314

(703) 837-6999

*Local Counsel for the Official Committee of
Unsecured Creditors*

Dated: November 28, 2001

**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS, INC., <u>et al.</u>	)	Case Nos. 01-12264-SSM and 01-12265-SSM
)	
Debtors.	)	Jointly Administered

**NOTICE OF NON-VOTING STATUS WITH RESPECT
TO UNIMPAIRED CLASSES DEEMED TO ACCEPT THE PLAN**

PLEASE TAKE NOTICE that on _____ the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division) approved the Disclosure Statement for the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Disclosure Statement**”) for use by the above-captioned debtors and debtors-in-possession (collectively the “**Debtors**”) and the Official Committee of Unsecured Creditors, in soliciting acceptances or rejections of the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Plan**”) from holders of impaired claims who are (or may be) entitled to receive distributions under the Plan.

UNDER THE TERMS OF THE PLAN, YOUR CLAIM IS UNIMPAIRED AND, THEREFORE, IN ACCORDANCE WITH SECTION 1126(f) OF THE UNITED STATES BANKRUPTCY CODE, YOU ARE (1) DEEMED TO HAVE ACCEPTED THE PLAN, AND (2) NOT ENTITLED TO VOTE ON THE PLAN. ACCORDINGLY, THE ENCLOSED DOCUMENTS ARE PROVIDED FOR YOUR INFORMATIONAL PURPOSES ONLY.

IF YOU HAVE ANY QUESTIONS ABOUT THE STATUS OF YOUR CLAIM(S), YOU SHOULD CONTACT THE DEBTORS’ BALLOTING AGENT, ROBERT L. BERGER & ASSOCIATES, LLC, PMB 1009, 10351 SANTA MONICA BLVD. SUITE 101A, LOS ANGELES, CALIFORNIA 90025 (818) 789-3572.

EXHIBIT A

Certain other creditors are receiving the complete Solicitation Package, which includes the Disclosure Statement and the Plan. If you desire to receive copies of these documents, please contact the Balloting Agent.

Michael St. Patrick Baxter
Dennis B. Auerbach

COVINGTON & BURLING
1201 Pennsylvania Avenue, N.W
Washington, D.C. 20004-7566
(202) 662-6000

Counsel for the Debtors and Debtors in Possession

H. Jason Gold
Alexander M. Laughlin

GOLD MORRISON & LAUGHLIN P.C.
1660 International Drive, Suite 450
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(703) 836-7004

Local Counsel for the Debtors and Debtors in Possession

- and -

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Lawrence M. Handelsman
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180 Maiden Lane
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Counsel for the Official Committee of Unsecured Creditors

**VORYS, SATER, SEYMOUR AND PEASE
LLP**
Malcolm M. Mitchell, Jr.
277 South Washington Street, Suite 310
Alexandria, Virginia 22314
(703) 837-6999

Local Counsel for the Official Committee of Unsecured Creditors

Dated: _____, 2002

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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS, INC., <u>et al.</u>	)	Case Nos. 01-12264-SSM and 01-12265-SSM
)	
Debtors.	)	Jointly Administered

**NOTICE OF NON-VOTING STATUS WITH RESPECT
TO IMPAIRED CLASSES AND INTERESTS DEEMED TO REJECT THE PLAN**

PLEASE TAKE NOTICE that on _____ the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division) approved the Disclosure Statement for the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Disclosure Statement**”) for use by the above-captioned debtors and debtors-in-possession (collectively the “**Debtors**”) and the Official Committee of Unsecured Creditors, in soliciting acceptances or rejections of the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Plan**”) from holders of impaired claims who are (or may be) entitled to receive distributions under the Plan.

UNDER THE TERMS OF THE PLAN, YOU ARE NOT ENTITLED TO RECEIVE OR RETAIN ANY PROPERTY ON ACCOUNT OF YOU CLAIM(S) AGAINST, OR INTEREST(S) IN, THE DEBTORS AND, THEREFORE, IN ACCORDANCE WITH SECTION 1126(g) OF THE UNITED STATES BANKRUPTCY CODE, YOU ARE (1) DEEMED TO HAVE REJECTED THE PLAN, AND (2) NOT ENTITLED TO VOTE ON THE PLAN. ACCORDINGLY, THE ENCLOSED DOCUMENTS ARE PROVIDED FOR YOUR INFORMATIONAL PURPOSES ONLY.

IF YOU HAVE ANY QUESTIONS ABOUT THE STATUS OF YOUR CLAIM(S) OR INTEREST(S), YOU SHOULD CONTACT THE DEBTORS’ BALLOTING AGENT, ROBERT L. BERGER & ASSOCIATES, LLC, PMB 1009, 10351 SANTA MONICA BLVD. SUITE 101A, LOS ANGELES, CALIFORNIA 90025 (818) 789-3572.

EXHIBIT B

Certain other creditors are receiving the complete Solicitation Package, which includes the Disclosure Statement and the Plan. If you desire to receive copies of these documents, please contact the Balloting Agent.

Michael St. Patrick Baxter
Dennis B. Auerbach

COVINGTON & BURLING
1201 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-7566
(202) 662-6000

Counsel for the Debtors and Debtors in Possession

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(703) 836-7004

Local Counsel for the Debtors and Debtors in Possession

- and -

STROOCK & STROOCK & LAVAN LLP
Lawrence M. Handelsman
Robert A. Raskin
180 Maiden Lane
New York, New York 10038-4982
(212) 806-5400

Counsel for the Official Committee of Unsecured Creditors

**VORYS, SATER, SEYMOUR AND PEASE
LLP**
Malcolm M. Mitchell, Jr.
277 South Washington Street, Suite 310
Alexandria, Virginia 22314
(703) 837-6999

Local Counsel for the Official Committee of Unsecured Creditors

Dated: _____, 2002
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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
)	
PATHNET TELECOMMUNICATIONS	)	Chapter 11
INC., <u>et al.</u>	)	Case Nos. 01-12264 - SSM
	)	and 01-12265-SSM
)	
Debtors)	
)	

**BALLOT FOR ACCEPTING OR REJECTING THE
JOINT PLAN OF LIQUIDATION OF PATHNET TELECOMMUNICATIONS, INC. AND PATHNET,
INC.**

