UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re	:	**Chapter 11**
SOUTHERN AIR HOLDINGS, INC., *et al.*,	:	**Case No. 12-12690 (CSS)**
Debtors.[1]	:	**Jointly Administered**

DECLARATION OF WILLIAM B. MURPHY IN SUPPORT OF CONFIRMATION OF THE SECOND AMENDED JOINT PLAN OF AFFILIATED DEBTORS PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE

William B. Murphy makes this declaration pursuant to 28 U.S.C. § 1746, and states:

1. I am a member of Byron Advisors, LLC ("Byron Advisors"), a restructuring advisory firm with its office at 1623 Third Avenue, Suite 20A, New York, New York 10128. Byron Advisors specializes in interim management, crisis management, turnaround consulting, operating due diligence, creditor advisory, and financial/operational restructuring. By order, dated January 28, 2013 [Docket No. 512], the United States Bankruptcy Court for the District of Delaware (the "Court") authorized Southern Air Holdings, Inc. ("Holdings") and its affiliated debtor entities, as debtors and debtors in possession (collectively, the "Debtors"), to employ Byron Advisors as an independent contractor to provide management

[1] The Debtors in these cases, along with the last four digits of each Debtor's federal tax identification number, are: (i) Southern Air Holdings, Inc., 6605; (ii) Cargo 360, Inc., 4233; (iii) Southern Air Inc., 2187; (iv) Air Mobility Inc., 3824; (v) 21110 LLC, 3761; (vi) 21111 LLC, 8100; (vii) 21221 LLC, 1567; (viii) 21550 LLC, 8103; (ix) 21576 LLC, 6341; (x) 21590 LLC, 8105; (xi) 21787 LLC, 0617; (xii) 21832 LLC, 7893; (xiii) 23138 LLC, 7192; (xiv) 24067 LLC, 6360; (xv) 46914 LLC, 0322; (xvi) Aircraft 21255, LLC, 5500; (xvii) Aircraft 21380, LLC, 1753; and (xviii) CF6-50, LLC, 9733. The address for all Debtors is 117 Glover Avenue, Norwalk, Connecticut 06850.

services to the Debtors and to designate me as the Debtors' chief restructuring officer ("CRO"), effective as of January 2, 2013.

2. I received a Bachelor of Science degree in Accounting from Lehigh University. I am a Certified Public Accountant in the State of New York and a Certified Insolvency and Reorganization Advisor. I have more than thirty (30) years of professional experience in finance, including more than twenty-five (25) years of experience in corporate restructuring. I advise troubled companies, their creditors and other economic stakeholders in both chapter 11 and out-of-court restructurings. My expertise includes serving as interim management for financially distressed companies and advising the management or creditors of such companies with respect to strategic planning, corporate viability, business plan alternatives, financial projections and debt restructuring. In connection with chapter 11 restructurings, I possess considerable familiarity with and experience in, among other things, analyzing and monitoring cash management systems, debt classification and priority, bankruptcy taxation, preference actions, fraudulent conveyance actions, feasibility issues, disclosure statement and plan of reorganization approval procedures and hearings, and negotiations between debtors and their creditors. As the Debtors' CRO, I have been and continue to be deeply involved in the affairs and administration of the Debtors' businesses and these cases, including, without limitation, all matters associated with confirmation and consummation of the Plan, as defined below.

3. I submit this declaration in support of confirmation of the *Second Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the United States Bankruptcy Code*, dated January 18, 2013 [Docket No. 470] (as amended, modified or

supplemented from time to time, the "Plan").[2] I am familiar with the terms and provisions of the Plan Support Agreement, the Plan, the Disclosure Statement and with the documents comprising the Plan Supplement. Together with the Debtors' legal advisors, I have reviewed the requirements for confirmation of the Plan pursuant to section 1129 of the Bankruptcy Code.

4. Unless otherwise stated herein, the facts set forth in this declaration are based upon (i) my personal knowledge or the personal knowledge of employees of the Debtors who report to me, (ii) reasonable inquiry, (iii) review by me or those who report to me of records maintained by the Debtors and their subsidiaries, or (iv) my opinion based upon my familiarity with the Debtors' business, operations and financial condition. If I were called upon to testify, I could and would testify competently as to the facts set forth herein.

A. Overview of Chapter 11 Cases

5. The Debtors' chapter 11 cases were precipitated by five years of stagnant, if not declining, growth in the air cargo industry segment, culminating with market events during the second and third financial quarters of 2012 that reduced the Debtors' liquidity and pressured their financial position. Specifically, the Debtors were confronted with an underutilization of their air cargo capacity due to the contraction of their governmental business and the increasingly price-competitive nature of the Debtors' commercial business. In addition, these same market forces reduced the rates lessors were able to charge under new aircraft operating leases, leaving the Debtors to operate their business under fixed rate aircraft leases that were generally above market. Consequently, the Debtors' liquidity rapidly eroded during this period of time.

[2] Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Plan or the *Memorandum of Law in Support of Confirmation of the Second Amended Joint Plan of Affiliated Debtors Pursuant to Chapter 11 of the Bankruptcy Code* (the "Confirmation Brief"), filed contemporaneously herewith.

6. In light of the Debtors' deteriorating financial performance and worsening liquidity pressures, the Debtors, in cooperation with Zolfo Cooper, LLC ("Zolfo Cooper"), serving as financial advisor, attempted to restructure the Debtors' secured debt and certain lease obligations to address the financial concerns and explore potential restructuring scenarios. When it became apparent that an out of court restructuring was not feasible, the Debtors determined that the best way to protect the interests of all stakeholders and preserve the value of their enterprise as a going-concern would be the commencement of a case under the Bankruptcy Code.

7. The Debtors, the Oak Hill Entities and the Consenting Lenders engaged in extensive, arm's length negotiations to formulate a comprehensive financial restructuring that would bridge the Debtors' short-term lack of liquidity, reduce the Debtors' lease obligations, and significantly reduce the amount of debt on the Debtors' consolidated balance sheet. The result of the parties' negotiations was memorialized in the Plan Support Agreement.

8. Pursuant to the Plan Support Agreement, the Debtors, the Consenting Lenders and the Oak Hill Entities agreed that, among other things: (i) the Debtors' financial restructuring would be effectuated through cases under chapter 11 of the Bankruptcy Code; (ii) the commencement of the Debtors' Chapter 11 Cases would be subject to the execution and delivery of the DIP Agreement; (iii) the Debtors would enter into and seek approval of the Oak Hill 1110 Stipulation; (iv) the Debtors would file a chapter 11 plan and related disclosure statement within ten (10) business days after the Petition Date (as subsequently extended); (v) subject to certain conditions, the Consenting Lenders and the Oak Hill Entities would support approval of the Disclosure Statement and confirmation of the Plan, and not support or vote to accept any plan of reorganization inconsistent with the Plan Support Agreement and the plan

term sheet attached thereto; and (vi) the obligations under the Plan Support Agreement could be terminated in the event that certain milestones were not achieved within a negotiated timeline.

9. In accordance with the Plan Support Agreement, on September 28, 2012 (the "Petition Date"), each of the Debtors commenced with this Court a voluntary case under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their businesses as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. The Debtors' chapter 11 cases (the "Chapter 11 Cases") have been consolidated for procedural purposes only and are being jointly administered pursuant to Bankruptcy Rule 1015(b).

Postpetition Financing

10. Upon commencement of the Chapter 11 Cases, the Debtors sought and obtained approval of the DIP Agreement. The material provisions of the DIP Financing, as set forth in the Final DIP Order[3] include the following:

a. New Money Loans: A superpriority priming new money delayed draw term loan facility in the principal amount of $25 million.

b. Roll-Up Loans: Each of the Prepetition Lenders was offered the opportunity to participate in the DIP Facility. The participating Prepetition Lenders were granted the right to roll-up their pro rata share of $37.5 million of the principal amount of the prepetition loans made to the Debtors under the Prepetition Credit Agreement (the "Roll-Up Loans").

c. Use of Cash Collateral: The Debtors received access to and use of cash collateral, and granted adequate protection therefor.

