

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

-----X
In re: : Chapter 11 Case Nos.
: :
AMPHYDYNAMICS CORPORATION, et al., : 99-009 (SBJ) through
: 98-012 (SBJ)
: :
Debtors. : JOINTLY ADMINISTERED
-----X

**DEBTORS' JOINT DISCLOSURE STATEMENT
PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE**

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- and -

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**Dated: Wilmington, Delaware
October 16, 2000**

I. INTRODUCTION

Amphydynamics Corporation (“Amphy”), Kid-Vid, Inc. (“Kid-Vid”), Comp-U-All, Inc. (“Comp-U-All”) and Scarlet’s Web, Inc. (“Scarlet’s Web”) (collectively, the “Debtors”) submit this Disclosure Statement pursuant to section 1125 of title 11 of the United States Code (the “Bankruptcy Code”) to holders of claims against and equity interests in the Debtors in connection with (a) the solicitation of acceptances of the Debtors’ Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated October 16, 2000, as the same may be amended (the “Plan”), filed by the Debtors with the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”), and (b) the hearing to consider confirmation of the Plan (the “Confirmation Hearing”) scheduled for December 20, 2000 at 9:00 a.m. Eastern Time. Unless otherwise defined herein, all capitalized terms contained herein have the meanings ascribed to them in the Plan.

Attached as Exhibits to this Disclosure Statement are copies of the following documents:

- The Plan (Exhibit A);
- Order of the Bankruptcy Court dated October 16, 2000 (the “Disclosure Statement Order”), among other things, approving this Disclosure Statement and establishing certain procedures with respect to the solicitation and tabulation of votes to accept or reject the Plan (Exhibit B);
- Amphy’s Annual Report on Form 10-K for the fiscal year ended January 30, 2000 (Exhibit C);
- The Debtors’ Projected Financial Information (Exhibit D); and
- The Debtors’ Liquidation Analysis (Exhibit E).

In addition, a Ballot for the acceptance or rejection of the Plan is enclosed with the Disclosure Statement submitted to the holders of Claims that the Debtors believe may be entitled to vote to accept or reject the Plan.

On October 16, 2000, after notice and a hearing, the Bankruptcy Court signed the Disclosure Statement Order, approving this Disclosure Statement as containing adequate information of a kind and in sufficient detail to enable hypothetical, reasonable investors typical of the Debtors’ creditors to make an informed judgment whether to accept or reject the Plan. APPROVAL OF THIS DISCLOSURE STATEMENT DOES NOT, HOWEVER, CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT AS TO THE FAIRNESS OR MERITS OF THE PLAN.

The Disclosure Statement Order, a copy of which is annexed hereto as Exhibit B, sets forth in detail the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan, the record date for voting purposes and the applicable standards for tabulating Ballots. In addition, detailed voting instructions accompany each Ballot. Each holder of a Claim entitled to vote on the Plan should read the Disclosure Statement, the Plan, the Disclosure Statement Order and the instructions accompanying the

Ballot in their entirety before voting on the Plan. These documents contain important information concerning the classification of Claims and Equity Interests for voting purposes and the tabulation of votes. No solicitation of votes to accept the Plan may be made except pursuant to section 1125 of the Bankruptcy Code.

A. HOLDERS OF CLAIMS ENTITLED TO VOTE

Only holders of allowed claims or equity interests in classes of claims or equity interests that are impaired and that are not deemed to have rejected the Plan are entitled to vote to accept or reject a proposed plan. Classes of claims or equity interests in which the holders of claims or equity interests are unimpaired under a chapter 11 plan are deemed to have accepted the plan and are not entitled to vote to accept or reject the plan. Classes of claims or equity interests in which the holders of claims or equity interests will receive no recovery under a chapter 11 plan are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan. For a detailed description of the treatment of Claims and Equity Interests under the Plan, see Section V.

Classes 1, 3, 4 and 6 of the Plan are impaired and, to the extent Claims in such Classes are Allowed Claims, the holders of such Claims will receive distributions under the Plan. As a result, holders of Claims in those Classes are entitled to vote to accept or reject the Plan. Classes 5 and 7 of the Plan, consisting of the Subordinated Note Claims and Amphy's Equity Interests, respectively, will not receive any distributions under the Plan. As a result, holders of Claims and Equity Interests in those Classes are conclusively presumed to have rejected the Plan. Class 2 of the Plan is unimpaired. As a result, holders of Claims in such Class are conclusively presumed to have accepted the Plan.

The Bankruptcy Code defines "acceptance" of a plan by a class of claims as acceptance by creditors in that class that hold at least two-thirds in dollar amount and more than one-half in number of the claims that cast ballots for acceptance or rejection of the plan. For a more detailed description of the requirements for confirmation of the Plan, see Section VI.

If a Class of Claims entitled to vote on the Plan rejects the Plan, the Debtors reserve the right to amend the Plan or request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code or both. Section 1129(b) permits the confirmation of a plan of reorganization notwithstanding the non-acceptance of a plan by one or more impaired classes of claims or equity interests. Under that section, a plan may be confirmed by a bankruptcy court if it does not "discriminate unfairly" and is "fair and equitable" with respect to each non-accepting class. For a more detailed description of the requirements for confirmation of a non-consensual plan, see Section VI.C.2.

With respect to those Classes of Claims and Equity Interests that are deemed to have rejected the Plan, *i.e.*, Class 5 (Subordinated Note Claims) and Class 7 (Amphy's Equity Interests), the Debtors currently intend to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. The determination as to whether to seek confirmation of the Plan under such circumstances will be announced prior to or at the Confirmation Hearing.

B. VOTING PROCEDURES

If you are entitled to vote to accept or reject the Plan, a Ballot is enclosed for the purpose of voting on the Plan. If you hold Claims in more than one Class and you are entitled to vote Claims in more than one Class, you will receive separate Ballots, which must be used for each separate Class of Claims. Please vote and return your Ballot(s) to:

AMPHYDYNAMICS CORPORATION
c/o BANKRUPTCY SERVICES GROUP AS CLAIMS AGENT
BANKRUPTCY SERVICES GROUP
400 GRIFFIN ROAD NORTH
WINDSOR, CONNECTICUT 06095

DO NOT RETURN ANY NOTES OR SECURITIES WITH YOUR BALLOT.

TO BE COUNTED, YOUR BALLOT INDICATING ACCEPTANCE OR REJECTION OF THE PLAN MUST BE RECEIVED BY NO LATER THAN 4:00 P.M., EASTERN TIME, ON DECEMBER 1, 2000. ANY EXECUTED BALLOT RECEIVED THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF THE PLAN.

Any Claim in an impaired Class as to which an objection or request for estimation is pending or which is scheduled by the Debtors as unliquidated, disputed or contingent and for which no proof of claim has been filed is not entitled to vote unless the holder of such Claim has obtained an order of the Bankruptcy Court temporarily allowing such Claim for the purpose of voting on the Plan.

Pursuant to the Disclosure Statement Order, the Bankruptcy Court set October 16, 2000 as the record date for voting on the Plan. Accordingly, only holders of record as of October 16, 2000 that otherwise are entitled to vote under the Plan will receive a Ballot and may vote on the Plan.

If you are a holder of a Claim entitled to vote on the Plan and did not receive a Ballot, received a damaged Ballot or lost your Ballot, or if you have any questions concerning the Disclosure Statement, the Plan or the procedures for voting on the Plan, please call Susan Bright of Bankruptcy Services Group at (860) 555-7594.

C. CONFIRMATION HEARING

Pursuant to section 1128 of the Bankruptcy Code, the Confirmation Hearing will be held on December 20, 2000, at 9:00 a.m. Eastern Time, before the Honorable Marissa Grotto, United States Bankruptcy Judge, at the United States Bankruptcy Court for the District of Delaware, 355 Market Street, Sixth Floor, Wilmington, Delaware 19801. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be served and filed so that they are received on or before December 6, 2000 at 4:00 p.m., Eastern Time, in the manner described below in Section VI.B. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for the announcement of the adjournment date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN, AND THE DELIVERY OF THIS DISCLOSURE STATEMENT SHALL NOT CREATE AN IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION STATED SINCE THE DATE HEREOF. HOLDERS OF CLAIMS SHOULD CAREFULLY READ THIS DISCLOSURE STATEMENT IN ITS ENTIRETY, INCLUDING THE PLAN, PRIOR TO VOTING ON THE PLAN.

FOR THE CONVENIENCE OF HOLDERS OF CLAIMS AND EQUITY INTERESTS, THIS DISCLOSURE STATEMENT SUMMARIZES THE TERMS OF THE PLAN. IF ANY INCONSISTENCY EXISTS BETWEEN THE PLAN AND THE DISCLOSURE STATEMENT, THE TERMS OF THE PLAN ARE CONTROLLING. THE DISCLOSURE STATEMENT MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN, AND NOTHING STATED HEREIN SHALL CONSTITUTE AN ADMISSION OF ANY FACT OR LIABILITY BY ANY PARTY, OR BE ADMISSIBLE IN ANY PROCEEDING INVOLVING THE DEBTORS OR ANY OTHER PARTY, OR BE DEEMED CONCLUSIVE EVIDENCE OF THE TAX OR OTHER LEGAL EFFECTS OF THE PLAN ON THE DEBTORS OR HOLDERS OF CLAIMS OR EQUITY INTERESTS. CERTAIN OF THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT, BY NATURE, ARE FORWARD-LOOKING AND CONTAIN ESTIMATES AND ASSUMPTIONS. THERE CAN BE NO ASSURANCE THAT SUCH STATEMENTS WILL BE REFLECTIVE OF ACTUAL OUTCOMES. ALL HOLDERS OF CLAIMS SHOULD CAREFULLY READ AND CONSIDER FULLY THE RISK FACTORS SET FORTH IN SECTION X. BEFORE VOTING TO ACCEPT OR REJECT THE PLAN.

SUMMARIES OF CERTAIN PROVISIONS OF AGREEMENTS REFERRED TO IN THIS DISCLOSURE STATEMENT DO NOT PURPORT TO BE COMPLETE AND ARE SUBJECT TO, AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO, THE FULL TEXT OF THE APPLICABLE AGREEMENT, INCLUDING THE DEFINITIONS OF TERMS CONTAINED IN SUCH AGREEMENT.

THE DEBTORS BELIEVE THAT THE PLAN WILL ENABLE THEM TO SUCCESSFULLY REORGANIZE AND ACCOMPLISH THE OBJECTIVES OF CHAPTER 11 AND THAT ACCEPTANCE OF THE PLAN IS IN THE BEST INTERESTS OF THE DEBTORS AND THEIR CREDITORS AND EQUITY INTEREST HOLDERS.

THE DEBTORS URGE THAT CREDITORS VOTE TO ACCEPT THE PLAN.

II. OVERVIEW OF THE PLAN

The following table briefly summarizes the classification and treatment of Claims and Equity Interests under the Plan:

SUMMARY OF CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN

Type of Claim or Equity Interest	Treatment	Estimated Recovery
Administrative Expense Claims	Paid in full, in cash, in accordance with section 1129(a)(9) of the Bankruptcy Code, or in accordance with the terms and conditions of transactions or agreements relating to obligations incurred in the ordinary course of business during the pendency of the Chapter 11 Cases or assumed by the Debtors in Possession.	100%
Priority Tax Claims	At the option of the Debtors either (a) paid in full, in cash, or (b) paid over a six-year period from the date of assessment as provided in section 1129(a)(9)(C) of the Bankruptcy Code with interest payable at a rate of 8.0% per annum or as otherwise established by the Bankruptcy Court.	100%
Other Priority Claims	Impaired; paid in full, in cash in accordance with section 1129(a)(9)(B) of the Bankruptcy Code.	100%
Secured Claims	Unimpaired; reinstated by curing all outstanding defaults, with all legal, equitable and contractual rights remaining unaltered.	100%

Bank Claims ¹	Impaired; distribution of a Pro Rata Share of 200,000,000 shares of Reorganized Amphy's Common Stock, which shares shall constitute all of the shares of Reorganized Amphy's Common Stock issued pursuant to the Plan.	59.5% ²
General Unsecured Claims ³	Impaired; distribution of an amount, in cash, equal to .30 multiplied by the amount of the Allowed General Unsecured Claim.	30%
Subordinated Note Claims ⁴	Impaired; no distribution as a result of the enforcement, pursuant to section 510(a) of the Bankruptcy Code, of the subordination provisions in the Subordinated Notes Indentures.	0%
Hystereo Disease Claims	Impaired; liquidated and resolved through the Hystereo Disease Claims Resolution Facility and satisfied from the Hystereo Disease Settlement Fund Assets.	25%
Amphy's Equity Interests	Impaired; no distribution.	0%

¹ The Bank Claims shall be deemed Allowed Claims solely for purposes of this Plan in the aggregate amount of \$462,164,419. Allowance of the Bank Claims is subject to confirmation of the Plan.

² The estimated recoveries for holders of Allowed Bank Claims are based upon the current estimate of the value of Reorganized Amphy's Common Stock to be distributed under the Plan (aggregating approximately \$275,000,000) and the amount of Allowed Bank Claims (\$462,164,419) and Allowed Subordinated Note Claims (\$421,121,589.77). To the extent that the actual value of Reorganized Amphy's Common Stock varies from the amounts estimated, the recoveries of holders of Allowed Bank Claims may be higher or lower. See Section X.

³ The Debtors estimate that the amount of Allowed General Unsecured Claims will, upon the final reconciliation and resolution of all General Unsecured Claims, aggregate approximately \$135,000,000.

⁴ The Subordinated Note Claims shall be deemed Allowed Claims solely for purposes of this Plan in the aggregate amount of \$421,121,589.77. Allowance of the Subordinated Note Claims is subject to confirmation of the Plan.

III. GENERAL INFORMATION

A. OVERVIEW OF CHAPTER 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under chapter 11 of the Bankruptcy Code, a debtor is authorized to reorganize its business for the benefit of itself, its creditors and its equity interest holders. In addition to permitting the rehabilitation of a debtor, another goal of chapter 11 is to promote equality of treatment for similarly situated creditors and similarly situated equity interest holders with respect to the distribution of a debtor's assets.

The commencement of a chapter 11 case creates an estate that is comprised of all of the legal and equitable interests of the debtor as of the commencement date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

The consummation of a plan of reorganization is the principal objective of a chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in a debtor. Confirmation of a plan of reorganization by the bankruptcy court binds the debtor, any issuer of securities under the plan, any person acquiring property under the plan and any creditor or equity interest holder of a debtor. Subject to certain limited exceptions, the order approving confirmation of a plan discharges a debtor from any debt that arose prior to the date of confirmation of the plan and substitutes therefor the obligations specified under the confirmed plan.