[PTI] [PNI] Class (3)–Unsecured Claims

**PLEASE READ AND FOLLOW THE ENCLOSED
VOTING INSTRUCTIONS CAREFULLY BEFORE COMPLETING THE BALLOT.**

**PLEASE CHECK THE APPROPRIATE BOX BELOW TO INDICATE
YOUR ACCEPTANCE OR REJECTION OF THE PLAN.**

**THIS BALLOT IS ACCOMPANIED BY A RETURN ENVELOPE
YOUR VOTE MUST BE RECEIVED BY ROBERT L. BERGER & ASSOCIATES, LLC (“BALLOTING
AGENT”), PMB 1009, 10351 SANTA MONICA BLVD. SUITE 101A, LOS ANGELES, CA 90025 BY
4:00 P.M., PREVAILING PACIFIC TIME, ON OR BEFORE _____ (“VOTING DEADLINE”),
UNLESS THE DEBTORS, IN THEIR SOLE AND ABSOLUTE DISCRETION, EXTEND
OR WAIVE THE PERIOD DURING WHICH VOTES WILL BE ACCEPTED BY THE DEBTORS, IN
WHICH CASE THE TERM “VOTING DEADLINE” FOR SUCH SOLICITATION SHALL MEAN THE
LAST TIME AND DATE TO WHICH SUCH SOLICITATION IS EXTENDED.**

This Ballot may not be used for any purpose other than for submitting votes to accept or reject the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “Plan”). All capitalized terms used in the Ballot or in these instructions but not otherwise defined herein shall have the meaning ascribed to such terms in the Order (1) Approving Proposed Disclosure Statement; (2) Scheduling Hearing to Confirm Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc.; (3) Establishing Plan Objection Deadline; (4) Approving Form of Ballots, Voting Deadline and Solicitation Procedures; and (5) Approving Form of Notice (the “Voting Procedures Order”), the Disclosure Statement for Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “Disclosure Statement”) and the Plan, all included in Solicitation Package.

EXHIBIT C

(v) No other Ballots with respect to the amount of the Claims identified in Item 1 have been cast or, if any other Ballots have been cast with respect to such Claims, such earlier Ballots are hereby revoked; and

(vi) Such person or entity (or in the case of any authorized signatory, the beneficial interest holder) should be treated as the record holder of such Claims for purposes of voting on the Plan.

Dated: _____

Name of Voter: _____
(Print or Type)

Social Security or Tax I.D. No. _____

Signature _____

By _____
(If Appropriate)

Title: _____
(If Appropriate)

**PLEASE COMPLETE, SIGN AND DATE
THE BALLOT AND RETURN IT PROMPTLY**

YOUR BALLOT MUST BE RECEIVED BY THE BALLOT TABULATION CENTER:

**PATHNET TELECOMMUNICATION INC. AND PATHNET INC.
c/o ROBERT L. BERGER & ASSOCIATES, LLC,
PMB 1009
10351 SANTA MONICA BLVD. SUITE 101A
LOS ANGELES, CA 90025**

**BY 4:00 P.M., PREVAILING PACIFIC TIME
ON OR BEFORE _____, OR YOUR VOTE WILL NOT BE COUNTED**

VOTING INSTRUCTIONS

1. The Debtors are soliciting the votes of holders of Class 3 Claims with respect to the Plan referred to in the Disclosure Statement (a copy of which is attached thereto). All capitalized terms used in the Ballot or Voting Instructions but not otherwise defined therein shall have the meaning ascribed to them in the Voting Procedures Order, the Disclosure Statement and the Plan, all included in Solicitation Package.
2. The Plan can be confirmed by the Bankruptcy Court, and therefore made binding on you, if it is accepted by the holders of two-thirds in amount and more than one-half in number of claims in each impaired class voting on the Plan. Please review the Disclosure Statement for more information.
3. To ensure that your vote is counted, you must (i) complete the Ballot, (ii) indicate your decision either to accept or reject the Plan in the boxes provided in Item 3 of the Ballot, and (iii) sign and return the Ballot to the address set forth on the enclosed prepaid envelope. Your vote must be received by the Balloting Agent by 4:00 p.m., Prevailing Pacific Time on or before _____, 200_ (the "Voting Deadline"). If you received this Ballot from a Nominee Bondholder, please allow sufficient time for the Nominee Noteholder to prepare a Master Ballot such that such Master Ballot is received by the Voting Deadline.
4. If a Ballot is received after the Voting Deadline, it will not be counted. **The method of delivery of Ballots to be sent to the Balloting Agent is at the election and risk of each holder of a Claim.** Except as otherwise provided herein, such delivery will be deemed made only when the original executed Ballot is actually received by the Balloting Agent. Instead of effecting delivery by mail, it is recommended, though not required, that such holders use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. **Delivery of a Ballot by facsimile, e-mail or any other electronic means will not be accepted. No Ballot should be sent to the Debtors, the Bond Trustee, or the Debtors' financial or legal advisors.**
5. If multiple Ballots are received from an individual holder of claims with respect to the same claims prior to the Voting Deadline, the last Ballot timely received will supersede and revoke any earlier received Ballot.
6. The Ballot is not a letter of transmittal and may not be used for any purpose other than to vote to accept or reject the Plan and to determine the alleged amount of a beneficial holder's claim. Accordingly, at this time, creditors should not surrender certificates or instruments representing or evidencing their Claims, and neither the Debtors nor the Balloting Agent will accept delivery of such certificates or instruments surrendered together with a Ballot. The remittance of your notes or other evidence of your claims for exchange pursuant to the Plan may only be made by you and will not be accepted if certificates or instruments representing your Claims (in proper form for transfer) are delivered together with a letter of transmittal that will be furnished to you as provided under the Plan or as notified following confirmation of the Plan by the Bankruptcy Court.
7. This Ballot does not constitute, and shall not be deemed to be, a proof of claim or equity interest or an assertion or admission of a claim or equity interest.
8. Please be sure to sign and date your Ballot. If you are completing the Ballot on behalf of an entity, indicate your relationship with such entity and the capacity in which you are signing. In addition, please provide your name and mailing address if different from that set forth on the attached mailing label or if no such mailing label is attached to the Ballot.
9. If you hold Claims in more than one class under the Plan, you may receive more than one Ballot coded for each different Class. Each Ballot votes only your claims indicated on that Ballot. Please complete and return each Ballot you received.

