IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
VICTORIA DIVISION

IN RE:	§	
	§	**CASE NO. 10-60149**
LACK'S STORES, INCORPORATED, *ET AL.*,	§	**Chapter 11**
	§	
DEBTORS.[1]	§	**(Jointly Administered)**
	§	

FIRST AMENDED DISCLOSURE STATEMENT FOR THE FIRST AMENDED JOINT PLAN OF REORGANIZATION FOR THE DEBTORS

NOTICE

THE BANKRUPTCY COURT HAS NOT YET APPROVED THIS DISCLOSURE STATEMENT PURSUANT TO 11 U.S.C. § 1125. THEREFORE, IT IS NOT TO BE RELIED UPON OR USED IN CONNECTION WITH THE SOLICITATION OF VOTES FOR OR AGAINST ANY CHAPTER 11 PLAN FILED IN THESE CASES.

Dated: December 6, 2011

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[1] The Debtors and the last four digits of their tax identification numbers are: Lack's Stores, Incorporated (6528); Merchandise Acceptance Corporation (0972); Lack's Furniture Centers, Inc. (9468); and Lack Properties, Inc. (8961).

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Exhibit A: First Amended Joint Plan of Reorganization for the Debtors

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Exhibit E: Additional Disclosures – Thrivent Financial for Lutherans

INTRODUCTORY DISCLOSURES

THIS FIRST AMENDED DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT"), WHICH HAS BEEN FILED BY LACK'S STORES, INCORPORATED ("LACK'S") AND ITS AFFILIATED DEBTORS AND DEBTORS IN POSSESSION (THE "DEBTORS"), CONTAINS A SUMMARY OF MATERIAL PROVISIONS OF THE *FIRST AMENDED JOINT PLAN OF REORGANIZATION PROPOSED FOR THE DEBTORS* (THE "PLAN"), INCLUDING PROVISIONS RELATING TO THE PLAN'S TREATMENT OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTORS AND THE MEANS OF IMPLEMENTATION OF THE PLAN. THIS DISCLOSURE STATEMENT ALSO SUMMARIZES CERTAIN FINANCIAL INFORMATION CONCERNING THE DEBTORS AND THE CLAIMS ASSERTED AGAINST THE DEBTORS IN THESE JOINTLY ADMINISTERED CASES. **WHILE THE DEBTORS BELIEVE THAT THIS DISCLOSURE STATEMENT CONTAINS ADEQUATE INFORMATION WITH RESPECT TO THE DOCUMENTS AND INFORMATION SUMMARIZED, CREDITORS AND EQUITY INTEREST HOLDERS SHOULD CAREFULLY REVIEW THE ENTIRE PLAN AND EACH OF THE DOCUMENTS REFERENCED HEREIN AND SHOULD SEEK THE ADVICE OF THEIR OWN LEGAL COUNSEL AND OTHER ADVISORS BEFORE CASTING THEIR BALLOTS ON THE PLAN.**

EXCEPT FOR THE INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO, NO REPRESENTATIONS CONCERNING THE DEBTORS, THE DEBTORS' ASSETS AND LIABILITIES, THE PAST OR FUTURE OPERATIONS OF THE DEBTORS, THE PLAN AND ITS TERMS, OR ALTERNATIVES TO THE PLAN ARE AUTHORIZED, NOR ARE ANY SUCH REPRESENTATIONS TO BE RELIED UPON IN ARRIVING AT A DECISION WITH RESPECT TO THE PLAN. ANY INFORMATION WITH RESPECT TO SUCH TOPIC AREAS THAT IS PROVIDED TO SECURE ACCEPTANCE OR REJECTION OF THE PLAN, WHICH IS NOT CONTAINED IN THIS DISCLOSURE STATEMENT AND THE EXHIBITS ATTACHED HERETO, IS UNAUTHORIZED AND SHOULD BE REPORTED IMMEDIATELY TO THE DEBTORS' LEGAL COUNSEL.