In addition to the DIP Financing, the Debtors received certain payments from the Oak Hill Entities under the Oak Hill 1110 Stipulation, pursuant to which the Oak Hill Entities have provided approximately $5,750,000 to the Debtors during the Chapter 11 Cases. The DIP

[3] On October 25, 2012, the Court entered the *Final Order (I) Authorizing Debtors (A) To Obtain Postpetition Financing Pursuant to 11 U.S.C. §§ 105, 361, 362, and 364, (B) to Use Case Collateral Pursuant to 11 U.S.C. § 363, and (II) Granting Certain Protections to Prepetition Secured Parties Pursuant to 11 U.S.C. §§ 361, 362, 363, and 364* [Docket No. 223] (the "Final DIP Order").

Financing and payments under the Oak Hill 1110 Stipulation provided the Debtors with the sole means of continuing business operations and reorganizing under chapter 11 of the Bankruptcy Code. The Consenting Lenders were the only parties willing to provide the DIP Financing, and, absent the receipt of such necessary funds, the Debtors would have been unable to pay postpetition wages and salaries, payroll taxes, and costs related to trade vendors, as well as other expenses required to maintain the Debtors' businesses as a going concern.

Fleet Modernization

11. In accordance with the Plan Support Agreement, on September 28, 2012, the Debtors filed the *Motion of Debtors for Authority to Enter into Stipulation Pursuant to Section 363 and 1110 of the Bankruptcy Code Regarding Oak Hill Entities and 777 Aircraft* [Docket No. 22], approved by order, dated October 25, 2012, [Docket No. 219] (the "Oak Hill Section 1110 Order"). The Oak Hill Section 1110 Order was instrumental in furthering the Debtors' goal of restructuring their operations around a smaller, more cost and fuel-efficient fleet that would offer reliable, low-cost, low-risk services to select customers, and allowed for the Debtors' continued utilization of the Boeing 777F aircraft.

12. Since the Petition Date, the Debtors have furthered their fleet modernization strategy by: (i) entering into that certain aircraft lease agreement with AWAS Aviation Services, Inc., for the lease of an additional Boeing 747-400ERF extended range aircraft, pursuant to an order, dated November 13, 2012 [Docket No. 250]; (ii) assuming the aircraft operating lease agreement, dated July 2, 2012, between Southern Air and Wells Fargo Bank Northwest, N.A. ("Wells Fargo Bank"), solely in its capacity as owner trustee, as amended, providing for the continued utilization of a Boeing 747-412BDSF aircraft bearing manufacturer's serial number 26562, pursuant to an order, dated December 17, 2012 [Docket No. 393]; and

(iii) reaching an agreement with Aircastle Advisor LLC, providing for, among other things, the return of one Boeing 747-400 aircraft bearing manufacturer's serial number 27044, and the continued utilization of another Boeing 747-400 aircraft bearing manufacturer's serial number 27068, pursuant to the terms of a postpetition lease, which agreement was approved by order, dated December 28, 2012 [Docket No. 431]. Additionally, currently pending before the Court are the Debtors' motions (a) filed on November 15, 2012 [Docket No. 265], seeking authority to enter into an aircraft operating lease with Amentum Capital Limited for the use of a second extended range Boeing 747-400 aircraft, and (b) filed on February 21, 2013 [Docket No. 586], seeking authority to assume that certain aircraft operating lease, dated December 21, 2011, between Southern Air and Wells Fargo Bank, solely in its capacity as owner trustee, as amended, providing for the continued utilization of a Boeing B747-4F6 aircraft bearing manufacturer's serial number 27602. Thus, the Debtors have achieved an active fleet of eight (8) aircraft on significantly improved economic terms by not only eliminating less efficient aircraft from their profile and replacing them with aircraft consistent with their modernization strategy, but, by also renegotiating existing lease terms with the lessors for the Boeing 777 and Boeing 747-400 aircraft. In addition to obtaining modern aircraft, the Debtors decided to simplify their fleet structure and maintenance capabilities by equipping their fleet with engines manufactured by a single provider. These efforts have allowed the Debtors to continue operating their businesses while meeting customer demands at significantly reduced costs, providing additional liquidity for the Debtors and their estates and facilitating the Debtors' reorganization.

Unexpired Real Property Leases

13. The Debtors' operations also require the leasing of real property for, among other reasons, executive offices, an operations center, the storing of aircraft equipment

and parts, office space in airports in which the Debtors frequent, hangar space for their aircraft, apartments for employees in foreign countries in which the Debtors maintain a business presence, and accommodating general warehouse and office needs. As of the Petition Date, certain of the Debtors were party to approximately sixteen (16) unexpired leases or subleases of nonresidential real property.

14. In furtherance of the Debtors efforts to reduce operating expenses, the Debtors reviewed their unexpired nonresidential leases and subleases throughout these Chapter 11 Cases, and, in certain instances, rejected unexpired leases which provided no benefit to the Debtors or their chapter 11 estates. In that regard, by orders, dated November 14, 2012, December 17, 2012 and January 23, 2013 [Docket Nos. 254, 394 and 490], the Debtors rejected the leases for the nonresidential real property located at: (i) 87 Glover Avenue, Norwalk, Connecticut 06850; (ii) 111 Glover Avenue, Norwalk, Connecticut 06850; (iii) 18000 Pacific Highway South, Seattle, Washington 98188; (iv) 79 Glover Avenue, Norwalk, Connecticut 06850; (v) 58 Durham Street, Portsmouth, New Hampshire 03801; and (vi) 5214 Shapland Avenue, Chicago, Illinois 60018. Furthermore, since the Petition Date, certain of the Debtors' real property leases have terminated pursuant to the terms thereof.

15. On January 4, 2013, and in order to provide the Debtors with sufficient time to develop and finalize their real property strategy, the Debtors requested and the Court entered an order [Docket No. 451] pursuant to section 365(d)(4) of the Bankruptcy Code, extending the Debtors' time assume or reject all unexpired nonresidential real property leases and subleases other than those subject to property leased by the Glover Entities (defined below), up to and including April 26, 2013.

16. The Debtors' completed their real property relocation by adopting two separate programs. First, on February 22, 2013, the Court entered an order [Docket No. 593] approving a stipulation between the Debtors and the Glover Entities, dated February 21, 2013, that (a) resolved all of the claims asserted by the landlords with respect to the five (5) premises located along Glover Avenue in Norwalk, Connecticut, and (b) provided, among other things, that the Debtors may remain at the premises housing the Debtors' headquarters and business operations center until May 31, 2013. Second, the Debtors are in the process of moving their operations and headquarters to the Cincinnati/Northern Kentucky International Airport ("CVG") located in Hebron, Kentucky, and contemplate completing their relocation by May 31, 2013. The Debtors have determined, with the assistance of their professionals, that relocating to CVG will provide the Debtors with the opportunity to significantly reduce operating costs, increase access to higher quality aviation talent and bring their operations in closer proximity to one of the Debtors' key customers.

Significant Features of the Plan

17. The Debtors' milestones achieved during these Chapter 11 Cases are reflected in the terms and provisions of the Plan, which represents the culmination of the earnest efforts of the Debtors to achieve a consensual resolution of the Chapter 11 Cases. The Plan is a reflection of the plan term sheet attached to the Plan Support Agreement.

18. The Plan contemplates and is predicated upon the deemed substantive consolidation of the Debtors for the purpose of all actions pursuant to the Plan. Deemed substantive consolidation for purposes of the Plan is appropriate because Southern Air is the only entity in the Debtors' corporate structure with significant operating assets and liabilities, is the entity with operating revenues and expenses and is the entity that collects and disburses all cash

within the Debtors' cash management system. Additionally, the assets held by Debtors, other than Southern Air, are negligible in value apart from significant intercompany receivables that predate, to a significant extent, the Debtors' management and lack sufficient documentation and support to be validated independently (and which might be equitably subordinated to the unaffiliated creditors at the entity obligated on the related intercompany payable). Moreover, the liabilities of Debtors, other than Southern Air, are comprised primarily of guarantees issued on behalf of Southern Air obligations and intercompany payables. Indeed, all of the Debtors' assets have been pledged as collateral to secure the Debtors' shared obligations under the Prepetition Credit Agreement (*see* Disclosure Statement at Section III.D.1) and the DIP Agreement (*see* Disclosure Statement at Sections II.B.8 and IV.B.4), and, even though Cargo 360 Inc. is the borrower under those credit agreements, it is Southern Air that has historically met all repayment obligations under those credit facilities. Accordingly, the Plan contemplates and is predicated upon the deemed substantive consolidation of the Debtors. Solely for purposes of the Plan: (i) all of the Debtors' assets and liabilities shall be treated as though they were merged; (ii) all guarantees of one Debtor's obligations by another of the Debtors shall be eliminated; and (iii) any claim filed against any of the Debtors shall be deemed filed against the Debtors collectively and shall constitute one claim against the consolidated Debtors.

