

1 Mark J. Giunta (#015079)  
Law Office of Mark J. Giunta  
2 845 N. Third Ave.  
Phoenix, AZ 85003-1408  
3 Phone: (602) 307-0837  
Fax: (602) 307-0838  
4 Email: Mark.Giunta@Azbar.org  
Attorney for visitalk.com, Inc.

5  
6 IN THE UNITED STATES BANKRUPTCY COURT  
7 FOR THE DISTRICT OF ARIZONA

8 In re:	Chapter 11 Proceeding
9 VISITALK.COM, INC., Debtor	Case No. 00-13035-PHX-RTB
10 Tax I.D. #86-0930147	

11  
12 **DISCLOSURE STATEMENT**  
13 **DATED JUNE 22, 2004 IN SUPPORT OF**  
14 **THE PROPOSED SECOND JOINT PLAN OF REORGANIZATION**

15 visitalk.com, Inc., an Arizona corporation (“*Visitalk*”), the Debtor and Debtor-in-  
16 Possession (the “*Proponent*”) in the above-captioned case; hereby proposes a Joint Plan of  
17 Reorganization (“*Plan*”) pursuant to 11 U.S.C. §1129 with affiliates formed or to be formed  
18 before the Effective Date; Visitalk, Inc., d/b/a VT Equities Corp., (“*VTEC*”), VT Consumer  
19 Services (“*CSF*”), VT Business Products, Inc. (“*BPI*”), VT Gaming Services, Inc. (“*Gaming*”),  
20 VT Financial Services, Inc. (“*Financial*”), VT International Corp. (“*International*”), VT Billing  
21 Services, Inc. (“*Billing*”), VT Marketing Services, Inc. (“*Marketing*”), VT Video Services, Inc.  
22 (“*Video*”), VT Language Specific One, Inc., through VT Language Specific Ten, Inc. (jointly  
23 “*Languages 1-10*”), and NavEdge Networks, Inc. (“*NavEdge*”). The Proponent, VTEC, CSI,  
24 BPI, Gaming, Financial, International, Billing, Marketing, Video, Languages 1-10 and NavEdge  
25 are referred to in the Plan following as the “*Co-Proponents*.” The Co-Proponents have prepared  
this Disclosure Statement to assist them with the solicitation of acceptances of the Plan.

1 Capitalized terms in this Disclosure Statement have the same meaning as Appendix A to the  
2 Plan. The Plan is attached as Exhibit “1” hereto.

3  
4 **INDEX TO THE AMENDED DISCLOSURE STATEMENT**

Article		Page
5		
6	I	Deadline For The Receipt Of Ballots 4
7	II	Deadline For Filing Proofs Of Claim Regarding Executory Contracts 5
8	III	Date And Time Of Hearing Of Confirmation 5
9	IV	Introduction To The Disclosure Statement 6
10	V	Disclaimers And Warnings 7
11	VI	Voting 11
12	VII	Pre Petition Description Of The Debtor And Its Operations 15
13	VIII	Events Leading To Chapter 11 Filing 24
14	IX	Post-Petition Operations 25
15	X	Summary Of Issues Pertaining To The Debtor’s NOL 29
16	XI	Summary Of The Business Plan Of The Reorganized Debtor 34
17		A. Objective Of The Reorganization 34
18		B. Plan Concept 35
19		C. Post Confirmation Business Plans 35
20	XII	Summary Of The Plan 46
21	XIII	Risk Factors Associated With The Confirmation Of The Plan 70
22	XIV	Tax Consequences 94
23	XV	Alternative To The Plan 95
24	XVI	Modification Of The Plan 96
25	XVII	Remedies For Defaults By The Reorganized Debtor 96
	XVIII	Retention Of Bankruptcy Court Jurisdiction 97
	XIX	Recommendation Of Co-Proponents. 98

**LIST OF EXHIBITS**

**EX No.**

1. Plan of Reorganization
2. Debtor's Financial Information Statement for the periods ending April 30, 2004
3. Liquidation Analysis
4. Executory Contracts and Leases Assumed
5. Qualifications of Directors and Officers
6. Litigation pending against the Debtor





1 **ARTICLE IV**  
2 **INTRODUCTION TO THE DISCLOSURE STATEMENT.**

3 Unless otherwise defined, the terms used in this Disclosure Statement have the same  
4 meanings as those terms have in the Bankruptcy Code, 11 U.S.C. §§ 101, et seq. (the “Code”), or  
5 as those terms have in the Federal Rules of Bankruptcy Procedure, promulgated pursuant to 28  
6 U.S.C. § 2075 or in the Plan. To clarify the presentation in this Disclosure Statement, the Debtor  
7 is referred to as “*Visitalk*” when it pertains to pre-petition events, the “*Debtor*” when it pertains  
8 to events during the pendency of the bankruptcy and the “*Reorganized Debtor*” when it pertains  
9 to plans of the Debtor after the bankruptcy is confirmed.

10 This Disclosure Statement is being submitted by the Co-Proponents which include, both  
11 **visitalk.com, Inc.**, who is the Debtor and Debtor in Possession, and certain affiliates of the  
12 Debtor specified herein, i.e. the Co-Proponents. The Co-Proponents have promulgated this  
13 Second Disclosure Statement in accordance with section 1125 of the Code for the purpose of  
14 soliciting acceptances of the Plan from holders of impaired claims and equity interests. This  
15 Disclosure Statement has been compiled to incorporate “adequate information” to enable  
16 Creditors and “Equity Interest Holders” to make an informed judgment as to whether they should  
17 vote to accept or reject the Plan and for other creditors of the Debtor to understand their  
18 proposed treatment under the Plan.  
19

20 The Bankruptcy Court will approve this Disclosure Statement on the date of the Order  
21 Approving Disclosure Statement as containing information of a kind, and in sufficient detail,  
22 adequate to enable a hypothetical, reasonable investor typical of each of the classes of claims and  
23 interests being solicited to make an informed judgment whether to vote to accept or reject the  
24 Plan.  
25



1 EXAMINE THE DOCUMENTS THEMSELVES AND TO USE THE DESCRIPTIONS OF  
2 DOCUMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ONLY AFTER  
3 HAVING CONDUCTED SUCH AN EXAMINATION.

4 NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR,  
5 INCLUDING, WITHOUT LIMITATION, ITS FUTURE BUSINESS OPERATIONS, THE  
6 VALUE OF ITS PROPERTY, OR THE VALUE OF SECURITIES TO BE ISSUED  
7 PURSUANT TO THE PLAN ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS  
8 SET FORTH IN THIS DISCLOSURE STATEMENT. IN ARRIVING AT YOUR DECISION  
9 TO ACCEPT OR REJECT THE PLAN, YOU SHOULD NOT RELY UPON ANY  
10 REPRESENTATIONS OR INDUCEMENT MADE TO SECURE YOUR ACCEPTANCE OF  
11 THE PLAN WHICH ARE OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE  
12 STATEMENT. SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD  
13 BE REPORTED TO COUNSEL FOR THE DEBTOR, WHO, IN TURN, SHALL DELIVER  
14 SUCH INFORMATION TO THE COURT FOR SUCH ACTION AS MAY BE  
15 APPROPRIATE.

16  
17 EFFORTS HAVE BEEN MADE TO PREPARE ALL UNAUDITED FINANCIAL  
18 STATEMENTS THAT MAY BE CONTAINED IN THIS DISCLOSURE STATEMENT IN  
19 ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPALS.  
20 HOWEVER, AS TO ALL FINANCIAL STATEMENTS, THE CO-PROONENTS ARE  
21 UNABLE TO WARRANT OR REPRESENT THE ACCURACY OF THE INFORMATION  
22 CONTAINED IN THOSE STATEMENTS TO BE WITHOUT ERROR. COPIES OF THE  
23 LATEST AVAILABLE UNAUDITED FINANCIAL STATEMENTS OF THE DEBTOR FOR  
24 THE PERIOD ENDED May 31, 2004 ARE ATTACHED HERETO AS **EXHIBIT "2"**. ALL  
25



1 PRIOR REPORTS ARE AVAILABLE FOR VIEWING AT THE BANKRUPTCY COURT'S  
2 FILE ROOM.

3 AN INDEPENDENT, CERTIFIED PUBLIC ACCOUNTANT HAS NOT SUBJECTED  
4 THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT TO  
5 AN EXAMINATION. THE DEBTOR HAS KEPT RECORDS SUBSEQUENT TO THE  
6 FILING OF THE PETITION COMMENCING THIS CASE AND THE PROONENTS HAVE  
7 FILED MONTHLY FINANCIAL REPORTS WITH THE COURT SINCE THAT DATE.

8 THE LIQUIDATION ANALYSIS CONTAINED IN THIS DISCLOSURE  
9 STATEMENT ATTACHED AS **EXHIBIT "3"** WAS NEITHER COMPILED BY  
10 INDEPENDENT, CERTIFIED PUBLIC ACCOUNTANTS NOR SUBJECTED TO AN AUDIT  
11 OR EXAMINATION BY INDEPENDENT, CERTIFIED PUBLIC ACCOUNTANTS.

12 THE SECURITIES OF THE REORGANIZED DEBTOR AND THE OPERATING  
13 SUBSIDIARIES TO BE ISSUED PURSUANT TO THE PLAN HAVE NOT BEEN  
14 REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION NOR WITH  
15 ANY GOVERNMENTAL AGENCY UNDER THE LAWS OF ANY STATE. NEITHER THE  
16 SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE'S GOVERNMENTAL  
17 AGENCY HAS APPROVED OR DISAPPROVED SUCH SECURITIES OR PASSED UPON  
18 THE ADEQUACY OR ACCURACY OF THE FACTUAL INFORMATION CONTAINED IN  
19 THIS DISCLOSURE STATEMENT.  
20

21 **IF YOU ARE ENTITLED TO VOTE ON THE PLAN, YOU SHOULD DO SO.**

22 UNDER THE BANKRUPTCY CODE, DETERMINING THE OUTCOME OF BALLOTING  
23 ON THE PLAN REQUIRES A CALCULATION WHICH CONSIDERS THE VOTES OF  
24 THOSE CREDITORS AND EQUITY INTEREST HOLDERS WHO ACTUALLY VOTED ON  
25

1 THE PLAN. YOUR RIGHTS MAY BE AFFECTED EVEN IF YOU DO NOT VOTE ON THE  
2 PLAN. YOUR OPPORTUNITY TO HAVE THE OUTCOME YOU DESIRE WILL LIKELY  
3 BE ENHANCED IF YOU VOTE.

4 IN THE CASE OF POST-PETITION CLAIMANTS YOU ARE NOT REQUIRED TO  
5 VOTE BUT THE PLAN MAY EFFECT YOUR RIGHTS AND SO SHOULD BE REVIEWED  
6 IN ITS ENTIRETY.

7 NOTHING IN THIS DISCLOSURE STATEMENT OR THE PLAN LIMITS  
8 DEBTOR'S RIGHTS TO OBJECT TO ANY PROOFS OF CLAIMS OR INTERESTS FILED  
9 IN THIS CASE.

10 THE PLAN CONTEMPLATES THE ISSUANCE OF SECURITIES TO CREDITORS  
11 IN COMPLETE OR PARTIAL SATISFACTION OF THEIR CLAIMS. THE CO-  
12 PROPONENTS AND THEIR REPRESENTATIVES MAKE NO REPRESENTATIONS AS  
13 TO WHETHER ANY SECURITIES ISSUED PURSUANT TO THE PLAN, ONCE PLACED  
14 IN THE HANDS OF RECIPIENTS UNDER THE PLAN, MAY BE FREELY TRADED.

15 IT IS ADVISABLE FOR EACH RECIPIENT OF SECURITIES ISSUED PURSUANT  
16 TO THE PLAN TO CONSULT INDEPENDENT COUNSEL PRIOR TO SELLING THOSE  
17 SECURITIES. ALL CREDITORS AND EQUITY INTEREST HOLDERS ARE ALSO  
18 URGED TO CONSULT COUNSEL REGARDING TAX CONSEQUENCES OF THE PLAN  
19 AND, IN PARTICULAR, ANY TAX CONSEQUENCES OF RECEIVING SECURITIES  
20 UNDER THE PLAN.

21 BECAUSE THE CO-PROPONENTS DO NOT EXPRESS ANY OPINION AS TO THE  
22 TAX CONSEQUENCES OF THE PLAN, IN NO EVENT WILL THE CO-PROPONENTS,  
23 THEIR PRINCIPALS OR THE PROFESSIONAL ADVISORS THEY HAVE ENGAGED, BE  
24  
25

1 LIABLE IF, FOR ANY REASON, THE TAX CONSEQUENCES OF THE PLAN ARE NOT  
2 AS ANTICIPATED BY CREDITORS AND EQUITY INTEREST HOLDERS. CREDITORS  
3 AND EQUITY INTEREST HOLDERS MUST LOOK SOLELY TO AND RELY SOLELY  
4 UPON THEIR OWN ADVISORS AS TO THE TAX CONSEQUENCES OF THE PLAN.

5 **SPECIAL NOTE TO POST-PETITION CLAIMANTS**

6 THE PROPOSED PLAN PAYS ALL POST-PETITION CLAIMANTS EXCEPT  
7 ACTIVE PROFESSIONALS IN FULL THROUGH THE ISSUANCE OF SENIOR,  
8 UNSECURED NOTES DUE IN FIVE YEARS. ALL POST-PETITION CLAIMANTS MAY  
9 ELECT, IN THEIR SOLE DISCRETION, TO BE PAID BY EITHER A NOTE WITH  
10 ALTERNATIVE ATTRIBUTES OR BY THE ISSUANCE OF A NUMBER OF EQUITY  
11 SECURITIES IN THE REORGANIZED DEBTOR AS WELL AS ALL THE OPERATING  
12 SUBSIDIARIES. POST-PETITION CLAIMANTS MUST AFFIRMATIVELY ELECT SUCH  
13 ALTERNATIVE TREATMENT BY THE TIME BALLOTS ARE DUE.

14 **ARTICLE VI**  
15 **VOTING**

16 **A. Entities Entitled To Vote And Admonition To Vote If Eligible**

17 Only creditors and equity interest holders whose claims and interests have been both  
18 **allowed** for purposes of voting **and “impaired”** by the Plan are entitled to vote on the Plan. For  
19 a claim to be allowed for voting purposes, the claim must be listed in the Debtor’s Chapter 11  
20 schedules **and** must **not** be listed as “disputed”, “contingent” or “unliquidated”. If a claim is  
21 listed but shown as “disputed”, “contingent” or “unliquidated”, the holder of the claim will not  
22 be entitled to vote absent the timely filing of a proof of claim.  
23

24 If a claim is not listed or is listed as “disputed”, “contingent”, or “unliquidated”, the  
25 holder of the claim must file a proof of claim on or before the bar date set by the Court (or the

1 Debtor must file a proof of claim for that creditor as permitted by the Federal Rules of  
2 Bankruptcy Procedure) for that creditor to be entitled to vote. Moreover, no holder of a claim  
3 will be entitled to vote if any party in interest objects to that claim before balloting on the Plan or  
4 any Amended Plan occurs, unless the Bankruptcy Court enters a specific order allowing the  
5 claim for voting purposes.

6 For an equity interest to be allowed, the equity interest holder's asserted interest must  
7 appear in the Debtor's schedules or the holder of the equity interest must file a proof of interest  
8 before the bar date set by the Court (or the Debtor must do so for the interest holder as permitted  
9 by the Federal Rules of Bankruptcy Procedure), and the equity interest holder must be a record  
10 holder of the Debtor's securities on the date of the order approving this Disclosure Statement is  
11 entered on the Court's docket. In addition, no entity claiming to hold an equity interest may vote  
12 if any party in interest has objected to the allowance of the asserted interest prior to voting on the  
13 Plan or any Amended Plan, unless the Bankruptcy Court enters an order allowing the interest for  
14 voting purposes.

16 In addition to the foregoing criteria for voting eligibility, only creditors and equity  
17 interest holders whose claims or interests are "impaired" by the Plan (i.e., those whose claims or  
18 interests are altered or who will not receive the allowed amount of their claims in cash pursuant  
19 to the original terms of their agreements) are entitled to vote to accept or reject the Plan. Holders  
20 of claims or interests which are not "impaired" are deemed to have accepted the Plan as a matter  
21 of law.

23 If the claim or interest you hold has been classified in one of the impaired classes of  
24 claims or interests created by the Plan (see **Exhibit "1"**), it is important that you vote. In  
25 addition, if you hold more than one claim or interest classified as "impaired" under the Plan, it is

1 important that you vote with respect to **each** such claim or interest. **IF YOU FAIL TO VOTE,**  
2 **YOUR RIGHTS MAY BE JEOPARDIZED.**

3 **B. Voting Instructions**

4 After carefully reviewing this Disclosure Statement and its exhibits, vote to accept or  
5 reject the Plan on the enclosed ballot (or ballots) and mail or deliver it (or them) to the addresses  
6 identified below so that your ballot (or ballots) are **received by the bar date specified.**

7 All ballots must be signed and received prior to the deadline set forth in the Order  
8 Approving Disclosure Statement. Mail or deliver original ballots to:

9  
10 **Clerk**  
U.S. Bankruptcy Court  
11 District of Arizona  
2929 N. Central Avenue  
12 Phoenix, Arizona 85004

13 Also, mail or deliver copies of all ballots to the Debtor's attorneys at the following address:

14  
15 Mark J. Giunta, Esq.  
Law Office of Mark J. Giunta  
845 N. Third Ave.  
16 Phoenix, AZ 85003-1408  
17 Phone: (602) 307-0837  
Fax: (602) 307-0838

18  
19 AS MAIL DELAYS MAY OCCUR, IT IS IMPORTANT THAT THE BALLOT OR  
20 BALLOTS BE MAILED OR DELIVERED **WELL IN ADVANCE** OF THE BAR DATE  
21 SPECIFIED. BALLOTS RECEIVED AFTER THIS DATE MAY NOT BE COUNTED. Each  
22 creditor entitled to vote is to receive a ballot for each separately classified, impaired claim held.  
23 Each equity interest holder entitled to vote is also to receive a ballot. If you do not receive the  
24 required number of ballots, with your copy of the Court-approved disclosure statement, notify  
25

1 The Debtor's attorney immediately at the address noted above. **IT IS IMPORTANT FOR**  
2 **YOU TO CAST ALL BALLOTS WHICH YOU ARE ENTITLED TO VOTE.**

3 **C. The Results Of Balloting On The Plan Are Determined By Class.**

4 In general, a class of claims accepts the Plan if the creditors who vote to accept the Plan  
5 hold at least two-thirds (2/3) in dollar amount and constitute more than one-half (1/2) in number  
6 of the allowed claims in the class **actually voting** on the Plan. In general, a class of equity  
7 interests accepts the Plan if it is accepted by those who hold at least two-thirds (2/3) of the  
8 allowed interests in the class **actually voting** on the Plan.

9  
10 **D. Confirmation Based Upon Acceptance Of The Plan By All Impaired Classes.**

11 If each class of impaired claims and interests accept the Plan and the Plan is confirmed,  
12 the Plan will bind all holders of claims and interests, including those who did not vote and those  
13 who voted to reject the Plan.

14 **THE CO-PROONENTS RECOMMEND THAT ALL THOSE ENTITLED TO**  
15 **VOTE CAST THEIR BALLOTS TO ACCEPT THE PLAN.**

16 The Plan may also be confirmed if all impaired classes do not accept it, so long as the  
17 Plan is accepted by at least one class of impaired claims. Confirmation over the objections of  
18 one or more classes of claims or interests is called "cramdown".

19 **E. Confirmation Over The Objections Of One Or More Impaired Class.**

20 If the Plan is rejected by one or more impaired classes of claims or interests, the Plan or  
21 modification thereof may still be confirmed by the Court at the request of the Proponent. To  
22 grant such a request, the Court must find, among other things, that the Plan does not  
23 "discriminate unfairly" and is "fair and equitable" with respect to each rejecting, impaired class  
24 of claims or interests.  
25



1 as a software development company. Visitalk commenced operating its primary web site on a  
2 “Beta” basis in June 1999 and formally launched this site in October 1999. Prior to its Petition,  
3 Visitalk had never offered its products for sale and had, in essence, been testing them on  
4 consumer and business users since mid 1999. Visitalk had very limited operating revenues prior  
5 to its Petition.