STATEMENTS AND FINANCIAL INFORMATION HEREIN CONCERNING THE DEBTORS, INCLUDING HISTORICAL INFORMATION, INFORMATION REGARDING THE DEBTORS' ASSETS AND LIABILITIES, AND INFORMATION REGARDING CLAIMS AND EQUITY INTERESTS ASSERTED OR OTHERWISE EVIDENCED IN THE CASES, HAVE BEEN DERIVED FROM NUMEROUS SOURCES INCLUDING THE DEBTORS' BOOKS AND RECORDS, THE DEBTORS' SCHEDULES AND STATEMENTS OF FINANCIAL AFFAIRS, AND COURT RECORDS. ALTHOUGH THE DEBTORS REASONABLY BELIEVE THAT THE HISTORICAL AND FINANCIAL INFORMATION SET FORTH HEREIN IS ACCURATE, COMPLETE, AND RELIABLE, THE DEBTORS AND THEIR PROFESSIONALS HAVE NOT TAKEN ANY INDEPENDENT ACTION TO VERIFY THE ACCURACY, COMPLETENESS, OR RELIABILITY OF SUCH HISTORICAL INFORMATION, AND THERE HAS BEEN NO INDEPENDENT AUDIT OF THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT. THEREFORE, NEITHER THE DEBTORS NOR THEIR PROFESSIONALS WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETE, ACCURATE, OR RELIABLE. HOWEVER, THE DEBTORS HAVE REVIEWED THE INFORMATION SET FORTH HEREIN AND, BASED UPON THE SOURCES OF INFORMATION AVAILABLE, GENERALLY BELIEVE SUCH INFORMATION TO BE COMPLETE.

UNLESS INDICATED OTHERWISE, THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE AS OF DECEMBER 6, 2011, AND NEITHER DELIVERY OF THIS DISCLOSURE STATEMENT NOR ANY EXCHANGE OF RIGHTS MADE IN CONNECTION WITH THE PLAN SHALL, UNDER ANY CIRCUMSTANCES, CREATE AN IMPLICATION THAT THERE

HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN SINCE THE DATE THIS DISCLOSURE STATEMENT AND THE MATERIALS RELIED UPON IN PREPARING THIS DISCLOSURE STATEMENT WERE COMPILED.

THIS DISCLOSURE STATEMENT MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN. THIS DISCLOSURE STATEMENT CONTAINS PROJECTED FINANCIAL INFORMATION REGARDING THE DEBTORS, RECOVERIES UNDER THE PLAN, AND CERTAIN OTHER FORWARD-LOOKING STATEMENTS, ALL OF WHICH ARE BASED UPON VARIOUS ASSUMPTIONS AND ESTIMATES AS OF DECEMBER 6, 2011, OR SUCH OTHER TIME AS IS SPECIFIED. SUCH INFORMATION WILL NOT BE UPDATED TO REFLECT EVENTS OCCURRING AFTER SAID DATE(S), AND SUCH INFORMATION IS SUBJECT TO INHERENT UNCERTAINTIES AND TO A WIDE VARIETY OF SIGNIFICANT BUSINESS, ECONOMIC, AND COMPETITIVE RISKS. CONSEQUENTLY, ACTUAL EVENTS, CIRCUMSTANCES, EFFECTS, AND RESULTS MAY VARY SIGNIFICANTLY FROM THOSE INCLUDED IN OR CONTEMPLATED BY SUCH PROJECTED FINANCIAL INFORMATION AND SUCH OTHER FORWARD-LOOKING STATEMENTS.

THE APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT.

NOTHING CONTAINED IN THIS DISCLOSURE STATEMENT, EXPRESS OR IMPLIED, IS INTENDED TO GIVE RISE TO ANY COMMITMENT OR OBLIGATION OF THE DEBTORS OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED AS CONFERRING UPON ANY PERSON ANY RIGHTS, BENEFITS, OR REMEDIES OF ANY NATURE WHATSOEVER. THIS DISCLOSURE STATEMENT IS INFORMATIONAL ONLY. ADDITIONALLY, CREDITORS AND EQUITY INTEREST HOLDERS SHOULD NOT CONSTRUE THE CONTENTS OF THIS DISCLOSURE STATEMENT AS PROVIDING ANY LEGAL, BUSINESS, FINANCIAL, OR TAX ADVICE. EACH CREDITOR AND EQUITY INTEREST HOLDER SHOULD CONSULT WITH ITS OWN LEGAL, BUSINESS, FINANCIAL, AND TAX ADVISORS AS TO ANY MATTER CONCERNING THE PLAN, THE EFFECTS OF IMPLEMENTATION OF THE PLAN, AND THE VOTING PROCEDURES APPLICABLE TO THE PLAN.