19. If entered, the Confirmation Order shall constitute approval pursuant to section 105(a) of the Bankruptcy Code, effective as of the Effective Date, of the deemed substantive consolidation of the Chapter 11 Cases for all purposes related to the Plan, including, without limitation, for purposes of voting, confirmation and distribution.

20. The key components of the Plan, reflecting the settlements and compromises made thereunder, are as follows:[4]

a. Oak Hill Leases and Oak Hill Lease Amendments: On the Effective Date, and in accordance with the Confirmation Order, the Oak Hill Leases shall be amended pursuant to the Oak Hill Lease Amendments in accordance with the terms set forth in the Plan Support Agreement, assumed (as amended) as executory contracts pursuant to section 365(a) of the Bankruptcy Code and in accordance with Article XXII of the Plan.

b. Secured OHAA Payment Obligations: From and after the Effective Date, subject to the terms and conditions set forth in the Oak Hill 1110 Stipulation and the OHAA Funding Agreement, as applicable, one or more of the Oak Hill Entities shall make the following payments: (i) the 12-Month Payments of $833,333.33 up to an aggregate $10,000,000.00; and (ii) the additional monthly payments in the aggregate amount of $166,666.66 per month ($2,000,000.00 per year for five (5) years), representing the prior month's installment of $41,666.66 per Oak Hill Lease, up to an aggregate $10,000,000.00. Also, on the Effective Date, one or more of the Oak Hill Entities shall pay to Reorganized Southern Air a supplemental payment in the amount of $875,000.00 (the "Supplemental Payment"), which amount shall be included in the Creditor Cash and be distributed to holders of Allowed General Unsecured Claims. Additionally, the Oak Hill Entities shall use commercially reasonable efforts to assist the Debtors to utilize, to the maximum extent possible, OHAA's deposit with The Boeing Company ("Boeing") in the amount of $1,925,000.00 in satisfaction and discharge of the Debtors' obligations to Boeing (the "Boeing Credit"). If, as of the Effective Date, the Oak Hill Entities' obligations with respect to the Boeing Credit remain outstanding, the Oak Hill Entities shall continue to use commercially reasonable efforts to assist the Reorganized Debtors to utilize, to the maximum extent possible, the Boeing Credit in satisfaction and discharge of Southern Air's obligations to Boeing.

c. Distribution to the Oak Hill Entities: In consideration for the Oak Hill Lease Amendments, the satisfaction and discharge of the Secured OHAA Payment Obligations, the Supplemental Payment and other good and valuable consideration arising from and related thereto, OHAA or OHAA Designee shall receive (i) shares of Reorganized Southern Air Parent Common Stock (as defined in the Plan) representing seventeen and one-half percent (17.5%) of the duly authorized common stock of Reorganized Southern Air Parent, and (ii) the Oak Hill Warrants. On the Effective Date, the OHCP II Proof of

[4] This summary is qualified in its entirety by the provisions of the Plan. The Plan will control in the event that there is any inconsistency between this summary and the Plan.

Claim against Holdings, in the amount of $2,381,356.86, will be deemed withdrawn.

d. Treatment of Allowed General Unsecured Claims: Pursuant to the compromises and settlements contained in the Plan, on the Effective Date, the Debtors shall deposit the Creditor Cash ($2,500,000.00) into the Litigation Trust and each holder of an Allowed General Unsecured Claim (other than an Allowed Prepetition Lender Deficiency Claim) shall receive on account of such Allowed General Unsecured Claim, and subject to the provisions of Section 8.2 of the Plan, such holder's Pro Rata Share of Litigation Trust Interests; provided, however, that upon recoveries reaching ten percent (10%) of such holder's Allowed General Unsecured Claim, future recoveries from the Litigation Trust shall be deemed redistributed to holders of Allowed Prepetition Lender Claims.

e. Treatment of Allowed Prepetition Lender Claims: In satisfaction of the Prepetition Lender Claims, which, as of the Petition Date, exceeded $295 million[5] and are secured by first priority liens against substantially all of the Debtors' assets, the Prepetition Lenders have agreed to exchange their Prepetition Lender Claims for a Pro Rata Share of (i) the Exit Term Loans in the aggregate principal amount of $17.5 million, and (ii) 82.5% of the duly authorized common stock of the Reorganized Southern Air Parent and the Prepetition Lender Warrants. As part of the settlements and compromises contained in the Plan and the Plan Support Agreement, the Consenting Lenders have also agreed to forgo a portion of their recoveries to facilitate, among other things, payments to holders of Allowed General Unsecured Claims and holders of Allowed Convenience Claims to receive the Creditor Cash.

f. Treatment of DIP Lender Claims: Each DIP Lender shall be entitled to receive its Pro Rata Share of (a) Exit Term Loans in the original principal amount of $62.5 million, the repayment of which shall be pari passu in recovery to the indebtedness to the Exit Term Loans to be issued on account of Allowed Prepetition Lender Claims, and (b) the Equity Payment.

g. Southern Management Equity Plan: Southern Management shall be allocated and shall receive (i) in the aggregate, a grant of Four Hundred Thousand (400,000) shares of Reorganized Southern Air Parent Common Stock, representing four percent (4%) of the shares of Reorganized Southern Air Parent Common Stock to be granted on the Effective Date in accordance with the terms of the Restricted Stock Award Agreement included in the Plan Supplement, and (ii) the Southern Management Warrants.

[5] Before taking into consideration the effect of the DIP Roll-Up Loan.

h. Exit Facility: The Plan contemplates that the Debtors will create a Delaware limited liability corporation named Cargo 360, LLC ("Cargo LLC"). In accordance with the Plan and the form of Exit Credit Agreement contained in the Plan Supplement, on the Effective Date, Cargo LLC will enter into a senior secured exit facility consisting of: (i) a senior secured revolving loan facility in the aggregate amount of $10 million (the "Exit Revolving Credit Facility"); (ii) the term loans to be extended on the Effective Date in connection with (x) the satisfaction of the DIP Lender Claims and (y) distributions to be made on account of Allowed Prepetition Lender Claims, which term loans, to the extent provided by the DIP Lenders, shall mature on the fifth (5th) anniversary of the Effective Date and bear interest, payable quarterly in arrears, in cash; (iii) a senior secured letter of credit facility in the aggregate principal amount of $4 million; and (iv) ability to utilize the funds in the asset sale proceeds escrow account (after the $10 million in the Exit Revolver Credit Facility is fully drawn).

B. The Plan Satisfies Section 1129 of the Bankruptcy Code

21. Based on my understanding of the Plan, the events that have occurred throughout the Debtors' Chapter 11 Cases, and discussions I have had with the Debtors' professional advisors regarding various orders entered during these Chapter 11 Cases and the requirements of the Bankruptcy Code, the Plan satisfies all of the applicable requirements of section 1129(a) of the Bankruptcy Code.

22. It is my understanding that only Claims in Class 2 (Prepetition Lender Claims), Class 4 (General Unsecured Claims), Class 5 (Convenience Claims), and Class 6 (General Liability Insured Litigation Claims) are impaired by and entitled to receive a distribution under the Plan and, thus, were the only entities entitled to vote to accept or reject the Plan. *See* Plan Art. XIX; Paque Decl. ¶ 9. Based on the Paque Declaration, Classes 2, 4, and 5 have voted overwhelming to accept the Plan. *See* Paque Decl. Ex. A. Because no claims were placed in Class 6, the Debtors did not solicit and no votes were cast on behalf of such Class. With respect to the Classes of Equity Interests that are deemed to reject the Plan, it is my

understanding that, no holders of Claims or Equity Interests subordinate to those holders will receive or retain any property on account of such Claim or Equity Interest under the Plan.