6 To develop its products and services, Visitalk hired a staff of more than 150 people  
7 including approximately 40 software engineers. It had extensive administrative overhead and  
8 purchased very sophisticated accounting systems and equipment. It used outside consultants to  
9 install its Internet billing system and its accounting system at a significant cost.  
10

#### 11 **B. Visitalk’s Technology**

12 The Problem. Every device when connected to the Internet is assigned a unique number  
13 (an “*IP Address*”) that is used to find this device on the Internet. Most Internet users are  
14 assigned a IP Address which is newly established every time a user’s device connects to the  
15 Internet and occasionally changes while such device is connected (a “*Dynamic IP Address*”).

16 Visitalk’s Solution. Visitalk developed an Internet infrastructure which Visitalk believed  
17 would enable any device to easily locate and interact with any other device connected to the  
18 Internet. To facilitate this direct connection, Visitalk built a directory infrastructure and a  
19 comprehensive Internet communications portal for voice, video and data communications.  
20 Visitalk believed that its technology would, after additional development, be capable of  
21 connecting millions of IP network end-points and supporting a wide range of “*peer-to-peer*”  
22 applications, including but not limited to voice and video communications, real-time  
23 messaging/event notifications, and video conferencing services (the “*VT Directory*”). The  
24 complexity of the VT Directory lies in the requirement that the directory maintain Dynamic IP  
25



1 Addresses for more than 200,000,000 potential users, who are intermittently connected to the  
2 Internet. To put this complexity in perspective, imagine trying to place a phone call to someone  
3 if that person's phone number changed every time they were called. Visitalk believed its VT  
4 Directory would perform the role of "*directory assistance*" for IP Addresses.

5  
6 Visitalk's VT Directory infrastructure works by assigning a 12-digit Permanent  
7 Communications Number ("*PCN*") to uniquely identify each user or device. The VT Directory  
8 facilitates peer-to-peer connections by dynamically linking the PCN to the user's current IP  
9 Address. Each time a user connects to the Internet, the VT Directory stores their current IP  
10 Address and makes that user accessible to others through the VT Directory's search engine.  
11 Visitalk believed the design of its technology would enable the addition of new services and  
12 features to the VT Directory without requiring a change to the directory's core infrastructure.  
13 This structure is why the Visitalk's technology can be expanded to exploit peer-to-peer  
14 connectivity including the potential for interactive gaming, targeted message delivery, remote  
15 authentication services and other services and markets.

16  
17 In order for the VT Directory to keep track of a device's IP address, the device must,  
18 using Visitalk's proprietary software, constantly update the VT Directory with the device's  
19 current IP address. The device must also periodically inform the VT Directory that it is still  
20 connected to the Internet. This continuous updating produces a large number of requests to the  
21 VT Directory, which made it extremely difficult to build a directory capable of supporting  
22 millions of users. The VT Directory infrastructure centrally stores all user information and is  
23 fully accessible from any IP Address.

24 To solve this problem, Visitalk designed and built three software systems and an internal  
25 backbone that allows all these three systems to act as one application:

- 1 1. A proprietary directory infrastructure to store dynamic information (current IP  
2 address, device type, enabled software, etc.);
- 3 2. A proprietary directory infrastructure to store static information (name, city, state,  
4 PCN, etc.); and
- 5 3. A secure, scalable Internet billing system

6 Visitalk's Growth Opportunity. Visitalk believed that as peer-to-peer interaction over the  
7 Internet evolved, the capability of facilitating direct connections is essential.

### 8 **C. Pre-Petition Financing and Financial Commitments.**

9 During 1999, Visitalk raised approximately \$25,000,000 in the form of preferred stock  
10 from more than 400 individuals or private groups. In December 1999, Visitalk allegedly sold  
11 \$2,000,000 in preferred stock to China.com, Inc. and in January 2000 Visitalk allegedly sold  
12 \$15,000,000 in preferred stock to MP3.com, Inc. ("MP3"). Contemporaneously Visitalk entered  
13 into a customer advertising and solicitation program with MP3.

14 Visitalk interviewed numerous funding groups to either do an Initial Public Offering or a  
15 large private placement. In early 2000, Visitalk eventually selected Goldman Sachs and Wit  
16 Soundview to do a private equity placement. This private placement was originally targeted to  
17 raise \$100 million of new capital. Due to its confidence in attracting more funding, Visitalk  
18 committed to a 12 year lease on a 27,000 square foot office building, committed to more than  
19 \$1,000,000 in improvements to this building, purchased about \$900,000 of new furniture,  
20 installed both extensive internal cabling (about \$200,000) and a very sophisticated security  
21 system (more than \$100,000). Visitalk also leased a very sophisticated phone system with a  
22 purchase price of \$168,000. Lastly, Visitalk leased more than \$1,000,000 in new network  
23 equipment to construct a very sophisticated network operating center ("NOC") in its new  
24 building. Visitalk then transferred its operations to this new building in April 2000.

### 25 **D. Visitalk's Business Components And Opportunities**

1 The numerous components of Visitalk's business are described below and are material to  
2 the Plan structure:

3 1. Consumer Market. Visitalk originally designed its infrastructure to facilitate  
4 consumer communication services. As of the Petition Date, Visitalk had approximately 35,000  
5 users who routinely connected to the system via Visitalk's proprietary software (the  
6 "Connector"). These users did not pay for this service. Visitalk's plan was to make money on  
7 advertising or to charge fees for additional "premium" services that were never fully developed  
8 or introduced. Visitalk believed it had email addresses and extended profile information on more  
9 than 1,000,000 potential users that registered for its service at one time. Many of these users  
10 never used the system but were solicited to build a user base. Users of the Visitalk web site  
11 could access features such as:  
12

- 13 ■ Unlimited point-to-point voice, video and data calls on the Internet from any compatible  
14 computer or Internet-enabled device;
- 15 ■ Voice mail, picture mail, voice-enabled email and instant voice messaging;
- 16 ■ PC-to-Phone calling through a partner PC-to-Phone provider.
- 17 ■ Multi-point services for voice and video conferencing and data collaboration;
- 18 ■ Comprehensive directory search capabilities.

19 Some of the above services no longer work due to the limited development resources of the  
20 Debtor.

21 2. Business Market. Using the knowledge and experience gained through its  
22 consumer platform, Visitalk started to develop a sophisticated Business Services offering,  
23 targeted to medium and large corporations. This development was never completed. Visitalk  
24 believed that this service would have leveraged approximately 85% of its technology of the  
25 existing consumer offering, which Visitalk believed could be coupled with advanced corporate  
directory functionality, including click-to-call and robust directory search capabilities. Visitalk

1 established a few “beta” sites for this new product but the effort was terminated when the related  
2 employees were terminated.

3 3. Gaming Market. Visitalk had discussions with game machine manufacturers  
4 regarding interactive gaming over the Internet and services to facilitate multi-player games.

5 4. International Market. Visitalk had extensive discussions with both Asian and  
6 European groups interested in exploiting the Visitalk technology either via a private labeling or  
7 joint marketing arrangement. Included in offering for the international market will be the  
8 offerings of the proposed ten Operating Subsidiaries Languages 1-10. Each of the focused  
9 subsidiaries will be soliciting a operating “partner” who can coordinate translations, can provide  
10 language specific customer support and determine appropriate marketing plans to reach none  
11 English speaking potential users. The Debtor has been working with Vistarweb Hsipanos, LLC  
12 to develop a Spanish version of the Visitalk services. The specific arrangement to be made with  
13 any of these “partners” will be deferred until the Plan is confirmed.

15 5. Targeted message delivery Market. Visitalk had discussions with strategic  
16 partners regarding combining the VT Directory with corporate or partner content or allowing  
17 partners to use Visitalk’s VT Directory to access their members for targeted delivery without  
18 divulging a partner’s member information.

19 6. Video Mail Market. This would be an extension of the current Voice and Picture  
20 Mail offerings

22 7. Presence Detection. Visitalk believes its VT Directory may be used by other  
23 Internet entities who wish to employ presence detection for their application.

24 8. Billing. Visitalk believes that it can develop a business to assist the Operating  
25 Subsidiaries in the billing system requirements of the various businesses to be formed under the

1 Plan. This development was commenced but deferred for lack of funding. The licensee for the  
2 original billing system expired in 2001 and the value of the estimated \$1,500,000 in custom  
3 development done by Visitalk was lost.

4 9. Other future opportunities;

- 5 (a) Profile Sharing – sharing user profile information with other participating  
6 sites, eliminating the need for a member to enter their personal  
7 information more than once;  
8 (b) Appliance Control - facilitate connections/control over an increasing  
9 number of Internet controlled consumer devices;  
10 (c) Wireless IP / WAP devices;  
11 (d) Integration with IP PBX – providing a scalable, central directory to  
12 facilitate internal and external calling; and  
13 (e) International applications.  
14

15 **D. Principal Shareholders.**

16 The following table sets forth all shareholders known by Visitalk to be beneficial owners  
17 of more than five percent (5%) of Visitalk’s outstanding securities, the ownership of officers and  
18 directors as of the Petition Date on an as converted basis and the ownership of the Debtor’s  
19 current management. **Under the Plan, the Reorganized Debtor and the Co-Proponents will**  
20 **be owned by the unsecured creditors, creditors who have other administrative claims,**  
21 **persons who were and are post petition employees and the providers of funding to**  
22 **implement the Plan, all if they choose to be paid with securities issued under the Plan. No**  
23 **Visitalk (i.e. pre-Petition) Executive Officers will be involved with the Reorganized Debtor.**  
24  
25

**No shareholder of any class of equity will receive any distribution on account of their equity interest.**

<b>Beneficial Owner</b>	<b>Common Stock</b>	<b>Preferred Stock</b>	<b>Total Stock (d)</b>	<b>%</b>
<b>Current Management</b>				
Gerry Mayo (a)	22,000	34,664	56,664	.3
<b>Old Management</b>				
Peter Timmesch (b)	3,050,000		3,050,000	16.6
Michael O'Donnell (c)	3,050,000		3,050,000	16.6
<b>Major Shareholders</b>				
MP3 (Series E Preferred stock)		1,875,000	1,875,000	10.2
<b>TOTAL PRINCIPAL SHAREHOLDERS</b>	6,122,000	1,875,000	7,997,000	43.7
<b>Other shareholders</b>	1,311,211		1,311,211	7.2
<b>Preferred Shareholders</b>				
Series A		2,376,035	2,376,035	13.1
Series B		1,991,371	1,991,371	11.2
Series C		4,291,624	4,291,624	23.4
Series D		266,667	266,667	1.5
<b>Total shares</b>	7,433,211	10,883,291	18,316,502	100.0

**Footnotes to the table:**

- (a) Became President and sole Director on August 26, 2003.
- (b) Chief Executive Officer and a Director at formation.
- (c) President and Director at formation; Chief Executive Officer and sole Director until December 13, 2000.
- (d) Ignores 4,484,505 employee stock options which were forfeited after layoffs in 2000 and 2001.

**E. Assets Owned.**

The assets owned by Visitalk on the Petition Date and Visitalk's estimate of the value of those assets at that time were described in Visitalk's Chapter 11 Schedules and Statement of Financial Affairs filed with the Clerk of the Bankruptcy Court. In March 2001, the Debtor had

1 an appraisal of its equipment and furniture done and received an estimate of approximately  
2 \$740,000. Since the Petition, the Debtor has sold approximately \$250,000 worth furniture and  
3 equipment. The Debtor retained the balance of the equipment for its reorganized operations. If  
4 the Debtor had to liquidate, it believes that due to the collapse of the Internet funding market  
5 there is excess equipment and furniture available and, in addition, there has been significant  
6 technological obsolescence since 2000. Therefore, the actual amount the Debtor would receive  
7 for its remaining equipment in a liquidation may be substantially lower than historical prices on  
8 which the appraisal was based in 2001.

9  
10 The Debtor's assets also include certain Causes of Action and the Causes of Action  
11 Proceeds including, but not limited to: Avoidance actions, and causes of action arising from or  
12 related to breach of fiduciary duty, fraud, negligence, misrepresentation, conversion, breach of  
13 contract, fraudulent transfer, patent infringement, copyright violations, Lanham Act violations,  
14 computer fraud and abuse, securities laws violations, derivative claims, preference claims,  
15 misappropriation of trade secrets, unfair business practices, deceptive trade practices, unjust  
16 enrichment, indemnification and contribution fraudulent transfer claims arising from or related to  
17 former officers and directors, claims against D&O Insurance, potential claims and/or existing  
18 litigation involving MP3.com, Inc., i2v2.com, Inc., GN Netcom, Inc., and all proceeds of any of  
19 the foregoing.

20  
21 As a consequence of the NavEdge Sale, the Debtor sold the rights to certain of its  
22 technology assets.

23 The assets the Debtor owns as of the date of this Disclosure Statement and the Debtor's  
24 estimate of the current value of those assets are described in the "liquidation analysis" attached  
25 as **Exhibit "3"** to this Disclosure Statement.

1 **ARTICLE VIII**  
2 **EVENTS LEADING TO THE CHAPTER 11 FILING**

3 Despite the promise of Visitalk's technology, it never converted that promise to revenues  
4 and instead relied on successive rounds of equity sales to cover its expenses. Beyond a limited  
5 amount of advertising revenues, Visitalk had no pre-petition revenues.

6 In March 2000, when Visitalk was seeking \$100,000,000 in funding, the NASDAQ  
7 Composite (the "*Composite*") peaked at about 5,000. Between May 2000 and the November 29,  
8 2000 (the "*Petition Date*"), the Composite traded between 3,000 and 4,000. As of the date of  
9 this Disclosure Statement, the Composite is about 2,000. Due to the weak market conditions in  
10 March 2000, Visitalk's \$100,000,000 private placement offering was scaled back by its  
11 placement agents. The market continued to weaken and Visitalk's private placement was further  
12 scaled back to \$25,000,000 at a much lower "pre money" valuation. Eventually this private  
13 placement effort was withdrawn.

14 Visitalk reverted to its prior financing strategy and attempted to sell another round of  
15 preferred stock to individuals in mid 2000. Between August and October 2000, Visitalk raised  
16 about \$2,500,000 by selling unsecured, convertible debentures ("*Debentures*"). Visitalk planned  
17 another offering starting in October 2000 but this offering failed and the funds were returned.  
18 During the spring and summer of 2000 and thereafter unsecured debt and trade payables started  
19 to accumulate and Visitalk management was not aggressive in cutting its expenses. Debtor  
20 asserts that there were numerous inappropriate actions taken by certain Directors and Officers  
21 that contributed to and/or caused Visitalk's financial failure. The funding raised was insufficient  
22 to fund Visitalk and with no funds to pay its rent and about \$6,000,000 in vendor debt overdue  
23 (excluding its MP3 commitment) and in default of its unsecured debentures, Visitalk sought  
24  
25



1 protection under Chapter 11 on the Petition Date. Immediately prior to the filing of its Petition,  
2 all of the members of Visitalk's Board of Directors then resigned except Michael O'Donnell.

3  
4 **ARTICLE IX**  
**POST PETITION OPERATIONS**

5 **A. Post-Petition Developments And Operations.**

6 1. Post-petition Management of the Debtor.

7 On December 13, 2000, the then sole remaining officer and director of the Debtor,  
8 Michael O'Donnell appointed Mr. Rick Rothwell, a shareholder and Debenture holder, as a  
9 Director and the new President of the Debtor. Mr. O'Donnell then resigned. On August 26,  
10 2003, Mr. Rothwell appointed Gerry Mayo, a shareholder and an investor in the NVLG and the  
11 LLC as an officer and director of the Debtor and then resigned. As of the date of this Disclosure  
12 Statement, Mr. Mayo is the sole officer and director of the Debtor. Mr. Rothwell was paid  
13 \$15,000 per month but \$13,000 of that amount was deferred and could only be paid in stock of  
14 the Reorganized Debtor. As part of the 363 Sale, Mr. Rothwell entered into a settlement  
15 agreement, which also covers the Plan. Mr. Mayo has also agreed to a settlement under the Plan.

16  
17 2. Post-petition Retention of Professionals Other Than Management.

18 (a) ***Employment of Washington DC based Counsel and Accompanying***  
19 ***Local Counsel.*** Visitalk employed Dickstein, Shapiro, Morin & Oshinsky, L.L.P. ("*Dickstein*")  
20 located in Washington, DC, as its primary bankruptcy counsel. Dickstein directed the Debtor to  
21 hire Gust, Rosenfeld P.L.C. ("*Gust*") as local, Phoenix based counsel. In part to try to contain  
22 the Debtor's post petition expenses, Mr. Rothwell dismissed both of these counsels and retained  
23 a replacement Phoenix Counsel.

24 (b) ***Employment of Phoenix Counsel.*** On January 14, 2001, the Debtor hired  
25 Mark J. Giunta, a bankruptcy counsel located in Phoenix, Arizona.

1           3.     Appointment of Creditors Committee.

2                     The official unsecured creditor’s committee (“*Committee*”) was formed during  
3 January 2001 by the Office of the United States Trustee. The Committee consisted of eight  
4 members representing unsecured claims of approximately \$2,000,000. On or about February 8,  
5 2001, the Committee selected Dean Dinner of Jennings, Haug & Cunningham, L.L.P., to  
6 represent them.

7           4.     Arrange Post Petition Financing.

8                     (a)     ***Visitalk Lenders LLC.*** The Debtor arranged a secured financing line of  
9 up to \$250,000 in post petition financing from Visitalk Lenders LLC (“*LLC*”). Prior to the filing  
10 of this Disclosure Statement, the LLC fully funded its commitment. The members of the Lender  
11 LLC has the option of having their pro rata portion of the LLC debt paid with securities issued  
12 under the Plan.

13                     (b)     ***Primary Lender Group Solicitation.*** As part of its funding plan, the  
14 Debtor has solicited major lenders and investors to participate in the Primary Lending Group.  
15 The objective of this solicitation was to obtain the bulk of the funds necessary to fund the  
16 expenses of the reorganization. At the option of a holder of a Primary Lender Group (“*PLG*”)  
17 Note, this debt may be paid with securities issued under the Plan. Aztoré was the Court  
18 approved agent of the PLG.

19                     (c)     ***The New Value Lender Group Direct Offering.*** The Debtor made a  
20 direct debt offering first to *unsecured creditors and than to preferred shareholders (the New*  
21 *Value Lender Group or the “NVLG”*). At the option of the NVLG Note Holders, this debt may  
22 be paid with securities issued under the Plan. Very few unsecured creditors have subscribed  
23  
24  
25

1 under the NVLG and as of the date of this Disclosure Statement, their preferential subscription  
2 right has expired. Aztoré was the Court approved agent of the NVLG.

3 5. Operations during 2001.

4 During January and February 2001, the Debtor cut its employment back to what it though  
5 was the absolute minimum, six employees and in addition has used computer consultants to  
6 restructure its technology and prepare to move as discussed below. Between February 2001 and  
7 May 2001, the Debtor successfully restructured its technology platform so that it could reject its  
8 equipment leases and move to another facility. This restructuring was completed in May 2001  
9 and reduced the Debtor's lease payment overhead by about \$50,000 per month. In April 2001,  
10 the Debtor agreed to move to a new facility of about 2,000 square foot compared to 27,000 share  
11 foot. The Debtor finished this move on May 28, 2001. The Debtor has also reduced its  
12 Bandwidth costs from about \$15,000 per month.

14 On February 1, 2001, the Debtor initiated a program of charging new users of the Visitalk  
15 service. While the revenues from this program do not exceed the costs of the Debtor's operation,  
16 the Debtor did sign up new paying users. The costs to bill for these members is about 10% of  
17 revenues. About \$40,000 of this initial revenue is non-recurring (i.e. "*lifetime memberships*").  
18 The Debtor ceased the "lifetime" promotional offering on April 1, 2001. Even though the  
19 Debtor dramatically reduced employment, had its few remaining employees working on expense  
20 reduction and other activities, and relocated all of its servers to a new facility, the Visitalk Web  
21 site had very limited service interruptions. On May 29, 2001, the Debtor auctioned off its excess  
22 equipment and received about \$200,000 before expenses of about \$25,000. The Debtor has  
23 retained about \$350,000 of equipment at appraised value. The Debtor rejected its office-building  
24 lease covering 27,000 sq. ft. effective May 31, 2001. The Debtor rejected, or has sought to  
25

1 reject, certain equipment leases with Fleet Business Credit Corp., CIT Communications Finance  
2 Corporation, Avaya Communications, and CISCO Systems Capital Corporation (“Cisco”). The  
3 Debtor has entered into a Stipulation to reject certain executory service contracts with MP3.