EXHIBIT C

10. You must vote all of your claims within a particular Plan class either to accept or reject the Plan and may not split your vote. Accordingly, a Ballot that partially rejects and partially accepts the Plan will not be counted.
11. Any Ballot that is properly completed, executed and timely returned to the Balloting Agent but does not indicate acceptance or rejection of the Plan, or indicates both an acceptance and a rejection of the Plan, may be deemed to be a vote to accept the Plan.
12. The following Ballots shall not be counted in determining the acceptance or rejection of the Plan: (a) any Ballot that is illegible or contains insufficient information to permit the identification of the creditor; (b) any Ballot cast by a person or entity that does not hold a claim in a class that is entitled to vote on the Plan; (c) any Ballot cast for a claim scheduled as unliquidated, contingent or disputed for which no proof of claim was timely filed; and (d) any unsigned Ballot.
13. The Ballot must be returned in sufficient to allow it to be RECEIVED by the Balloting Agent no later than 4:00 p.m., Prevailing Pacific Time, on the Voting Deadline. If you believe you have received the wrong Ballot, please contact the Balloting Agent or your broker or bank immediately.

PLEASE RETURN YOUR BALLOT PROMPTLY!

IF YOU HAVE ANY QUESTIONS REGARDING THIS BALLOT
OR THE VOTING PROCEDURES
PLEASE CONTACT THE BALLOTING AGENT
ROBERT L. BERGER & ASSOCIATES, LLC,
PMB 1009
10351 SANTA MONICA BLVD. SUITE 101A
LOS ANGELES, CA 90025
(818) 789-3572

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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
)	
PATHNET TELECOMMUNICATIONS	)	Chapter 11
INC., <u>et al.</u>	)	Case Nos. 01-12264 - SSM
	)	and 01-12265-SSM
)	
Debtors)	

**MASTER BALLOT FOR ACCEPTING OR REJECTING THE
JOINT PLAN OF LIQUIDATION OF PATHNET TELECOMMUNICATIONS, INC. AND PATHNET,
INC.**

[PTI] [PNI] Class 3 ____: Unsecured Claims

**PLEASE READ AND FOLLOW THE ENCLOSED VOTING INSTRUCTIONS
CAREFULLY BEFORE COMPLETING THE MASTER BALLOT.**

**THIS MASTER BALLOT IS ACCOMPANIED BY A RETURN ENVELOPE THAT
IS ADDRESSED TO ROBERT L. BERGER & ASSOCIATES, LLC ("BALLOTING AGENT"), PMB 1009,
10351 SANTA MONICA BLVD. SUITE 101A, LOS ANGELES, CA 90025
THIS BALLOT MUST BE RECEIVED BY THE BALLOTING AGENT BY 4:00 P.M.
PREVAILING PACIFIC TIME, ON OR BEFORE ____ ("VOTING DEADLINE"),
UNLESS THE DEBTORS, IN THEIR SOLE AND ABSOLUTE DISCRETION, EXTEND OR WAIVE THE
PERIOD DURING WHICH BALLOTS WILL BE ACCEPTED BY THE DEBTORS, IN WHICH CASE
THE TERM "VOTING DEADLINE" FOR SUCH SOLICITATION SHALL MEAN THE LAST TIME
AND DATE TO WHICH SUCH SOLICITATION IS EXTENDED.**

This Master Ballot may not be used for any purpose other than for submitting votes to accept or reject the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the "Plan"). All capitalized terms used in the Master Ballot or in these instructions but not otherwise defined herein shall have the meaning ascribed to such terms in the Order (1) Approving Proposed Disclosure Statement; (2) Scheduling Hearing to Confirm Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc.; (3) Establishing Plan Objection Deadline; (4) Approving Form of Ballots, Voting Deadline and Solicitation Procedures; and (5) Approving Form of Notice (the "Voting Procedures Order"), the Disclosure Statement for Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the "Disclosure Statement") and the Plan, all included in Solicitation Package.

This Master Ballot is being sent to brokers, dealers, commercial banks, trust companies or other nominees (each a "Nominee Bondholder") of Beneficial Bondholders (as defined herein) and is to be used by the Nominee Bondholder for casting votes to accept or reject the Plan on behalf of and in accordance with the Ballots cast by the Beneficial Bondholders holding Class 3 Claims through such Nominee Bondholders.

The Plan referred to in this Master Ballot can be confirmed by the Bankruptcy Court and thereby made binding on all holders of Claims if it is accepted by the holders of two-thirds in amount and more than one-half in number of Claims in each impaired class voting on the Plan. To have the votes of your Beneficial Bondholders count, you must complete and return this Master Ballot.

Item 1. Amount and Type of Claim.

The undersigned is the record holder of _____ Class 3 Claims in the aggregate outstanding amount of \$_____, for which voting instructions have been received from holders of the beneficial interests of such Claims (the "Beneficial Bondholders") as listed in Item 3 below.

Item 2. Class 3 Vote.

As instructed by the Beneficial Bondholders of the aggregate number of Class 3 Claims as set forth in Item 1 above, the undersigned transmits the following votes of such Beneficial Bondholders in respect of their Class 3 Claims.

To Accept (vote FOR) the Plan:

To Reject (vote AGAINST) the Plan:

Item 3. Class 3 Vote— Number of Holders of Class 3 Claims

The following Beneficial Bondholders of Class 3 Claims, as identified by their respective customer account numbers or the respective sequence numbers set forth below, have delivered to the undersigned Ballots casting votes (indicate the aggregate amount for each respective account under the appropriate column, please use additional sheet of paper if necessary):

Customer Account No. and/or Customer Name	Insert Amount of Claims Voted	
	Accept for Plan (VOTE FOR)	Reject the Plan (VOTE AGAINST)
1.		
2.		
3.		
4.		
5.		
6.		
7.		

Item 4. Certification

By signing this Master Ballot, the undersigned certifies as follows:

(i) (a) It has received a copy of the Disclosure Statement, Ballot and other Solicitation Materials and has delivered the same to the Beneficial Bondholders listed thereon, (b) it has received a completed and signed Ballot from each Beneficial Bondholder set forth in Item 3, (c) it is the registered holder of the securities being voted, (d) it has been authorized by each such Beneficial Bondholder to vote on the Plan, and (e) the Beneficial Bondholder has certified to such nominee that such Beneficial Bondholder has not submitted any other Ballots for such Class of Claims held in other accounts or other registered names, or, if it has submitted another Ballot held in other accounts or registered names, that the Beneficial Bondholder has certified to such nominee that such Beneficial Bondholder has cast the same vote for such Class of Claims, and such nominee will disclose such other accounts or registered holders and such other Ballots;

EXHIBIT D

(ii) It is to be treated as the Beneficial Bondholder of the Claims for purposes of voting on the Plan, unless otherwise authorized by the Bankruptcy Court;

(iii) It has properly disclosed (a) the number of such Beneficial Bondholders, (b) the respective amounts and issues of the bonds owned, as the case may be, by each such Beneficial Bondholder, (c) each Beneficial Bondholder's respective vote concerning the Plan, (d) the customer account or other identification number for each such Beneficial Bondholder; and

(iv) It will maintain Ballots returned by Beneficial Bondholder (whether properly completed or defective) for disclosure to the Bankruptcy Court or the Debtors if so ordered.

