

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
AMARILLO DIVISION

IN RE: §
§
AMARILLO BIOSCIENCES, INC., § Case No. 13-20393-RLJ-11
§
Debtor. §

AMENDED DISCLOSURE STATEMENT FOR PLAN OF REORGANIZATION
(Filed March 27, 2014)

AMARILLO BIOSCIENCES, INC., Debtor and Debtor in Possession (“ABI” or “Debtor”), submits this Amended Disclosure Statement under Chapter 11 of the United States Bankruptcy Code:

1. Introduction

1.01. Debtor provides this Disclosure Statement to Debtor’s known creditors and parties in interest pursuant to Section 1125 of the Bankruptcy Code. The purpose of this Disclosure Statement is to provide necessary information for the creditors and Debtor to make a reasonably informed decision in exercising their right to vote for or against acceptance of the Plan of Reorganization (“*the Plan*”) filed on February 21, 2014.

1.02. Except as specifically stated otherwise, all information contained in this Disclosure Statement relating to Debtor has been provided by Debtor or its agents and generated from Debtor’s books and records. Projections relating to the future operations of the Reorganized Debtor provided by Debtor are good faith estimates of Debtor. The projections provided by Debtor are based on a number of assumptions that Debtor believes in the aggregate are reasonable. These projections represent only one of a number of scenarios that could be presented to illustrate the future operations of the Reorganized Debtor.

NO REPRESENTATIONS CONCERNING DEBTOR, PARTICULARLY ABOUT FUTURE OPERATIONS OR PROPERTY VALUES, ARE AUTHORIZED BY DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATION OR INDUCEMENT MADE TO SECURE ACCEPTANCE OF THE PLAN, OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT, SHOULD NOT BE RELIED UPON BY ANY PERSON. THE RECORDS KEPT BY DEBTOR ARE NOT WARRANTED OR REPRESENTED TO BE WITHOUT ANY INACCURACY OR OMISSION, ALTHOUGH EVERY EFFORT HAS BEEN MADE TO MAKE THIS DISCLOSURE STATEMENT ACCURATE AND COMPLETE. THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS NOT BEEN AUDITED OR VERIFIED EXCEPT WHERE SPECIFICALLY STATED, AND ANY EXHIBITS ATTACHED TO THE PLAN AND THE SCHEDULES AND STATEMENTS OF AFFAIRS FILED IN THIS PROCEEDING HAVE LIKEWISE NOT BEEN SUBJECT TO AN AUDIT OR OTHERWISE

VERIFIED BY A THIRD PARTY UNLESS SPECIFICALLY STATED. ALL REFERENCES TO ACCOUNT, LOAN, AND CLAIM BALANCES REFERENCED HERE AND ON DEBTOR'S SCHEDULES ARE BASED UPON DEBTOR'S RECORDS, AND THEREFORE, THEY MAY BE SLIGHTLY INACCURATE OR OTHERWISE NOT THE SAME AS BALANCES REFLECTED IN THE CREDITORS' OWN RECORDS. THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED IN THIS STATEMENT.

THIS DISCLOSURE STATEMENT MAY ALSO CONTAIN FORWARD-LOOKING STATEMENTS, WHICH CAN BE IDENTIFIED BY THE USE OF WORDS LIKE "ANTICIPATES," "INTENDS," "BELIEVES," "ESTIMATES," "EXPECTS," OR SIMILAR REFERENCES TO FUTURE PERIODS. ANY MATTERS THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING, SO THEY MAY INVOLVE ESTIMATES, ASSUMPTIONS, RISKS, AND UNCERTAINTY. ACTUAL RESULTS MAY DIFFER MATERIALLY FROM WHAT MAY BE CONTAINED IN ANY FORWARD-LOOKING STATEMENT.

2. Definitions

1.01. ABI: Amarillo Biosciences, Inc., the Debtor and Debtor in Possession in this case.

1.02. Administrative Expense Claims: Claims that arise from those expenses described in Section 503 of the Bankruptcy Code.

1.03. Affiliates: For purposes of the Plan, "Affiliates" means any entity owned or controlled by the Debtor, together with the Debtor's agents, officers, directors, employees, attorneys, and accountants.

1.04. Allowed Claim: A claim with respect to which: (a) a proof of claim has been filed with the Court on or before the Bar Date, or (b) Debtor has scheduled in a list of creditors prepared and filed with the Court pursuant to Rule 1007, and such claim is not listed as disputed, contingent, or unliquidated as to amount; and in either case, a claim: (i) to which no objection has been timely filed by any party-in-interest, or (ii) that has been allowed by order of the Court that has become final and is no longer subject to appeal.

1.05. Allowed Unsecured Claim of Yang: The unsecured claim of Yang arising from Yang's funding of the continuing operating expenses of Debtor pre-petition, accrued and unpaid obligations of Debtor under the Pre-Petition Credit Documents, and from funding provided pursuant to the Post-Petition Loan Agreement, but excluding the amount of the Allowed Secured Claim of Yang. *The Class Two Claim of Yang.*¹

¹ This does not include claims, if any, that Yang or any Affiliate of Yang may acquire or have acquired from a third party; the Allowed Unsecured Claim of Yang and the Allowed Secured Claim of Yang is limited to funds actually advanced by Yang to ABI.

1.06. Allowed Priority Claim: An Allowed Claim for which the holder asserts and is determined to be entitled to priority under Section 507, *et seq.*, of the Bankruptcy Code in an amount allowed by final order of the Court. *Administrative Expense Claims or Class One Claims.*

1.07. Allowed Secured Claim of Yang: An Allowed Secured Claim against Debtor held by Yang, secured by substantially all of Debtor's assets, in particular its tangible and intangible personal property. This claim relates to the secured portion of Debtor's obligations to Yang under the Pre-Petition Credit Documents. *The Class Three Claim of Yang.*

1.08. Allowed Unsecured Claims of General Trade Creditors: An unsecured Allowed Claim against Debtor that is not an Allowed Priority Claim or an Allowed Unsecured Claim of a creditor in Class Two or Class Five. *The Class Four Claims.*

1.09. Applicable Federal Rate: The applicable federal rate of interest as determined pursuant to Section 1274(d) of the Internal Revenue Code ("*IRC*").

1.010. Bankruptcy Code: The United States Bankruptcy Code as codified at 11 U.S.C. § 101, *et seq.* Text references to statutory code sections refer to the Bankruptcy Code unless otherwise indicated.

1.011. Bankruptcy Court: United States Bankruptcy Court for the Northern District of Texas, Amarillo Division (or a successor court having bankruptcy jurisdiction).

1.012. Bankruptcy Rules: The Federal Rules of Bankruptcy Procedure, and where appropriate, the applicable local rules of the Bankruptcy Court.

1.013. Bar Date: The deadline fixed by the Court as the last day for filing a proof of claim. As of the date of the Plan, that date was set as **March 10, 2014** for non-governmental claimants; it was extended for one late-scheduled creditor through April 1, 2014.

1.014. Ballot Deadline: The deadline for submitting ballots to vote to accept or reject the Plan. The Ballot Deadline will be contained in an order of the Bankruptcy Court after approval of the Disclosure Statement.²

1.015. Cash Contribution: Funds to be paid by Yang upon the Effective Date to Debtor to be used by Debtor to consummate the Plan, including the distributions to the Unsecured Creditors as set forth in the Plan. The Cash Contribution is in the amount of \$250,000.00.