Holders of claims against and interests in a debtor are permitted to vote to accept or reject the plan. Prior to soliciting acceptances of the proposed plan, however, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding the plan. The Debtors are submitting this Disclosure Statement to holders of Claims against the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

B. DESCRIPTION AND HISTORY OF BUSINESS

1. The Debtors

The Debtors operate their business through a group of affiliated entities. The Debtors in these Chapter 11 Cases are:

Amphydynamics Corporation, a New York corporation

Kid-Vid, Inc., a Delaware corporation

Comp-U-All, Inc., a Delaware corporation

Scarlet's Web, Inc., a Delaware corporation

2. Business

Amphy, the parent corporation of the Debtors, assembles and manufactures business and consumer electronic equipment, such as computer, calculators, toys and home-entertainment products. It also operates a nationwide chain of retail outlets – Comp-U-All – where it sells and leases both its own and other name-brand computer products. Kid-Vid manufacturers coin-operated video games. Scarlet’s Web operates Internet coffee bars in several states.

As of January 30, 1999, the Debtors had more than 500 workers at their factories in St. Louis and San Diego. Approximately 55% of the Debtors’ workers are full-time employees and the balance of whom are part-time employees. Approximately 80% of the Debtors’ employees are covered by collective bargaining agreements. In general, the Debtors consider their relationship with their employees to be good.

3. History

Amphy was founded in 1972 by Chester Charisma in New York, New York. His children, Headley and Carol Charisma, joined the business in 1990. Together, the Charismas began to skillfully build what would become one of the best electronics manufacturers and retailers in the United States.

Amphy was incorporated in 1975. In 1996, Amphy completed its initial public offering and introduced its first Comp-U-All store. Currently, Amphy operates 72 stores under Comp-U-All name. These stores are designed to appeal to a broad range of customers, and are promoted through television and newspaper advertising. The average size of a Comp-U-All store is approximately 44,000 square feet. In 1998, Amphy acquired Kid-Vid and opened a chain of Scarlet’s Web Internet cafes.

4. Significant Institutional Indebtedness

As of the Commencement Date, the Debtors had outstanding approximately \$462,000,000 of senior bank debt (the “Bank Claims”) under term loan and revolving credit facilities and \$421,000,000 in subordinated notes (the “Subordinated Notes”) issued under a public indenture and a supplemental public indenture (the “Subordinated Notes Indentures”). See Section V.C.9. The senior bank debt initially was incurred and the Subordinated Notes were issued in connection with the acquisition of Kid-Vid and the launching of Scarlet’s Web.

5. Personal Injury Claims

A number of personal injury actions have been filed against Kid-Vid and/or Amphy, alleging that playing Kid-Vid’s video games caused the users to develop the so-called “hystereo” condition, which is characterized by a sensitivity to noise, blurred vision, and an inability to cope with three dimensions (the “Hystereo Actions”). The Debtors have denied the allegations set forth in the complaints filed in the numerous Hystereo Actions. At present, all of the Hystereo Actions are in the discovery stage. By virtue of the commencement of the Chapter 11 Cases, the continued prosecution of the Hystereo Actions against Kid-Vid and Amphy has been stayed. Under the Plan, each claim based on the Hystereo condition (the “Hystereo Disease Claims”) shall be liquidated and resolved through the Hystereo Disease Claims Resolution Facility and satisfied from the Hystereo Disease Settlement Fund Assets. No amount shall be paid to any

holder of a Hystereo Disease Claim for punitive damages, penalties or interest with respect to any Allowed Hystereo Disease Claim

C. EVENTS LEADING TO THE COMMENCEMENT OF THE CHAPTER 11 CASES

During the year prior to the Commencement Date, the Debtors faced unprecedented an unanticipated competition in the home computer and electronic toy market. In an effort to increase market share, MalMart and other competitors adopted aggressive retail pricing structures that placed the Debtors at a competitive disadvantage, resulting in lower revenues and margins. The effects of such competition were exacerbated by the relatively high debt leverage of the Debtors.

Like many manufacturers, Amphy borrows money early in the year to produce goods to be sold later in the retail stores. Two weak holiday seasons left Amphy overstocked on inventory and low on cash. In addition, a long strike by factory workers last year disrupted deliveries, resulting in delayed collection of accounts and cancellation of orders.

The shortfall in sales experienced by the Debtors during the first half of 1999, combined with the labor problems described above, contributed to deteriorating morale in the stores. The results of a “mystery shopper” program conducted by the Debtors indicated that customer satisfaction had declined substantially. The deterioration in customer service and satisfaction contributed to the substantial decline in sales during fiscal 1999.

Amphy also experienced significant personnel turnover in the first half of 1999, creating a lack of decision-making continuity at its critical time. Three corporate officers were terminated in the merchandising and marketing areas and one corporate officer was terminated in the distribution area. Two key merchandising executives also were terminated. Four additional corporate officers voluntarily resigned during the last four months of 1999.

As a result of, among other things, the continuing deterioration in operating performance and results, the Debtors began to incur difficulties with certain major vendors as to the provision of acceptable credit terms and limits. The Debtors’ operational problems were exacerbated by its highly leveraged debt structure. The Debtors’ debt levels became significantly more difficult to support as operating performance and cash flow deteriorated. As of the Commencement Date, the Debtors were burdened with approximately \$883,000,000 in obligations to the Banks and the holders of Subordinated Notes. As of the Commencement Date, the Debtors’ projected operating cash flow was not sufficient to satisfy their debt obligations.

To continue to operate in the face of the foregoing operational problems and debt obligations was not in the best interests of the Debtors, their employees, their creditors, their equity interest holders. The Debtors concluded that it would not be possible to implement the necessary restructuring and reorganization of their business without the protections of chapter 11, and that the interests of all parties involved would be best served by conducting the restructuring and reorganization under the auspices of the Bankruptcy Court.

D. MARKET INFORMATION

As of October 11, 1999, there were approximately 25,507,982 shares of Amphy’s common stock issued and outstanding held by approximately 4,000 holders of record. All of

Amphy's Equity Interests will be cancelled on the Effective Date. As of October 11, 1999, Amphy's common stock traded in the over-the-counter market, in the "pink sheets" published by the National Quotation Bureau, and was listed on the OTC Bulletin Board under the symbol AMPHY. The following table sets forth, for the periods indicated, the high and low sale prices per share for Amphy's common stock as reported by a market maker for Amphy's common stock:

		<u>High</u>	<u>Low</u>
FYE 1/30/99	First Fiscal Quarter	\$2-15/16	\$11/16
	Second Fiscal Quarter	\$1-17/32	\$23/32
	Third Fiscal Quarter	\$1-1/32	\$7/32
	Fourth Fiscal Quarter	\$1-1/32	\$13/32
FYE 1/31/98	First Fiscal Quarter	\$15-5/8	\$11-1/8
	Second Fiscal Quarter	\$13	\$11-1/4
	Third Fiscal Quarter	\$13-1/8	\$3-1/2
	Fourth Fiscal Quarter	\$5	\$1-1/2

IV. EVENTS DURING THE CHAPTER 11 CASES

On February 2, 1999 (the "Commencement Date"), the Debtors commenced the Chapter 11 Cases in the Bankruptcy Court. The Debtors continue to operate their business and manage their properties as debtors in possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

The following is a brief description of certain major events that have occurred during the Chapter 11 Cases.

A. APPOINTMENT OF THE COMMITTEE

On February 16, 1999, the United States Trustee, pursuant to section 1102(a)(1) of the Bankruptcy Code, appointed a seven-member committee to represent the interests of unsecured creditors of the Debtors (the "Committee"). The Committee consists of two subcommittees.

Since its formation, the Debtors have consulted with the Committee and the subcommittees concerning the administration of the Chapter 11 Cases. The Debtors have kept the Committee informed with respect to their operations and have sought the concurrence of the Committee for actions and transactions outside of the ordinary course of the Debtors' business. The Committee and the subcommittees have participated actively, together with the Debtors' management and professionals, in, among other things, reviewing the Debtors' business

operations, operating performance and business plan (the “Business Plan”). The Debtors and their professionals have met with the Committee, the subcommittees and the Committee’s professionals on regular occasions during the Chapter 11 Cases, including in connection with the Business Plan and the negotiation of the Plan.

The current members of, and the attorneys and financial advisors retained by, the Committee are set forth below:

COMMITTEE MEMBERS

BigBank
270 Money Parkway, 30th Floor
New York, New York 10017

Attn: Joshua Coleman, Vice President

e-Services, Inc.
1100 Tungston Street
Los Angeles, California 90071

Attn: Lauren Share, Senior Vice President

Ace Electronics, Inc.
2000 Forstyth
Clayton, Missouri 63100

Attn: Ernest Penney, President

Pouilly Fuse Co.
1110 N. Charles Street
Balatimore, Maryland 21215

Attn: Ursula Cheape, Credit Manager

International Electronics Workers’ Union
One Labor Plaza
Chicago, Illinois 60181

Attn: Evan Parter

Abyss & Partners
(representative of the Hystereo plaintiffs)
Three Personal Injury Drive
Denver, Colorado 80231

Attn: Stuart N. Abyss, Esq.

Trusty Bank USA
500 Park Plaza
New York, New York 10153
Attn: Chloe Moody, Trust Officer

COMMITTEE PROFESSIONALS

Attorneys

Zeppelin, Lederer & Fogg LLP
100 Renaissance Center
Detroit, Michigan 48234
Attn: Francis X. Fogg, Esq.

B. STABILIZATION OF BUSINESS

Financial Advisors

SuperLargeAccountingFirm, L.L.P.
1100 Avenue of the Americas
New York, New York 10036
Attn: Daniel D. DiMonopoli

During the initial stages of the Chapter 11 Cases, the Debtors devoted substantial efforts to stabilizing their operations and attempting to restore trade and vendor support that had been lost prior to the Commencement Date.

1. First-Day Orders

One day following the Commencement Date, the Bankruptcy Court entered several orders authorizing the Debtors to pay various prepetition claims. These orders were designed to ease the strain of the Debtors' relationships with employees and vendors as a consequence of the commencement of the Chapter 11 Cases. The Bankruptcy Court entered orders authorizing the Debtors to, among other things, pay prepetition wages and benefits to employees and certain prepetition claims held by trade vendors deemed by the Debtors to be "critical" to the operation of their business.

2. DIP Credit Facility

To facilitate the establishment of normal vendor relations and to provide the Debtors with the cash and liquidity to conduct their operations, the Debtors entered into a \$150,000,000 revolving credit facility (the "DIP Credit Facility") with BigBank (as agent for a consortium of financial institutions, the "DIP Agent"). The Bankruptcy Court entered a final order approving the DIP Credit Facility on March 5, 1999 (the "DIP Financing Order").

The outstanding principal amount loaned to the Debtors is not to exceed 85% of the Debtors' accounts receivable and 60% of their inventory. The DIP Credit Facility is secured by (a) a senior, first-priority lien on all of the Debtors' inventory, accounts receivable and all other unencumbered assets, and (b) a junior lien on all encumbered assets. Such collateral secures not only the post-petition advances under the DIP Credit Facility but also the prepetition Bank Claims. The claims under the DIP Credit Facility have a super-priority status pursuant to section 364(c) of the Bankruptcy Code. The DIP Credit Facility bears interest at the prime rate plus 5%, payable monthly. A facility fee of \$400,000 was paid to BigBank as agent upon entry of the DIP Financing Order. In addition, in lieu of the origination fee, the Debtors applied \$1 million of the proceeds of the DIP Credit Facility to pay off the prepetition Bank Claims. A commitment fee of .50% per annum on the average daily unused portion of the DIP Credit Facility is due and payable monthly. The DIP Credit Facility expires on the earlier of February 1, 2001 and the Effective Date of the Plan.

Pursuant to the DIP Credit Facility, the Banks consented to the Debtors' use of cash collateral. In that connection, as adequate protection

As of July 31, 2000, there were no direct borrowings outstanding under the DIP Credit Facility. At such date, the Debtors had utilized \$3.9 million of their availability under the DIP Credit Facility to issue letters of credit, and the total availability under the DIP Credit Facility, based on the borrowing base formulas described above, was \$50 million.

C. FACTORY ACCIDENT

On April 21, 1999, the manufacturing equipment at the San Diego factory was damaged as the result of an accident that caused a fire in the factory's compressor room and in the assembly line area. The assembly line equipment was not operational between April 21, 1999 and May 24, 1999. During the period in which the assembly line was out-of-service, the Debtors were unable to supply their stores with merchandise from the San Diego factory. As a result, the Debtors were unable to maintain adequate levels of merchandise inventories. The reduction in store level inventories resulted in a loss of customers and sales. The Debtors have recovered

\$19,650,000 from their insurance carriers to reimburse the Debtors for the costs of repairing or replacing damaged equipment, business interruption losses resulting from the accident, and expenses incurred by the Debtors to ensure that their stores received an adequate supply of merchandise. The Debtors believe that they have recovered substantially all of their documented losses attributable to the San Diego factory accident.

D. REAL ESTATE RATIONALIZATION AND TRANSACTIONS

Shortly after the Commencement Date, the Debtors, together with their financial advisors, commenced the process of reviewing and analyzing each of their store locations and geographic markets in an effort to determine which, if any, of such stores and geographic markets should be divested or closed during the Chapter 11 Cases. The Debtors have consummated the following real estate transactions and store closures during the pendency of the Chapter 11 Cases:

1. Exerwise Sale Transaction

Prior to the Commencement Date, the Debtors concluded that the continued operation and maintenance of certain stores located in and around Atlanta, Georgia was not economically feasible. As a result, the Debtors initiated a program to divest 13 stores in the Atlanta, Georgia area (the "Atlanta Stores"). On January 6, 1999, prior to the Commencement Date, Amphy and Exerwise Incorporated ("Exerwise"), a chain of high-tech health clubs with no presence in Georgia, executed an agreement, pursuant to which Exerwise agreed to purchase the Atlanta Stores (the "Exerwise Sale Transaction"). The Exerwise Sale Transaction was not consummated prior to the Commencement Date. By order entered on February 24, 1999, the Bankruptcy Court authorized the Debtors to consummate the Exerwise Sale Transaction. Exerwise purchased the Atlanta Stores and certain related assets, without inventory, for \$18,000,000, in cash, subject to certain adjustments. The Exerwise Sale Transaction was consummated on March 12, 1999.