Dated: _____

Name of Voter: _____
(Print or Type)

Social Security or Tax I.D. No. ¹ _____

Signature _____

By: _____
(If Appropriate)

Title: _____
(If Appropriate)

**THIS MASTER BALLOT MUST BE RECEIVED BY
THE BALLOT TABULATION CENTER**

**PATHNET TELECOMMUNICATION INC. AND PATHNET INC.
c/o ROBERT L. BERGER & ASSOCIATES, LLC,
PMB 1009
10351 SANTA MONICA BLVD. SUITE 101A
LOS ANGELES, CA 90025**

**By 4:00 P.M. PREVAILING PACIFIC TIME
ON OR BEFORE _____, OR THESE VOTES WILL NOT BE COUNTED**

¹ If Social Security or Tax I.D. No. is not provided, the Debtors may be required to withhold amounts from any distributions in accordance with applicable law.

VOTING INSTRUCTIONS

1. The Debtors are soliciting the votes of holders of Class 3 Claims with respect to the Plan referred to in the Disclosure Statement (a copy of which is attached hereto). All capitalized terms used in the Master Ballot or in these instructions but not otherwise defined herein shall have the meaning ascribed to such terms in the Voting Procedures Order, the Disclosure Statement, and the Plan, all included in Solicitation Package.
2. The Plan can be confirmed by the Bankruptcy Court, and therefore made binding on all holders, if it is accepted by the holders of two-thirds in amount and more than one-half in number of claims in each impaired class voting on the Plan. To have the Ballots of your Beneficial Bondholders count, you must complete and return this Master Ballot.
3. You should deliver the Ballot and other documents relating to the Plan, including the Disclosure Statement (collectively, the "Solicitation Materials"), to each Beneficial Bondholder of Class 3 Claims and take any action required to enable each such Beneficial Holder to timely vote the Class 3 Claims held by such Beneficial Bondholder. With regard to any Ballots returned to you, to have the vote of your Beneficial Bondholder count, you must not later than 4:00 p.m. Prevailing Pacific Time on _____, 200__, subject to extension in the sole and absolute discretion of the Debtors (the "Voting Deadline"), (a) retain such Ballots in your files and transfer the requested information from each such Ballot onto the attached Master Ballot, (b) execute the Master Ballot and (c) deliver such Master Ballot to the Balloting Agent. Please keep any records of the Ballots received from Beneficial Bondholders until six months after the Effective Date of the Plan (or such other date as is set by subsequent Bankruptcy Court order). You may be ordered to produce the Ballots to the Debtors or Bankruptcy Court.
4. The Master Ballot is not a letter of transmittal and may not be used for any purpose other than to vote to accept or reject the Plan and to determine the alleged amount of a Beneficial Bondholder's Claim. Accordingly, Holders of Class 3 Claims should not surrender instruments or certificates representing or evidencing their Class 3 Claims, and neither the Debtors nor the Balloting Agent will accept delivery of such instruments or certificates surrendered together with a Ballot. The remittance of your instruments or other evidence of your claims for exchange pursuant to the Plan may only be made by you, and will only be accepted if instruments or certificates representing your Class 3 Claims (in proper form for transfer) are delivered together with a letter of transmittal that will be furnished to you as provided under the Plan or as notified following confirmation of the Plan by the Bankruptcy Court.
5. This Ballot does not constitute, and shall not be deemed to be, a proof of claim or equity interest or an assertion or admission of a claim or equity interest.
6. The following Ballots shall not be counted in determining the acceptance or rejection of the Plan: (a) any Ballot that is illegible or contains insufficient information to permit the identification of the creditor; (b) any Ballot cast by a person or entity that does not hold a claim in a class that is entitled to vote on the Plan; (c) any Ballot cast for a claim scheduled as unliquidated, contingent or disputed for which no proof of claim was timely filed; and (d) any unsigned Ballot.
7. To properly complete the Master Ballot take the following steps:
 - a. Provide appropriate information for each of the items on the Master Ballot. Please note that Item 3 requests information for each individual Beneficial Bondholder for whom you hold Class 3 Claims in your name. To identify such Beneficial Bondholders, please use the customer name and account number assigned by you to each such Beneficial Bondholder.
 - b. Sign and date your Master Ballot.
 - c. If you are completing this Master Ballot on behalf of another entity, state your title with such entity.

EXHIBIT D

- d. Provide your name and mailing address if different from the preprinted address on the Master Ballot or if no preprinted address appears on the Master Ballot.
 - e. Deliver the Master Ballot to the Balloting Agent prior to the Voting Deadline.
 - f. If you are both the registered holder and Beneficial Bondholder of any of the Class 3 Claims and you wish to vote such 3 Claims, you should return a Ballot for the Claims for which you are a Beneficial Bondholder and a Master Ballot for the Claims for which you are registered holder.
8. **If a Ballot is received after the Voting Deadline, it will not be counted. The method of delivery of a Master Ballot to the Balloting Agent is at the election and risk of each entity.** Except as otherwise provided herein, such delivery will be deemed made only when the original executed Master Ballot is actually RECEIVED by the Balloting Agent. Instead of effecting delivery by mail, it is recommended, though not required, that such entities use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery. **Delivery of a Master Ballot by facsimile, e-mail or any other electronic means will not be accepted. No Master Ballot should be sent to the Debtors, the Bond Trustee, or the Debtors' financial or legal advisors.**
9. The Ballot must be returned in sufficient time to allow it to be RECEIVED by the Balloting Agent no later than 4:00 p.m., Prevailing Pacific Time, on the Voting Deadline. If you believe you have received the wrong Ballot, please contact the Balloting Agent or your broker or bank immediately.
10. No fees or commissions or other remuneration will be payable to any broker, dealer or other person for soliciting Ballots accepting the Plan.