1.016. Causes of Action: Causes of action held by Debtor or the Estate against third parties, including Chapter Five Causes of Action.

1.017. Chapter Five Causes of Action. Any claim or action arising under Section 510, 544 – 551 (inclusive), or 553, or otherwise arising under the Bankruptcy Code.

² It is anticipated that the order approving a disclosure statement will include a specific date that will serve as the Ballot Deadline.

1.018. Common Equity: All issued and outstanding common stock in or to ABI as of October 31, 2013 (73,291,008 issued and outstanding shares).

1.019. Common Equity Security Holders: Holders of any common stock issued pre-petition by Debtor. *The Class Eight Interest Holders.*

1.020. Confirmation: Approval of the Plan by the Court, which shall occur the date upon which the Confirmation Order is entered.

1.021. Confirmation Order: The order of the Court confirming the Plan of Reorganization.

1.022. Consummation: The time when the last act required under the Plan has been completed.

1.023. Debtor: Amarillo Biosciences, Inc. ("**ABI**"), a Texas corporation whose principal office is in Amarillo, Texas, the Debtor and Debtor-in-Possession ("**DIP**") in this case.

1.024. Dollars: United States dollars. Any reference to currency or monetary values in the Plan is to United States dollars.

1.025. Effective Date: Twenty-eight (28) days following the entry of the Confirmation Order or such other date as agreed upon by Debtor and Yang following Confirmation.

1.026. Equity Security Holders: The Common Equity Security Holders and the Preferred Equity Security Holders, whenever referenced collectively.

1.027. FINRA: Financial Industry Regulatory Authority; www.finra.org.

1.028. General Unsecured Creditors: Those creditors who hold allowed unsecured claims, other than (and excluding any claim of) Yang.

1.029. Governmental Effective Date: Thirty days following the later of the governmental bar date or the Effective Date.

1.030. Hayashibara: Hayashibara Co., Ltd., of Okayama, Japan, now the purported owner and holder of the HBL Notes.

1.031. HBL: Hayashibara Biochemical Laboratories, Inc., the original holder of the HBL Notes.

1.032. HBL Notes: Two promissory notes, each in the original principal amount of one million each (\$1,000,000.00), originally payable to HBL, now purportedly held by Hayashibara.

1.033. IRC: The United States Internal Revenue Code of 1954, as amended, as codified at Title 26, United States Code.

1.034. Insider: Insider is given the meaning set forth under Section 101(31) of the Bankruptcy Code.

1.035. Nagase: Nagase & Co., Ltd. On information and belief, Nagase is an affiliate of Nagase America Corp., and it is the owner or parent company of Hayashibara.

1.036. New ABI: ABI (as of the filing of the Plan, the Debtor) on and after: (i) the Effective Date and (ii) the closing of the reverse stock split and the issuance of new common stock under the Plan.

1.037. Petition Date: The date on which Debtor filed its petition for relief, October 31, 2013.

1.038. Plan: The Plan of Reorganization, including the addendum, attached to and incorporated in the Plan.

1.039. Post-Confirmation Forbearance Agreement: An agreement between Yang and Debtor providing for forbearance on collection of Yang's security interest in the Yang Collateral for a minimum period of twelve months after the Effective Date, consistent with the terms of the Plan.

1.040. Post-Petition Financing Claim: The claim of Yang arising from Yang's funding of the continuing operating expenses of Debtor, pursuant to the Post-Petition Loan Agreement, part of the Allowed Unsecured Claim of Yang.

1.041. Post-Petition Loan Agreement: That certain Loan Agreement entered into by and between Debtor and Yang on December 20, 2013 (effective as of the Petition Date), and approved by the Court in an interim order on December 20, 2013 (Doc. No. 66) and in a final order entered January 15, 2014 (Doc. No. 86).

1.042. Preferred Equity: All issued and outstanding shares of Class 2010-A preferred stock in ABI, being 3,262 shares that are believed held by Tibbits.

1.043. Preferred Equity Security Holders: Holders of any equity securities that have preference rights over general equity securities. The only known Preferred Equity Security Holder is Paul Tibbits, who is believed to hold 3,262 shares out of 10,000 authorized Class 2010-A preferred stock.

1.044. Pre-Petition Credit Documents: The July 19, 2013 Promissory Note from ABI to Yang (renewal of prior debt); the July 25, 2013 Promissory Note from ABI to Yang; the Security Agreement dated July 25, 2013, between ABI and Yang; any other pre-petition documents evidencing the pre-petition claim of Yang.

1.045. Retained Assets: The assets of Debtor that will revert in Debtor on the Effective Date, subject to the Allowed Secured Claim of Yang. The Retained Assets will be and include all assets of Debtor's estate.

1.046. SEC: Securities and Exchange Commission - United States of America.

1.047. Secured Claims: Allowed secured claims of any creditor whose claim is secured by a valid, perfected security interest in pre-petition property of Debtor, other than Yang. *The Class Six Claims.*

1.048. Tibbits: Paul Tibbits, and to the extent she has any direct or marital property interest, his spouse, Marian Tibbits. According to ABI's records and those of its transfer agent, Tibbits holds in excess of 11,000,000 shares of ABI Common Stock, together with preferred stock that would be converted to common stock under the Plan, if the Plan is confirmed as filed.

1.049. Unclassified Claims: Claims that pursuant to Section 1123(a)(1) of the Bankruptcy Code are not classified and that includes collectively all claims accorded priority pursuant to Sections 507(a)(1), 507(a)(2), and 507(a)(8) of the Code.

1.050. Unsecured Creditors: All Unsecured Creditors, other than Yang, holding unsecured claims that are not Allowed Priority Claims; generally, the Class Four and Class Five Claimants.

1.051. Yang: The Yang Group, Taiwan, is an association, the principal of which is Patrick Ng of Canada. Yang is the creditor holding the Class Two and Class Three Claims and the "secured party" under the Yang Financing Statement.

1.052. Yang Collateral: The assets pledged by Debtor in accordance with the Pre-Petition Credit Documents, including any proceeds, which currently secure the Class Three Secured Claim of Yang.

2. Incorporation of Other Documents; Case Website

This Disclosure Statement incorporates or refers to other documents, including the Debtor's Schedules and Statement of Financial Affairs and monthly operating reports on file with the Clerk of the Bankruptcy Court. Additionally, the Debtor has made various public filings with the Securities and Exchange Commission ("*SEC*") and the Texas Secretary of State (See Section 3 below). Filings in this bankruptcy case can be viewed at www.upshotservices.com/amarillobiosciences.

3. Background and Basic Financial Information

Background and Company History of Debtor. Amarillo Biosciences, Inc. ("*ABI*" or "*Debtor*") is a Texas corporation based in Amarillo, Texas, where its principal office has been located since its inception. ABI's common stock is widely held, as a result of ABI having been a publicly-held company, whose stock has historically been publicly traded. ABI common stock presently trades under the symbol, **AMARQ**, and its CUSIP is **#02301P 10 6**.

The Company was incorporated in 1984, under the name "Amarillo Cell Culture Company, Inc." In 1996, the Company completed an initial public offering, and its name was changed to "Amarillo Biosciences, Inc."

Historical Financial Condition. Much of the background and history of the Company is set forth in filings with the Securities and Exchange Commission and the Texas Secretary of State.