Plan Compliance with 11 U.S.C. § 1129(a)(1)

23. The Plan complies with section 1129(a)(1) of the Bankruptcy Code as follows:

- Section 1122 of the Bankruptcy Code: Article IV of the Plan provides for the separate classification of Claims against, and Equity Interests in, each of the Debtors based upon differences in the legal nature and/or priority of such Claims and Equity Interests. Such classification complies with section 1122(a) of the Bankruptcy Code because each class contains only Claims or Equity Interests that are substantially similar to each other. With respect to the separate classification of unsecured Claims and Equity Interests of equal priority, there are legitimate bases to classify these Claims separately and such separate classification does not unfairly discriminate between holders of similar Claims and Equity Interests.

- Section 1123(a)(1) of the Bankruptcy Code: Articles V through XIII of the Plan designate twenty-six (26) different Classes of Claims and Equity Interests, other than Claims of the type described in sections 507(a)(2), 507(a)(3), and 507(a)(8) of the Bankruptcy Code.

- Section 1123(a)(2) of the Bankruptcy Code: Articles V, VII, and XIII of the Plan specify that certain Classes of Claims or Equity Interests are unimpaired under the Plan.

- Section 1123(a)(3) of the Bankruptcy Code: The treatment of each Claim or Equity Interest in those Classes designated under the Plan as impaired is set forth in Articles VI and VIII through XIII of the Plan.

- Section 1123(a)(4) of the Bankruptcy Code: Articles V through XIII of the Plan provides that, the treatment of each Claim against or Equity Interest in the Debtors in each respective Class is the same as the treatment of every other Claim or Equity Interest in such Class unless the holder of a particular Claim or Equity Interest has agreed to a less favorable treatment for such Claim or Equity Interest.

- Section 1123(a)(5) of the Bankruptcy Code: The Plan and the various documents and agreements set forth in the Plan Supplement provide adequate and proper means for the implementation of the Plan, including, without limitation, (i) adoption and filing of the Reorganized Debtors Certificates of Incorporation and the Reorganized Debtors By-Laws, (ii) issuance of

Reorganized Southern Air Parent Common Stock, Prepetition Lender Warrants, Southern Management Warrants, and Oak Hill Warrants, (iii) execution and delivery of the Exit Credit Agreement and the OHAA Funding Agreement, (iv) creation of the Litigation Trust and the transfer of certain property of the Debtors' estates thereto, (v) distribution and/or issuance, as the case may be, of Cash, Reorganized Southern Air Parent Common Stock, Prepetition Lender Warrants, Southern Management Warrants, Oak Hill Warrants, and the Litigation Trust Interests, and (vi) cure of defaults with respect to assumed executory contracts and unexpired leases.

- Section 1123(a)(6) of the Bankruptcy Code: Section 29.1 of the Plan provides that, on the Effective Date, the Debtors shall file the Reorganized Debtors Certificate of Incorporation and the Reorganized Debtors By-Laws under the general supervision of the Office of the Attorney General. The Reorganized Debtors' Certificates of Incorporation and the Reorganized Debtor By-Laws, and the terms governing the issuance of the stock of the Reorganized Debtors, comply in all respects with section 1123(a)(6) of the Bankruptcy Code.

- Section 1123(a)(7) of the Bankruptcy Code: On March 11, 2013, the Debtors filed a notice [Docket No. 640] disclosing the identity and affiliations of the individuals proposed to serve as a director or officer of the Reorganized Southern Air Parent after the Effective Date (the "Reorganized D&O Notice"). Section 28.1 of the Plan contains provisions with respect to the manner of selection of directors and officers of the Reorganized Debtors that are consistent with the interests of creditors, equity security holders, and public policy, thereby satisfying section 1123(a)(7) of the Bankruptcy Code.

24. In addition to the aforementioned, it is my understanding that section 1123(b) of the Bankruptcy Code sets forth certain permissive provisions that may be incorporated into a chapter 11 plan. The following provisions of the Plan are consistent with section 1123(b) of the Bankruptcy Code:

A. Impairment/Unimpairment of Classes of Claims and Equity Interests (11 U.S.C. § 1123(b)(1))

25. As permitted by section 1123(b)(1) of the Bankruptcy Code, pursuant to Articles VI, VIII through XIII, and XIX of the Plan, Claims or Equity Interests in Classes 2, 4 through 9 and 13 through 26 are impaired and, pursuant to Articles V, VII, XIII, and XIX of the Plan, Claims or Equity Interests in Classes 1, 3, 10, 11, and 12 are unimpaired.

B. Assumption and Rejection ((11 U.S.C. § 1123(b)(2))

26. Pursuant to Section 22.1 of the Plan, on February 26, 2013, the Debtors filed the Schedule of Assumed and Assigned Executory Contracts and Unexpired Leases [Docket No. 599] ("Assumption Schedule"), setting forth those executory contracts and unexpired leases that the Debtors intend to assume and assign and the cure amounts related thereto. I was intimately involved in the Debtors' extensive review and analysis of all existing executory contracts and unexpired leases to determine which executory contract or unexpired lease should be assumed and their respective cure amounts, and which have expired or been terminated by operation of law or contract. To calculate the cure amounts listed on the Assumption Schedule, the Debtors reviewed the terms and provisions governing the applicable executory contract or unexpired lease, the proofs of claim, if any, filed by the applicable contract counterparty, and their books and records, and determined the amount owed for all outstanding defaults as of the time of assumption. I believe the Debtors exercised sound business judgment in identifying those agreements or leases listed on the Assumption Schedule and the cure amounts related thereto. Accordingly, the Plan provides for the assumption or rejection of executory contracts and unexpired leases that have not been previously assumed or rejected under section 365 of the Bankruptcy Code, as contemplated by section 1123(b)(2) of the Bankruptcy Code.

C. Settlement/Retention of Claim or Interests (11 U.S.C. § 1123(b)(3))

27. As permitted by section 1123(b)(3) of the Bankruptcy Code, Section 17.1 of the Plan provides that, from and after the Effective Date, except as otherwise expressly provided in the Plan, including, without limitation, Articles XVI and XXXI of the Plan, the Reorganized Debtors, as successor to the rights of the estates of the Debtors, shall have the sole and exclusive right to litigate (or abandon) any claims or causes of action that constituted Assets

of the Debtors or Debtors in Possession, including, without limitation, any avoidance or recovery actions under sections 541, 544, 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code and any other causes of action or rights to payments of claims that may be pending on the Effective Date, to a Final Order, and may compromise and settle such claims, without further approval of the Bankruptcy Court.

D. Sale of All or Substantially All Assets (11 U.S.C. § 1123(b)(4))

28. The Plan does not provide for the sale, transfer, or assignment of all or substantially all of the Debtors' property and, therefore, section 1123(b)(4) of the Bankruptcy Code is inapplicable in these Chapter 11 Cases.

E. Modification of Rights (11 U.S.C. § 1123(b)(5))

29. As permitted by section 1123(b)(5) of the Bankruptcy Code, the Plan modifies the rights of holders of Claims in Classes 2 and 4 through 7 and Equity Interests in Classes 8, 9, and 13 through 26. The Plan leaves unaffected the rights of holders of Claims in Classes 1 and 3 and Equity Interests in Classes 10, 11, and 12.

F. Releases, Exculpation and Injunction (11 U.S.C. § 1123(b)(6))

30. It is my understanding that section 1123(b)(6) of the Bankruptcy Code provides that a plan may "include any other appropriate provision not inconsistent with the applicable provisions of [the Bankruptcy Code]." 11 U.S.C. § 1123(b)(6). In accordance therewith, Article XXXI of the Plan contains release, exculpation and injunction provisions — including releases by the Debtors, reciprocal releases among Released Parties, consensual releases of non-Debtor third parties by certain holders of Claims (to the extent they affirmatively elect to grant such releases or are entitled to receive and accept a distribution under the Plan), and an exculpation provision limiting the liability of the Debtors and certain non-Debtor third

parties for actions taken during these Chapter 11 Cases, but specifically excluding claims based on gross negligence or willful misconduct.