4 6. The 2001 Plan and Alternatives to the 2001 Plan.

5 The Debtor, in conjunction with the Committee, explored in detail the option of  
6 reorganizing through a sale to a group that was interested in acquiring Visitalk’s original network  
7 operating center (“NOC”). After the Debtor invested more than 100 hours in the due diligence  
8 process with this group, the group declined to make a firm offer. The Debtor’s exclusivity  
9 period was extended provided it filed a reorganization plan by May 26, 2001 and obtained  
10 acceptances from impaired classes by July 16, 2001. The Debtor timely filed its first  
11 reorganization plan on May 25, 2001 (the “First Plan”). The Debtor requested that the Court  
12 extend date by which it must obtain acceptances from impaired classes to September 27, 2001.  
13 With the intervention of the September 11, 2001 disaster and the continual fall of the tech  
14 market, depressing investment interest in speculative transaction, the Debtor failed to raise  
15 sufficient money to fund the First Plan. In April 2002 the Court denied the First Plan.

17 7. 2002 and 2003 Operations.

18 After the First Plan was dismissed, the Debtor, in an effort to minimize expenses at the  
19 demand of the Committee, entered into a sale agreement with James Fallon to acquire Visitalk  
20 Technology & Equipment, Inc. whose name had been changed to NavEdge Network, Inc.  
21 (“NavEdge”). In 2003, the Court formally approved the order allowing the consummation of the  
22 NavEdge sale. NavEdge, under the NavEdge Operating Agreement, assumed most of the  
23 Debtor’s operating expenses in exchange for a contingent fee based on a percentage of revenues.  
24 NavEdge continued to develop a more robust infrastructure that would allow the Debtor’s basic  
25

1 business to develop cost effectively. Subsequent to the NavEdge sale, the Debtor and the  
2 Committee tried to develop a new, workable reorganization plan (the “*Second Plan*”).

3 8. Developments in 2004.

4 Because no new Second Plan had been developed, on February 3, 2004, the Committee  
5 filed a motion to convert the Case to a Chapter 7. The Debtor received an offer to purchase  
6 substantially all the Debtor’s assets (the “*363 Sale*”) from an affiliate of the Funding Lenders and  
7 Aztoré (the “*363 Buyer*”). As partial consideration for the 363 Sale, the 363 Buyer only agreed  
8 to assume about \$300,000 in administrative expenses and the Rothwell Claim plus settle all the  
9 Funding Lender and Aztoré Claims. This would leave significant unpaid administrative claims  
10 which would make any recovery to the unsecured creditors less likely. Therefore, the Debtor  
11 also approached the Funding Lenders and Aztoré and a majority of the Administrative Claimants  
12 about a Second Plan based on an extended payment of Administrative Claims and received  
13 support for this proposal. This gave rise to the Second Plan. On April 9, 2004, the Debtor filed a  
14 motion to have the Court approve the 363 Sale. On May 11, 2004, the Court approved the 363  
15 Sale but the Debtor, the Committee and the 363 Buyer all agreed to defer the closing of the 363  
16 Sale subject to the potential confirmation of the Second Plan on a timely basis. The parties  
17 agreed to defer the closing for 45 days unless mutually extended.  
18  
19

20 **ARTICLE X**  
21 **SUMMARY OF ISSUES PERTAINING TO THE DEBTOR’S NOL**

22 **A. Code Section 382 and the 5% Limitation**

23 A potential asset of the Debtor is the availability and utilization of its tax NOL. Certain  
24 provisions of the Tax Code may affect or eliminate the availability or the utilization of the NOL  
25 after the confirmation of the Plan. As of the Disclosure Statement Date, the Debtor estimates its  
NOL’s will aggregate approximately \$40 million after the confirmation of the Plan and can be

1 used to offset federal and state income tax liabilities arising in the connection with future  
2 income, including capital gains, of the Debtor. Federal tax liabilities may be offset for  
3 approximately 15 years but State tax liability offsets are much more time restricted. Until tax  
4 returns are filed, the Debtor cannot make such a timing determination. Such offset would also  
5 depend on the state domicile of the Reorganized Debtor.

6 1. General Background on NOL's. The Tax Reform Act of 1986 enacted new net  
7 operating loss carry-forward limitation rules, which generally were effective commencing in  
8 1987. Under the new rules, the amount of income that a corporation can offset using net  
9 operating loss carryovers after an ownership change is limited, regardless of whether the  
10 ownership changed because of a taxable purchase or because of a tax-free reorganization.  
11 Generally, if the ownership of more than 50 percent in value of the stock of a corporation  
12 changes ownership (an "*Ownership Change*") the corporation becomes a "new loss corporation,"  
13 and the amount in taxable income of any post-change year that may be offset using pre-change  
14 losses may be significantly limited depending on the value of the taxpayer pre the Ownership  
15 Change. Further, following such an ownership change, if the corporation fails to meet certain  
16 business continuity requirements, the corporation's net operating loss carryovers are eliminated  
17 entirely. In general, after an ownership change (as defined in the Internal Revenue Code ("*IRC*")  
18 §382(b), 26 U.S.C.), the pre-change NOL of a loss corporation that is available for offset against  
19 the loss corporation's taxable income is annually limited to a prescribed rate, multiplied by the  
20 value of the loss corporation's stock on the date of ownership change (IRC §382(b)). If applied  
21 to the Debtor, a change of control would render the NOL valueless except for the "bankruptcy  
22 exception" discussed below.

22 2. The Bankruptcy Exception. The special limitations of IRC §382 do not apply  
23 after any ownership change of a loss corporation if:

24 (a) the corporation was under the jurisdiction of the Court in a Title 11 or  
25 similar case immediately before the ownership change, and

1 (b) the corporation's shareholders and creditors (determined immediately  
2 before the ownership change) own fifty percent or more of the value and voting power of the loss  
3 corporation's stock immediately after the ownership change (IRC §382(1)(5)(A)).

4 Sections 106(d), (7), (8) and (18) of the Technical Corrections Act of 1988 states that, for  
5 the purposes of the fifty percent test, stock of a shareholder is taken into account only to the  
6 extent such stock was received in exchange for stock or a qualified creditor's interest that was  
7 held immediately before the ownership change. This rule applies only if the stock-for-debt  
8 exchange or reorganization is ordered by the Court or is pursuant to a plan approved by the  
9 Court.

10 3. The Debtor's Strategy in the Plan. The Debtor is attempting to preserve its NOL.  
11 The NOL tax benefits will be transferred to the 363 Buyer and therefore will not be preserved or  
12 available as an asset in the event of a Chapter 7 liquidation. The Debtor has identified no viable  
13 alternatives to the Plan other than liquidation of their assets under Chapter 7 of the Code or  
14 dismissal of their Chapter 11 case. Dismissal would leave the Debtor's secured creditors free to  
15 enforce their liens under applicable state and non-bankruptcy federal law. In order to facilitate  
16 the Debtor's ability to preserve and utilize its NOL's, VTEC which is a newly formed, affiliated  
17 Nevada corporation owned by the Debtor shall be the Reorganized Debtor. As part of its  
18 Articles of Incorporation, VTEC will have approved the imposition of the 5% limitation as a  
19 restriction on the ability of certain shareholders to acquire additional securities issued by the  
20 VTEC (the "5% Limitation"). After the Plan is implemented the Debtor and VTEC shall merge.  
21 VTEC shall be the survivor. A discussion of the background and effect of the 5% Limitation, as  
22 well as how it operates, follows.

23 4. Tracking Ownership Changes. Generally, loss corporations must determine  
24 whether an ownership change has occurred immediately after any transaction in its stock which  
25 involves a 5% Shareholder. The limitations of Section 382 are applicable if, immediately after  
an ownership change, the percentage of stock of the new loss corporation owned by one or more  
5% Shareholders has increased by more than 50 percentage points (by value) over the lowest

1 percentage of the old loss corporation's stock owned by the same shareholders at any time during  
2 the three-year period ending on the day of the ownership change (the "*Testing Period*").

3 A "5% Shareholder" is generally a shareholder who owns, directly or indirectly, shares of  
4 common stock, warrants or certain other securities, assuming conversion, exercise or exchange  
5 thereof into the maximum number of shares of Common stock, which equal or exceed 5% of the  
6 sum total of the then outstanding Common stock, as adjusted.

7  
8 For purposes of determining whether an ownership change has occurred, all shareholders  
9 holding less than 5% of the corporation's stock are aggregated and treated as one 5%  
10 Shareholder and transfers of shares between persons who are not 5% Shareholders, i.e. who are  
11 among this "public" group, are not considered. The change in a shareholder's percentage share  
12 of stock must be determined by comparing how much stock was held on the test date for  
13 ownership change with the lowest percentage of stock held during the three-year Testing Period.

14 To ease a corporation's burden in establishing the identity of 5% Shareholder, the  
15 Internal Revenue Service permits a loss corporation whose stock is registered with the Securities  
16 and Exchange Commission ("*SEC*") as set forth in Rule 13d-1(d) promulgated under the  
17 Securities Exchange Act of 1934, as amended, to rely on information contained in Schedules  
18 13D and 13G filed with the SEC. A corporation may not rely on these schedules if it has  
19 identifying information that is inconsistent with information on the schedules.  
20

21 **B. VTEC Restrictions.**

22 The Certificate of Incorporation of VTEC specifies that any acquisition of Common stock  
23 or Warrants or other securities made in violation of the 5% Limitation will be null and void ab  
24 initio. It also will allow the Reorganized Debtor, in its sole discretion, to exempt from  
25 application of the 5% Limitation any acquisition of shares of Common Stock (or of Warrants or



1 other securities), so long as such acquisition will not jeopardize the VTEC's ability to preserve  
2 and utilize its NOLs.

3           It is the purpose of the 5% Limitation to facilitate the VTEC's ability to preserve and  
4 utilize its NOLs and to that end the Board of Directors of the VTEC' is authorized to take  
5 actions, to the extent permitted by law and not inconsistent with the provisions of the 5%  
6 Limitation, which it deems necessary or advisable to protect the VTEC and the interests of  
7 holders of its equity and debt securities by maintaining the VTEC's ability to preserve and utilize  
8 its NOLs. In this regard, the Board of Directors may, to the extent permitted by law, from time  
9 to time, establish, modify, amend or rescind, by by-law or otherwise, regulations and procedures  
10 not inconsistent with the terms of the 5% Limitation for the orderly application, administration  
11 and implementation of the provisions of the 5% Limitation.  
12

13           As a mechanism for enforcing the 5% Limitation, the Certificate of Incorporation of  
14 VTEC, i.e., Reorganized Debtor, will provide that any transfer of shares of Common stock,  
15 Warrants or other securities in violation of the 5% Limitation is automatically null and void as to  
16 that number of shares of Common stock or Warrants or other securities which caused the  
17 acquirer thereof (the "*Purported Owner*") to exceed the 5% Limitation (the shares and/or  
18 Warrants or other securities which cause the Purported Owner to exceed the 5% Limitation being  
19 herein referred to as the "*Excess Shares*").  
20

21           The purported transfer of the Excess Shares to the Purported Owner will not be  
22 recognized by VTEC. Instead, if necessary, the Purported Owner will be instructed to deliver the  
23 Excess Shares to, or otherwise place the Excess Shares under the control of, a trustee (the "*Share*  
24 *Trustee*") who will proceed forthwith to sell the Excess Shares in the market to a Permitted  
25 Transferee.

1 **C. Legend on Securities**

2 Certificates evidencing shares of Common stock and the Warrant Certificates will bear  
3 the following or a substantially similar legend notifying the holder of the restrictions imposed by  
4 the 5% Limitation:

5 *“Pursuant to provisions of the Certificate of Incorporation of VT Equities Corp. (the*  
6 *“Company”) which are designed to facilitate the Company's ability to preserve and utilize its net*  
7 *operating loss carryovers for federal income tax purposes, the transfer of the shares represented*  
8 *hereby to any person who would own subsequent thereto 5% or more of the Company's*  
9 *outstanding common stock or other securities (as calculated pursuant to the provisions of the*  
10 *Certificate of Incorporation of the Company) is restricted and will not be recognized except in*  
11 *certain circumstances. Copies of the applicable provisions of the Certificate of Incorporation*  
12 *and the regulations adopted by the Board of Directors of the Company thereunder will be*  
13 *available for inspection at the offices of the Company, and the Company will mail a copy thereof*  
14 *without charge within five days after receipt of a written request therefor sent to the Secretary at*  
15 *such address.”*

17 **ARTICLE XI**  
18 **SUMMARY OF THE BUSINESS PLAN OF THE REORGANIZED DEBTOR**

19 **A. Objective of the Reorganization**

20 The objective of the reorganization is to exploit the Debtor’s intangible assets. These  
21 assets consist of the Debtor’s technology not owned by NavEdge, the Debtor’s various business  
22 opportunities which have laid fallow since its financial troubles became overbearing and its  
23 federal tax net operating loss carry-forward (“NOL”). To accomplish these objectives, the Plan  
24 reorganizes the Debtor into discrete operating units (the “*Operating Subsidiaries*”). The Debtor  
25

1 has already formed the designated Reorganized Debtor, VT Equities Corp., a Nevada corporation  
2 (“VTEC”).

3 The Initial Operating Subsidiaries to be formed will be the Co-Proponents excluding  
4 NavEdge and VTEC. The Debtor believes that the ability to easily connect all network end-  
5 points will play an increasingly important role as the Internet continues to expand and the  
6 number of devices connected to the Internet grows. As the processing power of these IP  
7 endpoints increases, the Debtor believes that the number of applications developed to leverage  
8 peer-to-peer computing will grow dramatically. The Operating Subsidiaries will allow the  
9 Debtor to exploit this growth potential.

#### 11 **B. Second Plan Concept**

12 Under the Plan, excluding the Active Professionals, the Debtor will pay its administrative  
13 creditors by the issuance of senior unsecured notes (the “*Series A Notes*”). The Active  
14 Professional will receive different treatment which will include the payment of some cash with  
15 the remainder of their liability paid via a claim against the Creditor’s Trust. The remaining  
16 creditors will be paid in full settlement of their claims with securities or notes of the Reorganized  
17 Debtor and, if electing securities, such creditors will also receive securities of each of the  
18 Operating Subsidiaries. At the option of the claimants, certain employee obligations, Aztoré, the  
19 LLC, the PLG, the NVLG and LLC members may elect to be paid with securities. The PLG,  
20 NVLG and LLC post Petition Lenders may elect to have their debt paid through the issuance of  
21 securities of both VTEC and the Operating Subsidiaries issued under the Plan.

#### 23 **C. Post Confirmation Business Plans**

- 24 1. VTEC. VTEC will operate as a holding and investment company.

1           2.     Operating Subsidiaries. The Debtor has some technology rights that would be  
2 applicable to the business plans listed below but the Debtor believes that it will need to negotiate  
3 an acceptable deal with NavEdge to access more flexible technology that NavEdge has been  
4 developing for the last few years. Such technology has never been tested in a real-world  
5 environment and the cost to the Debtor and the Operating Subsidiaries has not yet been  
6 determined. NavEdge has refused to negotiate until the resolution of either the 363 Sale or the  
7 Second Plan.  
8

9           (a)     ***VT Consumer Services, Inc. (“CSI”)***. The Debtor believes that IP-based  
10 voice, video and data communications are rapidly catching the attention of Internet consumers.  
11 To date, the consumer market segment has been the primary adopter of IP-based  
12 communications services Internet telephony. International Data Corporation estimates that the  
13 number of IP telephony minutes will reach 135 billion in 2004. As the number of consumers  
14 who adopt Internet telephony continues to grow, and in the absence of unique identifiers (i.e.,  
15 phone numbers) to use when attempting to communicate with others, it will be nearly impossible  
16 to engage in communications unless both parties are concurrently logged onto the Internet and  
17 using the same servers. As a result, the Debtor believes there is a strong underlying need for an  
18 essential infrastructure to efficiently manage the expected increase in Internet telephony that will  
19 enable consumers to easily find other people or devices. A major part of CSI’s near term plan is  
20 to strive to leverage the existing consumer portal.  
21

22           (b)     ***VT Business Products, Inc. (“BPI”)***. Medium and large businesses are under  
23 increased pressure to increase productivity and to reduce the significant costs associated with  
24 communicating and collaborating with employees and clients separated by distance and time.  
25 These direct costs include those associated with maintaining complex telephone and

1 conferencing systems for audio, video and data communications and the costs associated with  
2 travel. Enterprises have invested billions of dollars in developing a networked environment to  
3 connect millions of corporate desktops to IP-based LANs. As a result, the infrastructure is  
4 already in place for enterprises to implement integrated collaboration solutions. Integrated  
5 collaboration solutions combine audio, video and data in real-time over IP networks, enabling  
6 people to work together to create value for their organizations. Enterprises can benefit  
7 significantly from an integrated collaboration solution that seamlessly combines conferencing,  
8 streaming and data collaboration. Additional benefits associated with increased efficiencies in  
9 communication and collaboration, include faster decision making, improved teamwork, reduced  
10 product development cycles, extended reach and improved relationships with colleagues,  
11 partners and customers. The tangible benefits and the financial efficiencies that are derived from  
12 an integrated collaboration solution combine to create a compelling rationale for enterprises  
13 worldwide.

15         The ready availability of powerful and inexpensive desktop machines, inexpensive high-  
16 performance web-cameras, broadband internet access and the need for companies to tie together  
17 remote offices and reduce travel, while enhancing cross company and inter-company web  
18 conferencing and collaboration, make this developing market one that is poised for strong  
19 growth. A recent market study has led the Debtor to believe that medium to large businesses are  
20 estimated to spend nearly \$18 billion on communications services and equipment by the year  
21 2002 with a major emphasis on collaboration tools and services.

23         (c)         ***VT Financial Services, Inc. (“Financial”)***. Financial will supply accounting and  
24 investment banking services to VTEC and the various Operating Subsidiaries since initially their  
25 limited operations would not justify full time employees.

1 (d) **VT Billing Services, Inc. (“Billing”)**. Billing will coordinate all the billing  
2 activities for all of the Operating Subsidiaries.

3 (e) **VT Marketing Services, Inc. (“Marketing”)**. Billing will coordinate all the  
4 billing activities for all of the Operating Subsidiaries.

5 (f) **VT International Corp. (“International”)**. TPEC will repackage the  
6 communications features and functionality currently available on the consumer web site for use  
7 by other web properties. Several foreign Internet companies looking to incorporate  
8 communications capabilities into their web environment approached Visitalk in 2000 but the  
9 Visitalk could not respond due to its financial challenges.

10 (g) **VT Video Services, Inc. (“Video”)**. The Debtor believes it can develop a specific  
11 business based on peer-to-peer video mail. Video mail is currently sent in the same manner as e-  
12 mail, meaning that it is sent to a server and then retrieved by the recipient. The problem with  
13 this architecture is that the bandwidth and storage costs are excessive. Therefore video mail is  
14 either cost prohibitive or not allowed. The Debtor believes its peer-to-peer model addresses these  
15 problems but would have to invest in significant development.