ABI's most recent SEC filings include a form 10-Q for the quarter ended September 30, 2013, and 8-Ks filed November 1, 2013, February 14, 2014, and February 24, 2014. The form 10-Q is filed on a quarterly basis, and it is likely that another 10-Q will have been filed prior to the hearing on confirmation of the Plan. It is also likely that the 10-K for the year ended 12-31-13 will be filed prior to the hearing on confirmation of the Plan.

ABI files its Annual Report each year under Form 10-K. The Form 10-K and Form 10-Q filings reflect substantial information about ABI's historical financial condition, and the reader is encouraged to review these filings.

These and previous filings can be viewed at www.sec.gov or at www.yahoo.brand.edgar-online.com.

Dr. Joseph Cummins was the founding principal of ABI. Dr. Cummins left full-time employment by ABI on November 30, 2012. He was party to a consulting contract as of this bankruptcy filing; that contract is to be rejected under the Plan.

Effective February 22, 2012, Dr. Stephen T. Chen was appointed as Chairman of the Board and Chief Executive Officer (CEO) of ABI.

Description of Business. ABI has been (and is) engaged in the business of biopharmaceutical research and development. Its primary focus historically has been the development of low-dose, orally administered interferon. ABI holds or licenses various patents; it also is the developer of Maxisal®, a dietary supplement to treat dry-mouth symptoms.

Post-confirmation, ABI (referenced as "New ABI" under the Plan) hopes to expand the reach of its research, development, and ultimately marketing of biopharmaceutical, biotechnical, and health related products.

Company Management and Employees. On October 31, 2013, ABI and/or its Affiliates had three employees. Today, ABI has four employees and four directors. The employees include the following persons:

Stephen T. Chen: Dr. Chen was named Chairman of the Board in February 2012, and he has been a director of the Company since February 1996. He currently executes the management functions as not only Chairman, but Chief Executive Officer (CEO), President, and Chief Operating Officer. He has been President and Chief Executive Officer of STC International, Inc., a health care investment firm, since May 1992. Dr. Chen has over thirty years of international business experience, including an extensive background in pharmaceutical product acquisition and licensing, development of joint venture agreements, execution of business strategy, and leadership of start-up companies in the pharmaceutical, biotechnology and nutraceutical industries. Dr. Chen has held executive positions in R&D and business development at several major pharmaceutical companies, including

Borroughs Wellcome (presently GlaxoSmithKline), Miles Pharmaceuticals (presently Bayer), ICI America (presently AstraZeneca), and Ciba-Geigy (presently Novartis). He received a Ph.D. in Industrial & Physical Pharmacy from Purdue University in 1977.

Bernard Cohen: Chief Financial Officer (CFO). Mr. Cohen holds BBA and MPA degrees from West Texas A&M University. He is a long time Amarillo resident with over thirty years of management experience. Mr. Cohen has been with ABI since October 2009. Mr. Cohen works with Mr. Morris and provides reporting necessary for ABI's various SEC filings, and he also provides ordinary-course internal bookkeeping and accounting services.

Chrystal Shelton: Office manager and administrative support. Ms. Shelton has been with ABI since 1987. In addition to handling routine office administration, Ms. Shelton is familiar with the form and format of SEC filings and interacts with outside professionals who assist ABI in its various compliance measures.

Edward L. Morris: Secretary and acting general counsel. Mr. Morris practiced law in Amarillo, Texas, prior to his retirement from full time practice in 2011. His practice included substantial time devoted to corporate and securities law, including services for ABI. Mr. Morris was graduated from Yale College before obtaining his law degree from Harvard Law School.

Directors. The board of directors of ABI consists of the following persons: Stephen T. Chen, Ph.D., Paul Tibbits, Marian Tibbits, and Yasushi Chikagami.

Bankruptcy. On October 31, 2013, ABI filed for relief under Chapter 11 of the Bankruptcy Code. It remains as Debtor in Possession. ABI has entered into a post-petition financing facility with Yang, which was approved by the Bankruptcy Court in January, 2014. The retention of various professionals necessary to maintain SEC compliance and protection of ABI's intellectual property has been approved.

ABI has retained UpShot Services as a noticing agent for limited noticing services in this case. Upshot Services maintains a website at which the schedules, pleadings, orders, and other information pertaining to this case can be viewed: www.upshotservices.com/amarillobiosciences.

Remaining Assets. ABI holds various patents and related intellectual property, which are described in ABI's schedules. Most, if not all, of ABI's assets secure Yang's claim pursuant to the Pre-Petition Credit Documents.³

³ ABI also owns office furniture and equipment, which has been fully depreciated and has little resale value.

Schedules - Other Assets and Liabilities. Debtor's schedules were filed shortly after the inception of this case. Debtor is the source of the information provided in those schedules; however, creditors and parties-in-interest are referred to Debtor's schedules for further information pertaining to what Debtor believes to be its assets and liabilities.

4. Description of Plan, Means of Execution, and Treatment of Claims and Interests

Reference should be made to the Plan for full details concerning classification and treatment provided for any particular claim or interest. The following is only a summary. The continued existence of ABI would be beneficial given Debtor's history and future opportunities in the area of biotech and biopharmaceutical research and development. Debtor believes that the continued existence of Debtor is in the best interest of the creditors of Debtor because it is unlikely the Unsecured Creditors will receive any distribution unless a Plan of Reorganization is confirmed.

4.01. Summary of Implementation of the Plan. Yang has agreed to fund a Cash Contribution in the amount of \$250,000.00, which will be paid in to ABI upon confirmation and used, for example, to fund the treatment of the Class Four and Five Allowed Claims. In addition, Yang will fund the administrative expenses of Debtor in this bankruptcy proceeding. If the Plan is confirmed, the amount to be paid to each holder of an Allowed Claim in Class Four will be equal to six percent (6%) of the face amount of its Allowed Claim.

4.02. Yang Will Control Reorganized Debtor. In return for forgiveness of the Allowed Unsecured Claim of Yang and the payment of the Cash Consideration, Yang will receive newly issued stock and effectively own eighty percent (80%) of the ownership interest of Debtor, post-confirmation. The Common Equity Security Holders will undergo a reverse stock split on the basis of one (1) New ABI common share received for every nineteen (19) Old ABI common shares held pre-split, as of a record date to be set by the Directors of ABI pursuant to Section 6.101(b) of the Texas Business Organizations Code, which date shall be no more than 60 days prior to the implementation of said reverse stock split. The New ABI common shares received pursuant to the reverse split shall not be in addition to, but shall replace, the Old ABI common shares held pre-split, and such Old ABI common shares shall be returned to the status of authorized, but unissued common shares, with the result that the Common Equity Security Holders shall hold, post-reorganization, common stock constituting approximately twenty percent (20%) of the issued and outstanding common stock in the reorganized Debtor, referenced in the Plan as "***New ABI.***" New ABI will continue in the biotech / bio-pharmaceutical / health care products business after the Effective Date.

4.03. Summary of Treatment of Claims. Under the Plan, if confirmed, Allowed Unclassified and Class One claimants are unimpaired and will receive the full value of their claims.