IF YOU HAVE ANY QUESTIONS REGARDING THIS BALLOT
OR THE VOTING PROCEDURES
PLEASE CONTACT THE BALLOTING AGENT
ROBERT L. BERGER & ASSOCIATES, LLC,
PMB 1009
10351 SANTA MONICA BLVD. SUITE 101A
LOS ANGELES, CA 90025
(818) 789-3572

NOTING CONTAINED HEREIN OR IN THE ENCLOSED DOCUMENTS SHALL RENDER YOU OR ANY OTHER PERSON, THE AGENT OF THE DEBTORS OR THE INFORMATION AGENT, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENTS ON BEHALF OF ANY OF THEM WITH RESPECT TO THE PLAN, EXCEPT FOR THE STATEMENTS CONTAINED IN THE DOCUMENTS ENCLOSED HEREWITH.

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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS,	)	Case Nos. 01-12264-SSM
INC., <u>et al.</u>	)	and 01-12265-SSM
)	
Debtors.	)	Jointly Administered

**NOTICE OF (1) HEARING TO CONFIRM JOINT LIQUIDATING
PLAN OF PATHNET TELECOMMUNICATIONS, INC. AND
PATHNET, INC.; (2) OBJECTION AND VOTING DEADLINES;
AND (3) SOLICITATION AND VOTING PROCEDURES**

PLEASE TAKE NOTICE that the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division) (the “**Bankruptcy Court**”) has approved by Order dated January __, 2002 (the “**Voting Procedures Order**”), the Disclosure Statement for the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Disclosure Statement**”) as containing adequate information within the meaning of Section 1125 of the Bankruptcy Code.

PLEASE TAKE FURTHER NOTICE that, pursuant to the Voting Procedures Order, the Court has also approved, among other things, the procedures to be utilized in connection with soliciting votes on the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Plan**”) filed by the above-captioned debtors and debtors-in-possession (collectively, the “**Debtors**”) and the Official Committee of Unsecured Creditors (the “**Committee**”), and has approved the forms of ballots, master ballots and related solicitation materials to be distributed to creditors, equity security holders and parties-in-interest, as applicable.

PLEASE TAKE FURTHER NOTICE that on _____, 2002 at _____.m. prevailing Eastern Time, a hearing (the “**Confirmation Hearing**”) to confirm the Plan will be held before the Bankruptcy Court.

PLEASE TAKE FURTHER NOTICE that pursuant to Section 1128 of the Bankruptcy Code and Bankruptcy Rules 3020, 9006 and 9019, the Bankruptcy Court has fixed _____, 2002 (the “**Objection Deadline**”), as the last day for any holder of a claim or equity interest or any other party-in-interest to file and serve written objections, if any, to confirmation of the Plan (a “**Confirmation Objection**”). Any Confirmation Objection must be in writing and (i) state the name and address of the objecting party and the amount of its claim or the nature of its interest held or asserted by the objecting party against the Debtors’ estates or property, (ii) state with particularity the basis and nature of

each objection, and (iii) filed with the Clerk of the United States Bankruptcy Court for the Eastern District of Virginia (Alexandria Division), 200 South Washington Street, Alexandria, Virginia 22314 together with proof of service thereof, and served upon (i) Covington & Burling, Counsel to the Debtors, 1201 Pennsylvania Avenue, N.W., Washington, D.C. 20004-7566, Attention: Michael St. Patrick Baxter, Esq.; (ii) Gold Morrison & Laughlin P.C., Local Counsel to the Debtors, 1660 International Drive, Suite 450, McLean, Virginia 22102-4848, Attention: H. Jason Gold, Esq.; (iii) Stroock & Stroock & Lavan LLP, Counsel to the Committee, 180 Maiden Lane, New York, New York 10038-4982, Attention: Lawrence M. Handelsman, Esq.; (iv) Vorys, Sater, Seymour and Pease LLP, Local Counsel to the Committee, 227 South Washington Street, Suite 310, Alexandria, Virginia 22314, Attention: Malcolm M. Mitchell, Jr., Esq.; and (v) Office of the United States Trustee, 115 S. Union Street, Suite 210, Alexandria, Virginia 22314, Attention: Jack I. Frankel, Esq. (collectively, the “**Notice Parties**”), so as to be **received** by the Notice Parties no later than 4:00 p.m. prevailing Eastern Time on the Objection Deadline.

PLEASE TAKE FURTHER NOTICE that any Confirmation Objection not filed and served as set forth in the preceding paragraph shall be deemed waived and shall not be considered by the Bankruptcy Court.

PLEASE TAKE FURTHER NOTICE that pursuant to the Voting Procedures Order, the Bankruptcy Court established January ___, 2002, as the record date (the “**Record Date**”) for purposes of determining which Holders of Claims and Interests are entitled to receive solicitation materials and, if applicable, vote to accept or reject the Plan.

PLEASE TAKE FURTHER NOTICE that any party in interest having questions about solicitation procedures may request such information by writing to Robert L. Berger & Associates, LLC (the “**Balloting Agent**”), PMB 1009, 10351 Santa Monica Blvd. Suite 101A, Los Angeles, California 90025 or by telephone (818) 789-3572. Pursuant to the Voting Procedures Order, the Debtors have distributed certain materials to, among others, those parties entitled to vote to accept or reject the Plan (the “**Solicitation Package**”), which includes (i) the Disclosure Statement; (ii) the Plan; (iii) the appropriate ballot (with voting instructions); (iv) this Notice containing relevant dates and deadlines; and (v) the Voting Procedures Order. Certain holders of claims who are not entitled to vote on the Plan may receive this Notice and a Notice of Non-Voting Status. In the voting instructions contained in each ballot, creditors will be instructed to complete all required information on the ballot, execute the ballot and return the completed ballot to the Balloting Agent such that the ballot is **received** by the Balloting Agent by 4:00 p.m., prevailing Pacific Time, on or before _____ (the “**Voting Deadline**”). Except to the extent the Debtors so determine, or as permitted by the Bankruptcy Court, ballots received after the Voting Deadline will not be accepted or counted by the Debtors in connection with the Debtors’ request for confirmation of the Plan. Any failure to follow the voting instructions included with the relevant ballot may disqualify that ballot and the corresponding vote.

PLEASE TAKE FURTHER NOTICE that any ballot that (i) does not indicate either an acceptance or rejection of the Plan, or (ii) indicates both an acceptance and a rejection of the Plan, shall be deemed as a vote to accept the Plan.