16 (h) **VT Language Specific One, Inc., through VT Language Specific Ten, Inc.**  
17 (**“Languages 1-10”**). Languages 1-10 will be developed as language specific consumer or  
18 business oriented companies focused on foreign languages. Languages 1-10 will seek a local  
19 country partner who will provide translations and customer service in the target language as well  
20 as information on cultural marketing of the targeted services. The Debtor is working on a  
21 language specific prototype with Visitar Hispanos, LLC (**“Visitarweb”**). Visitarweb’s website is  
22 visitarweb.com. Mr. Mayo’s wife has a controlling interest in Visitarweb.  
23  
24  
25

1 (i) *VT Gaming Services, Inc. ("Gaming")*. Debtor's peer-to-peer solution provides  
2 a scalable infrastructure to enable connections between game players all over the world.  
3 Interactive multi-player gaming is realizing substantial growth and receiving a great deal of  
4 attention from game station and equipment manufactures. Because the Debtor has developed a  
5 standards-based platform that is device and software client agnostic, the Debtor can facilitate a  
6 wide range of peer-to-peer applications, with interactive gaming being one of the verticals with a  
7 significant interest in the market. The Debtor's peer-to-peer solution provides a scalable  
8 infrastructure to enable connections between game players all over the world.  
9

10 3. NavEdge Network, Inc. ("NavEdge"). The Debtor currently has a note from  
11 NavEdge that it may be able to convert to a 30% NavEdge equity interest. Access to NavEdge's  
12 scalable infrastructure is critical to the development of the Debtor's future businesses. Although  
13 that infrastructure can be leveraged in many ways, that heart of the infrastructure is that it  
14 addresses IP endpoints, the number of which will continue to increase. According to IDC, by  
15 2004, 103 million additional users will gain Internet access in the US alone, bringing the total to  
16 210 million (in excess of 300 million worldwide). This number is simply the number of users,  
17 not the number of devices. As cell phones, PDA's, Set-Top boxes, and appliances all migrate to  
18 the Web, the explosion of addressable IP endpoints will be enormous. Coupled with the  
19 continued growth of processing speed, bandwidth, etc., and the explosion of peer-to-peer  
20 demand, Debtor is the one company that has built the infrastructure necessary to facilitate this  
21 kind of exponential growth.  
22

23 4. Planned operations in the event of a failure to develop an operating subsidiary  
24 business plan.  
25

1           The expected plan of operations of an Operating Subsidiary that fails to develop a viable  
2 business plan would be to seek to acquire a company that will have experienced management  
3 and opportunities for growth in exchange for its securities because such OpSub may or will elect  
4 to comply with the Exchange Act. There is no assurance that any such business will be located  
5 or that any then stockholder will realize any return on their shares after such a transaction. Any  
6 merger or acquisition completed by such an Operating Subsidiary can be expected to have a  
7 significant dilutive effect on the percentage of shares held by our current stockholders.  
8

9           (1)     General alternative business plan. The expected purpose of an Operating  
10 Subsidiary that fails to develop a viable business plan would be to seek, investigate and, if such  
11 investigation warrants, acquire an interest in business opportunities presented to such entity by  
12 persons or firms who or which desire to seek the advantages of an issuer who has public  
13 shareholders and could or has complied with the Exchange Act. Such Operating Subsidiary will  
14 not restrict its search to any specific business, industry, or geographical location, and it may  
15 participate in a business venture of virtually any kind or nature. This discussion of a new  
16 proposed business is purposefully general and is not meant to be restrictive of such entities  
17 virtually unlimited discretion to search for and enter into potential business opportunities. Such  
18 entity will likely only be able to participate in only one potential business venture because it will  
19 have nominal assets and limited financial resources and may have accumulated liabilities due to  
20 the failure of its proposed Visitalk based business plan.  
21

22           Such entities may seek business opportunities with other entities which have recently  
23 commenced operations, or that desire to utilize the public marketplace in order to raise additional  
24 capital in order to expand into new products or markets, to develop a new product or service, or  
25



1 for other corporate purposes. Such entities may acquire assets and establish wholly owned  
2 subsidiaries in various businesses or acquire existing businesses as subsidiaries.

3 We expect that the selection of a business opportunity in which the Operating  
4 Subsidiaries may participate will be complex and risky. Due to general economic conditions,  
5 rapid technological advances being made in some industries and shortages of available capital,  
6 we believe that there are numerous firms seeking the benefits of an issuer who have or could  
7 comply with the Exchange Act. Such benefits may include facilitating or improving the terms on  
8 which additional equity financing may be sought, providing liquidity for incentive stock options  
9 or similar benefits to key employees, providing liquidity (subject to restrictions of applicable  
10 statutes) for all stockholders and other factors. Potentially, available business opportunities may  
11 occur in many different industries and at various stages of development, all of which will make  
12 the task of comparative investigation and analysis of such business opportunities extremely  
13 difficult and complex. Any OpSub in such a position will very likely have, limited capital with  
14 which to provide the owners of business opportunities with any significant cash or other assets.  
15 However, we will be able to offer owners of acquisition candidates the opportunity to acquire a  
16 controlling ownership interest in an issuer who may have or could comply with the Exchange  
17 Act without incurring the cost and time required to conduct an initial public offering.

18  
19 The analysis of new business opportunities will be undertaken by, or under the  
20 supervision of, the officers and directors of such an Operating Subsidiary. In such event they  
21 would likely concentrate on identifying preliminary prospective business opportunities which  
22 may be brought to their attention through present associations of such officers and directors, or  
23 by the stockholders of such Operating Subsidiary. In analyzing prospective business  
24 opportunities, they will likely consider such matters as (i) available technical, financial and  
25

1 managerial resources; (ii) working capital and other financial requirements; (iii) history of  
2 operations, if any and prospects for the future; (iv) nature of present and expected competition;  
3 (v) quality, experience and depth of management services; (vi) potential for further research,  
4 development or exploration; (vii) specific risk factors not now foreseeable but that may be  
5 anticipated to impact the proposed activities of the company; (viii) potential for growth or  
6 expansion; (ix) potential for profit; (x) public recognition and acceptance of products, services or  
7 trades; (xi) name identification; and (xii) other factors that we consider relevant.

8  
9 (2) Acquisition opportunities. In implementing a structure for a particular business  
10 acquisition, such Operating Subsidiaries may become a party to a merger, consolidation,  
11 reorganization, joint venture, or licensing agreement with another company or entity. They may  
12 also acquire stock or assets of an existing business. Upon consummation of a transaction, it is  
13 probable that the present management and stockholders will no longer be in control of such  
14 OpSub. In addition, the OpSub's directors and officers may, as part of the terms of the  
15 acquisition transaction, resign and be replaced by new officers and directors without a vote of the  
16 Operating Subsidiary's stockholders, may sell their stock in such company. Any and all such  
17 sales will only be made in compliance with the securities laws of the United States and any  
18 applicable state.

19  
20 It is anticipated that any securities issued in any such reorganization would be issued in  
21 reliance upon exemption from registration under application federal and state securities laws.  
22 The issuance of substantial additional securities and their potential sale may have a depressive  
23 effect on the value of such Operating subsidiary securities.

24  
25 While the actual terms of a transaction cannot be predicted, it is expected that the parties  
to any business transaction will find it desirable to avoid the creation of a taxable event and

1 thereby structure the business transaction in a so-called “tax-free” reorganization under sections  
2 368(a)(1) or 351 of the IRC. In order to obtain tax-free treatment under the code, it may be  
3 necessary for the owners of the acquired business to own 80 percent or more of the voting stock  
4 of the surviving entity. In such event, such Operating Subsidiary stockholders would retain less  
5 than 20 percent of the issued and outstanding shares of the surviving entity. This would result in  
6 significant dilution in the equity of stockholders.

7  
8 With respect to any merger or acquisition, and depending upon, among other things, the  
9 target company’s assets and liabilities, an Operating Subsidiary stockholders will in all  
10 likelihood hold a substantially lesser percentage ownership interest in such company following  
11 any merger or acquisition. The percentage ownership may be subject to significant reduction in  
12 the event such Operating Subsidiary acquires a target company with assets and expectations of  
13 growth. Any merger or acquisition can be expected to have a significant dilutive effect on the  
14 percentage of shares held by such Operating Subsidiary stockholders.

15 In the event of a merger or acquisition, the Operating Subsidiaries will likely participate in a  
16 business opportunity only after the negotiation and execution of appropriate written agreements.  
17 Although the terms of such agreements cannot be predicted, generally such agreements will (i)  
18 require specific representations and warranties by all of the parties; (ii) specify certain events of  
19 default; (iii) detail the terms of closing and the conditions which must be satisfied by each of the  
20 parties prior to and after such closing; (iv) outline the manner of bearing costs, including costs  
21 associated with such company’s attorneys and accountants; (v) set forth remedies on defaults;  
22 and (vi) include miscellaneous other terms.  
23  
24  
25

1 **D. Competition**

2 1. General. All the competition that the Reorganized Debtor and the Operating  
3 Subsidiaries are expected to face will very likely be better financed and more qualified than the  
4 Reorganized Debtor and its future affiliates. Some examples of specific competitors in markets  
5 are discussed below. These competitors are not a complete list of competitors. In order to  
6 increase our potential competitive advantage we will have to negotiate an acceptable deal with  
7 NavEdge to use their more advanced technology that they have been developing for the last few  
8 years.

9  
10 2. VT Consumer Services, Inc. (“CSF”). The competitive landscape of the consumer  
11 market closely resembles that of the business market, with many of the competitors in both  
12 segments. Other related services, currently targeted to consumers include:

13 (a) **Web Messaging** – real-time text communication between online users.

14 (b) **Voice-Enablement** – variations of this type of communication exist,  
15 however, real-time voice communication typically occurs in a chat room  
16 setting and often only one person can speak at a time. Users cannot  
17 contact other users outside of the chat room environment.  
18

19 Likely competitors in the future are Microsoft, AOL and Yahoo.  
20

21 2. VT Business Products, Inc. (“BPI”). The Debtor faces competition in the  
22 business services market from a range of providers, including those enabling Web conferencing,  
23 video conferencing and traditional voice-based telephone conferencing. The competitive  
24 landscape for the business communications market can be characterized as follows:  
25

1 (a) **Web Conferencing** – enables multiple parties to interact simultaneously  
2 over IP networks. Primary Web conferencing competitors include WebEx, Placeware, ICUII  
3 and Evoke. Proprietary software such as Microsoft’s NetMeeting, Intel’s Create & Share, White  
4 Pine Software’s CU-SeeMe are also utilized for Web conferencing. Many of these services are  
5 difficult to implement or are limited in their functionality particularly in regards to enabling real-  
6 time audio or video conferencing, data sharing or some combination thereof. Furthermore, none  
7 are directory based.

8 (b) **Video Conferencing** – video communication using digital phone lines  
9 such as Integrated Services Digital Network (ISDN). Traditional video conferencing alternatives  
10 such as Picture-Tel, Polycom and V-Tel are significantly more expensive and do not facilitate  
11 online data collaboration.

12 (c) **Voice-Based Telephone Conferencing** – audio-only conference calls,  
13 typically through standard phone lines or through internal enterprise switching solutions, such as  
14 PBX, which are extensions of the phone line. Competitors include Net2Phone, Firetalk,  
15 PhoneFree, Mediarling, Deltathree and Dialpad.

16 None of these service offerings integrate communication and collaboration services into  
17 one comprehensive and functional solution. As a result businesses must resort to a hybrid  
18 solution using multiple providers or rely on one limited service. In most cases, the services noted  
19 above can be enhanced by Debtor’s directory infrastructure.

20 3. VT Gaming Services, Inc. (“Gaming”). The Debtor will compete with major  
21 companies worldwide including Microsoft and Sony.

22 4. Operating Subsidiary Alternative Development Plan. If an Operating Subsidiary  
23 seeks a merger or acquisition, it will remain an insignificant participant among the firms that  
24  
25

1 engage in the acquisition of business opportunities. There are many established venture capital  
2 and financial concerns that have significantly greater financial and personnel resources and  
3 technical expertise than such OpSub is likely to have at the time of a transaction. In view of the  
4 expected limited financial resources and limited management availability of an Operating  
5 Subsidiary, such entity will continue to be at a significant competitive disadvantage compared to  
6 its competitors.

7  
8 **ARTICLE XII**  
**SUMMARY OF THE PLAN**

9 This part of the Disclosure Statement summarizes the provisions of the Plan. The Plan,  
10 after it has been confirmed, will constitute a contract between Debtor and its creditors and  
11 stockholders. This Disclosure Statement does not constitute such a contract. Therefore, if any  
12 discrepancies exist between the Plan and the following summary of the Plan, the Plan will  
13 control. Therefore, it is advisable, as mentioned above, to review the Plan carefully for the full  
14 details of the treatment of creditors and Equity Interest Holders.

15  
16 **CREDITORS AND EQUITY INTEREST HOLDERS ARE URGED TO**  
17 **READ THE PLAN IN FULL. CREDITORS AND EQUITY INTEREST HOLDERS ARE**  
18 **FURTHER URGED TO CONSULT WITH THEIR COUNSEL TO OBTAIN A**  
19 **COMPLETE UNDERSTANDING OF THE PLAN.**

20 **A. Objective of the Reorganization**

21 1. General Plan. The Plan provides for the reorganization of Debtor as a holding  
22 company initially controlling the 18 Operating Subsidiaries based on VT's original businesses  
23 and business opportunities and a potential limited interest in NavEdge. Any of the Operating  
24 Subsidiaries may acquire other assets and/or existing business operations with the objective of  
25 creating additional value for such Operating Subsidiaries' shareholders. The Plan creates

1 “currency” in the form of securities that may be issued by the Operating Subsidiaries. These  
2 potentially publicly trading companies will have securities that could be used to, among other  
3 beneficial objectives: (a) attract capital; (b) attract additional qualified management, or (c) be  
4 used for mergers or acquisitions.

5 The Debtor’s creditors and claim holders will be issued VTEC securities and Operating  
6 Subsidiary securities in differing amounts depending upon the classification of their Allowed  
7 Claims. No securities will be issued to current Holders of Old Common Stock and Old Preferred  
8 Stock on account of their equity interests. All of the Debtor’s Old Common Stock and Old  
9 Preferred Stock shall be canceled pursuant to this Plan. The Debtor will be authorized under the  
10 Plan to issue VTEC Warrant Units and Operating Subsidiary Warrant Units to the Debtor’s  
11 Preferred shareholders in full satisfaction of any potential claims as creditors.  
12

13 **2. Alternatives to the Plan.** All of Debtor’s assets except the Causes of Actions and  
14 the Causes of Action Proceeds are either fully encumbered by the secured claims of the LLC, the  
15 PLG or the NVL. If all the Debtor’s operating assets except the Causes of Actions and the  
16 Causes of Action Proceeds are sold under the 363 Sale and the remaining assets were liquidated  
17 under Chapter 7, such assets would be less than the remaining balance of the accumulated  
18 Administrative Claims. Therefore, the creditors holding general unsecured claims would receive  
19 nothing for their claims, except for the possibility of a distribution arising from the successful  
20 prosecution of the Causes of Action. Such distribution would be subject to the payment of the  
21 remaining administrative claims which the Debtor believes would still exceed \$750,000.  
22

23 **3. The NOL’s and the Investment Company Exemption.** The Plan is structured to  
24 maintain the Debtor’s estimated \$40,000,000 in NOL’s. The Plan is also structured so that the  
25 Reorganized Debtor may operate as an investment company exempt from regulation under the

1 Investment Company Act of 1940. Operating as an investment company improves the  
2 Reorganized Debtor's opportunities to exploit the NOL's. If the Debtor is liquidated, the NOL's  
3 would be lost.

4 **B. Post Confirmation Management Of The Reorganized Debtor**

5 1. The Board of Directors and Corporate Officers. Notwithstanding the issuance  
6 of securities pursuant to this Plan, some or all of which may give full voting rights to holders of  
7 those securities, the initial board of directors of the Reorganized Debtor shall consist of those  
8 persons designated below. If a director designated as a member of the initial board of directors is  
9 unable to complete his tenure, the remaining directors shall elect a new director. unable to  
10 complete his tenure, the remaining directors shall appoint a new director. Post confirmation,  
11 Messrs. Lang and Williams expect to spend a substantial portion of their time on the affairs of  
12 the Reorganized Debtor and its Operating Subsidiaries.

Name	Office	Remuneration (c)
Michael S. Williams	Chief Executive Officer and Chairman of the Board	\$10,000 per month and \$1,000 per month per formed and Active Operating Subsidiary (*) unless not on the board of such entity.
Lanny R. Lang	Vice President, Secretary, Treasurer and Director	\$7,000 for the Debtor and \$700 per month per formed and Active Operating Subsidiary (*) unless not on the board of such entity.

21 (\*) If the subsidiary is not an Active Operating subsidiary any activities will be billed at \$100 per hour

22 2. Qualifications of Directors and Officers.

23 The officers and directors of the Reorganized Debtor have significant legal, securities,  
24 investment banking and accounting experience. This group will elect the directors and officers  
25



1 of the Operating Subsidiaries and assist in such subsidiaries business development activities  
2 including employee recruitment, funding and accounting.

3 A further description of the qualifications of the Directors and Officers is attached hereto  
4 in **Exhibit “5”**.

5 3. Compensation of Directors and Officers The above table shows the initial  
6 proposed salaries of those individuals who will be the directors and officers of the  
7 Reorganized Debtor immediately following Confirmation of the Plan. However, payment of  
8 such salaries is subject to the ability of the Reorganized Debtor to make such payments  
9 without endangering the operating ability of the Reorganized Debtor and ensuring the  
10 continued feasibility of the Plan. Any salaries unable to be paid will be deferred and accrue  
11 interest at 12% per annum. There are no employment contracts between either the Debtor or  
12 the Reorganized Debtor and the proposed officers and directors listed above.

14 The Reorganized Debtor proposes to adopt as of the Effective Date a stock option plan  
15 for the officers, directors and key employees of VTEC and its Operating Subsidiaries, and a  
16 vote to accept this Plan shall constitute an affirmative vote in favor of the adoption of such  
17 stock option plans and shall be deemed to be the equivalent of a shareholder vote allowing  
18 such plans to qualify as “qualified stock option plans” for all purposes under the Internal  
19 Revenue Code. By virtue of confirmation of this Plan, VTEC shall be deemed to have voted,  
20 as the majority shareholder of each Operating Subsidiary, in favor of the adoption of such  
21 stock option plan for each Operating Subsidiary. The proposed stock option plan (the “*Equity*  
22 *Incentive Plan*”) for VTEC and each Operating Subsidiary is attached to the Plan as Exhibit 2.  
23  
24  
25

1 The awarding of any such options under the approved Equity Incentive Plans shall be  
2 subject to sole discretion of the Board of Directors of each entity and the terms of such stock  
3 option plans.

4 The directors of the Reorganized Debtor will also be authorized to approve  
5 reimbursement to its directors for actual expenses incurred, compensation to officers that act  
6 as directors for attendance at meetings of the board of directors, and the salaries and fees for  
7 corporate officers set forth above following confirmation. Nevertheless, the Reorganized  
8 Debtor's initial corporate board has no plans to approve an increased compensation for  
9 officers that act as directors, other than as described in the Disclosure Statement and this Plan.  
10

11 4. Meetings of Directors and Selection of New Directors. Following the Effective  
12 Date of this Plan, the board of directors of the Reorganized Debtor shall meet monthly or more  
13 frequently for six months. The initial board of directors shall serve until the next meeting of  
14 shareholders held pursuant to the Articles of Incorporation and/or Bylaws of the Reorganized  
15 Debtor.

16 5. Management of the Operating Subsidiaries. Unless otherwise designated by the  
17 Board of Directors of the Reorganized Debtor, the Operating Subsidiaries will have the same  
18 officers and directors until the first meeting of the shareholders.  
19

20 **C. Descriptions Of Securities To Be Issued In Satisfaction Of Claims**

21 1. Identification and Attributes of Securities.

22 (a) *VTEC and Operating Subsidiary Common Shares:* Each share of Common Stock  
23 issued under the Plan shall be fully paid, non-assessable, and entitled to one vote per share.

24 (b) *VTEC and Operating Subsidiary Warrant Units:* A VTEC or Operating  
25 Subsidiary Warrant Unit shall consist of six warrants to purchase newly issued common stock in  
the Reorganized Debtor. The warrants will be issued as a unit with a separate CUSIP number.

1 As warrants expire or are exercised, VTEC, in its sole option, may choose to issue a New Unit,  
2 create other combination Units or may detach the warrants. These warrants are: one “A  
3 *Warrant*” which will allow the holder to purchase a share of common stock for \$2.00, expiring  
4 eighteen months after the Effective Date; one “B *Warrant*” identical to the A Warrant; one “C  
5 *Warrant*” which will allow the holder to purchase a share of common stock for \$3.00, expiring  
6 eighteen months after the Effective Date; one “D *Warrant*” identical to the C Warrant; one “E  
7 *Warrant*” which will allow the holder to purchase a share of common stock for \$4.00, expiring  
8 eighteen months after the Effective Date; and one “F *Warrant*” identical to the E Warrant.