The Class Two Claim, which is the Allowed Unsecured Claim of Yang, which is in excess of \$1,216,765.12 (net of Yang's Secured Class Three Claim), will be extinguished in exchange for issuance of common stock constituting eighty percent (80%) of the issued and outstanding common equity of Debtor.⁴

⁴ The exact amount of the Allowed Unsecured Claim of Yang, for purposes of Plan treatment is stated in the

Each Class Four claimant who holds an Allowed Claim will receive six percent (6%) of the face amount of its Allowed Claim as a result of the Cash Contribution to be made by Yang; alternatively, such claimant may elect administrative convenience treatment under Class Five.

Based on agreed values between Debtor and Yang, which are substantially higher than liquidation values, Yang will retain a security interest in property, primarily the intangible personal property of ABI (*e.g.*, patents, trademarks, etc.), which is valued for purposes of claim treatment at \$150,000.00.

Class Six claimants, if any, will retain their security interest. Debtor believes there are no existing Class Six Claims.

The Equity Interest Holders (Class Seven and Class Eight) will not receive a distribution pursuant to the Plan, and their existing equity interests will be diluted by the reverse stock split and issuance of New ABI stock to Yang as described in paragraph 4.02 above.

5. Classes of Creditors

The following is a list of the various classes of creditors dealt with in the Plan. Reference should be made to the Plan for details concerning the proposed specific treatment of each class.

Administrative Expense Claims which are accorded priority pursuant to Section 507(a)(1) and Allowed Priority Claims pursuant to Sections 507(a)(2) and 507(a)(8) are not separately classified.

- 5.01. Class One:** Allowed Priority Claims under Section 507(a)(3) to (a)(7) of the Bankruptcy Code.
- 5.02. Class Two:** Allowed Unsecured Claim of Yang.
- 5.03. Class Three:** Allowed Secured Claim of Yang.
- 5.04. Class Four:** Allowed Unsecured Claims of General Unsecured Creditors.
- 5.05. Class Five:** Administrative Convenience Claims.
- 5.06. Class Six:** Allowed Secured Claims, other than the Secured Claim of Yang.
- 5.07. Class Seven:** The interests of the Preferred Equity Security Holders.
- 5.08. Class Eight:** The interests of the Common Equity Security Holders.

Plan. The Allowed Unsecured Claim of Yang is based upon, and reflects only amounts that were actually advanced by Yang to ABI (*i.e.*, direct advances and not debt acquired from a third party).

5.09. Class Nine: The interests of the holders of warrants and options.

6. Summary of Treatment of Classes

THE FOLLOWING IS A SUMMARY OF THE TREATMENT OF CLAIMS AND INTERESTS IN VARIOUS CLASSES. IT IS A SUMMARY ONLY - THE ACTUAL TREATMENT OF CLAIMS AND INTERESTS IS CONTAINED IN THE PLAN.

6.01. Unclassified Administrative Claims. Administrative Expense Claims which are accorded priority pursuant to Section 507(a)(1) and Allowed Claims under 507(a)(2) are not impaired and shall receive cash in the full amount of each such claim on the later of: (a) the Effective Date, or (b) ten days after such claim becomes an Allowed Claim, unless the holder of the claim agrees to less favorable treatment. It is not believed that there are any such claims in this category other than administrative claims owing Debtor's counsel and Debtor's other retained professionals, which claims will be paid subject to Court approval from the post-petition financing provided by Yang.

6.02. Unclassified Tax Claims. Allowed Priority Claims pursuant to Section 507(a)(8) are not impaired and shall be paid as follows:

- a. Claims that are equal to or less than \$1,000 in amount will be paid in full on or within sixty (60) days after the Governmental Effective Date;
- b. Claims that are greater than \$1,000 in amount will be paid, at the option of Debtor: (i) in full on or within sixty (60) days after the Governmental Effective Date, or (ii) by deferred annual cash payments over the next four (4) years. Each of the deferred annual payments will be twenty-five percent (25%) of the Allowed Claim amount, plus interest as determined pursuant to 11 U.S.C. § 511, with the first payment due one (1) year after the Governmental Effective Date. Debtor expressly reserves the right to prepay any deferred Unclassified Tax Claim; and
- c. Except as may otherwise be agreed to by the parties, within sixty (60) days after the Governmental Effective Date, the Reorganized Debtor shall file its objection to the allowance of a claim pursuant to Section 507(a)(8) that is disputed. Ten (10) days after the entry of a final order allowing the amount, if any, of such claim, the allowed portion of all such disputed claims shall be paid consistent with the provisions above. It is not believed that there are any such unpaid claims in this category.

6.03. Class One. Allowed Priority Claims under Section 507(a)(3) to (a)(7) of the Bankruptcy Code shall be paid in cash in full on the Effective Date of the Plan, or as soon thereafter as reasonably practical, unless otherwise agreed by the applicable claimant. Class One is not impaired under the Plan.

6.04. Class Two. The Allowed Unsecured Claim of Yang is deemed allowed in an amount to be determined on the Effective Date. This amount consists of:

- a. \$1,256,792.89 principal, plus accrued interest, advanced by Yang pursuant to the Pre-Petition Credit Documents;
- b. Plus all amounts advanced as of the Effective Date by Yang to Debtor, including that evidenced by the Post-Petition Loan Agreement;
- c. Plus any amount required to be paid by Yang to pay Administrative Expense Claims;
- d. Less the deemed value of Yang's Secured Class Three Claim in the amount of \$150,000.00.⁵

Yang will receive 80% of the equity interest in New ABI in exchange for extinguishment of its Class Two Claim against Debtor and payment of the Cash Contribution. Upon issuance of 80% of the equity interest in New ABI to Yang, Debtor will have no further obligation for payment of the Class Two Claim. Class Two is impaired under the Plan.

6.05. Class Three. On the Effective Date, the Class Three Secured Claim of Yang will be deemed allowed in the amount of \$150,000.00, secured by the same assets that secured Yang's pre-petition secured claim (*See* Texas Financing Statement No. 13-0029795076). This claim will bear interest at the Applicable Federal Rate, and be fully amortized and paid as follows: five (5) consecutive equal annual installments of combined principal and interest, beginning September 1, 2014, and continuing on the same date of each succeeding year until September 1, 2018, when the obligation is due and payable in full.

6.06. Class Four. Each of the General Unsecured Creditors holding an Allowed Claim (and who has not elected Administrative Convenience treatment under Class Five) will be paid an amount equal to six percent (6%) of its Allowed Claim no later than ninety (90) days after the later of the Effective Date or final resolution of all claim objections. Objections to any Class Four Claims must be filed within twenty-eight (28) days after the Effective Date. Upon distribution of the amount set forth in this paragraph, the remaining balance of the Class Four Claims will be discharged with respect to Debtor, and Debtor will have no further obligation for payments to Class Four Claimants. A claimant's negotiation of any check or instrument evidencing this distribution will be deemed to be in full and complete satisfaction of all claims of that claimant against the Debtor or any Affiliate of the Debtor. Class Four is impaired.

6.07. Class Five (Administrative Convenience). Any holder of a Class Four Claim may elect to accept Administrative Convenience treatment, as follows: any holder of an allowed Class Four Claim who timely elects Administrative Convenience treatment under this Class Five will be

⁵ The amount of this Class Two Claim is not less than \$1,216,765.12 as of the date the Plan is filed. It may increase in amount based on post-petition advances from Yang to ABI.

paid the lesser of: (i) its Allowed Claim amount (without interest) or (ii) \$500.00 within twenty-eight (28) days after the Effective Date.