I.
INTRODUCTION

On November 16, 2010 (the "Petition Date"),[2] the Debtors Filed voluntary petitions for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code") with the United States Bankruptcy Court for the Southern District of Texas, Victoria Division (the "Bankruptcy Court"), thereby initiating their bankruptcy cases (collectively, the "Cases"), which are being jointly administered by Order of the Bankruptcy Court [Docket No. 23].

On December 6, 2011, the Debtors Filed their *First Amended Joint Plan of Reorganization for the Debtors* (the "Plan").[3] The Plan proposes, among other things, the means by which all Claims against and Equity Interests in the Debtors will be finally resolved and treated for Distribution purposes, consistent with the provisions and priorities mandated by the Bankruptcy Code. Approval and consummation of the Plan will enable the Cases to be concluded and closed.

The Debtors hereby submit this Disclosure Statement in connection with the solicitation of votes on the Plan. On [December 7], 2011, after notice and a hearing, the Bankruptcy Court, the Honorable Jeff Bohm presiding, signed an Order approving this Disclosure Statement as containing information of a kind and in sufficient detail to enable Creditors and Equity Interest Holders, whose votes on the Plan are being solicited, to make an informed judgment on whether to accept or reject the Plan. The Bankruptcy Court's approval of this Disclosure Statement does not constitute the Bankruptcy Court's approval or disapproval of the Plan.

This Disclosure Statement, which includes the Plan as **Exhibit A,** is being mailed to each Holder of an Impaired Claim against the Debtors. The Debtors are only seeking votes on the Plan from Creditors who are entitled to vote. With respect to voting on the Plan, pursuant to the Bankruptcy Code, only Holders of Claims within Impaired Classes under the Plan are entitled to vote.

The Debtors believe that they have promulgated the Plan consistent with the provisions of the Bankruptcy Code. The Debtors believe that the Plan provides affected Creditors and Equity Interest Holders Distribution rights on account of their Claims and Equity Interests that are at least equal to, if not greater than, what they would obtain if the Cases were converted to chapter 7 liquidation cases and the assets of the Debtors were liquidated within the parameters of chapter 7 of the Bankruptcy Code. The Debtors believe that the Plan is fair and equitable to all Classes of Claims and Equity Interests under the Plan.

This Disclosure Statement is not intended to replace careful review and analysis of the Plan. Rather, it is submitted as an aid and supplement in your review of the Plan, and it attempts to explain the terms and implications of the Plan. Every effort has been made to fully explain the various aspects of the Plan as it may affect Creditors and Equity Interest Holders. All Persons receiving this Disclosure Statement are urged to carefully review its text and exhibits. If you have any questions, you may contact legal counsel for the Debtors, whose contact information is set forth within this Disclosure Statement and on the cover page hereof.

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[2] Capitalized terms used herein, if not separately defined, have the meanings assigned to them in the Plan, or if not defined in the Plan, in the Bankruptcy Code or Bankruptcy Rules. The Scope of Definitions, Rules of Construction, Rules of Interpretation, and Computation of Time set forth in Section 1.02 of the Plan shall likewise apply to this Disclosure Statement.

[3] The Debtors originally filed their *Joint Plan of Reorganization for the Debtors* [Docket No. 1250] on October 5, 2011, in advance of the expiration of their exclusive period to do so, which expired on November 14, 2011 [Docket Nos. 781, 974, 1174].

Creditors and Equity Interest Holders should read this Disclosure Statement in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to this Disclosure Statement, an Order of the Bankruptcy Court approving this Disclosure Statement, and Bankruptcy Code § 1125. No other party has been authorized to utilize any information concerning the Debtors, their operations, or their assets and liabilities, other than the information contained in this Disclosure Statement, to solicit votes on the Plan. Creditors and Equity Interest Holders should not rely on any information relating to the Debtors, their operations, or their assets and liabilities other than the information contained in this Disclosure Statement and the exhibits attached hereto.