9 (c) *Other Terms related to the Common Stock and Warrant Units.* The exercise  
10 prices of the warrants in a Warrant Unit may be lowered from time to time for such periods as  
11 determined by the Board of the issuer entity in its sole discretion and the expiration dates of the  
12 warrants in a Warrant Unit may be extended from time to time at the discretion of the issuer’s  
13 Board. All the warrants in a Warrant Unit shall be subject to a Call anytime by the issuer’s  
14 Board but the holders would have 20 days from the mailing of the Call notice to the Warrant  
15 Holders address of record to exercise the right to purchase new common stock associated with  
16 said warrants. The stock and warrants are immediately detachable from the Unit at the discretion  
17 of the issuer’s Board and may be regrouped into different Units at the option of the issuer’s  
18 Board. The specific exercise terms and restrictions of the VTEC Warrant Unit may be modified  
19 at any time by the VTEC Board to maintain the most flexibility and capacity for the Reorganized  
20 Debtor to maintain the most NOL value and limit claims of any Change of Control testing event  
21 as defined in the Code.

22 (d) The Series A Notes. The Series A Notes will be transferable notes issued in \$10  
23 denominations. No partial notes will be issued but rounded up to the next whole \$10 amount.  
24 The Series A Notes will bear interest at 10% per annum due at maturity. The Series A Notes  
25 may be prepaid at any time and mature five years after the Effective Date.

1 (e) The Series B Notes. The Series B Notes will be transferable, convertible notes  
2 issued in \$10 denominations. No partial notes will be issued but rounded up to the next whole  
3 \$10 amount. The Series B Notes are unsecured and subordinated to the Series A Notes. The  
4 Series B Notes will bear interest at 5% per annum due at maturity and the principal and accrued  
5 interest of the Series B Notes will convert into VTEC Common Shares at \$.75 per share. These  
6 Series B Notes may be prepaid at any time and mature five years after the Effective Date.

7 2. Other Securities related issues.

8 a. The Debtor will distribute the any securities within 120 days of the Effective  
9 Date. Regardless, until such securities are issued, the claim holders receiving securities will  
10 possess all the rights and benefits of all such securities including the right to transfer their  
11 interest in any note or security on the books of the Reorganized Debtor or any Operating  
12 Subsidiary to other holders prior to the formal distribution. The Reorganized Debtor shall  
13 require that any such transfers shall require customary stock powers, signature guarantees,  
14 corporate or other resolutions and affidavits, legal opinions and purchase agreements prior to  
15 being effective.

16 b. No dividends have ever been paid by the Debtor. The declaration of any future  
17 cash or stock dividends will be made at the discretion of each Co-proponent's Board of  
18 Directors. It is anticipated that any income received by any Co-proponent's will be devoted to  
19 such entities' future operations.

20 c. Resales in General. In general, securities issued by a debtor in a Chapter 11  
21 reorganization to a creditor on account of a claim may be resold by such recipient without further  
22 registration under the Exchange Act or other laws, in reliance on the exemption from registration  
23 provided by the Bankruptcy Code. This exemption does not apply to holders who are deemed  
24 "underwriters" with respect to such securities, as the term "underwriter" is defined in the  
25 Bankruptcy Code.

1 Section 1145(b)(1) of the Bankruptcy Code provides that “except with respect to ordinary  
2 trading transactions,” an entity is an “underwriter” if such entity: (i) purchases a claim against or  
3 interest in a debtor with a view to distribution of any security received in exchange for such  
4 claim or interest; (ii) offers to sell securities offered or sold under the Plan for the holders of such  
5 securities (except certain offers to sell fractional interests); (iii) offers to buy securities offered or  
6 sold under the Plan from the holders of such securities if the offer to buy is made with a view to  
7 distributing such securities and the offer to buy if made under an agreement made in connection  
8 with the Plan, with the consummation of the Plan, or with the offer or sale of securities under the  
9 Plan of reorganization; or (iv) is an issuer with respect to a reorganized debtor's securities, as the  
10 term “issuer” is used in § 2(11) of the Securities Act.  
11

12 In the context of the Plan, an “issuer” under § 2(11) of the Securities Act includes any  
13 person directly or indirectly controlling or controlled by the Debtor or any person under direct or  
14 indirect control with the Debtor. Whether a person is an “issuer” and, therefore, an  
15 “underwriter” for purposes of § 1145(b) of the Bankruptcy Code depends upon a number of  
16 factors, including the relative size of the shareholder's equity interest in the Debtor; the  
17 distribution and concentration of other equity interests in the Debtor; whether the person, either  
18 alone or acting in concert with others, has a contractual or other relationship giving that person  
19 power over management policies and decisions; and whether the person actually has such power  
20 notwithstanding the absence of formal indicia of control.  
21

22 Because of complex and subjective issues involved in determining issuer and underwriter  
23 status, creditors and equity interest holders are urged to consult with their attorneys concerning  
24 whether they will be able to trade freely any securities they are to receive under the Plan.

25 NEITHER THE DEBTOR NOR ANY OF ITS REPRESENTATIVES MAKE ANY

1 REPRESENTATIONS AS TO WHETHER ANY SECURITIES ISSUED PURSUANT TO THE  
2 PLAN, ONCE PLACED IN THE HANDS OF RECIPIENTS UNDER THE PLAN, MAY BE  
3 FREELY TRADED. Persons who may be underwriters must either register the securities under  
4 the Securities Act in connection with a resale or use an applicable exemption from registration.

5 The Reorganized Debtor is not obligated to register securities issued pursuant to the Plan  
6 or to assist holders of such securities in establishing an exemption from registration.

7 Accordingly, any entity becoming a holder of such securities who is determined to be an  
8 underwriter may be able to dispose of the securities only in limited circumstances.

9 If the Reorganized Debtor has reason to believe that a recipient of its securities pursuant  
10 to the Plan may be an underwriter, the Reorganized Debtor may require from such recipient a  
11 statement that the recipient is aware of Section 1145 of the Bankruptcy Code and the  
12 requirements of the Securities Act regarding resale of those securities and that those securities  
13 held by such recipient will be sold in compliance with the Securities Act.

14 d. State “Blue Sky” Laws. State laws affecting resales of securities issued in  
15 connection with bankruptcy reorganizations may vary. Those who become holders of securities  
16 issued pursuant to the Plan should consult with their attorneys concerning the applicability of any  
17 state law affecting resales of such securities.

18 e. Listing and Trading. IT IS ADVISABLE FOR EACH RECIPIENT OF  
19 SECURITIES ISSUED PURSUANT TO THE PLAN TO CONSULT INDEPENDENT  
20 COUNSEL PRIOR TO SELLING THOSE SECURITIES. ALL CREDITORS AND EQUITY  
21 HOLDERS ARE ALSO URGED TO CONSULT COUNSEL REGARDING TAX  
22 CONSEQUENCES OF THE PLAN AND, IN PARTICULAR, ANY TAX CONSEQUENCES  
23 OF RECEIVING SECURITIES UNDER THE PLAN. The securities issued under the Plan will  
24  
25

1 only trade if the Reorganized Debtor or the Operating Subsidiaries apply with a member of the  
2 National Association of Securities Dealers. The Debtor believes that the proposed management  
3 of the Reorganized Debtor and the Operating Subsidiaries will be able to attract a sponsoring  
4 broker-dealer but such sponsorship will require likely audits of each entity and likely registration  
5 under the Exchange Act. Both of these activities require capital investment and there is no  
6 assurance that such additional capital will be available.  
7

8 f. Restrictions related to the maintenance of NOL's. There are various rules  
9 limiting the maintenance of the Reorganized Debtor's NOL's if there are changes of control of  
10 the Reorganized Debtor. All Shares and Warrants issued by the Reorganized Debtor will have a  
11 legend restricting the ability of any shareholder or shareholder affiliate from acquiring more than  
12 4.99% of the Reorganized Debtor's Stock or Warrants without the Reorganized Debtor's  
13 approval. There are no NOL restrictions on Holders of Operating Subsidiaries shares or  
14 warrants. Holders of less than 4.99% of the Reorganized Debtor may sell their stock without  
15 impact as long as the buyer of such stock owns after the acquisition less than 4.99% of the  
16 Reorganized Debtor. In the event a holder accumulates more than 4.99% this sale will be void.  
17 In addition, any warrants to be issued that would violate the NOL rules will be void.  
18

19 **D. CLASSIFICATIONS AND TREATMENT OF CLAIMS**  
20

21 Most claims and equity interests may be classified or aggregated for purposes of voting  
22 and treatment under the Plan, based upon a substantial similarity among the claims or interests in  
23 the class. If a class of claims or interests votes to accept the Plan, a rejection of the Plan by some  
24 of the holders of the claims or interests in the class will not, by itself, prevent confirmation of the  
25 Plan.

Class	General Description of Claims	Est Claim	Treatment
1(a)(i)	General Administrative Expenses	\$ 750,000	Excluding Cisco, paid in full on the Effective Date with a Series A Note unless either a Series B Note or payment in securities is elected. If securities are elected, a Class 1(a) claimant will receive for each \$1 of claim; one VTEC Common Share, eight VTEC Warrant Units, plus 1/8 of a OpSub Common Share and ten OpSub Warrant Units. The OpSub Common Shares will be non dilutive until after an Initial Change of Control transaction.
1(a)(ii)	Active Professionals	\$450,000	Will receive some payments in cash and the balance of any pre Effective Date claims will be transferred to the Creditors Trust
1(b)	The Funding Lenders	Up to \$ 2,800,000	Holders may elect to have their PLG or NVL Notes and accrued interest paid on the Effective Date with Securities or Series A Notes or Series B Notes. If securities are elected, the Holder will receive for each \$1 of Note plus interest; two VTEC Common Shares, 8 VTEC Warrant Units, <u>plus</u> one OpSub Common Share in each OpSub <u>plus</u> four OpSub Warrant Units. PLG holders have the option of electing Class 1(a)(i) treatment.
1(c)	Aztore	Up to \$1,000,000	Holders may elect to have their Notes, claims and accrued interest thereon paid on the Effective Date with VTEC Common Stock at a price of \$.25 per share plus two VTEC Warrants Units per VTEC Common Share issued. This treatment applies to all Aztore Affiliates.
1(d)(i)	Post petition Employees	\$ 150,000	Employees may elect to receive payment for their claims identical to the Funding Lenders, except if they make no election, they shall receive as a default a Series A note.
1(d)(ii)	Rothwell Claim	\$ 342,000	Rothwell will receive a \$44,000 Series B Note plus 4.99% of VTEC's Common Stock and 1/2% of each OpSub Common Stock plus \$10,000 for the Rothwell Contingent Claim.
1(d)(iii)	Mayo Claim	\$15,000	Mayo will receive \$850 per month in cash plus 3% of VTEC's Common Stock.
2.	Priority Claims (Non-Tax)	\$53,000	Paid in full on the Effective Date with a Series A Note but can elect Class 1(b) treatment.
3.	Priority Claims (Tax)		The IRS has acknowledged that there is no priority tax claim due.
4.	Axient	\$ 280,000	Acknowledged as a \$30,000 Funding Lender Note with Class 1(b) treatment options. Any deficiency



			claim shall be treated as a Class 7 Unsecured Claim.
5.	Cisco Secured Equipment Purchase	\$ 50,000	Shall be issued a new Series B Note with a principal balance of \$120,000 covering this claim and its Class 1(a) claim of approximately \$70,000.
6.	American Fire Equipment Sales and Services	\$31,951	Debtor shall consent to the Claimant's recovery of its collateral and any deficiency claim or any other type of claim held by the Claimant shall be released.
7.	Unsecured Creditors	\$8,500,000	Each Claimant shall receive that Claimant's <i>pro rata</i> share of Class 7 Securities Pool plus Creditor Trust Units which holds all Causes of Action and Causes of Action Proceeds. The Class 7 Security Pool will include 500,000 VTEC Common Shares, 2,000,000 VTEC Warrant Units, plus 100,000 OpSub Common Shares in each OpSub plus 400,000 OpSub Warrant Units equal to 4x the OpSub Shares,
8.	Equity Security Holder Interests	More than \$40,000,000	No participation
<b>Class</b>	<b>General Description of Claims (continued)</b>	<b>Claim (1)</b>	<b>Treatment</b>

1. Identification of Classes Impaired by the Plan.

Classes 4, 5, 6, 7, and 8 created by the Plan are considered "impaired" pursuant to 11 U.S.C. § 1124. This means, in part, that the Plan modifies the contractual rights of all holders of these claims and interests, that holders of classified claims will not receive the allowed amounts of their claims in cash on the Effective Date, and that holders of allowed interests will not retain any fixed liquidation preference or be paid any fixed redemption amount for equity securities held.

2. Claim Amounts.

Because certain of the claims against the Debtor are in unknown or undetermined amounts, the amounts of claims specified in the Plan reflect only the Debtor's best estimate as of

1 the date of this Disclosure Statement. A list of creditors and claim amounts were included in the  
2 Schedules and Statement of Affairs filed by the Debtor in this case in December 2000. The  
3 Debtor reserves the right to object to any claim and equity security interests noted in the  
4 Schedules and Statement of Affairs, or any other claim asserted against the Debtor, either prior  
5 to or following Confirmation. Under the Plan, objections to claims must be filed within sixty  
6 (60) days following the Effective Date.

7 Within 120 days of the Effective Date, the Debtor or the Reorganized Debtor shall  
8 distribute all securities to Holders of Allowed Claims, pursuant to the terms of the Plan. In  
9 calculating the number of units to be distributed pursuant to the formulae set forth below, the  
10 number of such units to be distributed to each Holder of an Allowed Claim shall be rounded up  
11 to a minimum of one hundred. On the Effective Date, regardless of receipt of any securities to  
12 be distributed, the holders shall have all rights related to the securities including the right to  
13 transfer their ownership interests on the books of any of the Plan entities with customary  
14 documentation.

15 **E. Disputed Claims And Interests.**

16 1. The Debtor or the Reorganized Debtor and its attorneys may file on or before  
17 ninety (90) days from the Effective Date:

- 18 (a) an objection to any claim;
- 19 (b) a motion to determine the extent, priority, or amount of any secured or  
20 other claim; or
- 21 (c) a complaint to determine the validity, priority or extent of any lien or other  
22 interest in property of the Debtor's estate.

23 Copies of responsive pleadings to all such objections, motions, or complaints must be  
24 served upon the Reorganized Debtor's attorney, Mark Guinta, Esq.

25 2. Where objections are made to any claim or to any motions or proceedings filed in  
regard to any lien, claim, or privilege, any payments or distributions of securities that are due in

1 accordance with the Plan shall be held in trust by the Reorganized Debtor, subject to the  
2 Bankruptcy Court's jurisdiction, in an interest-bearing or escrow account or accounts in Phoenix,  
3 Arizona, which account or accounts shall be federally insured (in the event of a distribution of a  
4 cash payment) and segregated unless otherwise stated herein or, in the alternative, one or more of  
5 the following will be provided:

6 (a) a letter of credit or other bond; or

7 (b) certificates of deposit or other security satisfactory to the Court to assure  
8 the payment of the claim.

9 3. Within thirty (30) days after entry of a final, non-appealable order resolving any  
10 disputed claim, lien or privilege, payment, including accrued interest, or securities shall be  
11 distributed to the claimant (subject to the terms of the Plan) or any other entity entitled to  
12 distribution in accordance with the Bankruptcy Court's order or if no claim is allowed returned to  
13 Treasury Stock or to VTEC or the Class 7 Pool.

14 **F. Penalty Claims.**

15 No creditor, whether secured, unsecured, priority, or non-priority, shall be entitled to any  
16 fine, penalty, exemplary or punitive damages, late charges, default interest, or any other  
17 monetary charge relating to or arising from any act or omission by the Debtor, and any claim for  
18 such sums shall be deemed disallowed, whether or not a specific objection to the allowance of  
19 such sums is filed. Creditors with allowed, secured claims shall be entitled to reasonable  
20 attorneys' fees and interest at a non-default rate, subject to the limitations of Section 506 of the  
21 Bankruptcy Code.

22 **G. Unclaimed Distributions.**

23 All distributions of money or securities under the Plan which are returned by the Post  
24 Office undelivered or which cannot be delivered due to the distributee's failure to provide the  
25 Reorganized Debtor with a current address will be retained by the Reorganized Debtor in trust in  
a federally insured bank (in the event of a distribution of a cash payment) or in certificated form

1 in the case of securities in the name of the distributee. After the expiration of six (6) months  
2 from the date of the first attempted distribution, any unclaimed monies, securities and all future  
3 distributions will vest in either the Reorganized Debtor or, in the case of unsecured creditors, in  
4 the Creditors Trust, free of any claim of the distributee. At such time, the Creditors Trust may  
5 open a brokerage account and sell these undeliverable securities to fund its operations. The  
6 Creditors' Trust will be responsible for all transfer fees of such securities.

#### 7 **H. Post Confirmation Business Operations**

8 After the Effective Date, the Reorganized Debtor will continue its business through the  
9 Operating Subsidiaries and manage its affairs without supervision by the Bankruptcy Court, and  
10 it may enter into agreements to transfer, convey, encumber, use and lease any and all of its  
11 assets.

#### 12 **I. Ownership Of The Debtor's Assets And Causes Of Action**

13 1. The Assets. Excluding the Causes of Action and the Causes of Action Proceeds,  
14 as of the Effective Date, the Reorganized Debtor and the Operating Subsidiaries shall retain and  
15 be vested with ownership of all property of the Debtor's Chapter 11 estate, as defined in 11  
16 U.S.C. § 541, and the Reorganized Debtor shall own all such property free and clear of all liens,  
17 claims and interests of any person or entity, except as specifically provided in the Plan or the  
18 Final Order.

19 2. The Causes of Action. The Causes of Action shall be placed in the Creditors  
20 Trust.

#### 22 **J. The Creditors' Trust**

23 1. Purpose. The purpose of the Creditors' Trust is to marshal, maintain, administer,  
24 pursue, collect, settle, dispose of and disburse the Trust Property for the benefit of the Allowed  
25 Unsecured Claims under Class 7. The holders of all Allowed Unsecured Claims under Class 7

1 shall be the beneficiaries of the Creditors' Trust until the holders of all allowed claims under  
2 Class 7 shall be paid. The Creditors' Trustee will be appointed by and governed by the Court.  
3 The authority of the Creditors' Trustee will be effective as soon as the Creditors' Trustee is  
4 appointed and will remain in full force and effect until the claims are liquidated or determination  
5 by the Creditors' Trustee in his reasonable business judgment and no further action should be  
6 taken with regard to the remaining Trust Property.

7  
8 2. Powers and Duties of the Creditors' Trustee. The Creditors' Trustee shall  
9 marshal, maintain, administer, pursue, collect, settle, dispose of, and disperse the Trust Property  
10 for the benefit of Allowed Unsecured Claim holders of Class 7. Effective on the Effective Date,  
11 the Creditors' Trustee will be the representative of the Estate as that term is used in Bankruptcy  
12 Code §1123(b)(3)(B) and will have the rights and powers provided for in a Bankruptcy Code in  
13 addition to any rights and powers granted herein to pursue the Causes of Action. In his or her  
14 capacity as the representative of the Estate, the Creditors' Trustee will be the successor in  
15 interest to the Debtor with respect to the Causes of Action. The Creditors' Trustee will hold all  
16 right, title and interest in and to the Causes of Action on behalf of the beneficiaries of the  
17 Creditors' Trust and will pay from the Creditors' Trust all ordinary and necessary costs of  
18 protecting, preserving, investigating and pursuing the Causes of Action. The Creditors' Trustee  
19 will administer the Creditors' Trust, will liquidate the Causes of Action of the Creditors' Trust,  
20 and will make distributions from the Creditors' Trust all in the accordance with the terms of the  
21 Plan. The Creditors' Trustee shall also have the power to settle any of the Causes of Action.  
22 That Creditors' Trustee shall have the power to retain and employ, for reasonable compensation  
23 and upon reasonable terms professional persons, including but not limited to appraisers,  
24 accountants, brokers, attorneys, and clerical assistants to assist in the administration and  
25

1 liquidation of the Trust Property. The Creditors' Trustee shall have power to borrow funds on  
2 reasonable business terms to finance the investigation and litigation of the Causes of Action.

3 3. Distribution of Proceeds. Proceeds from the liquidation of the Causes of Action  
4 shall be disbursed to pay the remaining claims of the Active Professionals and the balance will  
5 pay costs and establish a reserve account prior to paying the Trust Unit Holders.

6 4. Preservation of Debtor's Claims, Demands and Causes of Action. All Claims and  
7 Causes of Action of any kind or nature whatsoever held by, through or on behalf of the Debtor  
8 and/or its Estate against any other person, including, but not limited to, all Avoidance Actions,  
9 and all claims or Causes of Action arising before the Confirmation Date which has not been  
10 resolved or disposed of prior to the Confirmation Date are preserved in full for the benefit of the  
11 Creditors' Trust. The Creditors Trust shall be entitled to name the Debtor or Reorganized Debtor  
12 as a nominal party with appropriate indemnification.