2. Store Closings

In August and September 1999, pursuant to an order of the Bankruptcy Court entered on August 12, 1999, Comp-U-All closed 19 under-performing stores (the "Phase One Stores"), and liquidated the inventories in such stores. In the period subsequent to the closing of the Phase One Stores, Comp-U-All continued to review and analyze its overall store operations. Based upon such review, in late January and early February 2000, pursuant to an order of the Bankruptcy Court entered on February 3, 2000, Comp-U-All closed 14 additional under-performing stores (the "Phase Two Stores"), and liquidated the inventories in such stores. Certain of the leases associated with the Phase One Stores and Phase Two Stores have been assumed, assigned and sold to third parties or terminated in accordance with lease termination agreements. The balance of the leases relating to the Phase One Stores and the Phase Two Stores have been or will be rejected.

3. Lease Termination and Rent Reduction Agreements

Comp-U-All also has diligently been negotiating with its landlords in an effort to obtain rent reductions and claims waivers. Such negotiations have resulted in the consummation of certain (a) rent reduction agreements under which landlords have reduced the rent and related expenses under their leases with the Debtors, and (b) lease termination agreements under which

landlords have waived and relinquished damage claims that otherwise may have been asserted against the Debtors in connection with rejected and terminated leases in exchange for the Debtors' sale to the landlords of the equipment and fixtures located in the affected stores.

4. Extensions of Time to Assume or Reject Leases

Pursuant to section 365(d)(4) of the Bankruptcy Code, absent an extension of such time period by the Bankruptcy Court, the Debtors were required to assume or reject their unexpired leases of nonresidential real property on or before April 2, 1999. By order dated April 8, 1999, the Bankruptcy Court approved the first extension of the Debtors' time to assume or reject their unexpired leases through October 1, 1999. Thereafter, by orders dated October 22, 1999, January 11, 2000, June 23, 2000 and September 22, 2000, the Bankruptcy Court granted the Debtors an extension of time to assume or reject their unexpired leases through the Effective Date of the Plan.

E. UNION NEGOTIATIONS

Since the Commencement Date, the Debtors have been engaged in negotiations with International Electronics Workers' Union (the "Union"), which represents certain of the Debtors' factory workers in negotiations with respect to certain collective bargaining agreements. In general terms, the Debtors have requested modifications to the collective bargaining agreements that would enable them to compete more effectively against unionized and non-unionized food retailers.

On September 26, 1999, one day after the expiration of one of the collective bargaining agreements between the Debtors and the Union, the Union commenced a strike at the Debtors' factories. On October 3, 1999, after protracted and extended negotiations, the Debtors and the Union settled the strike and reached agreement as to the terms of new four-year collective bargaining agreements. The new collective bargaining agreements have been ratified by the members of the Union. The Debtors believe that the new collective bargaining agreements make the Debtors more competitive from a labor perspective, while at the same time affording the Union and its members wages, rights and protections that are fair and reasonable in the context of the Debtors' current circumstances and the competitive environment.

F. CLAIMS PROCESS AND BAR DATE

1. Schedules and Statements

On May 14, 1999, the Debtors filed with the Bankruptcy Court their Statements of Financial Affairs, Schedules of Assets and Liabilities, Schedules of Executory Contracts and Unexpired Leases and Lists of Equity Security Holders (the "Schedules"). The Debtors filed an amendment to their Schedules on August 13, 1999.

2. Bar Date

By order dated July 15, 1999 (the "Bar Date Order"), pursuant to Bankruptcy Rule 3003(c)(3), the Bankruptcy Court fixed September 30, 1999 (the "Bar Date") as the date by which proofs of claim were required to be filed in the Chapter 11 Cases. In accordance with the Bar Date Order, on or about August 20, 1999, a proof of claim form, a notice regarding the

scheduling of each Claim and a notice regarding the Bar Date and the Bar Date Order were mailed to all creditors listed on the Debtors' Schedules.

Approximately 2,710 proofs of claim asserting approximately 3,193 claims against the Debtors have been filed with the claims agent appointed by the Bankruptcy Court.

3. Claims Settlement Authority

By order dated May 6, 1999 (the "Litigation Claims Settlement Order"), the Bankruptcy Court authorized the Debtors to adopt certain procedures for the settlement and payment of certain litigation-related claims (other than the Hystereo Disease Claims), without the need for further Bankruptcy Court approval. The Debtors are authorized to pay (a) up to \$10,000, in cash, per claim, for employment-discrimination claims based upon pre-Commencement Date lawsuits, and (b) up to \$1,000, in cash, per claim, to settle certain property damage claims. The aggregate cap on cash payable by the Debtors is \$5 million. As of July 31, 2000, the Debtors have settled 44 claims through the payment of approximately \$400,000, in cash, in the aggregate. Approximately 250 litigation claims have been asserted against the Debtors.

By order dated February 23, 2000 (the "Settlement Procedures Order"), the Bankruptcy Court authorized the Debtor to adopt certain procedures for the reconciliation and settlement of certain claims reflected in the Schedules (other than the Hystereo Disease Claims). The Debtors are authorized to settle claims, other than the Hystereo Disease Claims, without further approval of the Bankruptcy Court, as long as (a) the post-settlement allowed amount of each such settled claim does not exceed \$1,000,000; and (b) the amount of the settled claim does not exceed the corresponding claim, as reflected in the Schedules, by more than the lesser of \$150,000 and 50% of the Scheduled claim. Notwithstanding (a) and (b) in the preceding sentence, the Debtors are authorized to settle any claim in an amount equal to or less than \$50,000, without further approval of the Court. In addition, the Debtors are authorized to settle claims without further approval of the Court, even if such settlements exceed the limits set forth in (a) and (b) above, upon notice to and approval by the Committee. As of August 21, 2000, the Debtors have settled approximately 340 claims, which claims aggregated \$38,809,938 in the Schedules and \$58,029,639 in the proofs of claim filed in respect thereof, for approximately \$29,988,713.

G. OTHER MATERIAL LITIGATION

With the exception of the Hystereo Actions, the Debtors do not believe that there is any material litigation or administrative proceeding to which the Debtors are parties. The Debtors do not believe that they have any claims against officers, directors, advisors or consultants of or to the Debtors.

H. DEVELOPMENT OF BUSINESS PLAN AND PLAN NEGOTIATIONS

After achieving an initial stabilization of their business operations during the early stages of the Chapter 11 Cases, the Debtors engaged in an extensive review and evaluation of the constituent parts of their business in the context of formulating a long-range Business Plan and, eventually, a plan of reorganization.

On October 8, 1999, the Debtors presented their Business Plan to the Committee. The Business Plan incorporates, among other things, certain strategic and business initiatives,

including consolidation of operations at the San Diego plant, the sale of the St. Louis division, closure and sale of all Comp-U-All stores, and the Debtors' three-year financial projections and capital expenditures plan.

The Debtors' discussions with the Committee and the Banks regarding the Business Plan naturally evolved into negotiations regarding the development of a plan of reorganization. These negotiations addressed, among other things, the treatment of Claims under the Plan and the amount and form of consideration to be distributed under the Plan to holders of Allowed Bank Claims and Allowed General Unsecured Claims.

V. THE PLAN OF REORGANIZATION

The Debtors believe that (a) through the Plan, holders of Allowed Claims will obtain a greater recovery from the estates of the Debtors than the recovery that they would receive if the assets of the Debtors were liquidated under chapter 7 of the Bankruptcy Code, and (b) the Plan will afford the Debtors the opportunity and ability to continue in business as a viable going concern and preserve ongoing employment for the Debtors' employees.

The Plan is annexed hereto as Exhibit A and forms a part of this Disclosure Statement. The summary of the Plan set forth below is qualified in its entirety by reference to the provisions of the Plan.

A. CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

The Plan classifies Claims and Equity Interests separately and provides different treatment for different Classes of Claims and Equity Interests in accordance with the Bankruptcy Code. As described more fully below, the Plan provides, separately for each Class, that holders of certain Claims will receive various amounts and types of consideration, thereby giving effect to the different rights of holders of Claims and Equity Interests in each Class.

1. Administrative Expense Claims

Administrative Expense Claims are Claims constituting a cost or expense of administration of the Chapter 11 Cases allowed under sections 503(b) and 507(a)(1) of the Bankruptcy Code. Such Claims include all actual and necessary costs and expenses of preserving the estates of the Debtors, all actual and necessary costs and expenses of operating the business of the Debtors in Possession, any indebtedness or obligations incurred or assumed by the Debtors in Possession in connection with the conduct of their business, all cure amounts owed in respect of leases and contracts assumed by the Debtors in Possession, all compensation and reimbursement of expenses to the extent Allowed by the Bankruptcy Court under section 330 or 503 of the Bankruptcy Code, and any fees or charges assessed against the estates of the Debtors under section 1930 of title 28 of the United States Code.

Except as provided in the next sentence with respect to ordinary course obligations and in Section V.C.2. with respect to professional compensation and reimbursement Claims, Administrative Expense Claims will be paid in full, in cash, on the later of the Effective Date and the date the Administrative Expense Claim becomes an Allowed Claim, or as soon thereafter as

is practicable. Allowed Administrative Expense Claims representing obligations incurred in the ordinary course of business by the Debtors in Possession (including amounts owed to vendors and suppliers that have sold goods or furnished services to the Debtors in Possession since the Commencement Date) will be assumed and paid by Reorganized Amphy in accordance with the terms and conditions of the particular transactions and any agreements relating thereto. The Debtors estimate that Allowed Administrative Expense Claims payable on the Effective Date, exclusive of compensation and reimbursement of expenses payable to professionals retained in the Chapter 11 Cases, but inclusive of amounts payable in respect of reconciled Reclamation Claims and cure payments under executory contracts and unexpired leases assumed pursuant to the Plan, will be approximately \$38,000,000.

2. Compensation and Reimbursement Claims

Compensation and reimbursement Claims are Administrative Expense Claims for the compensation of professionals and reimbursement of expenses incurred by such professionals pursuant to sections 503(b)(2), 503(b)(3), 503(b)(4) and 503(b)(5) of the Bankruptcy Code (the “Compensation and Reimbursement Claims”). All payments to professionals for Compensation and Reimbursement Claims will be made in accordance with the procedures established by the Bankruptcy Code, the Bankruptcy Rules and the Bankruptcy Court relating to the payment of interim and final compensation for services rendered and reimbursement of expenses. The aggregate amount paid by the Debtors in respect of compensation for services rendered and reimbursement of expenses incurred by professionals (including professionals employed by the Debtors and the Committee) through August 31, 1999 is approximately \$11,500,000. The Bankruptcy Court will review and determine all applications for compensation for services rendered and reimbursement of expenses.

Section 503(b) of the Bankruptcy Code provides for payment of compensation to creditors, indenture trustees and other entities making a “substantial contribution” to a reorganization case and to attorneys for and other professional advisors to such entities. The amounts, if any, that may be sought by entities for such compensation are not known by the Debtors at this time. Requests for compensation must be approved by the Bankruptcy Court after a hearing on notice at which the Debtors and other parties in interest may participate and object to the allowance of any claims for compensation and reimbursement of expenses.

Each holder of a Compensation and Reimbursement Claim shall (a) file its final application for the allowance of compensation for services rendered and reimbursement of expenses incurred by no later than the date that is 60 days after the Effective Date or such other date as may be fixed by the Bankruptcy Court and (b) if granted such an award by the Bankruptcy Court, be paid in full in such amounts as are Allowed by the Bankruptcy Court (a) on the date such Compensation and Reimbursement Claim becomes an Allowed Claim, or as soon thereafter as is practicable, or (b) upon such other terms as may be mutually agreed upon between such holder of a Compensation and Reimbursement Claim and the Reorganized Debtors.

3. Priority Tax Claims

Priority Tax Claims are Claims for taxes entitled to priority in payment under section 507(a)(8) of the Bankruptcy Code. The Debtors estimate that the amount of Allowed Priority

Tax Claims that have not previously been paid pursuant to an order of the Bankruptcy Court will aggregate approximately \$3,500,000.

Except to the extent that a holder of an Allowed Priority Tax Claim has been paid by the Debtors prior to the Effective Date or agrees to a different treatment, each holder of an Allowed Priority Tax Claim shall receive, at the sole option of the Reorganized Debtors, (a) cash in an amount equal to such Allowed Priority Tax Claim on the later of the Effective Date and the date such Priority Tax Claim becomes an Allowed Priority Tax Claim, or as soon thereafter as is practicable or (b) equal annual cash payments in an aggregate amount equal to such Allowed Priority Tax Claim, together with interest at a fixed annual rate equal to 8.0%, over a period through the sixth anniversary of the date of assessment of such Allowed Priority Tax Claim, or upon such other terms determined by the Bankruptcy Court to provide the holder of such Allowed Priority Tax Claim with deferred cash payments having a value, as of the Effective Date, equal to such Allowed Priority Tax Claim.

4. Class 1 – Other Priority Claims

Other Priority Claims are Claims that are entitled to priority in accordance with section 507(a) of the Bankruptcy Code (other than Administrative Expense Claims and Priority Tax Claims). Such Claims include Claims for (a) accrued employee compensation earned within 90 days prior to commencement of the Chapter 11 Cases to the extent of \$4,300 per employee and (b) contributions to employee benefit plans arising from services rendered within 180 days prior to the commencement of the Chapter 11 Cases, but only for each such plan to the extent of (i) the number of employees covered by such plan multiplied by \$4,300, less (ii) the aggregate amount paid to such employees from the estates for wages, salaries or commissions during the 90 days prior to the Commencement Date. The Debtors believe that all Other Priority Claims previously have been paid pursuant to an order of the Bankruptcy Court. Accordingly, the Debtors believe that there should be no Allowed Other Priority Claims.

Holders of Allowed Other Priority Claims, if any exist, will be paid in full, in cash, on the later of the Effective Date and the date such Other Priority Claims becomes Allowed Claims, or as soon thereafter as is practicable. The legal, equitable and contractual rights of the holders of Other Priority Claims, if any exist, are not altered by the Plan.

5. Class 2 – Secured Claims

Based upon the Debtors' Schedules and the proofs of claim filed in the Chapter 11 Cases, the Debtors believe that the Secured Claims include, among other Claims, Claims relating to mechanics' and materialmen's liens and claims under certain real property mortgages.

Except to the extent that a holder of an Allowed Secured Claim agrees to a different treatment, each Allowed Secured Claim shall be reinstated and rendered unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable nonbankruptcy law that entitles the holder of an Allowed Secured Claim to demand or receive payment of such Allowed Secured Claim prior to the stated maturity of such Allowed Secured Claim from and after the occurrence of a default. The legal, equitable and contractual rights of the holders of Secured Claims, if any exist, are not altered by the Plan.

6. Class 3 – Bank Claims

The Bank Claims consist of all Claims, other than Secured Claims, held by Banks. The Bank Claims are deemed Allowed Claims in the aggregate amount of \$462,164,419.