II.
PLAN OVERVIEW

The Plan is designed to accomplish three (3) primary objectives: (1) the collection of Lack's Customer Notes portfolio in the ordinary course of business, (2) the sale and collection of remaining real and personal property that is not necessary to the continued collection of Customer Notes, and (3) the use of proceeds from collection of Customer Notes and sale and collection of the Debtors' other remaining assets to satisfy Claims in accordance with the Plan. The Plan specifies the means for accomplishing each of these objectives, and pertinent provisions of the Plan relating thereto are described in detail in this Disclosure Statement. **The Debtors anticipate that Allowed Claims will be paid in full under the Plan with a Distribution to be available to the Holders of Equity Interests.** After all Distributions to Holders of Allowed Claims contemplated by the Plan have been made in full, the Reorganized Debtors further reserve the right, in their sole discretion, to transact any or all lawful business for which a corporation may be incorporated under the Texas Business Corporation Act.

Focusing on Distributions to be made to Creditors and Equity Interest Holders under the Plan, the Plan divides Claims against and Equity Interests in the Debtors into separate Classes of Claims[4] and Equity Interests and then sets out the treatment to be provided to each such Class under the Plan. Sections 1122 and 1123 of the Bankruptcy Code require such classification, with each Class to contain Claims and Equity Interests that are substantially similar to one another. The Plan classifies Claims against and Equity Interests in the Debtors into twelve (12) Classes for purposes of voting on and Distributions under the Plan. The various Classes of Claims and Equity Interests and the treatment provided under the Plan to each such Class are discussed in greater detail in later sections of this Disclosure Statement.

III.
VOTING PROCEDURES AND REQUIREMENTS

A. Ballots and Voting Deadline

Each Holder of a Claim in an Impaired Class is entitled to vote on the Plan and shall be provided a Ballot along with this Disclosure Statement. If a Creditor holds Claims in more than one Class entitled

4 Because Administrative Claims are subject to mandatory treatment under the Bankruptcy Code, they are not subject to classification. Payment of Administrative Claims under the Plan is discussed in further detail in the Plan and elsewhere in this Disclosure Statement.

to vote under the Plan, such Creditor has been provided a separate Ballot for each such Class. Ballots are to be used by Creditors to accept or reject the Plan.[5]

To ensure that a Ballot is deemed timely such that it will be considered by the Debtors, a Creditor must (a) carefully review the Ballot and the instructions set forth thereon, (b) provide all of the information requested on the Ballot, (c) sign the Ballot, and (d) return the completed and signed Ballot to the Debtors at the address provided below by the Voting Deadline.

By Order of the Bankruptcy Court, the Voting Deadline is [5:00 p.m. (prevailing Pacific Time)], on [January 23, 2012]. Therefore, in order for a Ballot to be counted for voting purposes, the completed and signed Ballot must be received at the address specified below by no later than such Voting Deadline:

DEADLINE: BALLOTS MUST BE RECEIVED BY 5:00 P.M. (PREVAILING PACIFIC TIME), ON JANUARY 23, 2012 AT

Lack's Stores, Incorporated Ballot Processing
Kurtzman Carson Consultants, LLC
2335 Alaska Avenue
El Segundo, CA 90245

B. Voting by Holders of Claims Subject to Objection

Each Creditor holding a Claim in a Class, which is Impaired under the Plan, is being solicited to vote on the Plan. However, as to any Claim for which a Proof of Claim was Filed and as to which an objection has been lodged, if such objection is still pending as of the Voting Deadline, the relevant Creditor's vote associated with such Claim will not be counted to the extent of the objection to the Claim, unless and to the extent (a) the Bankruptcy Court temporarily allows the Claim upon motion by such Creditor in an amount that the Bankruptcy Court deems proper for the purpose of voting on the Plan or (b) as may be otherwise consented to by the Debtors, in their discretion. Such motion must be heard and determined by the Bankruptcy Court prior to the date and time established by the Bankruptcy Court for determination of confirmation of the Plan. In addition, a Creditor's vote may be disregarded if the Bankruptcy Court determines that the Creditor's acceptance or rejection of the Plan was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

C. Definition of Impairment

Pursuant to § 1124 of the Bankruptcy Code, except to the extent that the Holder of a particular Claim or Equity Interest within a Class agrees to less favorable treatment of the Holder's Claim or Equity Interest, a Class of Claims or Equity Interests is Impaired under a Plan unless, with respect to each Claim or Equity Interest of such Class, the Plan does at least one of the following two things:

1. The Plan leaves unaltered the legal, equitable, and contractual rights to which such Claim or Equity Interest entitles the Holder of such Claim or Equity Interest; or

[5] Any Holder of a General Unsecured Claim is entitled to make a Discounted Early Payment Election on its Ballot in order to be paid 67% of the Allowed amount of its General Unsecured Claim according to accelerated timing and certain terms set forth in greater detail in the Plan and elsewhere in this Disclosure Statement. Any Holder of a General Unsecured Claim in excess of $5,000 may alternatively make an irrevocable election on its Ballot to be treated as a Holder of a Convenience Claim by reducing its Claim to $5,000 and accepting treatment in Class 9.

2. Notwithstanding any contractual provision or applicable law that entitles the Holder of such Claim or Equity Interest to demand or receive accelerated payment of such Claim or Equity Interest after the occurrence of a default, the Plan:

a. cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in § 365(b)(2) of the Bankruptcy Code or of a kind that § 365(b)(2) expressly does not require to be cured;

b. reinstates the maturity of such Claim or Equity Interest as such maturity existed before such default;

c. compensates the Holder of such Claim or Equity Interest for any damages incurred as a result of any reasonable reliance by such Holder on such contractual provision or such applicable law;

d. if such Claim or such Equity Interest arises from any failure to perform a nonmonetary obligation, other than a default arising from failure to operate a nonresidential real property lease subject to § 365(b)(1)(A) of the Bankruptcy Code, compensates the Holder of such Claim or Equity Interest (other than a Debtor or an insider) for any actual pecuniary loss incurred by such Holder as a result of such failure; and

e. does not otherwise alter the legal, equitable, or contractual rights to which such Claim or Equity Interest entitles the Holder of such Claim or Equity Interest.

D. Classes Impaired Under the Plan

Classes 4, 5, 6, 7, and 8 are Impaired Classes under the Plan. All Holders of Claims in such Classes are scheduled to receive on account of such Claims at least some property interest having potential value under the Plan. Accordingly, Holders of Claims within Classes 4, 5, 6, 7, and 8 are being solicited to vote on the Plan. Claims and Equity Interests in Classes 1, 2, 3, 9, 10, 11, and 12 are Unimpaired under the Plan. Therefore, Classes 1, 2, 3, 9, 10, 11, and 12 are deemed to have accepted the Plan pursuant to § 1126(f) of the Bankruptcy Code, and Holders of Claims or Equity Interests within such Classes are not being solicited to vote on the Plan.

With respect to the foregoing, the Debtors specifically reserve the right to determine and contest, if necessary, (a) the Impaired or Unimpaired status of a Class under the Plan and (b) whether any Ballots cast by Holders of Claims within such a Class should be counted for purposes of confirmation of the Plan.

E. Acceptance by Impaired Classes of Claims.

An Impaired Class of Claims shall have accepted the Plan if (a) the Holders (other than any Holder designated under Bankruptcy Code § 1126(e)) of at least two-thirds in amount of the Allowed Claims actually voting in such Class have voted to accept the Plan and (b) the Holders (other than any Holder designated under Bankruptcy Code § 1126(e)) of more than one-half in number of the Allowed Claims actually voting in such Class have voted to accept the Plan.

F. Cramdown.

If not all Impaired Classes of Claims accept the Plan, the Debtors request Confirmation of the Plan under Bankruptcy Code § 1129(b). The Debtors reserve the right to modify the Plan, in their discretion, to the extent, if any, that Confirmation pursuant to Bankruptcy Code § 1129(b) requires modification, or for any other reason.

IV.
CONFIRMATION OF THE PLAN

A. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on Confirmation of the Plan (the "Confirmation Hearing"). Section 1128(b) of the Bankruptcy Code provides that any party in interest may object to Confirmation of the Plan.

By Order of the Bankruptcy Court entered on December [7], 2011, the Confirmation Hearing has been scheduled to begin [February 1, 2011], at [2:30 p.m.], in the United States Bankruptcy Court, Courtroom of The Honorable Jeff Bohm, 515 Rusk Street, Houston, TX 77002. Any objection to Confirmation must be made in writing, and such written objection must be Filed with the Bankruptcy Court and served on the following parties by not later than [5:00 p.m. Central Time on January 23, 2011].