31. In consideration of the substantial contributions provided by the Debtors' key stakeholders towards the Debtors' reorganization efforts, including, without limitation, periodic infusions of cash in the Debtors' enterprise and funding the recoveries of general unsecured creditors in these cases, Article XXXI of the Plan provides for such parties to receive carefully tailored and limited releases and exculpations. Specifically, Article XXXI of the Plan, provides releases for each of the Debtors and their Affiliates, the Reorganized Debtors, the Oak Hill Entities, Canadian Imperial Bank of Commerce, New York Agency ("CIBC"), in its capacity as the DIP Agent and the Prepetition Agent, the DIP Lenders, the Consenting Lenders, the Exit Lenders and, except with respect to the Lender Parties, each of their respective current and former (to the extent employed or serving at any time during the Chapter 11 Cases) direct and indirect members, direct and indirect partners, officers, shareholders, directors, employees, managers, attorneys, consultants, advisors and agents. *See* Plan Sec. 1.132 and Art. XXXI. In addition, Section 31.8 of the Plan provides an exculpation that limits the liability of the Released Parties and the Creditors' Committee for actions in connection with the formulation, preparation, dissemination, implementation, and confirmation of the Plan. *See* Plan Sec. 31.8.

32. Given the active and collaborative participation of the Released Parties and the Creditors' Committee, and the substantial contribution made by such parties during these Chapter 11 Cases, the release, exculpation, and injunction provisions in the Plan are fair, equitable, and reasonable, are supported by sufficient and valuable consideration, are an integral component of compromises and settlements underlying the Plan, are necessary for the Debtors' reorganization and the realization of value for stakeholders, are the product of extensive arm's

length negotiations, were necessary to the formation of the consensus embodied in the Plan Support Agreement, the Plan, and the Plan Supplement documents, are in the best interests of the Debtors, the Reorganized Debtors, and their estates, creditors, and equity holders, and are, in light of the foregoing, appropriate. *See* Confirmation Brief at 21-25.

33. Section 31.4 of the Plan provides that the Debtors' shall release all of their Claims arising during the period prior to the Effective Date against each of the Released Parties and each of their respective Related Persons (other than with respect to the Related Persons of the Lender Parties). To achieve a fully consensual reorganization that maximizes recoveries to creditors, as embodied in the Plan, the Debtors and their key stakeholders have worked alongside one another both prior to and throughout these Chapter 11 Cases. The efforts of the members of Southern Management prior to and during these Chapter 11 Cases have been instrumental in building and maintaining support among the Debtors' key constituents for a reorganization that will preserve the value of the Debtors as a going concern for the benefit of all stakeholders, and have obviated a potentially litigious, lengthy, and costly restructuring process that could have materially delayed and possibly reduced distributions to all creditors. Each of the Released Parties expended considerable time, energy and expense to negotiate and effectuate the comprehensive restructuring reflected in the Plan Support Agreement and the Plan. The Debtors' release of the Released Parties is based on their sound business judgment and granted in consideration of the substantial contribution made by the Released Parties towards the Debtors' reorganization and the settlements and compromises embodied in, among other documents, the Plan, the Plan Support Agreement, the Oak Hill 1110 Stipulation, the OHAA Funding Agreement, the Oak Hill Leases, the DIP Agreement, the Disclosure Statement, and each of the documents contained in the Plan Supplement, including the Exit Credit Agreement and any

documents in connection with the Exit Credit Facility, including, without limitation, that certain Commitment Letter, dated March 7, 2013, that certain Fee Letter, dated March 7, 2013, and any guarantees and security documents. The Debtors' release of the Released Parties and the reciprocal releases among the Released Parties and their Related Persons other than with respect to the Related Persons of the Lender Parties were extensively negotiated and an integral component of the Released Parties agreeing to make contributions that netted considerable benefits for the Debtors, their estates and creditors. The members of Southern Management were, at the Debtors' expense, advised by separate counsel with respect to the management-related provisions of the Plan, including, without limitation, Article XXXI of the Plan, the Southern Management Agreements, the Southern Management Warrants, the Management Equity Plan, and the granting of releases in connection with the Plan. The failure to implement the release, exculpation, and injunction provisions would seriously impair the Debtors' ability to confirm and consummate the Plan, and would likely lead to liquidation of the Debtors' estates. Based upon these contributions, including the terms of the Management Agreements, the Management Equity Plan and the Southern Management Warrants, the Debtors, the Reorganized Debtors and the members of Southern Management have determined to grant, in their respective individual capacities, the releases to the other Released Parties and their Related Persons contained in, and to be bound by, the Plan.

34. The Consenting Lenders are parties to the Plan Support Agreement and, as part of the settlements and compromises contained in the Plan and Plan Support Agreement, the holders of Prepetition Lenders Claims have agreed to forgo a portion of their recoveries in order to facilitate, among other things, payments to holders of Allowed General Unsecured Claims and holders of Allowed Convenience Claims who would otherwise receive no recovery under the

Plan. In furtherance thereof, the Consenting Lenders agreed to contribute $1,625,000.00, together with the Oak Hill Entities contribution of $875,000.00, in order to create the Creditor Cash and provide for the recoveries of holders of Allowed General Unsecured Claims and Allowed Convenience Claims. Additionally, the Consenting Lenders have agreed to cancel their prepetition debt in exchange for the treatment under the Plan. Moreover, certain of the Consenting Lenders are parties to the DIP Agreement and, as such, contributed to the DIP Facility in their capacity as a DIP Lender.

35. The DIP Lenders provided, in part, a senior secured, super-priority term loan facility in an aggregate principal amount of $62.5 million, of which $25 million represented a new money loan. Such funds were unequivocally necessary for the Debtors to continue to operate their businesses and facilitated the Debtors' reorganization under chapter 11 of the Bankruptcy Code. Absent the funds provided by the DIP Lenders the Debtors would have been unable to procure the funds necessary to pay postpetition wages and salaries, payroll taxes, and to pay vital suppliers and trade vendors, as well as other expenses required to maintain the Debtors' businesses as a going concern. Moreover, because the Debtors were unsuccessful in their attempts to find alternative postpetition funding, the DIP Lenders provided such funds when the Debtors needed it most. In addition to providing the DIP Facility at the outset of these cases, the DIP Lenders have remained committed to the Debtors' reorganization, despite downward changes in the Debtors' financial projections, and agreed to critical amendments to the DIP Agreement, providing for, among other things, access to asset sale proceeds to meet certain of the Debtors' restructuring expenses. The DIP Lenders have been instrumental in ensuring that the Debtors have had sufficient liquidity to preserve the value of their assets over the course of their Chapter 11 Cases.

36. The Consenting Lenders and the DIP Lenders, together with the Prepetition Agent and the DIP Agent, actively participated in the Debtors' Chapter 11 Cases. Prior to the commencement of these Chapter 11 Cases, the Prepetition Agent, in such capacity, together with the Consenting Lenders, extensively negotiated with the Debtors and the Oak Hill Entities regarding the terms of the Debtors' restructuring as contained in the Plan Support Agreement. Additionally, the DIP Agent, together with the DIP Lenders, played a pivotal role in negotiating both the terms of the DIP Agreement, and a later amendment to the DIP Agreement to facilitate the Debtors' relocation of their headquarters and operations to Northern Kentucky. The Prepetition Agent, the DIP Agent, the Consenting Lenders and the DIP Lenders have been and continue to be active in the Debtors' reorganization process, working closely with the Debtors to ensure a successful reorganization in which value is maximized for all stakeholders. Lastly, the Exit Agent, together with the Exit Lenders, through their commitments to the Exit Facility, have again agreed to work with and assist the Debtors in implementing the Plan and successfully reorganizing. The actions of the Consenting Lenders, together with the Prepetition Agent, the DIP Lenders, together with the DIP Agent, and the Exit Lenders, together with the Exit Agent, throughout these Chapter 11 Cases have been geared towards achieving the optimal outcome for all parties in interest.

37. The Oak Hill Entities have provided and will continue to provide the Debtors with additional cash to fund operations through the consideration provided under the Oak Hill 1110 Stipulation (and after the Effective Date, the OHAA Funding Agreement). As a result of the Oak Hill 1110 Stipulation, the Debtors will receive an aggregate total of $20 million in payments from the Oak Hill Entities over the five (5) year term of the amended Oak Hill Leases. As noted above, the Oak Hill Entities agreed to make the following payments and take

the following actions: (i) amending the Oak Hill Leases pursuant to the Oak Hill Lease Amendments; (ii) making the 12-Month payments in the amount of $833,333.33 per month, until such time as Reorganized Southern Air, together with Southern Air as its predecessor in interest, shall have received the aggregate amount of $10 million; (iii) making Additional Monthly Payments of $166,666.66 ($2 million per year), up to an aggregate amount of $10 million; (iv) making the Supplemental Payment in the amount of $875,000.00, which amount shall comprise a portion of the Creditor Cash to be distributed to holders of Allowed General Unsecured Claims in accordance with the provisions of Sections 8.1 and 16.10 of the Plan; (v) use commercially reasonable efforts to assist the Debtors to utilize the Oak Hill Entities deposit with Boeing in the amount of $1,925,000.00 to offset the general unsecured claims asserted by Boeing's affiliates; (vi) refraining from taking any worthless stock deductions with respect to the Debtors' Equity Interests, thereby preserving valuable tax attributes for the Reorganized Debtors; and (vii) withdrawing proof of claim numbers 219 and 226, which assert $2,381,356.86 in claims against the Debtors. Oak Hill has provided tangible and substantial contributions to the Debtors' reorganization efforts.