On the Effective Date or as soon thereafter as is practicable, each holder of an Allowed Bank Claim as of the day that is five Business Days from and after the Confirmation Date (the “Record Date”) shall receive a Pro Rata Share of 200,000,000 shares of Reorganized Amphy Common Stock, which shares shall constitute all of the shares of Reorganized Amphy’s Common Stock. Accordingly, on and after the Effective Date, the holders of Allowed Bank Claims, collectively, will own 100% of the common stock of Reorganized Amphy.

The distributions to the Banks pursuant to the Plan enforce and give effect to the subordination provisions contained in the Subordinated Notes Indentures. See Section V.B.

7. Class 4 – General Unsecured Claims

The General Unsecured Claims consist of all Claims other than Secured Claims, Administrative Expense Claims, Priority Tax Claims, Other Priority Claims, Bank Claims and Subordinated Note Claims. General Unsecured Claims include: (a) Claims arising from the rejection of leases of nonresidential real property and executory contracts, (b) Claims relating to personal injury, property damage, products liability, discrimination, employment or any other similar litigation Claims asserted against any of the Debtors (the “Tort Claims”), (c) Claims relating to other prepetition litigation against the Debtors, including Claims asserted in the Hystereo actions, and (d) Claims of the Debtors’ trade vendors, suppliers and service providers.

The aggregate amount of General Unsecured Claims, as reflected in proofs of claim filed by holders of General Unsecured Claims or, in the event no proof of claim was filed, in the Debtors’ Schedules is \$370,000,000, excluding claims for which no amounts were specified, otherwise unliquidated Claims, Claims against multiple Debtors, amended Claims, duplicate Claims and guarantee Claims. For purposes of the Plan, through the substantive consolidation of the Debtors, Claims against multiple Debtors are deemed one Claim against the consolidated Debtors and guarantee Claims are deemed eliminated. See Section V.H. The Debtors estimate that the amount of Allowed General Unsecured Claims will aggregate approximately \$135,000,000. The Debtors’ estimate of Allowed General Unsecured Claims is based upon an analysis of the General Unsecured Claims and the Debtors’ experience to date in resolving disputes concerning the amount of such General Unsecured Claims. The ultimate resolution of General Unsecured Claims could result in Allowed General Unsecured Claims in amounts less than or greater than those estimated by the Debtors for purposes of this Disclosure Statement.

On the Effective Date, or as soon thereafter as is practicable, each holder of an Allowed General Unsecured Claim as of the Record Date shall receive, in full and complete satisfaction of such Allowed Claim, an amount, in cash, equal to .30 multiplied by the amount of such Allowed General Unsecured Claim.

The holder of a Disputed General Unsecured Claim that becomes an Allowed Claim subsequent to the Effective Date shall receive, in full and complete satisfaction of such Allowed Claim, an amount, in cash, equal to .30 multiplied by the amount of such Allowed General

Unsecured Claim, on the next Subsequent Distribution Date that follows the month during which such Disputed General Unsecured Claim becomes an Allowed Claim. See Section V.F.2.

If a portion of a General Unsecured Claim is in part Allowed, a distribution will be made on account of the Allowed Portion of the General Unsecured Claim in accordance with the Plan. Payments and distributions to each holder of an Administrative Expense Claim or Claim that is Disputed or that is not Allowed, to the extent that such Administrative Expense Claim or Claim ultimately becomes Allowed, will be made in accordance with the provisions of the Plan governing such Administrative Expense Claim or Claim. See Section V.C.

All Tort Claims are Disputed Claims. Except with respect to Hystereo Disease Claims, any Tort Claim as to which a proof of claim was timely filed in the Chapter 11 Cases shall be determined and liquidated in the administrative or judicial tribunal(s) in which it is pending on the Effective Date or, if no action was pending on the Effective Date, in any administrative or judicial tribunal of appropriate jurisdiction, or in accordance with any alternative dispute resolution or similar proceeding as may be approved by order of a court of competent jurisdiction. Any Tort Claim determined and liquidated (a) pursuant to a judgment obtained in accordance with the preceding sentence and applicable non-bankruptcy law that has become a Final Order or (b) in any alternative dispute resolution or similar proceeding as may be approved by order of a court of competent jurisdiction, shall be deemed an Allowed General Unsecured Claim in such liquidated amount and satisfied in accordance with the Plan. Treatment of Hystereo Disease Claims is discussed in Section V.A.9.

8. Class 5 – Subordinated Note Claims

The Subordinated Note Claims consist of all Claims arising under the Subordinated Note Indentures. The Subordinated Notes Indentures mean the trust indenture, dated August 18, 1995, and the first supplemental trust indenture, dated August 18, 1995, between Amphy, as issuer of the Subordinated Notes, and Trusty Bank USA, as the indenture trustee, and any of the documents and instruments relating thereto, as amended, supplemented, modified or restated as of the Commencement Date. Pursuant to Section 4.6(a) of the Plan, the Subordinated Note Claims shall be deemed Allowed Claims solely for purposes of the Plan in the aggregate amount of \$421,121,589.77.

Pursuant to the Plan and section 510(a) of the Bankruptcy Code, the holders of Subordinated Note Claims shall not receive any distributions on account of such Claims as a result of the enforcement of subordination provisions in the Subordinated Notes Indentures. See Section V.B.

9. Class 6 – Hystereo Disease Claims

Each Hystereo Disease Claim shall be liquidated and resolved through the Hystereo Disease Claims Resolution Facility, a form of which is included in the Plan Supplement, and satisfied from the Hystereo Disease Settlement Fund Assets, which consist of (a) any recoveries by the Debtors against their insurance carriers with respect to Hystereo Disease Claims, (b) 50,000,000 shares (or 20%) of Reorganized Amphy's common stock, and (c) the income, dividends, profits and proceeds, if any, derived from, or related to, the assets in clauses (a) and (b) above. It is estimated that any recoveries by holders of Allowed Hystereo Disease Claims shall be approximately .25%. No amount shall be paid to any holder of a Hystereo Disease

Claim for punitive damages, penalties or interest with respect to any Allowed Hystereo Disease Claim. The distribution of the Hystereo Disease Settlement Fund Assets to the Hystereo Disease Settlement Fund pursuant to this Plan shall (and the Confirmation Order shall so provide) extinguish all liabilities of the Debtors to the holders of Hystereo Disease Claims.

On the Effective Date, the Hystereo Disease Settlement Fund will be created in accordance with the Hystereo Disease Settlement Fund Documents, forms of which are included in the Plan Supplement. The purposes of the Hystereo Disease Settlement Fund will be to: (a) direct the resolution of all Hystereo Disease Claims through the Hystereo Disease Claim Resolution Facility as cost effectively as possible, taking into consideration both short- and long-term defense costs, and (b) hold, manage and maximize the Hystereo Disease Settlement Fund Assets for use in satisfying the Hystereo Disease Claims. On the Effective Date, or as soon thereafter as is practicable, the Debtors will transfer and assign (or cause to be transferred and assigned) to the Hystereo Disease Settlement Fund all of the Debtors' right, title and interest in and to all assets, which are part of the Hystereo Disease Settlement Fund Assets, free and clear of all liens, claims and encumbrances. Pursuant to the Confirmation Order, the establishment of the Hystereo Disease Settlement Fund shall extinguish all Hystereo Disease Claims, and the liability therefor shall be satisfied *solely* from the Hystereo Disease Settlement Fund, and, other than the Debtors' obligation to establish and make payments to the Hystereo Disease Settlement Fund, as provided in this Plan, the Debtors and the Reorganized Debtors shall have no further financial or other responsibility for the Hystereo Disease Claims or for the Hystereo Fund Expenses. Hystereo Disease Claims shall be liquidated through the Hystereo Disease Resolution Facility.

To the extent there are any Hystereo Disease Settlement Fund Assets remaining after the payment of all Allowed Hystereo Disease Claims and the payment, in full, of all Hystereo Disease Fund Expenses, such excess Hystereo Disease Fund Assets shall be transferred to such charitable purposes as the Fund Administrators, in their reasonable discretion, shall determine, which charitable purposes, if practicable, shall be related to the treatment of, research regarding, or payment of claims related to, video-game-related disorders.

The Fund Administrators shall pay all Hystereo Disease Fund Expenses from the Hystereo Disease Settlement Fund Assets. Neither the Debtors nor the Reorganized Debtors shall have any obligation to pay any Hystereo Disease Fund Expenses.

Reorganized Amphy's Securities Trust shall hold 50,000,000 shares (or 20%) of Reorganized Amphy's Common Stock. The Fund Administrators shall serve as the trustees of Reorganized Amphy's Securities Trust, and, in such capacity, the Fund Administrators shall be authorized to vote such shares of Reorganized Amphy on all appropriate issues under Reorganized Amphy's corporate documents and applicable state law. Upon the sale of Reorganized Amphy's common stock held by Reorganized Amphy's Securities Trust, the consideration, if any, payable to Reorganized Amphy's Securities Trust shall be distributed by the Fund Administrators to the holders of Hystereo Disease Claims in the same manner as distributions are made to such holders pursuant to the Hystereo Disease Settlement Fund Documents and this Plan.

At confirmation, the Bankruptcy Court shall issue such orders (which orders may be included as part of the Confirmation Order) as it deems necessary to authorize the

implementation those certain Hystereo Disease Claims Resolution Procedures included in the Plan Supplement.

The Bankruptcy Court shall appoint three (3) initial Fund Administrators for the purpose of performing the duties and carrying out the obligations of trustees of the Hystereo Disease Settlement Fund in accordance with the terms and conditions contained in the Hystereo Disease Settlement Fund Documents and this Plan.

10. Class 7 – Amphy’s Equity Interests

Amphy’s Equity Interests consist of any share of common stock or other instrument evidencing an ownership interest in Amphy, whether or not transferable, and any option, warrant or right, contractual or otherwise, to acquire any such interest, and rescission claims arising from purchase of Amphy’s common stock.

The holders of Amphy’s Equity Interests shall not receive any distributions on account of such Equity Interests. On the Effective Date, all Amphy’s Equity Interests shall be extinguished.

B. SECURITIES TO BE ISSUED UNDER THE PLAN

1. New Common Stock

On the Effective Date, all Amphy’s Equity Interests will be cancelled. An aggregate of 200,000,000 shares of Reorganized Amphy Common Stock will be issued to holders of Allowed Bank Claims, and 50,000,000 shares of Reorganized Amphy Common Stock will be issued to Reorganized Amphy’s Securities Trust. Such shares shall constitute 100% of the shares of Reorganized Amphy Common Stock outstanding as of the Effective Date.

2. Management Options

On the Effective Date, Reorganized Amphy shall issue to certain of its senior executives options to purchase in the aggregate approximately 3% of the outstanding shares of Reorganized Amphy’s Common Stock on a fully diluted basis (but excluding the shares allocable to Reorganized Amphy’s Securities Trust). For a detailed description of the terms of the Reorganized Amphy Stock Option Plan, see Section VII.C.

C. METHOD OF DISTRIBUTION UNDER THE PLAN

Subject to Bankruptcy Rule 9010, all distributions under the Plan shall be made by Reorganized Amphy to the holder of each Allowed Claim at the address of such holder as listed on the Schedules as of the Record Date (five Business Days from and after the Confirmation Date).

As at the close of business on the Record Date, the claims register shall be closed, and there shall be no further changes in the record holder of any Claim. Amphy and Reorganized Amphy shall have no obligation to recognize any transfer of any Claim occurring after the Record Date. Amphy and Reorganized Amphy shall instead be authorized and entitled to recognize and deal for all purposes under the Plan with only those record holders stated on the claims register as of the close of business on the Record Date.

All distributions under the Plan that are unclaimed for a period of one year after distribution thereof shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code and reverted in Reorganized Amphy and any entitlement of any holder of any Claim to such distributions shall be extinguished and forever barred.

No payment of cash less than \$40 shall be made by Reorganized Amphy to any holder of a Claim unless a request therefor is made in writing to Reorganized Amphy.

D. TIMING OF DISTRIBUTIONS UNDER THE PLAN

1. Distributions on the Effective Date

Payments and distributions to holders of Allowed Administrative Expense Claims, Allowed Priority Tax Claims, Allowed Other Priority Claims, Allowed Secured Claims, Allowed Bank Claims and Allowed General Unsecured Claims that are Allowed Claims on the Effective Date shall be made on the Effective Date, or as soon thereafter as is practicable.

2. Distributions on Subsequent Distribution Dates

The holder of a Disputed General Unsecured Claim that becomes an Allowed Claim subsequent to the Effective Date shall receive, in full and complete satisfaction of such Allowed Claim, an amount, in cash, equal to .30 multiplied by the amount of such Allowed General Unsecured Claim, on the next Subsequent Distribution Date that follows the month during which such Disputed General Unsecured Claim becomes an Allowed Claim. A Subsequent Distribution Date means the twentieth day after the end of the month following the month in which the Effective Date occurs and the twentieth day after the end of each subsequent month. Holders of Disputed General Unsecured Claims that become Allowed Claims subsequent to the Effective Date shall not receive any post-Effective Date interest in respect of their Allowed Claims. Distributions on account of Hystereo Disease Claims shall be made pursuant to the Hystereo Disease Claims Settlement Procedures.

E. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

The Bankruptcy Code grants the Debtors the power, subject to the approval of the Bankruptcy Court, to assume or reject executory contracts and unexpired leases. If an executory contract or unexpired lease is rejected, the counter party to the agreement may file a claim for damages incurred by reason of the rejection. In the case of rejection of leases of real property, such damage claims are subject to certain limitations imposed by the Bankruptcy Code.

Pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, all executory contracts and unexpired leases that exist between the Debtors and any person shall be deemed assumed by the Debtors as of the Effective Date, except for:

(a) any executory contract or unexpired lease that has been rejected pursuant to an order of the Bankruptcy Court entered prior to the Confirmation Date;

(b) any executory contract or unexpired lease as to which a motion for approval of the rejection of such executory contract or unexpired lease has been filed and served prior to the Confirmation Date;

(c) any executory contract or unexpired lease that is set forth in Schedule X (executory contracts) or Schedule Y (unexpired leases), which Schedules shall be included in the Plan Supplement; or

(d) all product warranties of the Debtors relating to video games manufactured, distributed or sold by the Debtors, which product warranties shall be deemed rejected as of the Effective Date.

The Debtors reserve the right, on or prior to the Confirmation Date, to amend Schedules X or Y to delete any executory contract or unexpired lease therefrom or add any executory contract or unexpired lease thereto, in which event such executory contract(s) or unexpired lease(s) shall be deemed to be, respectively, assumed by the Debtors or rejected. The Debtors shall provide notice of any amendments to Schedules X or Y to the parties to the executory contracts and unexpired leases affected thereby. The listing of a document on Schedules X and Y shall not constitute an admission by the Debtors that such document is an executory contract or an unexpired lease or that the Debtors have any liability thereunder.