13 5. Ongoing relationship with the Reorganized Debtor. The Reorganized Debtor will  
14 assist the Creditors Trust by maintaining the Debtor's documents, providing up to 100 hours of  
15 free research and trying to assist the Trust by supplying work papers etc. as available from third  
16 parties.  
17

#### 18 **K. Continuation And Termination Of Security Interests**

19 Unless otherwise provided in the Plan or in the Final Order, all creditors possessing  
20 allowed, secured claims shall retain their liens on any of their collateral the Reorganized Debtor  
21 acquires to secure payment of all cash or other property to be distributed to them pursuant to the  
22 terms of the Plan. Such liens on the Reorganized Debtor's property shall be deemed relinquished  
23 and reconveyed to the Reorganized Debtor upon the payment to the holders of such liens of all  
24 money, property or securities due them in satisfaction of their allowed, secured claims pursuant  
25 to the terms of the Plan. The Creditors Trust, the note holders and the Debtor's shareholders

1 retain their rights, if any, to pursue claims and causes of action against the Debtor's directors,  
2 officers and employees, non Debtor third parties and the Debtor's D&O Insurance.

3 Moreover, once any lien is deemed relinquished and reconveyed to the Reorganized  
4 Debtor pursuant to the terms of the Plan, the creditor who had claimed such lien shall  
5 immediately deliver to the Reorganized Debtor all documents, properly signed and notarized,  
6 needed to document the release of the lien according to any applicable state or federal law. If the  
7 required documentation is not supplied **within one (1) week** after demand therefor has been  
8 made, the Reorganized Debtor may seek an order from the Bankruptcy Court enforcing the lien  
9 release provisions of this Plan or entry of an order declaring the lien to be released or void.  
10

11 Except as stated previously in this Article, all security interests and liens of any kind in  
12 any property the Reorganized Debtor acquires under the Plan shall terminate and shall be  
13 deemed to have terminated upon the Effective Date

14 **I. Satisfaction Of Claims And Interests**

15 All classes of allowed claims and allowed interests shall receive the distributions set forth  
16 herein on account of and in complete satisfaction of those allowed claims and interests. Without  
17 limiting the foregoing, upon the Effective Date, each holder (and each successor of a holder) of  
18 an allowed claim or an allowed interest shall be deemed to have waived, relinquished and  
19 released any and all of its rights and claims against the Debtor and the Reorganized Debtor,  
20 except as provided in the Plan or the Final Order.

21 **M. Binding Nature Of The Plan**

22 Upon the entry of the Final Order, the Plan shall bind the Debtor, the Reorganized  
23 Debtor, all entities that are to acquire any property under the Plan, all creditors, and all equity  
24 security holders, whether or not their claims and interests are impaired under the Plan and  
25 whether or not they have accepted the Plan, as determined by § 1141(a) of the Bankruptcy Code.

1 This means, in part, that, except as provided by an express order of the Bankruptcy Court  
2 or pursuant to the terms of the Plan or the Final Order, all judicial, administrative or other actions  
3 or proceedings pending against the Debtor or arising out of claims accrued prior to the  
4 confirmation of the Plan shall be permanently enjoined.

5 **N. General Implementation Of The Plan.**

6 1. Formation of the required entities. Immediately prior to the Effective Date,  
7 VTEC shall become the Reorganized Debtor with the Directors specified in Article III and form  
8 Operating Subsidiaries by purchasing stock to fund the formation, securities issuance and legal  
9 fees. All assets and rights shall be transferred to the appropriate entity. After the Debtor settles  
10 all its claims and transfers all assets and rights in accordance with the Plan, the Debtor and the  
11 Reorganized Debtor will merge with VTEC being the survivor and the Debtor dissolved in  
12 accordance with Arizona law.

13  
14 2. Election of Directors of the Operating Subsidiaries. The Directors of VTEC will  
15 vote to elect the Directors of all the Operating Subsidiaries. Unless determined otherwise by the  
16 Reorganized Debtor's new Board of Directors, the Officers and Directors will be identical to  
17 VTEC's Officers and Directors until the first shareholders meeting after the Effective Date.

18 3. Licensing of the Visitalk Rights. Each Operating Subsidiary shall receive an  
19 Operating License or other agreement for its Visitalk line of business and issue sufficient  
20 Operating Subsidiary Common Stock and Operating Subsidiary Warrant Units to fund the Plan.

21 4. The VTEC Board of Directors shall oversee implementation of the Plan and be  
22 fully empowered to act for the Debtor to implement the Plan.

23  
24 5. The Articles of Incorporation and the Bylaws of the Reorganized Debtor and the  
25 Operating Subsidiaries shall be deemed to be amended in every way necessary to comply with  
and effectuate the terms and conditions of the Plan.



1           6.       The Board of Directors of VTEC and the Operating Subsidiaries shall have the  
2 power to amend the Articles of Incorporation and the Bylaws in any manner necessary to carry  
3 out the provisions of the Plan. The board of directors shall be entitled to use and exercise all  
4 pertinent provisions of state and federal law. These include the right prior to the distribution of  
5 securities under the Plan to establish different names for the Operating Subsidiaries, incorporate  
6 in any state in the union, establish the number of shares authorized for each entity and other  
7 administrative details necessary to execute the Plan.  
8

9           7.       To implement the issuance of the securities provided for in the Plan, the Board of  
10 Directors of VTEC and the Operating Subsidiaries shall take all necessary steps required by the  
11 Code, Federal and state laws and to perform such implementation in a cost effective manner, the  
12 Board of Directors shall have the authority to vary, alter or revise any of the steps outlined above  
13 so long as such change does not negatively affect any of the distributions provided for by the  
14 Plan. The entities may hire any qualified transfer agent or act as their own transfer agent, note  
15 agent and warrant agent in their sole discretion.

16 **O.       Retention Of Bankruptcy Court Jurisdiction**

17           Following Confirmation of this Plan, the Bankruptcy Court shall retain, without  
18 limitation, jurisdiction for the following purposes and to provide any relief the Reorganized  
19 Debtor may require to effectuate the Plan or any modification of the Plan:

20 **P.       Post-Confirmation Business Operations.**

21           1.       No Supervision. After the Effective Date, the Reorganized Debtor and the  
22 Operating Subsidiaries will continue their businesses and manage their affairs without the  
23 supervision of the Bankruptcy Court. The Reorganized Debtor and the Operating Subsidiaries  
24 may enter into agreements to transfer, convey, encumber, use and lease any and all of its assets,  
25 issue securities, acquire companies or assets for securities or debt to enhance shareholder value.

1           2.     Investment Company Exemption. The Reorganized Debtor is authorized to  
2 operate as an investment company in accordance with the exemption in Section 6(b) of the  
3 Investment Company Act of 1940 if it qualifies for this exemption. This exemption is as  
4 follows:

5           *“The following investment companies are exempt from the provision of this title: ... (b)*  
6 *Any company which since the effective date of this title or within five years prior to such date has*  
7 *been reorganized under the supervision of a court of competent jurisdiction, if (A) such company*  
8 *was not an investment company at the commencement of such reorganization proceedings, (B) at*  
9 *the conclusion of such proceedings all outstanding securities of such company were owned by*  
10 *creditors of such company or by persons to whom such securities were issued on account of*  
11 *creditors’ claims, and (C) more than 50 per centum of the net asset value of such company, and*  
12 *securities representing more than 50 per centum of the net asset value of such company, are*  
13 *currently owned beneficially by not more than twenty-five persons; but such exemption shall*  
14 *terminate if any security of which such company is the issuer is offered for sale or sold to the*  
15 *public after the conclusion of such proceedings by the issuer or by or through any underwriter.*  
16 *For the purpose of this paragraph, any new company organized as part of the reorganization*  
17 *shall be deemed the same company as its predecessor, and beneficial ownership shall be*  
18 *determined in the manner provided in section 3(c)(1).”*

19           The Reorganized Debtor will initially report as a holding company due to its control of its  
20 Operating Subsidiaries. If the Reorganized Debtor divests control of its subsidiaries over time it  
21 would likely be required characterized by the SEC as investment company since it would have  
22 more than 100 shareholders and if a majority of its assets would not be in controlled entities. This  
23 Investment Company exemption will allow VTEC to report its financials using a “mark to  
24 market” presentation format rather than presenting consolidated financial statements but will  
25

1 allow VTEC to not be subject to the restrictive 1940 Act only the Securities Act and the  
2 Exchange Act..

3 **Q. Anticipated Post-Confirmation Litigation.**

4 Debtor anticipates little post confirmation litigation before the Bankruptcy Court since it  
5 has assigned all rights to claims to the Creditors Trust.

6 **R. Acceptance And Rejection Of Executory Contracts.**

7 In accordance with 11 U.S.C. § 365, the Debtor does not assumes any executory contract  
8 or unexpired lease except those executory contracts that the Debtor has prepaid in full, including  
9 the Visitalk's Directors And Officers Liability Policy if said policy is deemed an executory  
10 contract.

11 Pursuant to 11 U.S.C. § 365, the Debtor has rejected or hereby rejects any and all  
12 executory contracts and unexpired leases except as otherwise set forth in this section.

13 Any person or entity injured by such rejection shall be deemed to hold an unsecured  
14 claim against the Debtor to the extent allowed, and, **unless an earlier bar date is set by the**  
15 **Court, within ten (10) days before the initial hearing on Confirmation of the Plan, must file**  
16 **proof of claim for any damages resulting therefrom or be forever barred from asserting**  
17 **any claim.**  
18

19 The Debtor reserves the right to apply to the Bankruptcy Court at any time prior to  
20 confirmation of the Plan to reject any and all other contracts which are executory.

21 **S. General Provisions Concerning the Consequences of Confirmation .**

22 1. **Ownership of the Debtor's Assets.**

23 As of the Effective Date, the Reorganized Debtor and the Operating  
24 Subsidiaries shall retain and be vested with ownership of all property of the Debtor's Chapter 11  
25

1 Estate, as defined in 11 U.S.C. § 541 with the express exception of the Causes Of Action that  
2 shall be transferred to the Creditor Trust. Reorganized Debtor and the Operating Subsidiaries  
3 shall own all such property free and clear of all liens, claims and interests of any person or entity,  
4 except as specifically provided in the Plan or the Final Order.

5 2. Continuation and Termination of Security Interests.

6 Unless otherwise provided in the Plan or in the Final Order, all creditors  
7 possessing allowed, secured claims shall retain their liens on any of their collateral the  
8 Reorganized Debtor acquires to secure payment of all cash or other property to be distributed to  
9 them pursuant to the terms of the Plan. Such liens on the Reorganized Debtor's property shall be  
10 deemed relinquished and reconveyed to the Reorganized Debtor upon the payment to the holders  
11 of such liens of all money or property due them in satisfaction of their allowed, secured claims  
12 according to the terms of the Plan.

13 Moreover, once any lien is deemed relinquished and reconveyed to the  
14 Reorganized Debtor pursuant to the terms of the Plan, the creditor who had claimed such lien  
15 shall immediately deliver to the Reorganized Debtor all documents, properly signed and  
16 notarized, needed to document the release of the lien according to any applicable state or federal  
17 law. If the required documentation is not supplied within one (1) week after demand therefor has  
18 been made, the Reorganized Debtor may seek an order from the Bankruptcy Court enforcing the  
19 lien release provisions of this Plan or entry of an order declaring the lien to be released or void.  
20

21 Except as stated previously in this subsection, all security interests and  
22 liens of any kind in any property the Reorganized Debtor acquires under the Plan shall terminate  
23 and shall be deemed to have terminated upon the Effective Date.  
24

25 4. Insurance.

1                   The Reorganized Debtor and its Operating Subsidiaries shall maintain  
2 insurance on all of its and its subsidiaries' tangible personal and real property in an amount not  
3 less than the fair market value of that property and shall keep its and its Operating Subsidiaries'  
4 property in good repair, reasonable wear and tear excepted.

5                   5.       Satisfaction of Claims.

6                   All classes of allowed claims and allowed interests shall receive the  
7 distributions set forth in this Disclosure Statement on account of and in complete satisfaction of  
8 those allowed claims and interests. Without limiting the foregoing, upon the Effective Date,  
9 each holder (and each successor of a holder) of an allowed claim or an allowed interest shall be  
10 deemed to have waived, relinquished and released any and all of its rights and claims against the  
11 Debtor and the Reorganized Debtor, except as provided in the Plan or the Final Order.

12                   6.       Binding Nature of the Plan.

13                   Upon the entry of the Final Order, the Plan shall bind the Debtor, all  
14 entities that are to acquire any property under the Plan, all creditors, and all equity security  
15 holders, whether or not their claims and interests are impaired under the Plan and whether or not  
16 they have accepted the Plan, as determined by § 1141(a) of the Bankruptcy Code.

17                   This means, in part, that, except as provided by an express order of the  
18 Bankruptcy Court or pursuant to the terms of the Plan or the Final Order, all judicial,  
19 administrative or other actions or proceedings pending against the Debtor or arising out of claims  
20 accrued prior to the confirmation of the Plan shall be permanently enjoined. The litigation  
21 pending against the Debtor at the time of the filing of the Debtor's Chapter 11 petition and the  
22 litigation against the Debtor commenced thereafter, of which the Debtor is aware, are identified  
23 in **Exhibit "6"**.

1           7.     Termination of the Automatic Stay and Discharge.

2                     The automatic stay of § 362(a) of the Bankruptcy Code shall terminate  
3 when the Final Order becomes non-appealable. Pursuant to § 1141(a) of the Bankruptcy Code,  
4 the entry of the Final Order shall permanently bar the filing and asserting of any claims against  
5 the Debtor and the Reorganized Debtor which arose or relate to the period of time prior to the  
6 date of entry of that order, except as provided in the Plan or the Final Order.  
7

8                                     **ARTICLE XIII**  
9                                     **RISK FACTORS ASSOCIATED WITH CONFIRMATION**  
10                                    **OF THE PLAN.**

11     **A.     General comments on Risk Factors.**

12           1.     Impact of Voting to accept the Plan. Voting to accept the Plan will, for most of  
13 those affected by the Plan, constitute a decision to make an investment. All investment decisions  
14 entail elements of risk. The Co-Proponents have attempted to identify herein some of the “risk  
15 factors” associated with confirmation of the Plan in this Article. The Co-Proponents and any  
16 professionals employed by the Co-Proponents do not represent that the following list of Risk  
17 Factors is exhaustive. The Reorganized Debtor and the Operating Subsidiaries will face many  
18 risks not determinable at this time. A potential investor should consider reviewing the Risk  
19 Factors and other information contained in the Disclosure Statement and Plan with their  
20 professional investment and legal advisors.

21           2.     Securities to be distributed are highly speculative. By voting for the Plan, holders  
22 of claims will receive various securities. All securities to be distributed under the Plan are highly  
23 speculative, and investment therein involve a high degree of risk. In analyzing the Plan, holders  
24 of claims against the Debtor should carefully consider the all the factors set forth in this Article,  
25

1 among others, and the information set forth elsewhere in this Disclosure Statement in deciding  
2 whether to accept or reject the Plan.

3 3. No Independent Due Diligence. The Co-Proponents have not retained counsel to  
4 perform independent due diligence as to this Plan. Lenders and Claim Holders must perform  
5 their own due diligence review before making any investment decision.

6 4. Risk Factors apply to all Co-Proponents. The Risk Factors presented in this  
7 Article apply to any of the co-proponents and are not limited to VTEC.

8  
9 **B. Risks related to the operation of the companies formed under the Plan.**

10 1. Development stage companies. There is no meaningful operating history to  
11 evaluate the prospects of the Reorganized Debtor and the Operating Subsidiaries for successful  
12 operations. Visitalk had a limited operating history and was only been a software developer for  
13 a little more than two years before filing bankruptcy. The technology concept of our business is  
14 a new and unproven. We expect to commence our first larger scale marketing efforts of the VT  
15 Directory technology if the Plan is approved. Our predecessor, Visitalk, had incurred huge  
16 operating losses and had negative cash flow since its incorporation in late 1998. Future losses  
17 from our activities should be anticipated.

18  
19 Each of our operations will be subject to all of the risks inherent in the establishment of a  
20 new business enterprise, particularly one that is dependent, initially, on the ever-changing high  
21 technology industry. The likelihood of our success must be considered in light of the problems,  
22 expenses, difficulties, complications and delays frequently encountered in connection with  
23 establishing a new business, including uncertainty as to service capabilities, market acceptance,  
24 marketing methods, expenses and competition. We may not be successful in our proposed new  
25 business activities.

1           2.     Our business prospects are difficult to evaluate. We only commenced marketing  
2 any service for fees on February 1, 2001, after we were in bankruptcy and without capital  
3 resources. We have only had about \$360,000 in revenues thorough the date of this Disclosure  
4 Statement but we have had very limited capital for development and marketing. Therefore, we  
5 have a very limited operating history upon which you can evaluate our prospects. This  
6 operating history is unlikely to be representative. Our prospects must be considered in light of  
7 the risks, difficulties and uncertainties frequently encountered by companies in an early stage of  
8 development, particularly companies in new and rapidly evolving markets such as the market  
9 for Internet Protocol communications directories. These risks include whether we are able to:

- 10
- 11 • effectively develop and manage a complex and unproven business system;
- 12 • successfully market and sell our services;
- 13 • continue to develop and upgrade our technology and network infrastructure;
- 14 • respond to competitive developments;
- 15 • successfully introduce enhancements to our existing services to address new technologies  
16 and standards; and
- 17
- 18 • attract, retain and motivate qualified personnel.

19           3.     Lack of meaningful financial information. In addition to the risks inherent in  
20 developing a new business, we do not have significant historical financial information available  
21 for meaningful analysis. No financial information has been audited by an independent certified  
22 public accountant. The Financial Statements as presented may be subject to substantial  
23 adjustment upon such audit.

24           4.     Difficulties attracting and retaining qualified personnel. The Reorganized  
25 Debtor's and the Operating Subsidiaries' ability to achieve profitable operations in any business



1 that they may enter is dependent upon each company's ability to attract and retain qualified  
2 personnel. No assurances can be given that the Reorganized Debtor or the Operating  
3 Subsidiaries will be able to attract or retain such qualified personnel.

4       5.     Additional capital requirements. The proposed plan of operations for the  
5 companies under the Plan, even if successful, may not result in cash flow sufficient to finance the  
6 continued expansion of each of its new businesses. Each entity will, in all likelihood, require  
7 additional capital for our operations and anticipated expansion. We will very likely require  
8 substantial additional capital for development and marketing activities. There can be no  
9 assurance we will be successful in obtaining any additional equity capital or other financing or, if  
10 obtained, that such capital will be obtained at a reasonable cost.

12       Visitalk was unable to fund its operations with internally generated funds. To expand our  
13 business we will very likely need to raise additional capital. We have required and continue to  
14 require substantial capital to fund our business operations. Our future capital requirements will  
15 depend upon many factors, including the expansion of the businesses of our Operating  
16 Subsidiaries, requirements to maintain adequate VT Directory capabilities, the progress of our  
17 research and development activities, expansion of our marketing and sales efforts and the status  
18 of competitive products and services. In the future, we expect to enter into additional financial  
19 transactions, which could result in significant dilution or substantial indebtedness.

20       We currently have no commitments, agreements or understandings regarding additional  
21 financing and we may be unable to obtain additional financing on satisfactory terms or at all.  
22 We expect to pursue additional financing through private placements of debt or equity or through  
23 the exercise of the warrants included in our Warrant Units. If additional funds are raised by  
24 issuing equity securities, further dilution to existing or future stockholders will result. We may  
25

1 also incur or assume substantial indebtedness. If adequate funds are not available, we may be  
2 required to delay, scale back or eliminate our research and development, marketing or expansion  
3 efforts or obtain funds through arrangements with current investors or others. These  
4 arrangements may require us to relinquish rights to certain of our existing or potential products  
5 or other assets. The inability to obtain financing could have a material adverse effect on our  
6 business, financial condition and results of operations. The Debtor's history of bankruptcy may  
7 make it more difficult to attract additional capital.