38. The Plan Support Agreement contemplates that the Debtors will obtain exit financing upon emergence from chapter 11. To that end, the Debtors, together with Zolfo Cooper, pursued potential sources of exit financing. Zolfo Cooper contacted approximately forty parties who have historically been active in providing exit financing or in providing financing in various types of vehicles to companies with similar profiles as the Debtors. The vast majority of the parties declined to submit a proposal to provide financing in light of, the limited amount of traditional asset-based loan collateral in the Debtors' operations, the current state of the ACMI Market, the Debtor's high customer concentration and the effects of the loss of a customer.

There was a select few that submitted proposals. However, the Debtors and Consenting Lenders determined that the proposals were unacceptable because in comparison to the currently contemplated Exit Facility, there would be higher borrowing and other financing related costs, higher amortization payment requirements and shortened maturities. The Debtors were able to negotiate more favorable terms of an exit facility with the Exit Lenders that would provide the necessary working capital to run the reorganized business and implement the provisions of the Plan. As noted above, the Exit Lenders have agreed to provide Cargo LLC, for the benefit of the Reorganized Debtors, a senior secured exit facility consisting of (i) a senior secured revolving loan facility in the aggregate amount of $10 million; (ii) a senior secured letter of credit facility in the aggregate principal amount of $4 million; (iii) access to the proceeds from asset sales held in escrow; and (iv) the term loans to be extended on the Effective Date in connection with (x) the satisfaction of the DIP Lender Claims and (y) distributions to be made on account of Allowed Prepetition Lender Claims. The Exit Lenders were integral to the formulation and negotiation of the Exit Facility, which took place both before and during the Chapter 11 Cases. The Exit Facility is an essential component of the Plan and is an integral element of the Debtors' restructuring. In addition to covering operational expenses, the Exit Facility will be a source of Cash for distributions under the Plan. Moreover, the facility provided by the Exit Lenders is the Debtors' sole means of satisfying certain indebtedness to be issued pursuant to the Plan and directly impacts the value of the equity to be distributed pursuant to the Plan.

39. Sections 31.2, 31.7 and 31.11 of the Plan provide for an injunction against all holders of Claims and Equity Interests from undertaking any action to recover and/or collect from the Released Parties on account of their Claims, liabilities and equity interests that are released, discharged, terminated or cancelled pursuant to the Plan. The injunction provisions are

necessary to preserve and enforce the release and exculpation provisions, and are narrowly tailored to achieve that purpose.

40. The releases, exculpations and injunctions contained in the Plan are fundamental to the compromises and settlements embodied in the Plan and were necessary to build support around the fully consensual Plan currently before the Court. The significance attached to the releases and exculpation by parties whose cooperation was necessary to implement the provisions of the Plan, as well as the dramatic increase in value available to creditors as a result of successfully consummating the Plan, demonstrate that the releases are fair and integral to the Plan. In addition, the third party releases set forth in Section 31.6 of the Plan are fully consensual and the exculpation in Section 31.8 of the Plan is limited to a qualified immunity for acts of negligence and does not relieve any party of liability for gross negligence or willful misconduct. Further, there is neither pending litigation relating to a claim against the Released Parties or their Related Persons nor threatened litigation or claim, and the Debtors are not aware of the existence of any such claim. Additionally, each of the Debtors' major creditor constituencies supports the Plan inclusive of its release, exculpation and injunction provisions. The Creditors' Committee, representing the rights and interests of the Debtors' general unsecured creditors, included a letter in support of the Plan in the Solicitation Packages. The inclusion of the letter helped inform general unsecured creditors in connection with the Plan and encouraged those parties to vote in favor of the Plan.

Debtors' Compliance with the Bankruptcy Code (11 U.S.C. § 1129(a)(2))

41. The Debtors have complied with the applicable provisions of the Bankruptcy Code, including sections 1125 and 1126 of the Bankruptcy Code, the Bankruptcy Rules, the Local Rules, and the Disclosure Statement Order in transmitting the Plan, the Plan

Supplement, the Disclosure Statement, the Disclosure Statement Order, the Ballots, and related documents and notices and in soliciting and tabulating the votes on the Plan. On January 29, 2013, the Court entered the Debtors' Disclosure Statement Order, approving the Disclosure Statement and the proposed solicitation and voting procedures set forth therein. As set forth in the KCC Affidavit, each holder of a Claim or an Equity Interest was sent and should have received the solicitation materials in accordance with the Disclosure Statement Order, including, for holders of Claims entitled to vote, the Disclosure Statement (which includes as an exhibit a copy of the Plan), and a ballot. The Debtors solicited acceptances of the Plan in good faith and did not solicit acceptances of the Plan from any holder of a Claim or Equity Interest prior to the transmission of the Disclosure Statement. KCC has complied with the Disclosure Statement Order in soliciting acceptances of the Plan from the holders of all outstanding Claims in each class of impaired Claims that are entitled to vote to accept or to reject the Plan. *See* KCC Aff. ¶¶ 6–12; Paque Decl. ¶¶ 15, 18.

42. Based on the Paque Declaration, other than with respect to the Non-Voting Classes, the Plan has been accepted by the requisite majorities proscribed by section 1126(c) of the Bankruptcy Code in every class of Claims entitled to vote in accordance with the Disclosure Statement Order. According to the Paque Declaration, 100% in number and 100% in dollar amount of all Creditors in Class 2 that voted, approximately 79% in number and 98% in dollar amount of all Creditors in Class 4 that voted, and 100% in number and 100% in dollar amount of all Creditors in Class 5 that voted, voted to accept the Plan. *See* Paque Decl. Ex. A.

43. The Debtors did not solicit votes for the Plan by any individual holder of a Claim in Class 7 (Subordinated Claims), Class 8 (Preferred Equity Interests), Class 9 (Holdings Equity Interests) and Classes 13 through 26 (Common Equity Interests), because it is my

understanding that such Classes are not receiving any distributions or retaining their Equity Interests pursuant to the Plan and, therefore, are deemed to have rejected the Plan pursuant to section 1126(g) of the Bankruptcy Code. I believe that the Plan does not discriminate unfairly and is fair and equitable with respect to each such Class. Accordingly, the Debtors have complied with section 1129(a)(2) of the Bankruptcy Code.

Plan Proposed in Good Faith (11 U.S.C. § 1129(a)(3))

44. The Debtors have proposed the Plan (including all documents necessary to effectuate the Plan) in good faith and not by any means forbidden by law. The Plan (including all documents necessary to effectuate the Plan) is the consensual result of extensive good faith, arm's length negotiations among the Debtors and their principal stakeholders and creditor constituencies and their respective professionals. The Plan was proposed with the legitimate and honest purpose of maximizing the value of the Debtors' estates and to maximize distributions to all creditors. The Plan and the Disclosure Statement reflect the culmination of those efforts and the substantial input of each representative group. The Plan was proposed with the legitimate and honest purpose of maximizing the value of the Debtors' estates and to maximize distributions to all creditors. Further, the Plan is supported by the statutorily appointed representatives of unsecured creditors. Indeed, I believe that the overwhelming acceptance of the Plan by impaired classes of creditors reflects its inherent fairness, and the good faith efforts of the parties to achieve the objectives of chapter 11.

Payments for Services or Costs and Expenses (11 U.S.C. § 1129(a)(4))

45. Section 1129(a)(4) of the Bankruptcy Code requires that any payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with

the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of, the court as reasonable. 11 U.S.C. § 1129(a)(4). Any payment made or to be made by the Debtors or by a person issuing securities or acquiring property under the Plan, for services or for costs and expenses in or in connection with these Chapter 11 Cases, or in connection with the Plan and incident to these Chapter 11 Cases, has been approved by, or shall be subject to the approval of, the Bankruptcy Court as reasonable.