All of the Debtors' insurance policies and any agreements, documents or instruments relating thereto are treated as executory contracts under the Plan. Notwithstanding the foregoing, distributions under the Plan to any holder of an Insured Claim shall be in accordance with the treatment provided under Article IV and Section 5.7 of the Plan. The treatment of the Debtors' insurance policies and any agreements, documents or instruments relating thereto as executory contracts under the Plan shall not constitute or be deemed a waiver of any Cause of Action that the Debtors may hold against any entity, including the insurer under any of the Debtors' policies of insurance, to recover on any claim, including with respect to coverage of Hystereo Disease Claims.

Except as provided in Section 6.1(a) of the Plan, all savings plans, retirement plans, health care plans, performance-based incentive plans, retention plans, workers' compensation programs and life, disability, directors and officers liability and other insurance plans are treated as executory contracts under the Plan and shall, on the Effective Date, be deemed assumed by the Debtors in accordance with sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

Subject to and upon the occurrence of the Effective Date, entry of the Confirmation Order by the Bankruptcy Court shall constitute (a) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the assumption of the executory contracts and unexpired leases assumed pursuant to the Plan, (b) the extension of time, pursuant to section 365(d)(4) of the Bankruptcy Code, within which the Debtors may assume or reject the unexpired leases pursuant to the Plan, through the date of entry of an order approving the assumption or rejection of such unexpired leases, and (c) the approval, pursuant to sections 365(a) and 1123(b)(2) of the Bankruptcy Code, of the rejection of the executory contracts and unexpired leases rejected.

Except as may otherwise be agreed to by the parties, within 30 days after the Effective Date, the applicable Reorganized Debtor shall cure any and all undisputed defaults under any executory contract or unexpired lease assumed by the Debtors pursuant to the Plan, in accordance with section 365(b)(1) of the Bankruptcy Code. All disputed defaults that are required to be cured shall be cured either within 30 days of the entry of a Final Order determining the amount, if any, of the applicable Reorganized Debtor's liability with respect thereto or as may otherwise be agreed to by the parties.

Claims arising out of the rejection of an executory contract or unexpired lease pursuant to the Plan must be filed with the Bankruptcy Court and served upon the Debtors or, on and after the Effective Date, the applicable Reorganized Debtor, no later than 30 days after the later of (a) notice of entry of an order approving the rejection of such executory contract or unexpired lease, (b) notice of entry of the Confirmation Order, and (c) notice of an amendment to Schedule X or Y. All such Claims not filed within such time will be forever barred from assertion against the Debtors, their estates, the Reorganized Debtors, and their property. Unless otherwise ordered by the Bankruptcy Court, all claims arising from the rejection of executory contracts or unexpired leases shall be treated as General Unsecured Claims under the Plan.

F. SUBSTANTIVE CONSOLIDATION OF THE DEBTORS

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

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

The principle is well-established that section 105(a) of the Bankruptcy Code empowers a bankruptcy court to authorize substantive consolidation. 11 U.S.C. § 105(a). Although the United States Court of Appeals for the Third Circuit, the circuit in which the Chapter 11 Cases are pending, has not articulated a specific test or standard for evaluating a request for substantive consolidation, other Circuit Courts of Appeal have developed substantially similar tests for evaluating such requests. *See, e.g., United Savings Bank v. Augie/Restivo Baking Co. (In re Augie/Restivo Baking Co.)*, 860 F.2d 515 (2d Cir. 1988); *Drabkin v. Midland-Ross Corp. (In re Auto-Train Corp.)*, 810 F.2d 270 (D.C. Cir. 1987). Although phrased differently, such tests identify two general factors that must be evaluated in the context of a substantive consolidation analysis: (a) whether there is a "substantial identity" or an inseparable "interrelationship" or "entanglement" between the debtors to be consolidated; and (b) whether the benefits of consolidation outweigh the harm or prejudice to creditors, if any, including whether individual creditors relied upon the separate identity of one of the entities to be consolidated such that they would be prejudiced by substantive consolidation.

In these Chapter 11 Cases, both of the above-described factors are satisfied. The applicable facts demonstrate a substantial identity and an extensive and inseparable interrelationship and entanglement between and among the Debtors. For example: (a) all of the Debtors' operations are conducted and controlled by Amphy; (b) the Debtors maintain their books and records on a consolidated basis and, as a result, only were able to file with the Bankruptcy Court consolidated, rather than individual Debtor-by-Debtor, Schedules; (c) the Debtors file consolidated federal income tax returns and prepare financial statements, annual

reports and other documents filed with the Securities and Exchange Commission on a consolidated basis; and (d) all financial information disseminated to the public, including to customers, suppliers, landlords, lenders and credit rating agencies, is prepared and presented on a consolidated basis. The applicable facts also demonstrate that no creditors will be harmed or prejudiced by virtue of the substantive consolidation of the Debtors. No creditor relied upon the separate identity of one or more of the Debtors in extending credit to the Debtors inasmuch as (a) all financial information disseminated by the Debtors to the creditors was and is prepared and presented on a consolidated basis and (b) substantially all of the Debtors' obligations, other than the Subsidiaries' guarantees of Amphy's obligations to the Banks, are, in fact, obligations of Amphy. Based upon the foregoing, the substantive consolidation of the Debtors' estates, for Plan purposes (as set forth below), is warranted and appropriate.

Accordingly, entry of the Confirmation Order by the Bankruptcy Court shall, subject to and upon the occurrence of the Effective Date, constitute the approval, pursuant to section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the substantive consolidation of the Chapter 11 Cases for all purposes related to the Plan, including for purposes of voting, confirmation and distribution. On and after the Effective Date, (a) all assets and liabilities of the Subsidiaries shall be deemed merged or treated as though they were merged into and with the assets and liabilities of Amphy, (b) no distributions shall be made under the Plan on account of intercompany claims among the Debtors, (c) no distributions shall be made under the Plan on account of Subsidiary Equity Interests, (d) all guarantees of the Debtors of the obligations of any other Debtor shall be deemed eliminated so that any claim against any Debtor and any guarantee thereof executed by any other Debtor and any joint or several liability of any of the Debtors shall be deemed to be one obligation of the consolidated Debtors, and (e) each and every Claim filed or to be filed in the Chapter 11 Case of any of the Debtors shall be deemed filed against the consolidated Debtors, and shall be deemed one Claim against and obligation of the consolidated Debtors.

As set forth above, the substantive consolidation of the Chapter 11 Cases shall be for Plan purposes only and shall not effect the corporate structure and organization of the Reorganized Debtors on and after the Effective Date.

G. PROVISIONS FOR TREATMENT OF DISPUTED CLAIMS

Except as to applications for allowance of compensation and reimbursement of expenses under sections 330 and 503 of the Bankruptcy Code, Reorganized Amphy shall, on and after the Effective Date, have the exclusive right to make and file objections to Administrative Expense Claims and Claims. On and after the Effective Date, Reorganized Amphy shall have the authority to compromise, settle, otherwise resolve or withdraw any objections to Administrative Expense Claims and Claims and compromise, settle or otherwise resolve Disputed Administrative Expense Claims and Disputed Claims without approval of the Bankruptcy Court. Unless otherwise ordered by the Bankruptcy Court, the Debtors and, on and after the Effective Date, Reorganized Amphy shall file all objections to Administrative Expense Claims that are the subject of proofs of claim or requests for payment filed with the Bankruptcy Court (other than applications for allowances of compensation and reimbursement of expenses) and Claims and serve such objections upon the holder of the Administrative Expense Claim or Claim as to which the objection is made as soon as is practicable, but in no event later than 90 days after the Effective Date or such later date as may be approved by the Bankruptcy Court.

If a portion of a General Unsecured Claim is in part Allowed and in part Disputed or otherwise not Allowed, a distribution will be made on account of the Allowed portion of the General Unsecured Claim in accordance with the Plan. Payments and distributions to each holder of an Administrative Expense Claim or Claim that is Disputed or that is not Allowed, to the extent that such Administrative Expense Claim or Claim ultimately becomes Allowed, will be made in accordance with the provisions of the Plan governing such Administrative Expense Claim or Claim. See Section V.C.

H. DISTRIBUTIONS RELATING TO ALLOWED INSURED CLAIMS

Except with respect to Hystereo Disease Claims, distributions under the Plan to each holder of an Insured Claim, *i.e.*, a Claim arising from an incident or occurrence that is covered under the Debtors' insurance policies, shall be in accordance with the treatment provided under the Plan for the Class in which such Allowed Insured Claim is classified. In no event, however, shall the Allowed amount of an Insured Claim exceed the maximum amount that the Debtors are required to pay in respect of such Insured Claim pursuant to any pertinent insurance policies and applicable law. Nothing contained in the preceding sentence shall constitute or be deemed a waiver of any Cause of Action that the Debtors or any entity may hold against any other entity, including insurers under any policies of insurance. Distributions under the plan with respect to Hystereo Disease Claims shall be made pursuant to the Hystereo Disease Claims Settlement Procedures.

I. CONDITIONS PRECEDENT TO EFFECTIVENESS OF THE PLAN

The Plan shall not become effective unless and until the following conditions shall have been satisfied pursuant to Section 10.1 of the Plan:

- the Confirmation Order, in form and substance acceptable to the Debtors, the Committee, shall have been signed by the judge presiding over the Chapter 11 Cases and there shall not be a stay or injunction in effect with respect thereto;
- the Debtors shall have at least \$20,000,000 in cash as of the Effective Date, after giving effect to the distributions of cash projected to be made under the Plan; and
- Reorganized Amphy shall have credit availability under a working capital credit facility, in form and substance acceptable to the Debtors, to provide Reorganized Amphy with working capital sufficient to meet its ordinary and peak requirements.

In the event that one or more of the conditions set forth above have not occurred on or before 60 days after the Confirmation Date, (a) the Confirmation Order shall be vacated, (b) no distributions under the Plan shall be made, (c) the Debtors and all holders of Claims and Equity Interests shall be restored to the status quo ante as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred and (d) the Debtors' obligations with respect to Claims and Equity Interests shall remain unchanged and nothing contained herein shall constitute or be deemed a waiver or release of any Claims or Equity

Interests by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors.

J. IMPLEMENTATION AND EFFECT OF CONFIRMATION OF THE PLAN

On the Effective Date, the property of the estates of the Debtors shall vest in the Reorganized Debtors, except as otherwise provided in the Plan. From and after the Effective Date, the Reorganized Debtors may operate their businesses, and may use, acquire and dispose of property free of any restrictions imposed under the Bankruptcy Code. As of the Effective Date, all property of the Reorganized Debtors shall be free and clear of all liens, claims and interests of holders of Claims and Equity Interests, except as otherwise provided in the Plan. All injunctions and stays provided for in the Chapter 11 Cases under sections 105 and 362 of the Bankruptcy Code, or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

K. DISCHARGE AND INJUNCTION

The rights afforded under the Plan and the treatment of all Claims and Equity Interests under the Plan shall be in exchange for and in complete satisfaction, discharge and release of Claims and Equity Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Commencement Date, against the Debtors and the Debtors in Possession, or any of their assets or properties. Except as otherwise provided in the Plan, (a) on the Effective Date, all such Claims against and Equity Interests in the Debtors shall be satisfied, discharged and released in full, and (b) all persons shall be precluded from asserting against the Reorganized Debtors, their successors, or their assets or properties any other or further Claims or Equity Interests based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Confirmation Date.

Except as otherwise expressly provided in the Plan, the Confirmation Order will provide that all entities who have held, hold or may hold Claims, including the Hystereo Disease Claims (and including Unknown Hystereo Disease Claims), against or Equity Interests in any or all of the Debtors, are permanently enjoined, on and after the Effective Date, from (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim or Equity Interest, (b) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtors on account of any such Claim or Equity Interest, (c) creating, perfecting or enforcing any encumbrance of any kind against the Debtors or against the property or interests in property of the Debtors on account of any such Claim or Equity Interest, (d) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Debtors or against the property or interests in property of the Debtors on account of any such Claim or Equity Interest and (e) commencing or continuing in any manner any action or other proceeding of any kind with respect to any claims and Causes of Action which are extinguished or released pursuant to the Plan, including the claims extinguished pursuant to Section 9.3 of the Plan and the Causes of Action released pursuant to Sections 12.5 and 12.6 of the Plan; provided, however, that such injunction shall not impair the rights of holders of Hystereo Disease Claims to assert such claims against the Hystereo Disease Settlement Fund in accordance with the Hystereo Disease Claims Resolution Procedures. Such injunction shall extend to successors of the Debtors and the Reorganized Debtors and their respective properties.

L. SUMMARY OF OTHER PROVISIONS OF THE PLAN

The following subsections summarize certain other significant provisions of the Plan. The Plan should be referred to for the complete text of these and other provisions of the Plan.

1. Retiree Benefits

The Plan provides that, pursuant to section 1114(a) of the Bankruptcy Code, payments, if any, due to any person for the purpose of providing or reimbursing payments for retired employees and their spouses and dependents for medical, surgical, or hospital care benefits, or benefits in the event of sickness, accident, disability, or death under any plan, fund, or program (through the purchase of insurance or otherwise) maintained or established in whole or in part by the Debtors prior to the Commencement Date shall be continued for the duration of the period the Debtors have obligated themselves to provide such benefits. The obligations, if any, described in the preceding sentence shall, on the Effective Date, be assumed by and become obligations of the applicable Reorganized Debtors. Pursuant to the terms of the Debtors' existing retiree benefits plans, the Reorganized Debtors reserve the right to modify or terminate benefits under such plans.

2. By-laws and Certificates of Incorporation

Reorganized Amphy's By-laws, the Reorganized Amphy's Certificate of Incorporation, and the by-laws and certificates of incorporation of each of the Reorganized Subsidiaries shall contain provisions necessary (a) to prohibit the issuance of nonvoting equity securities as required by section 1123(a)(6) of the Bankruptcy Code, subject to further amendment of such certificates of incorporation and by-laws as permitted by applicable law and (b) to effectuate the provisions of the Plan, in each case without any further action by the stockholders or directors of the Debtors, the Debtors in Possession, the Reorganized Debtors.

The proposed forms of Reorganized Amphy's By-laws and Reorganized Amphy's Certificate of Incorporation will be included in the Plan Supplement.

3. Amendment or Modification of the Plan

Alterations, amendments or modifications of or to the Plan may be proposed in writing by the Debtors at any time prior to the Confirmation Date, provided that the Plan, as altered, amended or modified, satisfies the conditions of sections 1122 and 1123 of the Bankruptcy Code, and the Debtors shall have complied with section 1125 of the Bankruptcy Code. The Plan may be altered, amended or modified at any time after the Confirmation Date and before substantial consummation, provided that the Plan, as altered, amended or modified, satisfies the requirements of sections 1122 and 1123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan, as altered, amended or modified, under section 1129 of the Bankruptcy Code and the circumstances warrant such alterations, amendments or modifications. A holder of a Claim that has accepted the Plan shall be deemed to have accepted the Plan, as altered, amended or modified, if the proposed alteration, amendment or modification does not materially and adversely change the treatment of the Claim of such holder.