To elect Administrative Convenience treatment, a claimant must elect such treatment in writing on or before the Ballot Deadline.⁶

A claimant's negotiation of any check or instrument evidencing this distribution will be deemed to be in full and complete satisfaction of all claims of that claimant against the Debtor or any Affiliate of the Debtor. Class Five is impaired.

6.08. Class Six. Any Class Six Secured Claims will be paid by New ABI according to the terms of the existing loan and security documents. Each secured claimant will retain its respective security interests in the collateral securing its claim. To the extent a Class Six claimant is undersecured, (a) it will have no recourse for such deficiency against New ABI, and (b) it may seek to have its deficiency treated as a Class Four Allowed Unsecured Claim, subject to objections of New ABI. To the Debtor's best knowledge and belief, *it is believed that no such claims exist in this class.* Class Six is impaired under the Plan.

6.09. Class Seven (Preferred Equity). The interests of the Preferred Equity Security Holders of ABI will be canceled on the Effective Date, which cancellation shall be deemed to occur simultaneously with the issuance of new stock to Yang as described in the Plan; provided, however, that the Preferred Equity Security Holders will be deemed to have been issued 3,262,000 shares of Common Equity immediately prior to the reverse split of the Common Equity as contemplated under Class Eight.⁷ This is more fully described in the *Addendum* to the Plan ("*the Plan Addendum*"). Upon issuance of the new (common) stock in New ABI to the Preferred Equity Security Holders, the remaining balance of any Class Seven Claims or interests will be discharged, and Debtor will have no further obligation for payments to Class Seven Claimants or interests.⁸ Class Seven is impaired under the Plan.

6.010. Class Eight (Common Equity). The interests and claims of the Common Equity Security Holders of ABI will be canceled on the Effective Date, which cancellation shall be deemed to occur simultaneously with the issuance of new stock in New ABI to Yang and the implementation of a reverse stock split for all Common Equity Security Holders⁹ as described in the *Plan Addendum*. Upon issuance of the new stock in New ABI, and implementation of the reverse stock split, Debtor will have no further obligation for payments or other consideration to Class Eight Interests. Class Eight is impaired under the Plan, and it is deemed to have rejected the Plan.

⁶ The form and mechanism for exercising this election will be set forth on the Class Four Ballot form.

⁷ This deemed issuance is in addition to any existing common equity ownership – see the *Plan Addendum*.

⁸ Accrued, unpaid dividends, if any, that were due and unpaid as of the Petition Date will be treated under Class Four.

⁹ Including the deemed converted interest of the Preferred Equity Security Holders.

6.011. Class Nine (Warrants and Options). The interests and claims of the holders of any warrants or options to purchase common stock in ABI will be treated as follows: warrants and options will be converted by a negative factor of 19 (consistent with the 1:19 reverse stock split in Class Eight) so that each 19 warrants or options would be reduced to one (1), with all other conversion or exercise rights to remain in effect, as to the newly issued stock in New ABI, subject, however, to a proportionate conversion in the per-share purchase price, as more specifically set forth in the *Plan Addendum*. The specific conversion affecting known warrants and options holders is set forth in the *Plan Addendum*. Class Nine is impaired under the Plan, and it is deemed to have rejected the Plan.

6.012. Cancellation and Issuance of Stock. The deemed conversion of the Preferred Equity, the reverse split of the Common Equity, and issuance of stock in New ABI as contemplated by the Plan are set forth and more fully described in Article 3 of the Plan and in the *Plan Addendum*.

7. Pending Litigation

7.01. Pending litigation against Debtor is disclosed in the Statement of Financial Affairs filed by Debtor. Any litigation in which Debtor is a defendant is generally collection litigation. To the best of Debtor's knowledge, Debtor does not believe that any pending litigation would have a material adverse effect on Debtor's ability to perform under the Plan.¹⁰

8. Transactions with Insiders and Relations with Affiliates; Exculpation

8.01. The Plan was developed with input from Yang. The Plan is dependent upon a net contribution of cash by Yang, the Cash Contribution, from which New ABI will make cash available for distribution to Unsecured Creditors and to fund other confirmation expenses. The Plan is also dependent on Yang's willingness to provide post-petition and post-confirmation financing, the willingness of Yang to exchange its Allowed Financing Claim for the equity of Debtor, and the willingness of Yang to assist in future financing of operations as New ABI returns to monetizing its existing (and potentially newly developed) intellectual property. ABI estimates its post-confirmation financing needs to be between \$1,000,000 and \$1,600,000 (*see* Feasibility discussion below).

8.02. Debtor's negotiations with Yang resulted in an agreement to provide post-confirmation financing which is integral to the Plan. As part of that agreement, Yang and its related officers and professionals will be released from any liability relating to the Plan; provided, however, that no release or exculpation will apply to acts or omissions, if any, constituting gross negligence, actual fraud, or wilful misconduct.

¹⁰ The only actual lawsuit of which ABI is aware is a Justice of the Peace or small claims court action initiated by Dr. Cummins on July 18, 2013. The amount in controversy was under \$10,000.00 (\$5,000.00 for past due compensation and \$1,354.75 for legal fees and court costs.) The suit was resolved on or about July 30, 2013, when Dr. Cummins was paid the consulting fee in full. Court costs in the amount of \$96.00 were reimbursed to Dr. Cummins the same day. Legal fees were not demanded by Dr. Cummins after his receipt of the \$5,000.00.

8.03. The Plan contains certain language providing releases of claims and exculpation of officers and professional persons. It is the intention of Debtor that the release language contained in Paragraph 6.04 of the Plan (Releases by Holders of Claims) pertains only to claims against Debtor, Debtor's officers, directors, employees, and professionals, and Yang. It is not the intention of Debtor that any other affiliated entity be released or discharged of any liability, whether to Debtor or to any third person. Similarly, the exculpatory language provided in Paragraph 6.06 of the Plan (Exculpation) is intended to protect those persons and entities involved in the administration of Debtor and Debtor's estate immediately prior to and through the conclusion of this bankruptcy, including Stephen T. Chen (the current Chief Executive Officer of Debtor), Bernard Cohen, Edward L. Morris, and Chrystal Shelton. Similarly, all strong-arm powers and avoidance actions, if any, that Debtor may have against any third persons are reserved in and not waived by the Plan, and will inure to the benefit of New ABI. To reiterate, no release or exculpation will apply to acts or omissions, if any, constituting gross negligence, actual fraud, or wilful misconduct.

8.04. Hayashibara is the largest unsecured creditor of Debtor. ABI believes Hayashibara is not an "insider" of ABI as that term is defined in 11 U.S.C. § 101(31).

8.05. ABI believes Yang is not an "insider" of ABI.

9. Risk Factors

Holders of claims should read and consider carefully the risk factors summarized below before voting to accept or reject the Plan.

9.01. Parties May Object. Parties in interest may object to plan confirmation based on a variety of factors, including, for example, classification of claims and interests. Section 1122 of the Bankruptcy Code governs classification of claims. The Debtor believes its classification of claims and interests under the Plan complies with the Bankruptcy Code; however, there is no assurance that a party in interest will not object, or that the Bankruptcy Court will reach the same conclusion as the Debtor.

9.02. Voting. The voting procedures are set forth below; as indicated, there is the possibility that the Debtor may not receive the requisite votes necessary to confirm the Plan.