8  
9 6. Limited Intellectual Property Protection. All our patent filings have lapsed since  
10 we had no money to pursue them. In the future we will only be able to rely on trade secret,  
11 nondisclosure, confidentiality and non-competition rights to protect our intellectual property  
12 rights. Accordingly, we may not be able to bear the costs of any defense or prosecution of  
13 claims related to our intellectual property rights. Our actions to protect our trademarks and other  
14 proprietary rights may be inadequate. In addition, it is possible that we could become subject to  
15 infringement actions based upon content we may license from third parties. Any of these claims,  
16 with or without merit, could subject us to costly litigation and the diversion of our financial  
17 resources and technical and management personnel. Further, if such claims are successful, we  
18 may be required to alter the content and pay financial damages. Despite our efforts to protect our  
19 proprietary rights from unauthorized use or disclosure, parties may attempt to disclose, obtain or  
20 use our solutions or technologies. Any litigation regarding our proprietary rights could be costly  
21 and divert our attention, result in the loss of certain of our proprietary rights, require us to seek  
22 licenses from third parties and prevent us from selling its services, any one of which could  
23 adversely affect our business.  
24  
25

1           7.     Potential control by largest lenders and claimants. If all lenders choose to be paid  
2 with securities issued under the Plan, the largest lenders and claimants will likely control a  
3 majority of the voting shares and, when acting in concert, could elect or designate all the  
4 members of the Board of Directors.

5           8.     Significant Historical Losses. Visitalk has incurred substantial losses and  
6 negative cash flow since its formation in 1998. For the 12 months ending December 31, 1999  
7 and the 11 months ending November 30, 2000, Visitalk had nominal operating revenues. Our  
8 operating expenses for each of these periods were approximately \$15,000,000 and \$30,000,000,  
9 respectively. We also purchased millions of dollars in assets including more than \$2,000,000 in  
10 leasehold improvements made to a building which we no longer occupy. We must be able to  
11 generate substantial sales of our services and increase the licensing of our software to increase  
12 revenues. There is no assurance that we can increase our revenue sources with limited  
13 investment and operating expenses. If the Reorganized Debtor or the Operating Subsidiaries  
14 continue to lose money over a period of time, we may be forced to severely limit or discontinue  
15 most of our operations.

16           9.     Dependence on Key Personnel. We will be dependent on the continued services  
17 of our new management team as set forth herein. While we have no assurance that our current  
18 management will produce successful operations, the loss of such personnel could have an  
19 adverse effect on meeting our production and financial performance objectives.

20           10.    Risks associated with management of potential growth. We anticipate rapid  
21 growth which will place a significant strain on our very limited managerial, operational, financial  
22 and information systems resources. To manage growth, the Reorganized Debtor and each of the  
23 Operating Subsidiaries must continue to implement and improve our operational, financial and  
24  
25

1 information systems, and hire, train and manage an employee base. Additionally, expansion of  
2 our information and network systems is required to accommodate this growth. There can be no  
3 assurance that the management of the Reorganized Debtor and each of the Operating  
4 Subsidiaries will be able to effectively manage the expansion of our operations, or that our  
5 facilities, systems, procedures or controls will be adequate to support our expanded operations.  
6 Any inability to effectively manage our future growth would have a material adverse effect on  
7 us. We believe that the ability of the Reorganized Debtor and each of the Operating Subsidiaries  
8 to provide timely delivery for customers and adequate customer support largely will depend on  
9 our ability to attract, identify, train, integrate and retain qualified personnel. Failure to provide  
10 adequate customer support services would adversely affect our ability to maintain and increase  
11 our customer base, and could therefore have a material adverse effect on our operations.  
12

13 11. Our Customer Base Must be Expanded. To date, we have a limited number of  
14 customers that provide all of our revenues. There is no assurance that we will be able to obtain  
15 adequate distribution of our services to a large number of intended end users. Our ability to  
16 achieve revenues in the future will depend in significant part upon our ability to obtain additional  
17 gateway outlets, maintain relationships with, and provide support to, existing and new customers.  
18 As a result, any cancellation, reduction or delay may materially adversely affect our business,  
19 financial condition and results of operations. There can be no assurance that we will be able to  
20 support or attract additional customers.  
21

22 12. Continual enhancements required and reliance on NavEdge. Our future success  
23 will depend significantly on our ability to enhance our current service capabilities or develop  
24 new technology that meets the changing market demands on a timely and cost-effective basis.  
25 We must maintain and improve the performance features and reliability of our services and

1 continue to meet emerging industry standards and other technological changes. We may  
2 experience technical difficulties that could delay or prevent the successful development,  
3 introduction or marketing of new products and services. In addition, any new enhancements to  
4 our products and services must meet the requirements of our current and prospective users. We  
5 could incur substantial costs to modify our services to adapt to rapid technological change. We  
6 currently rely on NavEdge to supply us our core infrastructure.

7  
8 We do not know if we will be successful in enhancing the existing services or developing  
9 new products on a timely basis or if such new or enhanced products will achieve market  
10 acceptance or sustain such acceptance for any significant period. Our failure to anticipate or  
11 respond adequately to changes in technology and customer requirements and preferences, or any  
12 significant delay in development of enhanced or new products, will have a material and adverse  
13 effect on our business, financial condition and results of operations.

14 Services based on sophisticated software and computer systems often encounter  
15 development delays and the underlying software may contain undetected errors that could cause  
16 system failures when introduced. Any system error or failure that causes interruption in  
17 availability of content or an increase in response time could result in a loss of potential or  
18 existing services customers, users or advertisers and, if sustained or repeated, could reduce the  
19 attractiveness of our Web site, VT Directory and other services to such entities or individuals. In  
20 addition, because our Web advertising revenues are directly related to the number of  
21 advertisements delivered by us to users, system interruptions that result in the unavailability of  
22 our Web site, VT Directory and other services or slower response times for users would reduce  
23 the number of advertisements delivered and reduce revenues.

1 A sudden and significant increase in traffic on our Web site, VT Directory and other  
2 services could strain the capacity of the software, hardware and telecommunications systems  
3 deployed or utilized by us, which could lead to slower response times or system failures. In  
4 order to ensure that we are able to handle additional traffic in the future, we may have to enter  
5 into long-term agreements for leased capacity. To the extent that we over estimate our capacity  
6 needs, we may be obligated to pay for more transmission capacity than we actually use, resulting  
7 in costs without corresponding revenues. Conversely, if we underestimate our capacity needs,  
8 we may be required to obtain additional transmission capacity from more expensive sources. If  
9 we are unable to maintain sufficient capacity to meet the needs of our members, our reputation  
10 could be damaged and we could lose members.  
11

12 13. Multinational Operations. We believe a portion of our success will be dependent  
13 upon usage in a number of countries throughout the world. In addition, we may receive revenue  
14 denominated in foreign currencies. Operations in several different countries will expose us to a  
15 number of risks, such as:

- 16 • changes in legal and regulatory requirements, which vary widely from country to country;
- 17 • action by foreign governments or foreign telecommunications companies to limit access to  
18 our services or to increase the cost for our members of accessing our services;
- 19 • currency fluctuations and conversion;
- 20 • longer payment cycles and problems in collecting accounts receivable;
- 21 • political and economic instability; and
- 22 • potentially adverse tax consequences.

23 Any of these factors could have a material adverse effect on our business, financial  
24 condition and results of operations.  
25

1           14.    Limitation of Officers' and Directors' Liabilities. The by-laws of the  
2 Reorganized Debtor and the Operating Subsidiaries will eliminate directors' and officers'  
3 liabilities to the maximum permitted under applicable law. Thus, even if such an officer or  
4 director loses a lawsuit, unless such officer or director was guilty of gross negligence or willful  
5 misconduct in the performance of his/her duties, we or our insurance carrier, if any, will pay the  
6 amount of such judgment or settlement and reasonable legal fees.

7  
8    **C.    External Factors that could impact the companies formed under the Plan.**

9           1.    Competition. The market we are targeting is expected to be highly competitive  
10 and dominated by competitors with substantial financial, operating, promotional and other  
11 resources far in excess of ours. We may not be able to compete successfully with current  
12 products or new technology that is introduced by others that may enter this market in the future.  
13 Competition from bigger, more established competitors who have greater financial and technical  
14 resources and from new entrants could cause us to lose current or future business opportunities  
15 and harm our business, results of operations, and ability to grow. The number of Web sites  
16 competing for the attention and spending of members, users and advertisers has increased and we  
17 expect it to continue to increase.

18           We compete for members, users and advertisers with audio and videoconferencing  
19 companies and Internet business services providers. The telecommunications market and, in  
20 particular the IP telephony market, is intensely and increasingly competitive. Many major  
21 Internet backbone companies and telephone carriers are involved in one or more aspects of the IP  
22 telephony market. These include AT&T, MCI WorldCom, Cisco and Qwest, among others,  
23 which offer a variety of products from switching platforms to least cost routes and long distance.  
24 We must compete with these larger enterprises in international, national, regional and local  
25

1 markets. In addition, we may encounter substantial competition from new market entrants.  
2 Most of our competitors or potential competitors have significantly greater name recognition and  
3 have greater marketing, financial and other resources than we do. They also have established  
4 distribution channels that give them an advantage in reaching prospective customers for IP  
5 telephony services. If we don't succeed in competing with these companies, we will lose  
6 customers and our revenue will be substantially reduced. Increased competition could also result  
7 in price reductions, reduced margins, loss of market share, and our inability to obtain new  
8 members, any of which could adversely affect our business.

9  
10 2. Acceptance of Third Party Software. Our success depends on the market  
11 acceptance of H.323 standards for software addressing audio and video communications over the  
12 Internet. The interoperability and availability of such software, provided by companies such as  
13 White Pine and Microsoft, is critical to the success of our business. In order to receive and  
14 operate this software, including CU-SeeMee, Net Meeting and RealChat, adequately, users  
15 generally must have multimedia PCs with certain microprocessor requirements and at least 36.6  
16 kbps Internet access. Users typically electronically download such software and install it on  
17 their PCs. Such installation may require technical expertise that some users do not possess.  
18 Furthermore, in order for users to receive software over corporate intranets, information systems  
19 managers may need to reconfigure such intranets. Because of bandwidth constraints on  
20 corporate intranets, some information systems managers may block reception of H.323  
21 standardized software. Widespread adoption of such software depends on overcoming these  
22 obstacles, improving audio and video quality and educating customers and users in the use of the  
23 software and technology. If H.323 standardized software is not readily available at affordable  
24 prices or fails to achieve broad commercial acceptance or such acceptance is delayed, our  
25



1 business could be adversely affected. Further, we are currently experiencing problems with the  
2 operability of RealChat. The failure to resolve the problems with RealChat in a timely manner  
3 may have a material adverse effect on our business, financial condition and results of operations.

4 3. Systems Failure. The performance, reliability and availability of our Web site,  
5 VT Directory and other services and network infrastructure are critical to our reputation and  
6 ability to attract and retain users and advertisers. Our systems and operations are vulnerable to  
7 damage or interruption from fire, earthquake, flood, power loss, telecommunications failure,  
8 Internet breakdowns, break-ins and similar events. We have only limited redundant facilities and  
9 systems and no formal disaster recovery plan and do not carry sufficient business interruption  
10 insurance to compensate for losses that may occur.

12 4. Dependence on Suppliers and Subcontractors. To supply our service we have to  
13 use third parties to supply “bandwidth” or Internet access. Although these are major companies,  
14 we have a limited basis upon which to judge the performance of subcontractors. Our inability to  
15 obtain timely delivery from our subcontractors or to locate alternate sources of supply could  
16 cause a loss of customer orders. Failure to satisfy market demand could result in failure to  
17 achieve our sales objectives. We are dependent upon Web browsers, Internet Service Providers  
18 (“ISPs”) and Online Service Providers (“OSPs”) to provide Internet users access to our Web site,  
19 VT Directory and other services. Many of these providers have experienced significant outages  
20 in the past, and could experience outages, delays and other difficulties due to system failures  
21 unrelated to our systems.

23 5. Uncertainty concerning availability of net operating loss carry-forwards. A  
24 potential asset of the Reorganized Debtor is the availability and utilization of its tax NOL.  
25 Certain provisions of the Tax Code may affect or eliminate the availability or the utilization of

1 the NOL after the confirmation of the Plan. In addition, events occurring subsequent to  
2 confirmation may result in a reduction or loss of the NOL.

3         6.         Acceptance of Services. Our success will be based upon acceptance of our  
4 Internet videoconferencing, voice and video services. If our services do not receive the  
5 consumer or business acceptance as we anticipate, our revenues and operating results will  
6 likewise not reach the levels we anticipate. Our services have no brand name recognition. If we  
7 are unable to expand the demand for our services, whether because of competition, technology  
8 changes or other reasons, our ability to continue in business will be adversely affected. Although  
9 we continue to work on upgrades and enhancements, we cannot be certain that our technology  
10 will be well received in the broader marketplace. Actual performance of services may not match  
11 test results of our existing limited services. Acceptance of our technology by both individual and  
12 industrial users will be critical to the success of our business.

14         7.         Development of Brand Name Recognition. We must develop and maintain the  
15 VISITALK brand to expand our member base and our revenues. We believe that the importance  
16 of brand recognition will increase as we expand our service offerings. We intend to increase our  
17 expenditures for creating and maintaining brand loyalty and raising awareness of our service  
18 offerings. However, if we fail to advertise and market our services effectively, we may not  
19 succeed in establishing our brand, we will lose members and our revenues will decline. Our  
20 success in promoting and enhancing the VISITALK brand will also depend on our success in  
21 providing our members high-quality services. If our members do not perceive our services to be  
22 of high quality, the value of the vistalk.com brand would be diminished and we will lose  
23 members and revenues.

1           8.     Rapidly Changing Industry. Telecommunications technology, and IP telephony  
2 in particular, are rapidly changing. Our market is also characterized by frequent new product  
3 and service introductions, short development cycles and evolving industry standards. The recent  
4 growth of the Internet and intense competition in our industry exacerbate these market  
5 characteristics. The development of new products involves considerable expenditures and can  
6 take from several months to several years. Accordingly, new product development requires a  
7 long-term forecast of market trends and customer needs and often a substantial commitment of  
8 capital resources with no assurance that such products or enhancements will be commercially  
9 viable.

10  
11           9.     Unproven Internet e-Commerce Market. Our success will depend in large part on  
12 the continued growth in the use of the Internet for our service. Our future operating results  
13 depend to a significant extent upon the continued development of IP telephony products and  
14 services deemed necessary, useful, convenient, affordable and competitive. We do not have  
15 control over the expansion of the Internet, and to the extent that the market for IP telephony does  
16 not increase, our potential customer base and revenues will not grow. If IP telephony gains in  
17 popularity, we can expect fierce competition from companies more established and better  
18 financed than we are. In addition, critical and unresolved issues concerning the commercial use  
19 of the Internet may affect the development of the market for our service and our other products  
20 and services, including:

- 21
- 22 • the ability of users, distributors and other intermediaries to conduct communications without
  - 23 interruption and on a secure basis;
  - 24 • the reliability and quality of the Internet for communications;
  - 25 • the availability of low-cost access to the Internet for users;

- 1 • availability of sufficient telecommunications bandwidth to consumers to enhance their ability
- 2 to conduct communications over the Internet; and
- 3 • the possible imposition of sales, use or transaction privilege taxes on Internet use.

4           If Internet usage grows, the Internet infrastructure may not be able to support the  
5 demands placed on it by this growth and its performance and reliability may decline. In addition,  
6 a number of Internet-based businesses have experienced interruptions in their services as a result  
7 of outages and other delays occurring throughout the Internet. If outages or delays frequently  
8 occur in the future, Internet usage, as well as electronic commerce and the usage of our products  
9 and services, could grow more slowly or decline. This could have an adverse effect on our  
10 business.

12           We may be required to expand and adapt our IP telephony infrastructure as the number of  
13 users and the amount of information they wish to transfer increases. The expansion and  
14 adaptation of our service will require substantial financial, operational and management  
15 resources. We cannot be certain that we will be able to expand or adapt our infrastructure to  
16 meet additional demand or subscribers' changing requirements on a timely basis, at a  
17 commercially reasonable cost, or at all. Nor do we know if we will be able to deploy  
18 successfully any necessary infrastructure expansion. Any failure to expand our infrastructure, as  
19 needed, on a timely basis or to adapt to changing subscriber requirements or evolving industry  
20 standards could have a material adverse effect on our overall business, financial condition and  
21 results of operations.

22  
23           10. Acceptance of Internet as Advertising Medium. We expect to derive some of our  
24 revenues in the future from sponsorships and advertising for the foreseeable future, and demand  
25 and market acceptance for Internet advertising solutions is uncertain. There are currently no

1 standards for the measurement of the effectiveness of Internet advertising, and the industry may  
2 need to develop standard measurements to support and promote Internet advertising as a  
3 significant advertising medium. If such standards do not develop, existing advertisers may not  
4 continue their levels of Internet advertising. Furthermore, advertisers that have traditionally  
5 relied upon other advertising media may be reluctant to advertise on the Internet. Our business  
6 would be adversely affected if the market for Internet advertising fails to develop or develops  
7 more slowly than expected. Different pricing models are used to sell advertising on the Internet.  
8 It is difficult to predict which, if any, will emerge as the industry standard. This makes it  
9 difficult to project our future advertising rates and revenues. Our advertising revenues could be  
10 adversely affected if we are unable to adapt to new forms of Internet advertising. Moreover,  
11 software programs that limit or prevent advertising from being delivered to an Internet user's  
12 computer are available. Widespread adoption of this software could adversely affect the  
13 commercial viability of Internet advertising.  
14

15 11. Successful Expansions. If we are unable to manage our growth effectively, our  
16 business could suffer. As soon as the Plan is approved, we may experience a period of  
17 significant growth. This anticipated future growth will place, a significant strain on our  
18 resources. As part of this growth, we will have to implement new operational and financial  
19 systems, procedures and controls.  
20

21 12. Network Security Risks. Our network may be vulnerable to unauthorized access,  
22 computer viruses and other disruptive problems. A party who is able to circumvent security  
23 measures could misappropriate proprietary information or cause interruptions in our Internet  
24 operations. ISPs and OSPs have in the past experienced, and may in the future experience,  
25 interruptions in service as a result of the accidental or intentional actions of Internet users,

1 current and former employees or others. We may be required to expend significant capital or  
2 other resources to protect against the threat of security breaches or to alleviate problems caused  
3 by such breaches.

4 13. Credit Card Fraud. Under current credit card practices, merchants are liable for  
5 fraudulent credit card transactions where the merchant does not obtain a cardholder's signature.  
6 We may be liable for claims based on unauthorized purchases with credit card information,  
7 impersonation or other similar fraud claims. A failure to adequately control fraudulent credit  
8 card transactions would harm our business.

9 14. Service and Equipment Supplies. We have little ability to control the quality,  
10 reliability and availability of the equipment we purchase to operate our network. We are  
11 dependent upon other firms for the accurate manufacturing and timely delivery of necessary  
12 components. Because we are not presently a large customer of any of our suppliers, we are not  
13 generally able to negotiate favorable prices or limit future price increases. Frequently there is a  
14 substantial waiting period between the placing of an order and the receipt of finished products.  
15 This could have an adverse effect on our ability to respond to rapidly growing demand on short  
16 notice. If any supplier is unable to provide products on a timely basis because of labor disputes,  
17 shortages in raw materials or other reasons, such delays would significantly impair our ability to  
18 open new markets or to provide additional or upgraded equipment in existing markets. We may  
19 need to obtain licenses from others to refine, develop, market and deliver new services. We  
20 cannot assure you that we will be able to obtain any such licenses on commercially reasonable  
21 terms or at all or that rights granted pursuant to any licenses will be valid and enforceable.  
22

23 15. Telecom suppliers. The ability of the our service to operate is dependent upon  
24 maintaining operating agreements and good relations with the companies offering multiple  
25

1 telecom services in each market. Presently, these companies are primarily vendors. Should any  
2 of the local or long distance carriers currently providing access to multiple services in a market  
3 terminate that relationship, we will be required to establish a new relationship for that market.  
4 We cannot predict whether a satisfactory new relationship can be established or that, if  
5 established, it can be done without an interruption in the availability of the service in that market.  
6 Entry into each additional market will require new contracts with carriers. We cannot be assured  
7 that such contracts can be attained upon terms which are acceptable to us in a particular market.  
8

9       16.     Regulations. Presently, the Federal Communication Commission does not  
10 regulate companies that provide IP telephony services in the United States because they are not  
11 considered to be common carriers or telecommunications service providers. Notwithstanding the  
12 current state of the rules, the FCC's potential jurisdiction over the Internet is broad because the  
13 Internet relies on wire and radio communications facilities and services over which the FCC has  
14 long-standing authority. Similarly, IP telephony services are not extensively regulated in most  
15 foreign countries. The regulatory environment in which we operate is subject to change. Federal  
16 and state regulatory agencies may conclude that our services should be regulated, which would  
17 subject us to numerous regulatory requirements, including:

- 18     • filing tariffs describing rates, terms and conditions for service;
- 19     • payments to support a telecommunications relay service for the deaf, the administration of  
20       the North American Numbering Plan, and universal service;
- 21     • maintaining the confidentiality of certain member information;
- 22     • interconnection with the networks of other carriers;
- 23     • authorization for international service;
- 24     • cooperation with law enforcement wiretaps; and  
25

- 1 • providing access to persons with disabilities.