4. Limited Releases

As of the Effective Date, each of the Debtors, the Debtors in Possession and each holder of a Claim against and Equity Interest in the Debtors or Debtors in Possession releases all present and former officers and directors of the Debtors who were directors, officers or employees, respectively, on or after the Commencement Date, and any other persons who serve or served as members of management of the Debtors on or after the Commencement Date, all present and former members of the Committee, all present and former officers and directors and other persons who serve or served as members of the management of any member of the Committee, and all advisors, consultants or professionals of or to the Debtors, the Committee or members of the Committee (collectively, the “Releasees”) from any and all Causes of Action held by, assertable on behalf of or derivative from the Debtors, the Debtors in Possession or such holder, in any way relating to the Debtors, the Debtors in Possession, the Chapter 11 Cases, the Plan and the ownership, management and operation of the Debtors.

Except as otherwise provided under the Plan, as of the Effective Date, each of the Releasees, in any capacity, generally releases each of the Debtors, the Debtors in Possession and each holder of a Claim against or Equity Interest in the Debtors or Debtors in Possession, in each case in any capacity, from any and all Causes of Action held by, assertable on behalf of or derivative from such Releasee in any way relating to the Debtors, the Debtors in Possession, the Chapter 11 Cases, the Plan and the ownership, management and operation of the Debtors.

5. Cancellation of Existing Securities and Agreements

On the Effective Date, the promissory notes, share certificates, bonds and other instruments evidencing any Claim or Amphy’s Equity Interest, other than an Allowed Secured Claim that is reinstated and rendered unimpaired pursuant to Section 4.2(b) of the Plan, shall be deemed cancelled without further act or action under any applicable agreement, law, regulation, order or rule, and the obligations of the Debtors under the agreements, indentures and certificates of designations governing such Claims and Amphy’s Equity Interests, as the case may be, shall be discharged.

Holders of promissory notes, share certificates, bonds and other instruments evidencing any Claim or Amphy’s Equity Interest shall not be required to surrender such instruments.

6. Revocation or Withdrawal of the Plan

The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date. If the Debtors revoke or withdraw the Plan prior to the Confirmation Date, then the Plan shall be deemed null and void. In such event, nothing contained in the Plan shall constitute or be deemed a waiver or release of any claims by or against the Debtors or any other person or to prejudice in any manner the rights of the Debtors or any person in any further proceedings involving the Debtors.

7. Termination of Committee

The appointment of the Committee shall terminate on the Effective Date, except that the Committee may appear at the hearing to consider applications for final allowances of compensation and reimbursement of expenses and prosecute any objections to such applications, if appropriate.

8. Effectuating Documents and Further Transactions

Each of the Debtors and the Reorganized Debtors is authorized to execute, deliver, file or record such contracts, instruments, releases, indentures and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan and any securities issued under the Plan.

9. Exculpation

None of the Debtors, the Reorganized Debtors, the Committee, the Banks, the Agent or any of their respective members, officers, directors, employees, advisors, professionals or agents shall have or incur any liability to any holder of a Claim or Equity Interest for any act or omission in connection with, related to, or arising out of, the Chapter 11 Cases, the pursuit of confirmation of the Plan, the consummation of the Plan or the administration of the Plan or the property to be distributed under the Plan, except for willful misconduct or gross negligence, and, in all respects, the Debtors, the Reorganized Debtors, the Committee, the Banks or the Agent and each of their respective members, officers, directors, employees, advisors, professionals and agents shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

VI. CONFIRMATION AND CONSUMMATION PROCEDURE

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

A. SOLICITATION OF VOTES

In accordance with sections 1126 and 1129 of the Bankruptcy Code, the Claims in Classes 2, 4, and 5 of the Plan are impaired, and the holders of Allowed Claims in each of these Classes are entitled to vote to accept or reject the Plan. Classes 5 and 6 -- Subordinated Note Claims and Amphy's Equity Interests, respectively -- are impaired and shall not receive any distributions under the Plan. The holders of Claims or Equity Interests in such Classes are conclusively presumed to have rejected the Plan, and the solicitation of acceptances with respect to such Classes is not required under section 1126(f) of the Bankruptcy Code. Claims in Class 3 are unimpaired. The holders of Allowed Claims in such Class are conclusively presumed to have accepted the Plan, and the solicitation of acceptances with respect to such Classes is not required under section 1126(f) of the Bankruptcy Code.

As to the classes of claims entitled to vote on a plan, the Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that have timely voted to accept or reject a plan.

A vote may be disregarded if the Bankruptcy Court determines, after notice and a hearing, that acceptance or rejection was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

Any creditor in an impaired Class (a) whose Claim has been listed by the Debtors in the Schedules filed with the Bankruptcy Court (provided that such Claim has not been scheduled as disputed, contingent or unliquidated), or (b) who filed a proof of claim on or before the Bar Date

(September 30, 1999) or any proof of claim filed within any other applicable period of limitations or with leave of the Bankruptcy Court, which Claim is not the subject of an objection or request for estimation, is entitled to vote on the Plan.

B. THE CONFIRMATION HEARING

The Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a confirmation hearing. The Confirmation Hearing in respect of the Plan has been scheduled for December 20, 2000, at 9:00 a.m. Eastern Time, before the Honorable Marissa Grotto, United States Bankruptcy Judge at the United States Bankruptcy Court, 355 Market Street, Sixth Floor, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time by the Bankruptcy Court without further notice except for an announcement of the adjourned date made at the Confirmation Hearing. Any objection to confirmation must be made in writing and specify in detail the name and address of the objector, all grounds for the objection and the amount of the Claim or number of shares of common stock of Amphy held by the objector. Any such objection must be filed with the Bankruptcy Court and served so that it is received by the Bankruptcy Court and the following parties on or before December 6, 2000 at 4:00 p.m., Eastern Time:

Amphydynamics Corporation
800 Seventh Avenue
New York, New York 10006
Attn: Headley Charisma

Crosby Stills, LLP
Attorneys for the Debtors
767 Fifth Avenue
New York, New York 10153
Attn: Chloe Crosby, Esq.

Agile & Tweed, P.A.
One Rodney Square
P.O. Box 551
Wilmington, Delaware 19899
Attn: Matthew Arnold Tweed, Esq.

Zeppelin, Lederer & Fogg LLP
Attorneys for the Committee
100 Renaissance Center
Detroit, Michigan 48243
Attn: Francis X. Fogg, Esq.

Office of the United States Trustee
601 North Walnut Street
Suite 950 West
Philadelphia, Pennsylvania 19106
Attn: Abigail VanValen, Esq.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014.

C. CONFIRMATION

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

1. Acceptance

Classes 1, 3, 4 and 6 of the Plan are impaired under the Plan and are entitled to vote to accept or reject the Plan. Classes 5 and 7 of the Plan – Subordinated Note Claims and Amphy’s Equity Interests – are impaired under the Plan and shall not receive any distributions under the Plan, and, therefore, are conclusively presumed to have voted to reject the Plan. Class 3 of the Plan is unimpaired and, therefore, is conclusively presumed to have voted to accept the Plan.

With respect to those Classes of Claims and Equity Interests that are deemed to have rejected the Plan, *i.e.*, Class 5 (Subordinated Note Claims) and Class 7 (Amphy’s Equity Interests), the Debtors currently intend to request confirmation of the Plan pursuant to section 1129(b) of the Bankruptcy Code. The Debtors reserve the right to amend the Plan in accordance with Section 12.10 of the Plan or seek nonconsensual confirmation of the Plan under section 1129(b) of the Bankruptcy Code or both with respect to any Class of Claims that is entitled to vote to accept or reject the Plan, if such Class rejects the Plan. The determination as to whether to seek confirmation of the Plan under such circumstances will be announced before or at the Confirmation Hearing.

2. Unfair Discrimination and Fair and Equitable Tests

To obtain non-consensual confirmation of the Plan, it must be demonstrated to the Bankruptcy Court that the Plan “does not discriminate unfairly” and is “fair and equitable” with respect to each impaired, nonaccepting Class. The Bankruptcy Code provides a non-exclusive definition of the phrase “fair and equitable.” The Bankruptcy Code establishes “cram down” tests for secured creditors, unsecured creditors and equity holders, as follows:

- **Secured Creditors.** Either (a) each impaired secured creditor retains its liens securing its secured claim and receives on account of its secured claim deferred cash payments having a present value equal to the amount of its allowed secured claim, (b) each impaired secured creditor realizes the “indubitable equivalent” of its allowed secured claim, or (c) the property securing the claim is sold free and clear of liens with such liens to attach to the proceeds of the sale and the treatment of such liens on proceeds to be as provided in clause (a) or (b) above.
- **Unsecured Creditors.** Either (a) each impaired unsecured creditor receives or retains under the plan property of a value equal to the amount of its allowed claim or (b) the holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the plan.

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

A plan of reorganization does not “discriminate unfairly” with respect to a nonaccepting class if the value of the cash and/or securities to be distributed to the nonaccepting class is equal to, or otherwise fair when compared to, the value of the distributions to other classes whose legal rights are the same as those of the nonaccepting class.

3. Feasibility

The Bankruptcy Code permits a plan to be confirmed if it is not likely to be followed by liquidation or the need for further financial reorganization. For purposes of determining whether the Plan meets this requirement, the Debtors have analyzed their ability to meet their obligations under the Plan. As part of this analysis, the Debtors have prepared projections of their financial performance for each of the three fiscal years in the period ending February 2, 2003 (the “Projection Period”). These projections, and the assumptions on which they are based, are included in the Amphydynamics Corporation, et al. Projected Financial Information, annexed hereto as Exhibit D. Based upon such projections, the Debtors believe that they will be able to make all payments required pursuant to the Plan and, therefore, that confirmation of the Plan is not likely to be followed by liquidation or the need for further reorganization.

The financial information and projections appended to the Disclosure Statement include for the three fiscal years in the Projection Period:

- Projected Consolidated Balance Sheet of Reorganized Debtors as of January 29, 2000, January 28, 2001, February 3, 2002 and February 2, 2003;
- Projected Consolidated Statements of Operation of Reorganized Debtors as of January 29, 2000, January 28, 2001, February 3, 2002 and February 2, 2003; and
- Projected Consolidated Statements of Cash Flow of Reorganized Debtors as of January 29, 2000, January 28, 2001, February 3, 2002 and February 2, 2003.

The pro forma financial information and the projections are based on the assumption that the Plan will be confirmed by the Bankruptcy Court and, for projection purposes, that the Effective Date under the Plan will occur in December 2000.

The Debtors have prepared these financial projections based upon certain assumptions that they believe to be reasonable under the circumstances. Those assumptions considered to be significant are described in the financial projections, which are annexed hereto as Exhibit D. The financial projections have not been examined or compiled by independent accountants. The Debtors make no representation as to the accuracy of the projections or their ability to achieve the projected results. Many of the assumptions on which the projections are based are subject to

significant uncertainties. Inevitably, some assumptions will not materialize and unanticipated events and circumstances may affect the actual financial results. Therefore, the actual results achieved throughout the Projection Period may vary from the projected results and the variations may be material. All holders of Claims that are entitled to vote to accept or reject the Plan are urged to examine carefully all of the assumptions on which the financial projections are based in connection with their evaluation of the Plan.

4. Best Interests Test

With respect to each impaired Class of Claims and Equity Interests, confirmation of the Plan requires that each holder of a Claim or Equity Interest either (a) accept the Plan or (b) receive or retain under the Plan property of a value, as of the Effective Date, that is not less than the value such holder would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. To determine what holders of Claims and Equity Interests in each impaired Class would receive if the Debtors were liquidated under chapter 7, the Bankruptcy Court must determine the dollar amount that would be generated from the liquidation of the Debtors' assets and properties in the context of a chapter 7 liquidation case. The cash amount that would be available for satisfaction of Claims and Equity Interests would consist of the proceeds resulting from the disposition of the unencumbered assets and properties of the Debtors, augmented by the unencumbered cash held by the Debtors at the time of the commencement of the liquidation case. Such cash amount would be reduced by the costs and expenses of liquidation and by such additional administrative and priority claims that might result from the termination of the Debtors' business and the use of chapter 7 for the purposes of liquidation.

The Debtors' costs of liquidation under chapter 7 would include the fees payable to a trustee in bankruptcy, as well as those fees that might be payable to attorneys and other professionals that such a trustee might engage. In addition, claims would arise by reason of the breach or rejection of obligations incurred and leases and executory contracts assumed or entered into by the Debtors during the pendency of the Chapter 11 Cases. The foregoing types of claims and other claims that might arise in a liquidation case or result from the pending Chapter 11 Cases, including any unpaid expenses incurred by the Debtors during the Chapter 11 Cases, such as compensation for attorneys, financial advisors and accountants, would be paid in full from the liquidation proceeds before the balance of those proceeds would be made available to pay prepetition Claims.

To determine if the Plan is in the best interests of each impaired class, the present value of the distributions from the proceeds of a liquidation of the Debtors' unencumbered assets and properties, after subtracting the amounts attributable to the foregoing claims, must be compared with the value of the property offered to such Classes of Claims under the Plan.

After considering the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to creditors in the Chapter 11 Cases, including (a) the increased costs and expenses of a liquidation under chapter 7 arising from fees payable to a trustee in bankruptcy and professional advisors to such trustee, (b) the erosion in value of assets in a chapter 7 case in the context of the expeditious liquidation required under chapter 7 and the "forced sale" atmosphere that would prevail and (c) the substantial increases in claims that would be satisfied on a priority basis or on parity with creditors in the Chapter 11 Cases, the Debtors have determined that confirmation of the Plan will provide each holder of an Allowed Claim with

a recovery that is not less than such holder would receive pursuant to the liquidation of the Debtors under chapter 7.

The Debtors also believe that the value of any distributions to each Class of Allowed Claims in a chapter 7 case, including all Secured Claims, would be less than the value of distributions under the Plan because such distributions in a chapter 7 case would not occur for a substantial period of time. It is likely that distribution of the proceeds of the liquidation could be delayed for two years after the completion of such liquidation in order to resolve claims and prepare for distributions. In the likely event litigation was necessary to resolve claims asserted in the chapter 7 case, the delay could be prolonged.