PLEASE TAKE FURTHER NOTICE that claims or equity interests that are subject to an objection filed before January ____, 2002, are not entitled to vote on the Plan. If a holder of a claim or equity interest disagrees with the Debtors' classification of, or objection to, a claim or equity interest and believes that such holder should be entitled to vote on the Plan, then the holder must file with the Bankruptcy Court and serve on the Debtors and the Committee a motion (with all evidence in support thereof) for an order pursuant to Bankruptcy Rule 3018(a) ("**Rule 3018(a) Motion**") temporarily allowing such claim or equity interest in a specified amount solely for the purpose of accepting or rejecting the Plan and such motion must be adjudicated prior to the Confirmation Hearing. Creditors may contact the Balloting Agent to receive a ballot for any claim for which a proof of claim and Rule 3018(a) Motion has been timely filed. Rule 3018(a) Motions that are not timely filed and served in a manner as set forth above shall not be considered.

PLEASE TAKE FURTHER NOTICE that copies of the Plan and Disclosure Statement may be reviewed at the Office of the Clerk of the Bankruptcy Court, 200 South Washington Street, Alexandria, Virginia 22314 between the hours of 8:00 a.m. and 4:00 p.m., Monday through Friday (except for holidays). If you have any questions regarding materials relating to the Plan or the Disclosure Statement, or if you require additional information regarding the procedures for voting to accept or reject the Plan, or if you believe you are entitled to receive a Solicitation Package and are not otherwise listed on the Debtors' Schedules, please contact the Balloting Agent.

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*Local Counsel for the Official Committee of
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Dated: January ____, 2002

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**UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

In re:)	
	)	Chapter 11
PATHNET TELECOMMUNICATIONS, INC., <u>et al.</u>	)	Case Nos. 01-12264 - SSM and 01-12265-SSM
)	
Debtors.	)	Jointly Administered

**ORDER (1) APPROVING PROPOSED DISCLOSURE STATEMENT;
(2) SCHEDULING HEARING TO CONFIRM JOINT PLAN
OF LIQUIDATION OF PATHNET TELECOMMUNICATIONS, INC. AND
PATHNET, INC.; (3) ESTABLISHING PLAN OBJECTION DEADLINE;
(4) APPROVING FORM OF BALLOTS, VOTING DEADLINE AND
SOLICITATION PROCEDURES; AND (5) APPROVING FORM OF NOTICE**

Upon the motion (the “**Motion**”)¹ of Pathnet Telecommunications, Inc. (“**PTI**”), Pathnet, Inc. (“**PNI**”) (collectively, the “**Debtors**”), and the Official Committee of Unsecured Creditors (the “**Committee**”), pursuant to Sections 1125, 1126(b) and 1128(a) of the Bankruptcy Code and Rules 2002, 3017, 3018, 3020 and 9005 of the Federal Rules of Bankruptcy Procedure, seeking, among other things, an order

¹ Capitalized terms not defined in this Order shall have the meanings given to them in the Motion.

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(1) approving the proposed disclosure statement (the “**Disclosure Statement**”) to the Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc. (the “**Plan**”) proposed by the Debtors and the Committee (collectively, the “**Plan Proponents**”), (2) scheduling a hearing to consider confirmation of the Plan; (3) establishing deadlines and procedures for filing objections to confirmation of the Plan; (4) establishing solicitation, voting and tabulation procedures and deadlines, and (5) approving the form and manner of notice; and, it appearing that proper and timely notice of the hearing has been given; and it appearing that such notice was adequate and sufficient; and this Court having determined, after hearing on notice and due deliberation, that the Disclosure Statement contains adequate information within the meaning of Section 1125 of the Bankruptcy Code;

NOW, THEREFORE, IT IS HEREBY ORDERED, that the Motion is granted; and it is further

ORDERED, that the Disclosure Statement is hereby approved as containing adequate information pursuant to Section 1125(a) of the Bankruptcy Code and Bankruptcy Rule 3017(b); and it is further

ORDERED, that a hearing shall be held on _____, 2002 at _____.m. prevailing Eastern Time, to consider confirmation of the Plan and any objections thereto (the “**Confirmation Hearing**”); and it is further

ORDERED, that, pursuant to Bankruptcy Rule 3017(c), objections, if any, to confirmation of the Plan shall be filed with the Court so as to be received by the Clerk of the Court on or before at 4:00 p.m. prevailing Eastern Time, 20 days before the Confirmation Hearing (the “**Plan Objection Deadline**”); and it is further

ORDERED, that objections to confirmation of the Plan be filed with the Court and served in a manner so that it is received on or before the Plan Objection Deadline, on the following:

<i>Counsel for the Debtors and Debtors in Possession:</i>	<i>Counsel for the Official Committee of Unsecured Creditors of the Debtors and Debtors in Possession:</i>
COVINGTON & BURLING 1201 Pennsylvania Avenue, N.W Washington, D.C. 20004-7566 Michael St. Patrick Baxter, Esq. Dennis B. Auerbach, Esq. Andrew P. Rittenberg, Esq.	STROOCK & STROOCK & LAVAN LLP 180 Maiden Lane New York, New York 10038-4982 Lawrence M. Handelsman, Esq. Robert A. Raskin, Esq. Lisa C. Takoudes, Esq.
<i>Local Counsel for the Debtors and Debtors in Possession:</i>	<i>Local Counsel for the Official Committee of Unsecured Creditors of the Debtors and Debtors in Possession:</i>
GOLD MORRISON & LAUGHLIN P.C. 1660 International Drive, Suite 450 McLean, Virginia 22102-4848 H. Jason Gold, Esq. Alexander M. Laughlin, Esq.	VORYS, SATER, SEYMOUR AND PEASE LLP 227 South Washington Street, Suite 310 Alexandria, Virginia 22314 Malcolm M. Mitchell, Jr., Esq.
<i>Office of the United States Trustee:</i>	
Office of the United States Trustee 115 S. Union Street Suite 210 Alexandria, Virginia 22314 Jack I. Frankel, Esq.	