2 Local governments may also require us to obtain a franchise and pay a portion of our  
3 gross revenues as a franchise fee. There can be no assurance that current or new government  
4 laws and regulations, or the application of existing laws and regulations, will not expose us to  
5 significant liabilities, significantly slow Internet growth or otherwise adversely affect our  
6 business.

7 Any such regulatory changes could have a material adverse effect on our business,  
8 financial condition and results of operations. We might deem it necessary or advisable to alter or  
9 modify our products to operate in compliance with such regulations. Such modifications could  
10 be very expensive and, especially if subject to regulatory review and approval, time-consuming.

11  
12 18. Investment Company regulations. The Reorganized Debtor expects to be exempt  
13 from the Investment Company Act of 1940. There can be no assurance that current or new  
14 government laws and regulations, or the application of existing laws and regulations, will not  
15 expose us to significant liabilities, slow the growth or access of potential customers to the  
16 Internet or otherwise adversely affect our business. Any such regulatory changes could have a  
17 material adverse effect on our business, financial condition and results of operations.

18 **D. Impact of failing to develop a viable Visitalk technology based business.**

19 In the event that VTEC and the Operating Subsidiaries cannot develop or find a viable  
20 business, it is likely that such entities may seek other non-related mergers or acquisitions. Such  
21 transactions have significant risk factors associated with such an activity.

22  
23 1. Such Company's majority stockholder will have the ability to effectively control  
24 substantially all actions taken by stockholders. Upon the confirmation, VTEC will own more  
25 than 80% of each Operating Subsidiary. Accordingly, VTEC can effectively control  
substantially all actions taken by such Company's stockholders, including the election of



1 directors. Such concentration of ownership could also have the effect of delaying, deterring or  
2 preventing a change in control of such company that might otherwise be beneficial to  
3 stockholders and may also discourage acquisition bids for such company and limit the amount  
4 certain investors may be willing to pay for shares of the common stock.

5       2.     Scarcity of and competition for business opportunities and combinations. If the  
6 Operating Subsidiary elects to seek being a participant in the business of seeking mergers with,  
7 joint ventures with and/or acquisitions of small private and public entities it will face intense  
8 competition. A large number of established and well-financed entities, including venture capital  
9 firms, are active in mergers and acquisitions of companies, which may be desirable target  
10 candidates for the Operating Subsidiary. Nearly all such entities have significantly greater  
11 financial resources, technical expertise and managerial capabilities than the Operating Subsidiary  
12 and, consequently, the Operating Subsidiary will be at a competitive disadvantage in identifying  
13 possible business opportunities and successfully completing a business combination. Moreover,  
14 the Operating Subsidiary will also compete in seeking merger or acquisition candidates with  
15 numerous other small public companies. For the fiscal year ending in 2005, most Operating  
16 Subsidiaries will likely have little or no revenues and a loss from operations. These conditions  
17 raise substantial doubt about any Operating Subsidiary's ability to continue as a going concern.  
18 Consistent with its business plan, management may seek to acquire an entity with experienced  
19 management and opportunities for growth in exchange for its securities and is dependent on a  
20 successful merger with a profitable company.

22       3.     No Operating Subsidiary has executed any formal agreement for a business  
23 combination or other transaction and no specific standards have been established for business  
24 combinations. No Operating Subsidiary has executed any formal arrangement, agreement or  
25 understanding with respect to engaging in a merger with, joint venture with or acquisition of a

1 private or public entity. There can be no assurance that any Operating Subsidiary will be  
2 successful in identifying and evaluating suitable business opportunities or in concluding a  
3 business combination. Management has not identified any particular industry or specific  
4 business within an industry for evaluation by any Operating Subsidiary. There is no assurance  
5 that any Operating Subsidiary will be able to negotiate a business combination on terms  
6 favorable to such Operating Subsidiary. Any such Operating Subsidiary has not established a  
7 specific length of operating history or specified level of earnings, assets, net worth or other  
8 criteria which it will require a target business opportunity to have achieved. Accordingly, the  
9 Operating Subsidiary may enter in to a business combination with a business opportunity having  
10 no significant operating history, losses, limited or no potential for earnings, limited assets,  
11 negative net worth or other negative characteristics.

12  
13 4. Reduction of percentage share ownership following business combination and  
14 possible dilution. If any Operating Subsidiary's primary plan of operation becomes to be based  
15 upon a business combination with a private concern it would, in all likelihood, result in the  
16 Operating Subsidiary issuing securities to shareholders of any such private company. The  
17 issuance of previously authorized and but unissued common shares of the Operating Subsidiary  
18 would result in reduction in percentage of shares owned by present and prospective shareholders  
19 of such Operating Subsidiary and may result in a change in control or management of such  
20 Operating Subsidiary. In addition, any merger or acquisition effected by the Operating  
21 Subsidiary can be expected to have a significant dilutive effect on the percentage of the shares  
22 held by the Operating Subsidiary's then shareholders, and may cause significant reverse stock  
23 splits.

24 **E. Observations concerning the securities to be issued pursuant to the plan.**  
25

1           1.       Impediments to Transfer. The securities to be issued under the Plan will be issued  
2 without registration under the Securities Act or any state securities laws, in reliance, in case of  
3 shares issued to creditors, upon the exemption from federal and state registration provided by §  
4 1145(a)(1) of the Bankruptcy Code. In addition, the securities may be restricted to avoid a  
5 “change of control” event related to the Reorganized Debtor’s NOL.

6           2.       Penny Stock Regulation. Broker-dealer practices in connection with transactions  
7 in “*penny stocks*” are regulated by certain penny stock rules adopted by the SEC. Penny Stocks  
8 generally are defined as equity securities with a price of less than \$5.00. Excluded from the  
9 Penny Stock designation are securities registered on certain national securities exchanges or  
10 quoted on NASDAQ, provided that current price and volume information with respect to  
11 transactions in such securities is provided by the exchange/system or are sold to established  
12 customers or accredited investors.

13           The Penny Stock rules require a broker-dealer, prior to a transaction in a Penny Stock not  
14 otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides  
15 information about Penny Stocks and the risks in the Penny Stock market. The broker-dealer also  
16 must provide the customer with current bid and offer quotations for the Penny Stock, the  
17 compensation of the broker-dealer and its salesperson in connection with the transaction, and the  
18 monthly account statements showing the market value of each Penny Stock held in the  
19 customer’s account. In addition, the Penny Stock rules generally require that prior to a  
20 transaction in a Penny Stock, the broker-dealer must make a special written determination that  
21 such Penny Stock is a suitable investment for the purchaser and receive the purchaser’s written  
22 agreement to the transaction.

23           These disclosure requirements may have the effect of reducing the level of trading  
24 activity in the secondary market for a stock that becomes subject to the Penny Stock rules. It is  
25

1 very likely that initially all the securities issued under the Plan will become subject to the Penny  
2 Stock rules and therefore creditors receiving such securities may find it more difficult to sell  
3 their securities.

4 3. Dilution of Stock Interests in the Reorganized Debtor and the Operating  
5 Subsidiaries. Lenders who choose to be paid their notes with securities issued under the Plan  
6 may experience dilution in the Operating Subsidiaries depending on future funds raised or  
7 services paid with securities. This dilution will also affect the Reorganized Debtor who will own  
8 less of each Operating Subsidiary. In the future, Shareholders in the Reorganized Debtor or the  
9 Operating Subsidiaries could experience further substantial dilution upon the exercise of  
10 warrants and stock options.

11 4. No Prior Public Market. Prior to this Plan there has been no market for any of the  
12 securities to be issued under the Plan and there can be no assurance that an active public market  
13 will develop or be sustained for the common stock, Units or Warrants of any of the Plan Co-  
14 Proponents. The existence of the Warrants may well also suppress the trading prices of the  
15 securities of the various entities formed under the Plan until such warrants have been “Called” or  
16 exercised. It is expected that a public trading market for any of the securities to be issued under  
17 the plan could, but may not, develop at all after distribution.

18 5. Requirements for a Public Market. A public trading market for the stock of an  
19 issuer, including the Reorganized Debtor, having desirable characteristics of depth, liquidity and  
20 orderliness, also depends upon the presence in the marketplace of both willing buyers and  
21 willing sellers of the stock at any given time. The presence in the marketplace of a sufficient  
22 number of buyers and sellers at any given time is dependent upon the individual decisions of the  
23 stockholders, over which neither the Debtor nor any market maker has any control. Accordingly,  
24 there can be no assurance whatsoever that an established and liquid market for any securities to  
25

1 be issued pursuant to the Plan will develop or that recipients will be able to dispose of their  
2 securities. Furthermore, neither the Debtor nor any independent professional or professional  
3 associated with the Debtor makes any representation as to whether a market for the securities  
4 issued under the Plan will develop and, if it does, what market price for those securities may  
5 prevail.

6 6. Arbitrary determination of the prices of securities issued under the Plan. The  
7 prices of the securities to be issued under the Plan has been arbitrarily established by the Debtor  
8 and does not necessarily bear any relationship to our potential assets, earnings or net worth or to  
9 any other generally recognized criteria of value and should not be regarded as an indication of  
10 any future market price of any of the Securities.

11 7. Discretion in Application of Proceeds of any warrants exercised or assets sold.  
12 The Reorganized Debtor and all OpSubs will have warrants outstanding to purchase a significant  
13 number of additional shares. If exercised, the warrants will generate a significant amount of  
14 additional capital. No particular amounts are specified or committed. Participants in the Plan or  
15 Holders of the warrants who exercise, will not have any opportunity to evaluate economic,  
16 financial or other information which may be utilized by management in determining how and  
17 when to apply the proceeds. Participants must rely upon the ability of management to identify  
18 and make decisions as to the application of any proceeds consistent.

19 8. Dividends and Distributions. Neither the Reorganized Debtor nor any of the  
20 Operating Subsidiaries anticipate paying cash dividends. We expect each entity to retain  
21 income, if any, for working capital and investment needs. It is anticipated that any income  
22 received from operations will be devoted to future operations. The timing and payment of cash  
23  
24  
25

1 or other distributions, if any, will be left to the discretion of the Board of Directors of each  
2 individual entity.

3 9. Future Operating Results are Unpredictable. Our short operating history and the  
4 rapidly changing nature of the market in which we compete make it difficult to accurately  
5 forecast our revenues and operating results. Our quarterly operating results are unpredictable  
6 and we expect them to fluctuate in the future due to a number of factors. These factors may  
7 include, among others:

- 8 • The timing and receipt of license and other fees;
- 9 • The amount of traffic over our gateways and network;
- 10 • The amount and timing of operating costs and capital expenditures relating to the growth of  
11 our business;
- 12 • The costs to develop and introduce new products and services in response to changing market  
13 conditions and customer preferences; and
- 14 • The announcement or introduction of new or enhanced products or services by our  
15 competitors.  
16

17 In view of such fluctuations, we believe that quarterly comparisons of our financial results are  
18 not necessarily meaningful and should not be relied upon as a measure of future performance.

19 Comparisons of our operating results for each period do not indicate our future performance. It  
20 is likely that our operating results in some periods will fall short of investor expectations.  
21

22 **ARTICLE XIV**  
23 **TAX CONSEQUENCES**  
24  
25

1 The Co-Proponents have not obtained a tax opinion at this time and therefore the Co-  
2 Proponents express no opinion as to the tax consequences of confirmation or implementation of  
3 the Plan to the holder of any claim or interest.

4 BECAUSE NO CO-PROPONENT OF THE PLAN EXPRESSES ANY  
5 OPINION AS TO THE TAX CONSEQUENCES OF THE PLAN, IN NO EVENT WILL ANY  
6 CO-PROPONENT OR THEIR PRINCIPALS OR THEIR PROFESSIONAL ADVISORS, BE  
7 LIABLE IF, FOR ANY REASON, THE TAX CONSEQUENCES OF THE PLAN ARE NOT  
8 AS ANTICIPATED BY CREDITORS AND EQUITY INTEREST HOLDERS. THE  
9 DEBTOR'S CREDITORS AND EQUITY INTEREST HOLDERS MUST LOOK SOLELY TO  
10 AND RELY SOLELY UPON THEIR OWN ADVISORS AS TO THE TAX CONSEQUENCES  
11 OF THE PLAN.  
12

13 **ARTICLE XV**  
14 **ALTERNATIVES TO THE PLAN**

15 An analysis of what creditors and equity interest holders would receive if the Debtor's  
16 assets were liquidated in the event the 363 Sale and a Chapter 7 conversion under the Bankruptcy  
17 Code is attached as **Exhibit "3"**. As illustrated in that Exhibit, both unsecured creditors and  
18 equity interest holders would receive no distribution in a Chapter 7 liquidation of the Debtor's  
19 assets with the exception of a possible distribution arising from proceeds generated from the  
20 Causes of Action. Although under the Plan the equity interest holders will receive nothing, the  
21 unsecured creditors will receive approximately a 10% interest in the Reorganized Debtor plus  
22 approximately a 2% interest in each of the Operating Subsidiaries. Under the Plan the equity  
23 interest holders will receive no distribution except on account of the execution of a release of all  
24 claims against the Debtor, and its affiliates.  
25

1 In a Chapter 7 liquidation, the assets of the Debtor subject to liens would be used first to  
2 pay secured creditors. If any excess remained thereafter, it would be applied first to satisfy the  
3 administrative burden of the Chapter 7 case and then the administrative burden of the Chapter 11  
4 case. After payment of those claims, there would be no payout to unsecured creditors, and  
5 nothing would be left for equity interest holders. In addition, the Debtor's NOL would be lost.

6 The Debtor has identified no viable alternatives to the Plan other than liquidation of its  
7 assets under Chapter 7 of the Bankruptcy Code or dismissal of its Chapter 11 case. Dismissal  
8 would leave the Debtor's secured creditors free to enforce their liens under applicable state and  
9 non-bankruptcy civil litigation and collections would be resumed.

10  
11 **ARTICLE XVI**  
12 **MODIFICATION OF THE PLAN.**

13 Prior to the entry of the Final Order, the Debtor or Co-Proponents may propose  
14 amendments or modifications to the Plan in accordance with § 1127(a) of the Bankruptcy Code.  
15 After confirmation, the Reorganized Debtor may amend the Plan in the manner provided by  
16 Section 1127(b) of the Bankruptcy Code.

17 The Bankruptcy Court may, at any time, so long as it does not materially or adversely  
18 affect the interests of creditors and equity interest holders, remedy defects and omissions or  
19 reconcile any inconsistencies in the Plan or in the Final Order as may be appropriate to effectuate  
20 the Plan.

21 **ARTICLE XVII**  
22 **REMEDIES FOR DEFAULTS BY THE REORGANIZED DEBTOR.**

23 If the Reorganized Debtor fails to comply with the terms of the Plan, the holders  
24 of claims in any class materially harmed thereby may proceed against the Reorganized Debtor  
25 and its property to enforce the Plan, taking any action permissible under applicable federal or  
state law, in any Court of competent jurisdiction.



1 With respect to holders of liens on the Reorganized Debtor's property, such creditors may  
2 act in accordance with any applicable and existing mortgage, deed of trust, security agreement,  
3 or other instrument evidencing a lien or encumbrance on their collateral if and only if permission  
4 from the Bankruptcy Court is first obtained.

5 **ARTICLE XVIII**  
6 **RETENTION OF BANKRUPTCY COURT JURISDICTION.**

7 Following confirmation of the Plan, the Bankruptcy Court shall retain, without limitation,  
8 jurisdiction to provide any relief the Reorganized Debtor may require to effectuate the Plan or  
9 any modification of the Plan including but not exhausted by:

10 1. Deciding the proper classification of any claim, determining the proper allowance  
11 for purposes of distribution of claims estimated for purposes of voting, and resolving objections  
12 to claims;

13 2. Resolving all disputes regarding title to assets of the Reorganized Debtor and all  
14 disputes arising under the Bankruptcy Code;

15 3. Correcting of any defect, curing any omission, or reconciling any inconsistency  
16 between the Plan and the Final Order as may be appropriate to effectuate the purposes and intent  
17 of the Plan;

18 4. Modifying the Plan after confirmation;

19 5. Enforcing and interpreting the terms and conditions of the Plan, any securities  
20 issued under the Plan, or any other documentation effectuating the Plan;

21 6. Entering any order required to enforce the rights and powers of the Reorganized  
22 Debtor;

23 7. Determining any claim entitled to priority under Section 507 of the Bankruptcy  
24 Code;  
25



1 Jennings, Haug & Cunningham  
2800 N. Central Avenue, Suite 1800  
2 Phoenix, Arizona 85004-1049

3 Kelly G. Black  
4 Jackson White Gardner Weech & Walker P.C.  
40 North Center, Suite 200  
5 Mesa, Arizona 85201

6 Carolyn J. Johnsen  
Edward M. Zachary  
7 Gallagher & Kennedy  
2575 E. Camelback Road, 11<sup>th</sup> floor  
8 Phoenix, Arizona 85016-9225

9 Paul S. Gerding  
10 Paul S. Gerding, Jr.  
Lieberman, Dodge, Gerding, Kothe  
11 & Anderson, Ltd.  
Phoenix Corporate Center  
12 3003 North Central Avenue, Suite 1800  
Phoenix, Arizona 85012-2909

13 Eric E. Sagerman, Esq.  
14 Murphy, Sheneman, Julian & Rogers  
2049 Century Park East, Suite 2100  
15 Los Angeles, California 90067

16 Terri P. Durham, Esq.  
17 MP3.Com, Inc.  
4790 Eastgate Mall  
18 San Diego, CA 92121-1970

19 Richard L. Cobb  
Hank E. Pearson  
20 LAKE & COBB, PLC  
101 North First Avenue  
21 Suite 2000  
Phoenix, Arizona 85003

22 Michael D. Curran, Esq.  
23 Maynard Murray Cronin & O'Sullivan, P.L.C.  
3200 North Central Avenue, Suite 2300  
24 Phoenix, Arizona 85012

25 Dorian Daley

1 Assistant General Counsel  
Oracle Corporation  
2 500 Oracle Parkway  
Mail Stop 50p7  
3 Redwood City, CA 94065

4 Lawrence M. Schwab, Esq.  
Thomas M. Gaa, Esq.  
5 Bialson, Bergen & Schwab  
2600 El Camino Real, Suite 300  
6 Palo Alto, CA 94306

7 Christopher R. Kaup, Esq.  
8 Tiffany & Bosco, P.A.  
1850 North Central Ave, 5<sup>th</sup> Floor, VIAD Tower  
9 Phoenix, AZ 85004-4546

10 Robert Miller, Esq.  
Bryan Cave LLP  
11 Two North Central Ave., Suite 2200  
12 Phoenix, AZ 85004-4406

13 Arnold Reyes  
The Reyes Law Firm P.C.  
14 4407 Bee Cave Road, Suite 512  
Austin, TX 78746-6496

15 Ronald E. Warnicke, Esq.  
16 Warnicke & Littler, PLC  
1411 North Third Street  
17 Phoenix, AZ 85004

18 Michael R. King  
19 GAMMAGE & BURNHAM, P.L.C.  
Two North Central, 18<sup>th</sup> Floor  
20 Phoenix, Arizona 85004

21 Rick Cuellar  
United States Trustee's Office  
22 P.O. Box 36170  
23 Phoenix, Arizona 85067

24 MetroGroup  
26 Broadway, Suite 400  
New York, NY 1004  
25 Att: Marcus L. Arky, Esq.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

Kesha M. Jennings