The Debtors' Liquidation Analysis is annexed hereto as Exhibit E. The information set forth in Exhibit E provides a summary of the liquidation values of the Debtors' assets, assuming a chapter 7 liquidation in which a trustee appointed by the Bankruptcy Court would liquidate the assets of the Debtors' estates. Reference should be made to the Liquidation Analysis for a complete discussion and presentation of the Liquidation Analysis. The Liquidation Analysis was prepared by the Debtors with the assistance of Flexible Investment Advisors, Inc.

Underlying the Liquidation Analysis are a number of estimates and assumptions that, although developed and considered reasonable by the Debtors' management, are inherently subject to significant economic and competitive uncertainties and contingencies beyond the control of the Debtors and their management. The Liquidation Analysis also is based on assumptions with regard to liquidation decisions that are subject to change. Accordingly, the values reflected might not be realized if the Debtors were, in fact, to undergo such a liquidation. The chapter 7 liquidation period is assumed to be a period of one year, allowing for, among other things, the discontinuation and wind-down of operations, the sale of assets and the collection of receivables.

D. CONSUMMATION

The Plan will be consummated on the Effective Date. The Effective Date of the Plan will occur on the first Business Day on which the conditions precedent to the effectiveness of the Plan, as set forth in Section 10.1 of the Plan, have been satisfied or waived by the Debtors pursuant to Section 10.3 of the Plan. For a more detailed discussion of the conditions precedent to the Plan and the consequences of the failure to meet such conditions, see Section V.K.

The Plan is to be implemented pursuant to its terms, consistent with the provisions of the Bankruptcy Code.

E. EXIT FINANCING

As a condition to the effectiveness of the Plan, the Reorganized Debtors must have credit availability under a working capital credit facility, in form and substance acceptable to the Debtors, to provide the Reorganized Debtors with working capital sufficient to meet its ordinary and peak requirements (the "Exit Financing Facility"). Based upon discussions with potential lenders, the Debtors believe that they will be able to negotiate and effectuate an Exit Financing Facility for the Reorganized Debtors that will satisfy the foregoing condition and that such facility will be a three-year secured revolving credit facility in the principal amount of \$100,000,000.

VII. MANAGEMENT OF THE REORGANIZED DEBTORS

A. BOARD OF DIRECTORS AND MANAGEMENT

1. Reorganized Amphy

a. **Board of Directors.** The initial Board of Directors of Reorganized Amphy shall consist of seven individuals, whose names shall be disclosed prior to the date of the Confirmation Hearing. Each of the members of such initial Board of Directors shall serve in accordance with the Reorganized Amphy Certificate of Incorporation or Reorganized Amphy By-laws, as the same may be amended from time to time.

b. **Officers.** The officers of Amphy immediately prior to the Effective Date shall serve as the initial officers of Reorganized Amphy on and after the Effective Date. Such officers shall serve in accordance with any employment agreement with Reorganized Amphy and applicable non-bankruptcy law.

2. Other Reorganized Debtors

a. **Boards of Directors.** The initial Boards of Directors of each of the other Reorganized Debtors shall consist of three individuals, whose names shall be disclosed prior to the date of the Confirmation Hearing. Each of the members of such initial Boards of Directors shall serve in accordance with the applicable Reorganized Debtor's certificate of incorporation or by-laws, as the same may be amended from time to time.

b. **Officers.** The initial officers of the Reorganized Debtors shall consist of individuals, whose names shall be disclosed prior to the date of the Confirmation Hearing.

3. Identity of Amphy's Executive Officers

Set forth below is the name, age and position with Amphy of each executive officer of Amphy:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Headley Charisma	41	Chairman of the Board, Chief Executive Officer and President since 1990
Carol Charisma	39	Vice President – Legal Affairs, General Counsel since 1990
Emily Legerdemain	46	Chief Financial Officer since 1998
Adam Parter	50	Chief Operating Officer since 1999
Evan S. Vespi III	48	Vice President – Business Development since 1998

B. COMPENSATION OF AMPHY'S EXECUTIVE OFFICERS

The following table sets forth all cash compensation paid by Amphy to each of the five most highly compensated executive officers of Amphy, for services rendered in their respective capacities for the fiscal year ended January 30, 2000:

<u>Name</u>	<u>Capacity in Which Served</u>	<u>Compensation</u>		
		<u>Salary</u>	<u>Bonus⁵</u>	<u>Other⁶</u>
Headley Charisma	Chairman of the Board, Chief Executive Officer and President	\$400,000	\$500,000	\$ 15,791
Carol Charisma	Vice President – Legal Affairs, General Counsel	\$275,000	\$200,000	\$ 692
Emily Legerdemain	Chief Financial Officer	\$200,000	\$150,000	\$ 0
Adam Parter	Chief Operating Officer	\$175,000	\$125,000	\$ 0
Richard Pike III	Vice President – Business Development	\$125,000	\$200,000	\$ 0

⁵ The amounts listed in this column include retention bonuses paid or accrued during Fiscal 1999 under Amphy's retention plan.

⁶ The amounts in this column include (i) the dollar value of insurance premiums paid by the Company for term life insurance policies providing death benefits to the beneficiaries of the named Executive Officers, and (ii) matching contributions made to the named Executive Officers under Amphy's retirement savings plan.

C. REORGANIZED AMPHY'S STOCK OPTION PLAN

1. Description

A stock option plan is being submitted for approval by the holders of Allowed Bank Claims and is subject to approval by Amphy's Compensation Committee. This stock option plan is intended to allow Reorganized Amphy to attract and retain key employees and to provide such persons with incentives based upon the appreciation in value of shares of Reorganized Amphy Common Stock. No Management Options under such stock option plan will be granted prior to obtaining the requisite approvals.

Management Options to purchase Reorganized Amphy's Common Stock will be granted to key employees of Reorganized Amphy at the sole discretion of Reorganized Amphy's Compensation Committee. Each Management Option granted under Reorganized Amphy's Stock Option Plan shall have an exercise price to purchase a share of Reorganized Amphy's Common Stock that is not less than the fair market value of such share on the grant date of such option. Moreover, each Management Option shall entitle its holder only to appreciation in the value of a share of Reorganized Amphy's Common Stock above the exercise price provided in such Management Option. Reorganized Amphy's Compensation Committee also will have the sole and absolute discretion to establish other terms and conditions of grants of Management Options.

On the Effective Date, Management Options to purchase in the aggregate approximately 3% of the outstanding shares of Reorganized Amphy's Common Stock on a fully diluted basis (but excluding the shares allocable to Reorganized Amphy's Securities Trust) shall be granted to certain officers in accordance with the Reorganized Amphy's Stock Option Plan (the "Initial Options"). Each Initial Option will have a term of ten years and will become exercisable in four equal installments, beginning with the date of grant and on each of the first three anniversaries thereof, provided that the option holder remains employed by Reorganized Amphy on such dates. The Initial Options will become wholly exercisable upon a change in control of Reorganized Amphy or upon the option holder's termination of employment without cause, death or disability.

D. SENIOR OFFICER EMPLOYMENT CONTRACTS

On the Effective Date, Reorganized Amphy shall enter into employment contracts with Headley Charisma, Chairman, Chief Executive Officer and President, Carol Charisma, Vice President – Legal Affairs and General Counsel, and Emily Legerdemain, Chief Financial Officer (the "Reorganized Amphy's Employment Contracts"). Reorganized Amphy's Employment Contracts are subject to the approval of the holders of Bank Claims in Class 3.

Set forth below is a summary of certain provisions that are included in Reorganized Amphy's Employment Contracts.

For the executives set forth above, Reorganized Amphy's Employment Contracts shall have two-year terms. The aggregate annualized base salary to be paid to such executives pursuant to Reorganized Amphy's Employment Contracts is equal to the base salary that such executives currently receive from Amphy.

In the event of the executive's termination of employment by Reorganized Amphy without cause, other than by reason of death or disability, or by the executive for good reason, the executive is entitled to severance for the greater of (a) one year and (b) the remainder of the term. Severance generally means (a) base salary, (b) target bonus and (c) continued coverage under certain welfare benefit plans. In the event of an executive's termination of employment without cause, other than by reason of death or disability, or for good reason within the first two years following the Effective Date, any severance payable to such executive under Reorganized Amphy's Employment Contracts shall be offset by an amount equal to a fraction the numerator of which is equal to 24 minus the number of months that have elapsed between the Effective Date and the date of such termination (but not to exceed 24) and the denominator of which is equal to 24, of the cash paid by Reorganized Amphy on or about the Effective Date to compensate such executive for any and all taxes payable by such executive.

E. CONTINUATION OF EXISTING BENEFIT PLANS AND D&O INSURANCE

Except as provided in Section VII.E., all savings plans, retirement plans, health care plans, performance-based incentive plans, retention plans, workers' compensation programs and life, disability, directors and officers liability and other insurance plans are treated as executory contracts under the Plan and shall be assumed by the Debtors under the Plan. The Debtors have maintained and will continue to maintain appropriate insurance on behalf of their officers and directors.

VIII. SECURITIES LAWS MATTERS

A. BANKRUPTCY CODE EXEMPTIONS FROM REGISTRATION REQUIREMENTS

In reliance upon an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), and equivalent state securities laws afforded by section 1145 of the Bankruptcy Code, Reorganized Amphy's Common Stock to be issued on the Effective Date as provided in the Plan will be exempt from the registration requirements of the Securities Act and equivalent state securities laws. Section 1145(a) of the Bankruptcy Code generally exempts from such registration the issuance of securities if the following conditions are satisfied: (a) the securities are issued by a debtor (or its successor) under a plan of reorganization; (b) the recipients of the securities hold a claim against, an interest in, or a claim for an administrative expense against the debtor; and (c) the securities are issued entirely in exchange for the recipient's claim against or interest in the debtor, or are issued principally in such exchange and partly for cash or property. The Debtors' believe that the exchange of Reorganized Amphy's Common Stock for Claims against or interests in the Debtors under the circumstances provided in the Plan will satisfy the requirements of section 1145(a) of the Bankruptcy Code.

IN VIEW OF THE COMPLEX, SUBJECTIVE NATURE OF THE QUESTION OF WHETHER A PARTICULAR PERSON MAY BE AN UNDERWRITER OR AN AFFILIATE OF REORGANIZED AMPHY, AMPHY MAKES NO REPRESENTATIONS CONCERNING THE RIGHT OF ANY PERSON TO TRADE IN REORGANIZED AMPHY'S COMMON STOCK TO BE DISTRIBUTED PURSUANT TO THE PLAN.

ACCORDINGLY, AMPHY RECOMMENDS THAT POTENTIAL RECIPIENTS OF SECURITIES CONSULT THEIR OWN COUNSEL CONCERNING WHETHER THEY MAY FREELY TRADE SUCH SECURITIES.

IX. VALUATION

The Debtors have been advised by Flexible Investment Company, Inc. (“FIC”) with respect to the value, collectively, of the Reorganized Debtors. FIC has undertaken its valuation analysis for the purpose of determining value available for distribution to creditors under the Plan and to analyze the relative recoveries to creditors thereunder.

The value is as of an assumed Effective Date of December 31, 2000 and is based on an analysis undertaken by FIC in February 2000 and updated by FIC in late August 2000. The Debtors and FIC are not aware of any changes as of the date hereof that would materially alter or affect their analysis. The reorganization value includes the going concern value of the Debtors’ business and cash projected to be distributed to holders of Allowed Administrative Claims and Allowed Claims under the Plan. Based upon the foregoing assumptions, the reorganization value of the Reorganized Debtors was assumed for purposes of the Plan by the Debtors, based upon advice from FIC, to be approximately \$356,400,000, which amount includes \$81,400,000 of cash that the Debtors project will be required to satisfy Allowed Administrative Claims and Allowed Claims. The reorganization value of the Debtors’ business after distributions of cash projected to be made under the Plan to holders of Allowed Administrative Claims and Allowed Claims is assumed for purposes of the Plan to be approximately \$275,000,000. The reorganization value does not include excess cash, if any, remaining in the Reorganized Debtors after the projected cash distributions to be made under the Plan. The Debtors are of the view that such excess cash, if any, is necessary to run the business and, therefore, should not be included as excess cash for valuation purposes.

Based upon the reorganization value set forth above, and the fact that there will be no debt other than the Exit Financing Facility post-Effective Date, the Debtors have employed an assumed equity value of \$275,000,000. Based upon the distribution of 200,000,000 shares of Reorganized Amphy’s Common Stock to holders of Allowed Bank Claims under the Plan, the value per share of Reorganized Amphy’s Common Stock is estimated to be \$1.375. For purposes of determining the value per share of Reorganized Amphy’s Common Stock, FIC assumed that the impact on the equity value of Reorganized Amphy’s Common Stock of the Management Options issued on the Effective Date, and the Management Options reserved for future issuance, would be minimal. This assumption is based on, among other things, the fact that the exercise price of the Management Options issued on the Effective Date will be equal to the per share equity value set forth herein and, as a result, there will be minimal dilution. The exercise price of the Management Options reserved for future issuance is indeterminate. As a result, the issuance of such Management Options is assumed to have minimal impact on the value per share of Reorganized Amphy’s Common Stock.

The foregoing valuation is based on a number of assumptions, including a successful reorganization of Debtors’ business in a timely manner, the achievement of the forecasts reflected in the financial projections, the continuation of current market conditions through the Effective Date, and the Plan becoming effective in accordance with its terms.

The estimated reorganization value does not purport to be an appraisal or necessarily reflect the value which may be realized if assets are sold. The estimated value represents a hypothetical reorganization value of the Reorganized Debtors. Such estimate reflects the application of various valuation techniques and does not purport to reflect or constitute an appraisal, a liquidation value or an estimate of the actual market value that may be realized through the sale of any securities to be issued pursuant to the Plan, which may be significantly different than the amounts set forth herein. The value of an operating business such as the Debtors' business is subject to uncertainties and contingencies that are difficult to predict and will fluctuate with changes in factors affecting the financial conditions and prospects of such a business. AS A RESULT, THE ESTIMATE OF REORGANIZATION VALUE SET FORTH HEREIN IS NOT NECESSARILY INDICATIVE OF ANY ACTUAL OUTCOME, WHICH MAY BE SIGNIFICANTLY MORE OR LESS FAVORABLE THAN THAT SET FORTH HEREIN. BECAUSE SUCH ESTIMATE IS INHERENTLY SUBJECT TO UNCERTAINTIES, NONE OF AMPHY, REORGANIZED AMPHY, FIC, OR ANY OTHER PERSON ASSUMES RESPONSIBILITY FOR ITS ACCURACY. IN ADDITION, THE VALUATION OF NEWLY ISSUED SECURITIES SUCH AS REORGANIZED AMPHY'S COMMON STOCK IS SUBJECT TO ADDITIONAL UNCERTAINTIES AND CONTINGENCIES, ALL OF WHICH ARE DIFFICULT TO PREDICT. Actual market prices of such securities at issuance will depend upon, among other things, prevailing interest rates, conditions in the financial markets, the anticipated initial securities holdings of prepetition creditors, some of which may prefer to liquidate their investment rather than hold it on a long-term basis, and other factors that generally influence the prices of securities. It should be noted that there presently is no trading market for Reorganized Amphy's Common Stock and there can be no assurance that such a trading market will develop.