The Debtors:
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515 Rusk Street, Suite 3516
Houston, Texas 77002

UNLESS AN OBJECTION TO CONFIRMATION IS TIMELY FILED AND SERVED, IT WILL NOT BE CONSIDERED BY THE BANKRUPTCY COURT.

B. Requirements for Confirmation of the Plan

At the Confirmation Hearing, the Bankruptcy Court will determine whether the confirmation requirements of § 1129(a) of the Bankruptcy Code have been satisfied. The Bankruptcy Court will enter an Order confirming the Plan under § 1129(a) of the Bankruptcy Code only if all of these requirements have been satisfied and all other conditions to confirmation set forth in the Plan have been met. The requirements of Bankruptcy Code § 1129(a) applicable to corporate debtors are as follows:

1. The Plan complies with the applicable provisions of the Bankruptcy Code.

2. The proponents of the plan comply with the applicable provisions of the Bankruptcy Code.

3. The Plan has been proposed in good faith and not by any means forbidden by law.

4. Any payment made or to be made by the proponents of the plan 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.

5. The proponents of the plan have disclosed:

   a. the identity and affiliations of any individual proposed to serve, after confirmation of the Plan, as a director, officer, or voting trustee of the Debtors, an affiliate of the Debtors participating in a joint Plan with the Debtors, or a successor to the Debtors under the Plan and (ii) the appointment to, or continuance in, such office of such individual, is consistent with the interests of Creditors and Equity Interest Holders and with public policy; and

   b. the identity of any insider that will be employed or retained by the Reorganized Debtors, and the nature of any compensation for such insider.

6. Any governmental regulatory commission with jurisdiction, after confirmation of the Plan, over the rates of the Debtors have approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval.

7. With respect to each Impaired Class of Claims or Equity Interests:

   a. each Holder of a Claim or Equity Interest of such Class (i) has accepted the Plan or (ii) will receive or retain under the Plan on account of such Claim or Equity Interest property of a value, as of the Effective Date of the Plan, that is not less than the amount that such Holder would so receive or retain if the Debtors were liquidated under chapter 7 of the Bankruptcy Code on such date; or

   b. if § 1111(b)(2) of the Bankruptcy Code applies to the Claims of such Class, each Holder of a Claim of such Class will receive or retain under the Plan on account of such Claim property of a value, as of the Effective Date of the Plan, that is not less than the value of such Holder's interest in the estate's interest in the property that secures such Claims.

8. With respect to each Class of Claims or Equity Interests, (a) such Class has accepted the Plan or (b) such Class is not Impaired under the Plan.

9. Except to the extent that the Holder of a particular Claim has agreed to a different treatment of such Claim, the Plan provides that:

    a. with respect to a Claim of a kind specified in § 507(a)(2) or 507(a)(3) of the Bankruptcy Code, on the Effective Date of the Plan, the Holder of such Claim will receive on account of such Claim Cash equal to the Allowed amount of such Claim;

    b. with respect to a Class of Claims of a kind specified in § 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of the Bankruptcy Code, each Holder of a Claim of such Class will receive (i) if such Class has accepted the Plan, deferred Cash payments of a value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim, or (ii) if such Class has not accepted the Plan, Cash on the Effective Date of the Plan equal to the Allowed amount of such Claim;

    c. with respect to a Claim of a kind specified in § 507(a)(8) of the Bankruptcy Code, the Holder of such Claim will receive on account of such Claim regular installment payments in Cash (i) of a total value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim, (ii) over a period ending not later than 5 years after the date of the order for relief under § 301, 302, or 303 of the Bankruptcy Code, and (iii) in a manner not less favorable than the most favored nonpriority unsecured Claim provided for by the Plan (other than Cash payments made to a Class of Creditors under § 1122(b) of the Bankruptcy Code); and

    d. with respect to a secured Claim which would otherwise meet the description of an unsecured Claim of a governmental unit under § 507(a)(8) of the Bankruptcy Code, but for the secured status of that Claim, the Holder of that Claim will receive on account of that Claim, Cash payments, in the same manner and over the same period, as prescribed in paragraph 9(c) above.