ORDERED, that the Debtors and the Committee may file a response, if any to any objection to confirmation of the Plan five days before the Confirmation Hearing; and it is further

ORDERED, that (a) the Court will only consider written objections filed and served by the Plan Objection Deadline; (b) all objections shall state with particularity the basis and nature of each objection; and (c) objections not timely filed and served in accordance with the provisions of this Order are overruled; it is further

ORDERED, that the Solicitation Procedures set forth in the Motion (only some of which are set forth below) are adequate, sufficient and proper, and are hereby approved in their entirety; provide, however, that the Plan Proponents reserve the right to modify, amend or supplement the Solicitation Procedures, subject to Court approval; and it is further

ORDERED, that the form of Ballots are hereby approved and all votes to accept or reject the Plan must be cast by using the appropriate Ballot as the case may be, the forms of which are exhibits to the Motion; and it is further

ORDERED, that all Ballots accepting or rejecting the Plan must be received by balloting agent by no later than 4:00 p.m. prevailing Pacific Time, five days before the Confirmation Hearing (the “**Voting Deadline**”); and it is further

ORDERED, that pursuant to Bankruptcy Rule 3017(d), the date of the Disclosure Statement Hearing shall be the record date (the “**Record Date**”) for purposes of determining which creditors and equity security holders are entitled to vote on the Plan; and it is further

ORDERED, that the form and substance of the Solicitation Packages and their contents are hereby approved. The Solicitation Packages shall include the following materials (to the extent applicable as set forth in the Motion): the Disclosure Statement;

the Plan, the appropriate Ballot(s) and voting instructions, the Confirmation Hearing Notice, this Order and any supplemental solicitation materials; and it is further

ORDERED, that the contents of the Solicitation Package and the procedures for providing notice of the Confirmation Hearing and other matters as set forth in the Voting Procedures are hereby approved as complying with the provisions of the Bankruptcy Code and the Bankruptcy Rules, including section 1125(e) and Bankruptcy Rules 2002 and 3017, and constitute sufficient notice to all creditors and interested parties in accordance with the Bankruptcy Code, the Bankruptcy Rules and the Local Rules; and it is further,

ORDERED, that consistent with sections 1126(f) and (g) of the Bankruptcy Code and Bankruptcy Rule 3017(d), Solicitation Packages delivered to certain creditors, whose claims are not classified in accordance with 11 U.S.C. § 1123(a)(1) or who are not entitled to vote because they are deemed to accept or reject the Plan under 11 U.S.C. §§ 1126(f) or (g) may not include the Ballots; and it is further

ORDERED, that the Plan Proponents are authorized to limit the distribution of the Solicitation Packages to all persons or entities entitled to vote on the Plan, the Office of the United States Trustee, and any person or entity specifically requesting a Solicitation Package; and it is further

ORDERED, that in tabulating votes, the following hierarchy shall be used to determine the claim amount associated with a creditor's vote:

- (a) the claim amount temporarily allowed by court order for voting purposes, pursuant to Bankruptcy Rule 3018(a), after notice and a hearing pursuant to the Voting Deadline;
- (b) the claim amount contained on a proof of claim that has been timely filed (or deemed timely filed by the Court under applicable law); -

(c) the claim amount listed on the Debtors' schedules of liabilities provided that such claim is not scheduled as contingent, disputed or unliquidated; and

(d) in the absence of any of the foregoing, zero;

provided, however, that the claim amount pursuant to this hierarchy shall control for voting purposes only and not constitute the allowed amount of any claim for purposes of distribution; and it is further

ORDERED, that if a creditor casts a Ballot and (a) the creditor has not timely filed a proof of claim (or has otherwise had such proof of claim deemed timely filed by the Court under applicable law) and is listed on the Debtors' Schedules as holding a claim that is contingent, unliquidated or disputed or (b) the creditor has filed a proof of claim and the entirety of the creditor's claim is the subject of an objection to said claim filed before the Record Date, such Ballot shall not be counted in accordance with Bankruptcy Rule 3018, unless temporarily allowed by the Court for voting purposes, after notice and a hearing, in compliance with Bankruptcy Rule 3018; and it is further

ORDERED, that Ballots cast by creditors whose claims are not listed on the Debtors' Schedules, but who timely file proofs of claim in unliquidated or unknown amounts that are not the subject of an objection filed before the Record Date will count for satisfying the numerosity requirement of section 1126(c) of the Bankruptcy Code and will count as ballots for Claims in the amount of \$1.00 solely for the purposes of satisfying the dollar amount provision of section 1126(c); and it is further

ORDERED, that the Debtors are authorized to use the following voting procedures and standard assumptions in tabulating ballots:

- a. Except to the extent the Debtors so determine, or as permitted by the Court, Ballots received after the Voting Deadline will not be accepted or counted.

in connection with the Plan Proponents' request for confirmation of the Plan;

- b. The method of delivery of Ballots to be sent to the balloting agent is at the risk of each creditor, but, except as otherwise provided in the Disclosure Statement, such delivery will be deemed made only when the original executed ballot is actually received by the balloting agent by the Voting Deadline.
- c. Delivery of a Ballot by facsimile, email or any other electronic means will not be accepted;
- d. No Ballot should be sent to any of the Debtors, the Committee, the Bond Trustee, or their respective financial or legal advisors, and, if so sent, it will not be accepted;
- e. If multiple Ballots are received from an individual creditor with respect to the same claims or equity interests prior to the Voting Deadline, the last ballot timely received will be deemed to reflect the voter's intent and to supersede and revoke any prior Ballot;
- f. Creditors must vote all of their claims or equity interests within a particular Plan class either to accept or reject the Plan and may not split their vote. Accordingly, a Ballot that partially rejects and partially accepts the Plan will not be counted;
- g. If a Ballot is signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, such persons should indicate such capacity when signing and, unless otherwise determined by the Debtors, must submit proper evidence satisfactory to the Debtors to so act on behalf of a beneficial interest holder;
- h. The Debtors, in their sole discretion, subject to contrary order of the Court, may waive any defect in any Ballot at any time, either before or after the close of voting, and without notice. Except as otherwise provided herein, unless the Ballot being furnished is timely submitted on or prior to the Voting Deadline, the Debtors may, in their sole discretion, reject such Ballot as invalid and, therefore, decline to utilize it in connection with confirmation of the Plan;
- i. In the event a designation of lack of good faith is requested under Section 1126(e) of the Bankruptcy Code, any vote to accept or reject the Plan cast with respect to such claim will not be counted for purposes of determining whether the Plan has been accepted or rejected, unless the Court orders otherwise;