Directors and Officers (11 U.S.C. § 1129(a)(5))

46. The identity and affiliations of the persons proposed to serve as the initial directors and officers of the Reorganized Debtors after confirmation of the Plan have been fully disclosed to the extent such information is available, and the appointment to, or continuance in, such offices of such persons is consistent with the interests of holders of Claims against and Equity Interests in the Debtors and with public policy. As set forth in the Reorganized Debtors D&O Notice, on the Effective Date, the new board of directors of the Reorganized Southern Air Parent shall be comprised of the following five (5) members: Daniel J. McHugh, Hank Halter, Jonathan G. Ornstein, Robert A. Peiser and Michael J. Warren. Additionally, the officers of the Reorganized Southern Air Parent shall be: Daniel J. McHugh (Chief Executive Officer); David R. Soaper (Chief Operating Officer); Jon E. Olin (Chief Legal Officer); and a Chief Financial Officer to be identified after the Confirmation Date. Each such member will serve in accordance with the terms and subject to the conditions of the Reorganized Debtors Certificates of Incorporation, the Reorganized Debtors By-Laws, and other relevant organizational documents, each as applicable. The identity of any insider that will be employed or retained by the Reorganized Debtors and the nature of such insider's compensation have also been disclosed, to the extent necessary. Thus, the identity and affiliations of the persons proposed to serve as the

initial directors and officers of the Reorganized Debtors have been fully disclosed, and the appointment to, or continuance in, such offices of such persons is consistent with the interests of holders of Claims against and Equity Interests in the Debtors and with public policy.

No Rate Changes (11 U.S.C. § 1129(a)(6))

47. The Debtors are not changing any rates that require approval of a governmental agency and the Plan does not provide for any changes in any rates subject to such regulatory approval. Accordingly, I believe that section 1129(a)(6) of the Bankruptcy Code does not apply.

Acceptance by Impaired Classes (11 U.S.C. § 1129(a)(7))

48. The Bankruptcy Code requires that, with respect to each impaired Class of Claims and Equity Interests, each holder of such Claim must 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 or retain if the Debtors were to be liquidated under chapter 7 of the Bankruptcy Code. For purposes of determining whether the Plan meets this requirement, I have consulted with Zolfo Cooper, reviewed the estimated liquidation analysis as set forth in Exhibit D of the Disclosure Statement (the "Liquidation Analysis"). The Liquidation Analysis demonstrates that the Plan satisfies the requirements of section 1129(a)(7) of the Bankruptcy Code.

49. Specifically, section 1129(a)(7) is satisfied as to each holder of a Claim in an unimpaired class of Claims, as they are deemed to have accepted the Plan. As to the remaining creditors, the Liquidation Analysis demonstrates that the values that could be realized by the non-accepting holders of Claims and Equity Interests upon disposition of the Debtors'

assets pursuant to a chapter 7 liquidation would be less than the value of the recoveries available to such holders under the Plan.

50. As described in more detail in the Disclosure Statement, under chapter 7, the cash available for distribution to the Debtors' creditors would consist mainly of the cash on hand and the proceeds from the sale of all of the assets that comprise the Debtors' business operations. The cash available would also be reduced by the costs and expenses of the liquidation and by such additional administrative and priority claims that may result from the termination of the Debtors' businesses and the use of chapter 7 for purposes of liquidation. Additionally, the Liquidation Analysis presumes that, under chapter 7, there would be no recovery from accounts receivable due to (i) rights of setoff against amounts due from Southern Air to its customers for fuel and (ii) damage claims arising from the significant disruption to customers due to Southern Air ceasing its operations. The Liquidation Analysis also takes into account that, in chapter 7, the Debtors would reject their aircraft leases and consequently have rejection claims asserted against them. Under these circumstances, the Liquidation Analysis assumes an orderly and expedited wind-down of the Debtors' businesses and assumes that the wind-down could be completed in three (3) months.

51. The Liquidation Analysis concludes that creditors with prepetition unsecured claims will recover substantially more value under the proposed Plan than through a liquidation and sale process. Subject to the qualifications specified, the Liquidation Analysis estimates that a range of gross proceeds, net of wind-down costs, trustee fees and professional fees, will not be adequate to make any payment on general unsecured secured claims under either the high end or low end of the range. Indeed, holders of Allowed General Unsecured Claims and Allowed Convenience Claims would receive no recovery at all in a liquidation and sale process. The Liquidation Analysis illustrates that the prepetition and postpetition secured obligations that

encumber the Debtors, even if using the high estimation of liquidation proceeds (after taking into consideration the wind-down expenses), far exceed the estimated liquidation proceeds that would be available to pay the secured creditors.

52. Based on the foregoing, if these cases were converted to cases under chapter 7 of the Bankruptcy Code, there could be at least a three (3) month delay in returns to secured creditors to conduct a liquidation that would result in the estimated liquidation proceeds set forth in the Liquidation Analysis, as compared with the certainty and timing of distributions under the Plan, and the value that creditors would recover would drop precipitously. Accordingly, each holder of an impaired Claim or Equity Interest will receive or retain under the Plan at a value, as of the Effective Date, that is not less than the value that such holder would recover or retain if the Debtors were to be liquidated under Chapter 7. Thus, section 1129(a)(7) of the Bankruptcy Code is satisfied.

Acceptance by Certain Classes (11 U.S.C. § 1129(a)(8))

53. Claims or Equity Interests in Classes 1, 3, 10, 11, and 12 are unimpaired under the Plan. Holders of Claims in Classes 2, 4, and 5 voted to accept the Plan. *See* Paque Decl. Ex. A. Because no claims were placed in Class 6, the Debtors did not solicit and no votes were cast on behalf of such Class. Based upon my understanding, with respect to the remaining Impaired Classes (*i.e.*, Classes 7, 8, 9, and 13 through 26), the Plan is confirmable because it satisfies the provisions of section 1129(b)(2) of the Bankruptcy Code. Accordingly, section 1129(a)(8) of the Bankruptcy Code is satisfied.

Treatment of Administrative, Priority Non-Tax, Priority Tax, and Secured Tax Claims (11 U.S.C. § 1129(a)(9))

54. Based upon my understanding, the Plan complies with section 1129(a)(9) of the Bankruptcy Code. Pursuant to Sections 3.1, 3.2, and 5.1 of the Plan, holders of Allowed

Administrative Expense Claims, Allowed Priority Tax Claims, and Allowed Priority Non-Tax Claims, respectively, are provided treatment under the Plan that complies with the requirements of section 1129(a)(9) of the Bankruptcy Code.

Acceptance by Impaired Classes of Claims (11 U.S.C. § 1129(a)(10))

55. Section 1129(a)(10) of the Bankruptcy Code requires that, if a class of claims is impaired under the plan, then at least one class of impaired claims must accept the plan, without counting any acceptance of the plan by any insider. Three (3) impaired Classes entitled to vote affirmatively accepted the Plan by the requisite majorities, determined without including any acceptance of the Plan by any insider, thereby satisfying the requirements of section 1129(a)(10) of the Bankruptcy Code. *See* Paque Decl. Ex. A.

Feasibility (11 U.S.C. § 1129(a)(11))

56. Section 1129(a)(11) of the Bankruptcy Code permits a plan to be confirmed if it is feasible, *i.e.*, it is not likely to be followed by liquidation or the need for further financial reorganization. In the context of the Plan, feasibility is established by demonstrating the Debtors' ability to satisfy their post-Effective Date financial obligations while maintaining sufficient liquidity and capital resources.