FIC has undertaken its valuation analysis for purposes of determining the value available to distribute to creditors under the Plan and analyzing relative recoveries to creditors thereunder. The analysis is based on the financial projections annexed hereto as Exhibit D, as well as current market conditions and statistics. FIC used the comparable public company, discounted cash flow and comparable acquisition methodologies to arrive at the reorganization value of Reorganized Amphy.

In preparing an estimate of reorganization value, FIC (a) reviewed certain historical financial information of the Debtors for recent years and interim periods, (b) reviewed certain internal financial and operating data of the Debtors, including financial projections provided by management relating to the Debtors' business and prospects, (c) met with certain members of senior management of the Debtors to discuss operations and future prospects, (d) reviewed publicly available financial data and considered the market values of public companies deemed generally comparable to the Debtors, (e) considered certain economic and industry information relevant to the Debtors' operating business, and conducted such other analyses as FIC deemed appropriate. Although FIC conducted a review and analysis of the Debtors' business, operating assets, liabilities and business plans, FIC assumed and relied on the accuracy and completeness of all (a) financial and other information furnished to it by the Debtors and (b) publicly available information. FIC did not independently verify management's projections in connection with such valuation and no independent evaluations or appraisals of the Debtors' assets were sought or were obtained in connection therewith.

Methodology

In preparing its valuation, FIC performed a variety of analyses and considered a variety of factors. The summary of the analyses and factors contained herein does not purport to be a complete description of the analyses and factors considered.

In determining estimated reorganization value, FIC made judgments as to the weight to be afforded to and the significance and relevance of each analysis and factor. FIC did not consider any one analysis or factor to the exclusion of any other analysis or factor. Accordingly, FIC believes that its valuation must be considered as a whole and that selecting portions of its analyses, without considering all such analyses, could create a misleading or incomplete view of the processes underlying the preparation of its findings and conclusions. In its analyses, FIC made numerous assumptions with respect to the Debtors' industry performance, general business, regulatory, economic, market and financial conditions and other matters, many of which are beyond the Debtors' control. In addition, analyses relating to the value of the Debtors' business or securities do not purport to be appraisals or to reflect the prices at which such business or securities will trade.

THE VALUATION REPRESENTS THE ESTIMATED REORGANIZATION VALUE OF REORGANIZED AMPHY AND DOES NOT NECESSARILY REFLECT THE VALUE THAT COULD BE ATTAINABLE IN PUBLIC OR PRIVATE MARKETS. THE EQUITY VALUE ASCRIBED IN THE ANALYSIS DOES NOT PURPORT TO BE AN ESTIMATE OF THE POST-REORGANIZATION MARKET TRADING VALUE. SUCH TRADING VALUE, IF ANY, MAY BE MATERIALLY DIFFERENT FROM THE EQUITY VALUE SET FORTH IN THIS VALUATION ANALYSIS.

X. CERTAIN RISK FACTORS TO BE CONSIDERED

HOLDERS OF CLAIMS AGAINST THE DEBTORS SHOULD READ AND CONSIDER CAREFULLY THE FACTORS SET FORTH BELOW, AS WELL AS THE OTHER INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT (AND THE DOCUMENTS DELIVERED TOGETHER HERewith AND/OR INCORPORATED BY REFERENCE HEREIN), PRIOR TO VOTING TO ACCEPT OR REJECT THE PLAN. THESE RISK FACTORS SHOULD NOT, HOWEVER, BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION.

A. CERTAIN BANKRUPTCY LAW CONSIDERATIONS

1. Risk of Non-Confirmation of the Plan

Although the Debtors believe that the Plan will satisfy all requirements necessary for confirmation by the Bankruptcy Court, there can be no assurance that the Bankruptcy Court will reach the same conclusion. Moreover, there can be no assurance that modifications to the Plan will not be required for confirmation or that such modifications would not necessitate the resolicitation of votes.

2. Non-Consensual Confirmation

In the event any impaired Class of Claims or Equity Interests does not accept the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the Debtors' request if at least one impaired Class has accepted the Plan (such acceptance being determined without including the vote of any "insider" in such Class), and as to each impaired Class that has not accepted the Plan, if the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to the dissenting impaired classes. See Section VI.C.2. Because the Plan deems Class 5 (Subordinated Note Claims) and Class 7 (Amphy's Equity Interests) to have rejected the Plan, these requirements must be satisfied with respect to such classes. The Debtors believe that the Plan satisfies these requirements.

3. Risk of Non-Occurrence of the Effective Date

Although the Debtors believe that the Effective Date will occur soon after the Confirmation Date, there can be no assurance as to the timing of the Effective Date. If the conditions precedent to the Effective Date set forth in Section 10.1 of the Plan have not occurred or been waived by the Debtors within 60 days after the Confirmation Date, the Confirmation Order shall be vacated, in which event no distributions under the Plan would be made, the Debtors and all holders of Claims and Equity Interests would be restored to the status quo ante as of the day immediately preceding the Confirmation Date and the Debtors' obligations with respect to Claims and Equity Interests would remain unchanged.

B. RISKS TO RECOVERY BY HOLDERS OF GENERAL UNSECURED CLAIMS

Each holder of an Allowed General Unsecured Claim will receive, in cash, .30 multiplied by each dollar of such holder's Allowed General Unsecured Claim. Holders of General Unsecured Claims that are Allowed Claims (or partially Allowed Claims) on the Effective Date will receive payment on the Effective Date or as soon thereafter as is practicable. Holders of General Unsecured Claims that become Allowed Claims (or partially Allowed Claims) after the Effective Date will receive payment on the next Subsequent Distribution Date that follows the month during which such General Unsecured Claim becomes an Allowed Claim (or partially Allowed Claim). The Debtors currently estimate that, upon the final reconciliation of all General Unsecured Claims, the amount of Allowed General Unsecured Claims will aggregate approximately \$135,000,000. Based upon such estimate, the Debtors believe that the Reorganized Debtors will have sufficient cash available to satisfy all Allowed General Unsecured Claims. To the extent that the amount of Allowed General Unsecured Claims is significantly higher than the amount estimated by the Debtors, or the Debtors' cash available is significantly lower than projected by the Debtors, there can be no assurance that Reorganized Amphy will have sufficient cash to satisfy all such Claims.

C. RISKS TO RECOVERY BY HOLDERS OF BANK CLAIMS

The ultimate recoveries under the Plan to holders of Bank Claims depend upon the realizable value of Reorganized Amphy's Common Stock. The shares of Reorganized Amphy's Common Stock are subject to a number of material risks, including those specified below:

1. Competitive Conditions

The computer industry is highly competitive. Amphy competes with numerous manufacturers and distributors, including Big Brother Computer Corporation. Amphy also competes with numerous computer retailers, such as MalMart. Heightened competition could include the intensification of price competition, the entry of new competitors and the expansion, renovation and opening of new facilities by new and existing competitors.

2. Failure to Obtain New Customers or Retain Existing Customers

The Debtors' core operations rely on a stable, steadily increasing customer base. Failure to maintain existing customers and obtain new customers will adversely affect Reorganized Amphy's market position.

3. Environmental Matters

Amphy is and Reorganized Amphy will be subject to federal, state and local laws, regulations and ordinances that (a) govern activities or operations that may have adverse environmental effects, such as discharges to air and water, as well as handling and disposal practices for solid and hazardous waste and (b) impose liability for the cost of cleaning up and for certain damages resulting from past spills or other releases of hazardous materials. Amphy believes that it is currently in substantial compliance with applicable environmental laws and that its occasional noncompliance or liability under such laws will not materially effect the operations or financial condition of Reorganized Amphy.

4. Prolonged Disputes With Labor

Approximately 40% of Amphy's employees are represented by the Union under various collective bargaining agreements. As described above, on October 3, 2000, after extensive negotiations, the Debtors and the Union reached agreement as to the terms of new four-year collective bargaining agreements. Such collective bargaining agreements have been ratified by the members of the Union. The Debtors believe that the new collective bargaining agreements make the Debtors more competitive from a labor perspective, while at the same time affording the Union and its members wages, rights and protections that are fair and reasonable in the context of Reorganized Amphy's circumstances and the competitive environment. Notwithstanding such agreements, subsequent prolonged disputes with labor could impact Amphy's ability to effectively compete both against unionized and non-unionized businesses.

5. Higher Administrative Expenses

Higher selling, general and administrative expenses occasioned by the potential need for additional advertising, marketing, administrative or management information systems expenditures could negatively impact Reorganized Amphy's business and operations.

6. Ability to Refinance Certain Indebtedness

Following the Effective Date of the Plan, Reorganized Amphy's seasonal working capital borrowings and letter of credit requirements are anticipated to be funded under the Exit Financing Facility. See Section VI.E. There can be no assurance that Reorganized Amphy, upon

expiration of the Exit Financing Facility, will be able to obtain replacement financing to fund future seasonal borrowings and letters of credit, or that such replacement financing, if obtained, would be on terms equally favorable to Reorganized Amphy.

7. Significant Holders

On the Effective Date, based upon the existing holders of Bank Claims, 80% of the shares of Reorganized Amphy's Common Stock will be held by approximately 25 holders. Such holders, acting as a group, will be in a position to control the outcome of actions requiring stockholder approval, including the election of directors. This concentration of ownership also could facilitate or hinder a negotiated change of control of Reorganized Amphy and, consequently, have an impact upon the value of Reorganized Amphy's Common Stock.

Further, the possibility that one or more of the holders of significant numbers of shares of Reorganized Amphy's Common Stock may determine to sell all or a large portion of their shares in a short period of time may adversely affect the value of Reorganized Amphy's Common Stock.

8. Risks of Non-Reporting

As stated, on the Effective Date, 80% of Reorganized Amphy's Common Stock will be held by approximately 25 holders and, as a result, Reorganized Amphy will not be subject to the reporting requirements of the federal securities laws. As a result, certain exemptions from and safe harbors provided by the federal securities laws that otherwise would be available to holders of Reorganized Amphy's Common Stock will not be available.

9. Absence of Public Market

It is anticipated that there will not be an active trading market for Reorganized Amphy's Common Stock. There is no present intention that Reorganized Amphy will apply to list Reorganized Amphy's Common Stock on any national securities exchange or The NASDAQ Stock Market. Accordingly, there can be no assurance as to the development of any market or as to the liquidity of any market that may develop for Reorganized Amphy's Common Stock.

10. Projected Financial Information

The financial projections included in this Disclosure Statement are dependent upon the successful implementation of the Business Plan and the validity of the other assumptions contained therein. These projections reflect numerous assumptions, including confirmation and consummation of the Plan in accordance with its terms, the anticipated future performance of Reorganized Amphy, the industry performance, certain assumptions with respect to competitors of Reorganized Amphy, general business and economic conditions and other matters, many of which are beyond the control of Reorganized Amphy. In addition, unanticipated events and circumstances occurring subsequent to the preparation of the projections may affect the actual financial results of Reorganized Amphy. Although the Debtors believe that the projections are reasonably attainable, variations between the actual financial results and those projected may occur and be material.

XI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

[Omitted]

XII. ALTERNATIVES TO CONFIRMATION AND CONSUMMATION OF THE PLAN

If the Plan is not confirmed and consummated, the Debtors' alternatives include (a) liquidation of the Debtors under chapter 7 of the Bankruptcy Code, and (b) the preparation and presentation of an alternative plan or plans of reorganization.

A. LIQUIDATION UNDER CHAPTER 7

If no chapter 11 plan can be confirmed, the Chapter 11 Cases may be converted to cases under chapter 7 of the Bankruptcy Code in which a trustee would be elected or appointed to liquidate the assets of the Debtors. A discussion of the effect that a chapter 7 liquidation would have on the recoveries of holders of Claims is set forth in Section VI.C.4. The Debtors believe that liquidation under chapter 7 would result in, among other things, (a) smaller distributions being made to creditors than those provided for in the Plan because of additional administrative expenses attendant to the appointment of a trustee and the trustee's employment of attorneys and other professionals, (b) additional expenses and claims, some of which would be entitled to priority, which would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of the Debtors' operations, and (c) the failure to realize the greater, going concern value of the Debtors' assets.

B. ALTERNATIVE PLAN OF REORGANIZATION

If the Plan is not confirmed, the Debtors or any other party in interest could attempt to formulate a different plan of reorganization. Such a plan might involve either a reorganization and continuation of the Debtors' business or an orderly liquidation of the Debtors' assets. The Debtors have concluded that the Plan represents the best alternative to protect the interests of creditors and other parties in interest.

The Debtors believe that the Plan enables the Debtors to successfully and expeditiously emerge from chapter 11, preserves their business and allows creditors to realize the highest recoveries under the circumstances. In a liquidation under chapter 11 of the Bankruptcy Code, the assets of the Debtors would be sold in an orderly fashion which could occur over a more extended period of time than in a liquidation under chapter 7 and a trustee need not be appointed. Accordingly, creditors would receive greater recoveries than in a chapter 7 liquidation. Although a chapter 11 liquidation is preferable to a chapter 7 liquidation, the Debtors believe that a liquidation under chapter 11 is a much less attractive alternative to creditors because a greater return to creditors is provided for in the Plan.

XIII. CONCLUSION AND RECOMMENDATION

The Debtors believe that confirmation and implementation of the Plan are preferable to any of the alternatives described above because it will provide the greatest recoveries to holders of Claims. Other alternatives would involve significant delay, uncertainty and substantial additional administrative costs. The Debtors urge holders of impaired Claims entitled to vote on the Plan to accept the Plan and to evidence such acceptance by returning their Ballots so that they will be received no later than 4:00 p.m., Eastern Time, on December 1, 2000.

Dated: Wilmington, Delaware

October 16, 2000

AMPHYDYNAMICS CORPORATION, a New York corporation (for itself and on behalf of each of the Subsidiaries)

By: /s/ Headley Charisma

Name: Headley Charisma

Title: Chairman of the Board, Chief Executive Officer and President

EXHIBITS

- EXHIBIT A Plan of Reorganization
- EXHIBIT B Disclosure Statement Order
- EXHIBIT C Amphodynamics Corporation's Annual Report on Form 10-K for the fiscal year ended January 30, 2000 (omitted)
- EXHIBIT D Projected Financial Information (to come)
- EXHIBIT E Liquidation Analysis (to come)