9.03. Other Code Considerations. Section 1129 of the Bankruptcy Code provides specific requirements for confirmation of a Chapter 11 plan. If the court finds that the Debtor and the Plan have not satisfied Section 1129, it is possible the court may deny confirmation of the Plan. In this regard, the Debtor, subject to applicable provisions of the Bankruptcy Code, reserves the right to modify the terms and conditions of the Plan as necessary to achieve confirmation. It is possible that a modification could result in a less favorable or different treatment of a non-accepting class of claims or interests.

9.04. Claim Objections. Except as otherwise provided in the Plan, and subject to the Bankruptcy Code, a party in interest may have the right to object to the amount, classification, or allowance of any claim under the Plan. If confirmed as filed, the Plan should provide certain time

limitations by which claim objections must be filed; however, it remains possible an objection to a claim may be filed.

9.05. Releases, Exculpation, and Injunctions May Not Be Approved. The Plan provides for certain releases, exculpatory provisions, and injunctions. It is possible, however, that the Court may not approve these items in the face of an objection by a party in interest. This could implicate whether and to what extent the Debtor, as plan proponent, proceeds with confirmation.

9.06. This Disclosure Statement Not Approved By Governmental Agency. This Disclosure Statement was not filed with the SEC or applicable state securities regulators. Neither the SEC nor any state regulatory authority has passed upon the accuracy or adequacy of this Disclosure Statement. No person should make any representation to the contrary (see discussion below regarding securities laws and Section 1145 of the Bankruptcy Code).

9.07. No Legal Advice. This Disclosure Statement is not legal advice. The contents of this Disclosure Statement should not be construed as business, legal, or tax advice. Each holder of a claim or interest should consult his or her own legal counsel or tax advisor.

9.08. No Admissions. The information and statements contained in this Disclosure Statement are for informational and disclosure purposes only. No statement in this Disclosure Statement constitutes an admission of any fact or liability by the Debtor or any other person. Similarly, this Disclosure Statement is not intended, nor should be construed as an admission or finding of fact or conclusion of law with respect to any matter or controversy.

9.09. No Independent Verification. Counsel to the Debtor in Possession, and other professional persons retained by the Debtor have relied upon information provided by the Debtor in connection with the preparation of this Disclosure Statement. Although these professional persons have performed limited due diligence in connection with the preparation of this Disclosure Statement, they have not verified independently the information contained within. Although the Debtor's financial statements are subject to independent audit from time to time, no independent audit has been conducted in connection with this Disclosure Statement.

10. Securities Law / Exemptions

10.01. Section 1145 of the Bankruptcy Code provides that the registration requirements of applicable federal (or state) securities statutes will not apply to the offeror or seller of stock, options, warrants, or other securities by a debtor if: (a) the offer or sale occurs under a plan of reorganization; (b) the recipients of the securities hold a claim against, an interest in, or a claim for administrative expense against, the debtor; and (c) the securities are issued in exchange for a claim against or interest in a debtor or are issued principally in such exchange and partly for cash and property. Relying upon these exemptions, the issuance of stock in New ABI under the Plan will not be registered under applicable state or federal laws. It is possible that the portion of the common stock to be issued to Yang attributable to the Cash Contribution would not fall under the Section 1145 exemption; however, even if such should be the case, such issuance would be exempt from registration under the Securities Act of 1933 (the "*Act*") pursuant to Section 4(a)(2) of the Act, and also pursuant to Rule 505 of Regulation D, promulgated under Section 3(b) of the Act. Debtor will

advise Yang that such securities are “restricted” within the meaning of Rule 144 (Persons Deemed Not to Be Engaged in a Distribution and Therefore Not Underwriters) promulgated under the Act, and may only be resold in compliance with the conditions set forth in that Rule.

10.02. Although the Plan contemplates the applicability of Section 1145 of the Bankruptcy Code to the issuance of equity interests under the Plan, there can be no assurance that the issuance of such equity will be exempt from registration, and in turn, whether any person may readily re-sell those new interests without registration. Recipients of any equity in New ABI are advised to consult with their own legal advisors as to the applicability of Section 1145 of the Bankruptcy Code.¹¹

10.03. No fairness opinion was issued in connection with any equity interests to be issued under the Plan. The amount of the Cash Contribution and the other consideration for Yang’s treatment under the Plan is based on a negotiated treatment, taking into account the Debtor’s balance sheet and financial condition, its prospects for reorganization, and the projected costs and risks pre- and post-confirmation in order to achieve reorganization.

11. Tax Consequences

11.01. The following potential tax ramifications may arise as a result of the Plan. The federal income tax aspects of reorganization under Chapter 11 are complicated and uncertain, and it is not possible to present in this Disclosure Statement a detailed analysis of the tax consequences of the actions contemplated by the Plan. Consequently, each creditor and interest holder is urged to consult its own tax advisors with respect to the consequences of the Plan. DEBTOR MAKES NO REPRESENTATION OF ANY NATURE REGARDING THE FEDERAL (OR STATE) INCOME TAX CONSEQUENCES OF THE PLAN AS TO ANY PARTY IN INTEREST. ANY STATEMENT IN THIS DISCLOSURE STATEMENT REGARDING TAX CONSEQUENCES IS INFORMATIONAL ONLY AND IS NOT A SUBSTITUTE FOR INDEPENDENT TAX PLANNING AND ADVICE FOR ANY HOLDER OF A CLAIM OR INTEREST. ANY HOLDER OF A CLAIM OR INTEREST SHOULD CONSULT WITH HIS, HER, OR ITS OWN TAX ADVISOR.

11.02. The transactions contemplated by the Plan may give rise to cancellation of indebtedness for Debtor. Because the cancellation of indebtedness income will arise in the course of a proceeding pursuant to Chapter 11 of the Bankruptcy Code, Debtor may not be required to include such cancellation of indebtedness as taxable income because of the bankruptcy. Cancellation of indebtedness may, however, affect or reduce any favorable tax attributes of Debtor. The amount of attribute reduction should first be applied to reduce Debtor’s net operating loss, next to reduce certain other tax attributes of Debtor (including capital loss carry forwards and the tax basis of certain property).

11.03. Debtor’s most recent tax return and financial statements reflect tax attributes that may or may not be obtainable. Some of these tax attributes (*e.g.*, net operating loss carry forwards

¹¹ See *also*, Section 1145(b)(1) of the Bankruptcy Code, which defines an “underwriter.” It is the understanding and belief of the Debtor that the Yang Group is not acquiring any of the Debtor’s equity interests with a view to the distribution thereof. Stock issued to Yang pursuant to the Plan will be “restricted” within the meaning of Rule 144 promulgated under the Act.

(“*NOL*”), if any) are for the benefit of Debtor. According to the Debtor’s most recent federal income tax return, the face amount of the *NOL* was \$22,240,816.00. Debtor has not independently verified or otherwise confirmed the favorable nature of such tax attributes or the extent to which any of the *NOL* can still be used. It is Debtor’s belief that obtaining the value of such tax attributes may be difficult and directly dependent upon many factors outside of Debtor’s control, including, but not limited to, changes in the legal and regulatory framework and the operational and corporate structure of Debtor and shareholders, or sales or transfers of stock by or among shareholders. For example, if Debtor has experienced a change of control as defined in the relevant provisions of the IRC,¹² the use of any existing tax attributes could be severely limited. Debtor does not believe confirmation of the Plan will impair any tax attributes; however, obtaining value from the tax attributes is a function of Debtor’s return to profitable operations and the timeframe of that return. While Debtor believes it is possible, there is no assurance Debtor will return to profitability in the future.¹³

11.04. Tax Consequence for Creditors or Interest Holders. Each creditor and Interest Holder is advised to consult his, her, or its accountant or tax advisor to determine tax consequences that may arise due to its participation in the Plan.