- j. Unless otherwise ordered by the Court, all questions as to the validity, form, eligibility (including time of receipt) and revocation or withdrawal of Ballots will be determined by the Debtors in their sole discretion, after consultation with the Committee, which determination shall be final and binding;
- k. Subject to any contrary order of the Court, the Debtors reserve the right to reject any and all Ballots not proper in form, the acceptance of which, in the opinion of the Debtors or their counsel, after consultation with the Committee, would not be in accordance with the provisions of the Bankruptcy Code or the Bankruptcy Rules;
- l. Subject to any contrary order of the Court, the Debtors further reserve the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot;
- m. The Debtors' interpretation of the terms and conditions of the Plan, after consultation with the Committee, shall be final and binding on all parties, unless otherwise directed by the Court. The Debtors further reserve the right to withdraw or amend the Plan at any time;
- n. Unless waived or as ordered by the Court, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtors in their sole discretion (or the Court) determine;
- o. Neither the Debtors, nor any other person or entity, will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liability for failure to provide such notification. Unless otherwise directed by the Court, delivery of such defective or irregular Ballots will not be deemed to have been made until such defects or irregularities have been cured or waived. Ballots previously furnished (and as to which any defects or irregularities have not theretofore been cured or waived) will not be counted;
- p. Any vote purportedly on behalf of an impaired class will not count for voting purposes unless and until the class is certified by the Court pursuant to a class proof of claim to which no objection has been filed, or if an objection has been filed to such a proof of claim, which has been temporarily certified for purposes of voting in an allowed amount;
- q. If a claim has been estimated or otherwise allowed for voting purposes by final order of the Bankruptcy Court, such Claim shall be temporarily allowed in the amount so estimated or allowed by the Bankruptcy Court for voting purposes only, and not for purposes of allowance or distribution;
- r. Any Ballot that is properly completed, executed and timely returned to the balloting agent but does not indicate acceptance or rejection of the Plan, or

indicates both an acceptance and a rejection of the Plan, will be deemed to be a vote to accept the Plan; and

- s. The following Ballots shall not be counted in determining the acceptance or rejection of the Plan: (i) any Ballot that is illegible or contains insufficient information to permit the identification of the creditor; (ii) any Ballot cast by a person or entity that does not hold a claim in a class that is entitled to vote on the Plan; (iii) any Ballot cast for a claim scheduled as unliquidated, contingent or disputed for which no proof of claim was timely filed; and (iv) any unsigned Ballot; and it is further

ORDERED, that the Debtors are authorized to use the following additional procedures as well as the aforementioned procedures set forth herein, in tabulating votes cast by the Voting Bondholders:

- a. The record date for determining the identity of the Voting Bondholder is the date of the Disclosure Statement Hearing;
- b. The Bond Trustee (unless otherwise empowered to do so) will not vote on behalf of the Voting Bondholders; rather, each such Voting Bondholder must submit his or her own Ballot;
- c. Any Nominee Bondholder which is a bondholder of record shall vote on behalf of the Beneficial Bondholder of such notes by (i) promptly distributing a copy of the Solicitation Package to all such Beneficial Bondholders for which it holds the notes, promptly collecting all such ballots from such Beneficial Bondholders, (iii) compiling and validating the votes of all its Beneficial Bondholders on the Master Ballot and (iv) transmitting the Master Ballot to the balloting agent prior to the Voting Deadline;
- d. Any Beneficial Bondholder holding notes or other securities as a record holder in its own name should vote on the Plan by completing and signing a Ballot and returning it to the balloting agent on or before the Voting Deadline;
- e. Any Beneficial Bondholder holding notes or other securities in "street name" through a Nominee Bondholder should vote on the Plan through such Nominee Bondholder by completing and signing the Ballot and returning such Ballot to the respective Nominee Bondholder as promptly as possible and in sufficient time to allow such Nominee Bondholder to process the Ballot and return it to the balloting agent prior to the Voting Deadline;

- f. Any Ballot returned to a Nominee Bondholder by a Beneficial Bondholder will not be counted for purposes of accepting or rejecting the Plan until such Nominee Bondholder properly completes and delivers to the balloting agent a Master Ballot that reflects the vote of such Beneficial Bondholder;
- g. If a Beneficial Bondholder holds notes through more than one Nominee Bondholder, such Beneficial Bondholder may receive more than one Ballot, and each such Beneficial Bondholder should execute a separate Ballot for each block of notes that it holds through any Nominee Bondholder and return the Ballot to the respective Nominee Bondholder that holds the notes in record name; and
- h. If a Beneficial Bondholder holds a portion of its notes through a Nominee Bondholder and another portion in its own name as the record holder, such Beneficial Bondholder should follow the procedures described in the previous decretal paragraph to vote the portion held in its own name and the procedures described in this paragraph to vote the portion held by the Nominee Bondholder(s); and it is further

ORDERED, that the Debtors are excused from re-mailing Solicitation

Packages or Notices, as the case may be, that are returned as undeliverable; and it is further

ORDERED, that the Debtors be, and hereby are, authorized and

empowered to take such steps and perform such acts as may be necessary to implement and effectuate the terms of this Order; and it is further

ORDERED, that the Court shall retain jurisdiction to hear and determine

all matters arising from the implementation of this Order.

Dated: Alexandria, Virginia
January ____, 2002

HON. STEPHEN S. MITCHELL
United States Bankruptcy Judge

PREPARED BY:

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CERTIFICATION

I HEREBY CERTIFY that on this ____ day of _____, 2001, copies of the foregoing Order (1) Approving Proposed Disclosure Statement; (2) Scheduling Hearing to Confirm Joint Plan of Liquidation of Pathnet Telecommunications, Inc. and Pathnet, Inc.; (3) Establishing Plan Objection Deadline; (4) Approving Form of Ballots, Voting Deadline and Solicitation Procedures; (5) and Approving Form of Notice were mailed via first class mail postage pre-paid to

Malcolm M. Mitchell, Jr., Esquire
VORYS, SATER, SEYMOUR & PEASE, L.L.P.
227 South Washington Street, Suite 310
Alexandria, Virginia 22314

Jack I. Frankel, Esquire
OFFICE OF THE UNITED STATES TRUSTEE
115 South Union Street, Suite 210
Alexandria, Virginia 22314

in accordance with the Administrative Order Regulating Notice of Entry of Certain Orders dated June 22, 2001.

ON BEHALF OF THE CLERK OF COURT, I FURTHER CERTIFY that copies of this entered Order will be mailed by the Balloting Agent via first class mail postage pre-paid all creditors and the parties in interest

Alexander M. Laughlin