57. For purposes of determining whether the Plan meets the feasibility requirement, in January 2013, the Debtors, in conjunction with Zolfo Cooper, prepared updated financial projections (the "Projections") for the period from April 1, 2013 through December 31, 2015 to present the anticipated impact of the Plan. As set forth in Section VI of the Disclosure Statement, the Projections illustrate that, in light of expected cash flows derived from operating assets, the funds available under the Plan and the OHAA Funding Agreement, and the Debtors' ability to draw on the Exit Revolving Credit Facility, confirmation of the Plan is not likely to be

followed by the eventual liquidation of the Reorganized Debtors. The Projections are based on and assume, among other things, that: (i) the Plan will be implemented in accordance with its stated terms; (ii) the Debtors will operate a fleet of seven (7) aircraft with an additional eighth aircraft during the second quarter of 2013; (iii) the Debtors' post-Effective Date business will not change materially from the ongoing business operations conducted during these Chapter 11 Cases; (iv) the Debtors' decision to move their corporate headquarters to CVG will significantly reduce the Debtors' operating costs; and (v) the Debtors will continue to receive certain consideration from the Oak Hill Entities in accordance with the OHAA Funding Agreement. The Projections are further based on forecasts of key economic variables and may be impacted by, among other factors, a deterioration in global economic conditions, underutilized aircraft, loss of one or more aircraft for an extended period of time, loss of a significant customer, changes in the Civil Reserve Air Fleet program that may result in a loss of United States military business, effects of government regulation (Federal Aviation Administration and foreign regulatory rules), adverse tax implications, and liquidity issues due to financial leverage.

58. The assumptions underlying the Projections accurately reflect the Debtors' ability to satisfy their financial obligations under the Plan and implement a successful reorganization that is not likely followed by the need for further reorganization. As noted above, and in the Disclosure Statement, prior to the Petition Date, the Debtors began to modernize and refocus their fleet in an effort to reposition themselves within the aircraft, crew, maintenance and insurance market. In accordance with the modernization strategy, since the Petition Date, the Debtors have restructured their operations around a smaller, more cost and fuel-efficient fleet by eliminating the less reliable 747-200 aircraft from their operating fleet. Moreover, in furtherance of their modernization strategy, the Debtors have restructured certain of their aircraft lease

obligations. As a result, the Debtors currently operate eight (8) aircraft at improved lease terms. The Debtors expect to maintain and further their relationship with current customers after the Effective Date. In fact, the Debtors' decision to move their operations and headquarters to CVG is intended, in part, to strengthen the Debtors' customer relationships. In addition to obtaining additional liquidity *via* the savings made in shedding certain burdensome leases during these Chapter 11 Cases, the relocation will reduce operating costs. Further, the Debtors and the Oak Hill Entities are in compliance with the terms set forth in the OHAA Funding Agreement, providing for additional liquidity. Based on the foregoing, I submit that the assumptions underlying the Projections are accurate and that, as a whole, the Projections truthfully portray the Debtors' cash activity on the Effective Date and estimate the Debtors' ability to meet cash obligations under the Plan.

59. In addition, as the Court is aware, since the Petition Date, the Debtors have taken significant steps to drastically improve their operations during these Chapter 11 Cases. Indeed, the Debtors have, among other things, obtained postpetition financing, stabilized operations, rejected burdensome executory contracts and unexpired leases, and persistently pursued a consensual plan of reorganization. As a result of these efforts, the Debtors' financial performance has considerably improved since the onset of these Chapter 11 Cases. I believe that the Debtors are now in a position to operate their businesses in an effective and efficient manner. Further, in addition to the payments received in accordance with the Plan and the OHAA Funding Agreement, the Exit Credit Agreement provides for the Exit Revolving Credit Facility, which will afford the Debtors additional liquidity after the Effective Date. In light of the foregoing, the Debtors have every expectation that they will emerge from these Chapter 11 Cases as a profitable business that continues to successfully meet customer needs.

60. Moreover, from and after the Effective Date, with the assistance of the Litigation Trustee, to the extent applicable, the Reorganized Debtors will implement and consummate the transactions contemplated under the Plan, including the establishment of the Litigation Trust. Through the creation of the Litigation Trust, the Plan contemplates a controlled and supervised process for the reconciliation and liquidation of claims and the periodic distributions to creditors. The Litigation Trust will consist of the Litigation Trust Assets, which include, among other things, the cash necessary to fund the Litigation Trust.

61. Based on the foregoing, it is my belief that the Reorganized Debtors will be adequately capitalized and can reasonably be expected to generate sufficient liquidity to meet their ongoing obligations. Moreover, there are no objections to the Plan based upon a failure to satisfy section 1129(a)(11). Thus, the Plan has more than a reasonable likelihood of success and satisfies the feasibility standard of section 1129(a)(11).

Payment of Fees (11 U.S.C. § 1129(a)(12))

62. In accordance with sections 507 and 1129(a)(12) of the Bankruptcy Code, Section 31.12 of the Plan provides that all fees payable pursuant to section 1930 of title 28 of the United States Code, and, if applicable, any interest payable pursuant to section 3717 of title 31 of the United States Code, as determined by the Bankruptcy Court shall be paid on the Effective Date or thereafter as and when they become due and owing.

Continuation of Retiree Benefits (11 U.S.C. § 1129(a)(13))

63. Pursuant to Section 31.13 of the Plan, from and after the Effective Date, the Reorganized Debtors shall assume and pay all retiree benefits (within the meaning of section 1114 of the Bankruptcy Code) and contribute to the Pension Plans the amount necessary to satisfy the minimum funding standards under sections 302 and 303 of ERISA, 29 U.S.C. §§ 1082

and 1083, and sections 412 and 430 of the Internal Revenue Code, 26 U.S.C. §§ 412 and 430, if any, relating to the Pension Plans, at the level established in accordance with subsection (e)(1)(B) or (g) of section 1114 of the Bankruptcy Code, at any time prior to the Confirmation Date, and for the duration of the period during which the Debtors have obligated themselves to provide such benefits; *provided, however*, that the Reorganized Debtors may modify such benefits to the extent permitted by applicable law.

11 U.S.C. §§ 1129(a)(14), 1129(a)(15) and 1129(a)(16) Are Inapplicable

64. It is my understanding that sections 1129(a)(14) – (a)(16) of the Bankruptcy Code are inapplicable in these Chapter 11 Cases. First, section 1129(a)(14) of the Bankruptcy Code relates to the payment of domestic support obligations. The Debtors are not subject to any domestic support obligations and, as such, section 1129(a)(14) does not apply. Second, section 1129(a)(15) of the Bankruptcy Code applies only in cases in which the debtor is an "individual" (as that term is defined in the Bankruptcy Code). The Debtors are not "individuals" and, accordingly, section 1129(a)(15) is inapplicable. And, third, section 1129(a)(16) of the Bankruptcy Code applies to transfers of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust. The Debtors are each a moneyed, business, or commercial corporation and, accordingly, section 1129(a)(16) is inapplicable.

Confirmation of the Plan Over Nonacceptance of Impaired Classes (11 U.S.C. § 1129(b))

65. The Plan provides that, holders of Claims in the Non-Voting Impaired Classes are not receiving any distribution, and thus, are deemed to have rejected the Plan. It is my understanding that, pursuant to section 1129(b) of the Bankruptcy Code, a plan may be

confirmed notwithstanding the rejection or deemed rejection by a class of claims or equity interests so long as the plan is "fair and equitable" and it does not unfairly discriminate.

66. Based upon my familiarity with the Bankruptcy Code, the Plan does not discriminate unfairly with respect Non-Voting Impaired Classes deemed to vote against the Plan, because all of the Non-Voting Impaired Classes are comprised of Equity Interests or Subordinated Claims, and none of the Non-Voting Impaired Classes are of equal priority to other Classes in the Plan. Similarly, it is my understanding that the "fair and equitable" rule is satisfied as to the Non-Voting Impaired Classes, because (i) there are no classes of Claims junior to those Classes and (ii) no class of Equity Interests (*i.e.*, the only classes junior to such classes of claims) are receiving a distribution on account of such Equity Interests.

Principal Purpose of the Plan (11 U.S.C. § 1129(d)).

67. The principal purpose of the Plan is not the avoidance of taxes or the avoidance of the application of section 5 of the Securities Act of 1933 and no governmental entity has objected to the confirmation of the Plan on any such grounds.

Conclusion

67. In light of the foregoing, I believe that confirmation of the Plan is appropriate, is in the best interest of all parties in interest and should be approved.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that, to the best of my knowledge and after reasonable inquiry, the foregoing is true and correct.

Executed this 11th day of
March, 2013

Southern Air Holdings Inc.
(for itself and on behalf of its affiliated Debtors and Debtors in Possession)

By: _____
William B. Murphy
Chief Restructuring Officer of the Debtors