11.05. TREASURY DEPARTMENT CIRCULAR 230 DISCLOSURE: TO ENSURE COMPLIANCE WITH REQUIREMENTS IMPOSED BY THE INTERNAL REVENUE SERVICE, ANY TAX ADVICE CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING TAX-RELATED PENALTIES UNDER THE INTERNAL REVENUE CODE. TAX ADVICE, IF ANY, CONTAINED IN THIS DISCLOSURE STATEMENT (INCLUDING ANY ATTACHMENTS) IS WRITTEN TO SUPPORT THE TRANSACTIONS OR MATTERS ADDRESSED BY THIS DISCLOSURE STATEMENT. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

12. Alternatives to Plan and Liquidation Analysis

12.01. Alternatives to the Plan include continuation of the Chapter 11 case; conversion to a liquidation bankruptcy; or dismissal of the proceedings. Debtor believes the proposed Plan is in the best interest of all creditors and Debtor.

¹² See 26 U.S.C. § 382 (known as Section 382 of the IRC) and related regulations.

¹³ As noted above, the extent to which these *NOL* may be used by the Debtor or New ABI to offset future income may be affected by the passage of time, transactions among shareholders, and other factors. The Debtor has sought to limit certain trading activities by separate motion. See *e.g.*, Debtor’s Motion for Immediate Entry of Order Establishing Procedures for Certain Transfers of Debtor’s Common Stock (Doc. No. 94) and the Interim Order Establishing Procedures for Certain Transfers of Debtor’s Common Stock (Doc. No. 96). Under the Plan, similar limitations may be imposed post-confirmation.

12.02. Debtor does not favor any alternatives to the Plan at this time. In arriving at that conclusion, Debtor assesses the alternatives as follows:

- a. Continuation in Chapter 11 would not further reduce the number of creditors or the amount of unsecured claims. Administrative expenses (including quarterly fees to the U.S. Trustee's office) would increase and unnecessary litigation and/or procedural maneuvers could ensue. No distributions would become available for the unsecured claimants.
- b. **Liquidation Analysis.** A liquidation bankruptcy would not be in the best interest of the parties. Liquidation of Debtor's assets would fail to yield the distribution contemplated under the Plan. In the event of liquidation, no distribution would be available for the unsecured claimants. The Cash Contribution by Yang pursuant to the Plan is only available if the Plan is confirmed. A Chapter 7 liquidation is especially problematic, because it would place a Chapter 7 trustee in the position of attempting to liquidate intangible assets, the actual value of which can only be monetized by ABI or a person with biologics expertise as part of a going concern. A more detailed liquidation analysis is attached as *Exhibit A* to this Disclosure Statement.
- c. Dismissal of the proceedings would, in the judgment of Debtor, also lead to an unsatisfactory result. Dismissal could result in a liquidation of the remaining property of Debtor with no benefit to Unsecured Creditors. Any proceeds from liquidation would likely be paid as administrative expenses or would be recovered by Yang pursuant to its Allowed Secured Claim. Based on asset values projected by Debtor, in the event of liquidation there would be a substantial shortfall in paying Yang, and no money would be available for the Unsecured Creditors.

12.03. This Disclosure Statement describes alternatives to the Plan; however, the creditors may only vote for or against the Plan. The vote on the Plan does not include a vote on alternatives to the Plan. There is no assurance what turn the proceedings will take if the Plan fails to win acceptance. Creditors should consult their own counsel if they have questions concerning the Plan and reorganization process.

13. Required Vote for Reorganization

13.01. Voting on the Plan is by classes. Unimpaired classes are deemed to have accepted the Plan. At least one class of impaired claims must vote to accept the Plan in order for the Plan to be confirmed. Acceptance by a class requires acceptance by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the allowed claims held by the members of the class that have accepted or rejected the Plan. If any class of impaired claims fails to accept the Plan, Debtor may attempt to invoke the so-called "cram down" provisions of Section 1129(b) of the Bankruptcy Code.

13.02. The Common Equity Security Holders and the holders of warrants and options are deemed to have rejected the Plan. Therefore, *Classes Eight and Nine will not vote.*

14. Accounting Methods and Sources

14.01. Information in this Disclosure Statement has been based upon work performed by Debtor, Debtor's counsel, or independent accountants hired by Debtor. Values have been estimated by Debtor.¹⁴ Because there are no significant payments based on future income to creditors over time contemplated by the Plan, no extensive analysis of future income or the accounting methods by which the same is estimated is necessary at this time. Payments to secured creditors will continue to be made pursuant to the Plan; however, Debtor believes Yang is the only secured creditor.

15. Feasibility

15.01. The Plan is feasible and confirmable pursuant to Section 1129 of the Bankruptcy Code. Upon the payment of the Cash Contribution by Yang for the benefit of Unsecured Creditors and payment (or financing) by Yang of the administrative and Class One claims contemplated in the Plan, the Plan will be substantially consummated. Therefore, feasibility is dependent only on Yang's ability to make the required Cash Contribution and provide the required post-confirmation financing.

15.02. Dr. Chen will continue as Chief Executive Officer and director of the Reorganized Debtor.¹⁵ Following confirmation of the Plan, and following the Effective Date, New ABI will be under the leadership of Dr. Chen and the present management team of ABI. This does not, however, preclude Yang from exercising its voting rights as a stockholder in New ABI.

15.03. Upon confirmation, ABI will operate subject to the oversight by its 80% owner, Yang. Yang has recognized the necessity of additional capital infusion to return ABI to profitable operations post-confirmation. This will likely include the advance of debt financing or infusion of additional capital by Yang, although Yang is not obligated to do so, and will consider economic and market factors before making such determination. It is anticipated that New ABI will attempt to monetize and commercialize its existing intellectual property, which would necessitate identification and acquisition of new source product (e.g., Interferon), new trials, and additional protection of intellectual property. It is estimated this may require additional funding (including general administrative cost and professional fees) of between \$500,000.00 and \$800,000.00. Similarly, New ABI may explore with Yang the acquisition and development of new product lines to which Yang may have access. The cost to commercialize any such development could likely require a similar funding level, resulting in aggregate funding requirements between \$1 million and \$1.6 million.

¹⁴ Value of patents is based on amortized "book value," based upon the cost of development and registration of the patents and it may not reflect true market value. There is no known present market value for the patents at this time, so an exact "market value" is difficult to ascertain. See also **Exhibit A** to this Disclosure Statement.

¹⁵ Dr. Chen will remain in his position as Chief Executive Officer post-confirmation; new directors may be elected after the Effective Date.

These activities, even if undertaken, would not be expected to produce meaningful revenue before the last calendar quarter of 2014, or possibly later.¹⁶

16. Confirmation Hearing and Certain Deadlines

16.01. The Bankruptcy Court will set a time and date for the hearing on confirmation of the Plan, notice of which will have been provided to all known creditors.

16.02. Any objections to confirmation of the Plan must be filed and served on counsel for Debtor by the deadline set forth in the notice of the confirmation hearing.

16.03. To vote on the Plan, please review Section 17 below.

17. Voting

IF YOU ARE IN ONE OF THE CLASSES OF CLAIMS WHOSE RIGHTS ARE AFFECTED BY THE PLAN, IT IS IMPORTANT THAT YOU VOTE. IF YOU FAIL TO VOTE, YOUR RIGHTS MAY BE JEOPARDIZED.

NOTE THAT COMMON EQUITY SECURITY HOLDERS AND HOLDERS OF OPTIONS AND WARRANTS DO NOT VOTE, BECAUSE FOR CONFIRMATION PURPOSES, THEY ARE DEEMED TO HAVE REJECTED THE PLAN.

17.01. Persons and Entities Entitled to Vote on the Plan. The classes of claims and interests that are impaired under the Plan are entitled to vote to accept or reject the Plan. All classes of claims under the Plan are impaired, except for Class One. An impaired class of claims will be determined to have accepted the Plan if the holders of allowed claims in the class casting votes in favor of the Plan: (i) hold at least two-thirds of the aggregate of the allowed amounts held by the holders of allowed claims of such class, and (ii) constitute more than one-half in number of voting members of such class. *Classes Eight and Nine are deemed to have rejected the Plan, and they do not vote.*

17.02. Return of Ballot. Holders of claims and interests that are impaired by the Plan should vote on the Plan by completing and mailing the enclosed ballot to counsel for Debtor at the following address:

¹⁶ This assumes confirmation of the Plan substantially as filed. Yang has not expressly committed to these funding levels; however, testimony about this and alternative funding may be presented at the Plan Confirmation hearing.

Roger S. Cox
Underwood Law Firm

Mailing:
P.O. Box 9158
Amarillo TX 79105-9158

Fax:
806-349-9485

Street/overnight delivery:
500 S. Taylor, Suite 1200
Amarillo TX 79101

Ballots must be signed and returned so that they are actually received no later than 5:00 p.m., Central U.S. time on the date of the Ballot Deadline. Persons voting by fax are advised to obtain confirmation of receipt of the ballot or otherwise be able to prove timely submission by electronic fax log / confirmation. Oral ballots cannot be received or counted.

18. Legally Binding Effect of the Plan

18.01. If confirmed, the provisions of the Plan: (i) will bind all holders of claims and of interests (including the Common and Preferred Equity Security Holders), whether or not they accept the Plan, and (ii) will discharge Debtor from all debts that arose before confirmation, except as otherwise provided in the Plan. Except as otherwise provided in the Plan, the distributions provided for in the Plan will be in exchange for and in complete satisfaction, discharge, and release of all claims against and interests in Debtor and any of its assets or properties, including any claim or interest arising after the petition date and before confirmation. Upon confirmation, all holders of claims and interests will be precluded from asserting any claims against Debtor or its assets or properties or other interests in Debtor based on any transaction or other activity of any kind that occurred before confirmation, except as otherwise provided in the Plan.

DATE: March 27, 2014

Respectfully submitted,

AMARILLO BIOSCIENCES, INC.

By: /s/ Bernard Cohen
Bernard Cohen, Vice President and CFO

and

/s/ Roger S. Cox
ROGER S. COX, State Bar No. 04956200
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Counsel for the Debtor in Possession

EXHIBIT A
to Disclosure Statement

LIQUIDATION ANALYSIS

1. The Debtor believes a liquidation (bankruptcy or otherwise) would not be in the best interest of the creditors or equity interests. The liquidation value of the Debtor's assets would be so low that liquidation of those assets would **not** yield sufficient cash to make any distributions contemplated under the Plan. The Debtor's assets consist primarily of intangible, intellectual property that could not be effectively monetized by a trustee or similar liquidating agent.

2. The Debtor has no investments and, therefore, no assets in this category to liquidate. Security deposits are insignificant, \$1,250.00 as of October 31, 2013, and cannot be accessed. The Debtor has no meaningful accounts receivable to convert to cash. The only receivable scheduled as of October 31, 2013, was \$182.00 due from an Indian pharmaceutical company testing a small amount of raw material for potential use in a project. The Debtor has previously tried unsuccessfully to collect this amount. Tangible assets consist primarily of obsolete office furniture and equipment, which likewise would yield little at liquidation.

3. The most significant asset is the Debtor's intellectual property consisting of six patents, one pending patent, and one trademark. Two of the patents expire in less than ten months and three of the patents expire in a range of four to seven years. These five patents and the single pending patent employ the Debtor's core technology, which is the oral, low dosage use of (human) interferon. These patents will not have significant value unless commercialized, which will require adequate funding, time, effort, and expertise in biologics. Several months pre-petition, ABI's sole source of human interferon discontinued production, which negatively impacted ABI's ability to obtain source product. The anticipated location and development time required for a new source of human interferon along with the requisite testing and FDA approval time could exceed the life span of the all of the patents, and even if it does not, would leave relatively little time to derive revenues from the patent protections, prior to patent expiration. The sixth patent, a product promoting oral health, is of low liquidation value because the supplier of the raw material for the product (anhydrous crystalline maltose, or "**ACM**") has substantially increased its purchase price. The price increase and other actions have rendered the manufacture and sale of the product less attractive, and in any event, of little or no value in a liquidation scenario.

4. The intellectual property is valued on the schedules by capitalizing the costs of the patents as incurred and amortizing those costs over the life of the patents, which renders a book value of \$96,152.00 as of October 31, 2013, which Debtor believes is the best available estimate of present market value. The trademark was recently renewed and the value of that trademark is shown as the cost of renewal, \$790.00. The trademark ("**Maxisal**") has been used in connection with Debtor's ACM product, and is now only of nominal value, due to the loss of a source of competitively-priced ACM product, as stated above.

5. The only other tangible asset is the Debtor's furniture, fixtures, and equipment. The average age of the furniture, fixtures, and equipment is over fifteen years with the oldest assets being twenty-seven and the newest being seven years old. All of these assets are completely depreciated.

Considering the age, condition of the assets, and present economic environment, the estimated market value of these assets is estimated at \$1,000.00. Other miscellaneous assets are valued at \$2,515.00.

6. The overriding considerations that make bankruptcy liquidation less beneficial than the Debtor's Plan include:

- a. All of the assets are currently pledged to The Yang Group as collateral for Pre-petition Financing.
- b. The aggregate estimated market value of the assets (\$101,889.00) is less than the face value of the secured debt, \$280,000.00. In a liquidation scenario, the Debtor estimates a net return of \$20,000.00 or less.
- c. In view of this, a liquidation of the assets would only partially satisfy the sole secured creditor, and would leave Debtor with unresolved and unsatisfied claims (disputed or otherwise) of over \$4.6 million, with no amounts available for distribution to General Unsecured Creditors.
- d. If the Plan is not confirmed, a Cash Contribution from The Yang Group will not be forthcoming; there will be no financing to consummate the Plan, no funds for distribution to the Unsecured Creditors, and no operating capital to monetize the intellectual property.

7. In view of this analysis, Debtor estimates a maximum net liquidation value of \$20,000.00, which would likely render any Chapter 7 estate administratively insolvent.

8. The anticipated distribution to the holders of claims under the Plan will greatly exceed Debtor's liquidation value. Thus, the Plan, if confirmed, will be in the best interest of creditors.