10. If a Class of Claims is Impaired under the Plan, at least one Class of Claims that is Impaired under the Plan has accepted the Plan, determined without including any acceptance of the Plan by any insider.

11. Confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors under the Plan, unless such liquidation or reorganization is proposed in the Plan.

12. All fees payable under § 1930 of Title 28, as determined by the Court at the hearing on confirmation of the Plan, have been paid, or the Plan provides for the payment of all such fees on the Effective Date of the Plan.

13. The Plan provides for the continuation after its Effective Date of payment of all retiree benefits, as that term is defined in § 1114 of the Bankruptcy Code, at the level established pursuant to subsection (e)(1)(B) or (g) of § 1114 of the Bankruptcy Code, at any time prior to confirmation of the Plan, for the duration of the period the Debtors have obligated themselves to provide such benefits.

14. All transfers of property under the Plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust.

If a sufficient number of Creditors and amounts of Claims in Impaired Classes under the Plan vote to accept the Plan, the Debtors believe that the Plan will satisfy all of the applicable statutory requirements of § 1129(a) of the Bankruptcy Code. As discussed below, however, the Debtors believe it is possible that the Plan may be confirmed instead under the "cramdown" provisions of § 1129(b) of the Bankruptcy Code.

C. Cramdown

Pursuant to § 1129(b) of the Bankruptcy Code, the Bankruptcy Court may confirm the Plan at the request of the Debtors if: (a) all of the requirements of § 1129(a) of the Bankruptcy Code, with the exception of § 1129(a)(8) (set out in paragraph (B)(8) above), are met with respect to the Plan, (b) at least one Class of Claims that is Impaired under the Plan has accepted the Plan (excluding the votes of insiders), and (c) with respect to each Impaired Class that has not accepted the Plan, the Plan does not "discriminate unfairly" and is "fair and equitable."

A Plan does not "discriminate unfairly" within the meaning of the Bankruptcy Code if the classification of Claims under the Plan complies with the Bankruptcy Code and no particular Class will receive more than it is legally entitled to receive for its Claims or Equity Interests.

"Fair and equitable," on the other hand, has a different meaning as applied to Classes of secured Claims, Classes of unsecured Claims, and Classes of Equity Interests, as described below:

With respect to a Class of secured Claims that rejects the Plan, to be "fair and equitable" the Plan must, among other things, provide:

(a) (i) that the Holders of such Claims retain the Liens securing such Claims, whether the property subject to such Liens is retained by the Debtors or transferred to another entity, to the extent of the Allowed amount of such Claims, and (ii) that each Holder of a Claim of such Class receive on account of such Claim deferred Cash payments totaling at least the Allowed amount of such Claim, of a value, as of the Effective Date of the Plan, of at least the value of such Holder's interest in the estate's interest in such property;

(b) for the realization of such Holders of the indubitable equivalent of such Claims; or

(c) for the sale, subject to § 363(k) of the Bankruptcy Code, of any property that is subject to the Liens securing such Claims, free and clear of such Liens, with such Liens to attach to the proceeds of such sale, and the treatment of such Liens on proceeds under (a) or (b) above.

With respect to a Class of unsecured Claims that rejects the Plan, to be "fair and equitable" the Plan must, among other things, provide:

(a) that each Holder of a Claim of such Class receive or retain on account of such Claim property of a value, as of the Effective Date of the Plan, equal to the Allowed amount of such Claim; or

(b) that the Holder of any Claim or Equity Interest that is junior to the Claims of such Class will not receive or retain under the Plan on account of such junior Claim or Equity Interest any property.

With respect to a Class of Equity Interests that rejects the Plan, to be "fair and equitable" the Plan must, among other things, provide:

(a) that each Holder of an Equity Interest of such Class receive or retain on account of such Equity Interest property of a value, as of the Effective Date of the Plan, equal to the greatest of the Allowed amount of any fixed liquidation preference to which such Holder is entitled, any fixed redemption price to which such Holder is entitled, or the value of such Equity Interest; or

(b) that the Holder of any Equity Interest that is junior to the Equity Interests of such Class will not receive or retain under the Plan on account of such junior Equity Interest any property.

In the event that at least one Impaired Class of Claims under the Plan accepts the Plan, the Debtors request that the Bankruptcy Court confirm the Plan in accordance with the cramdown provisions of § 1129(b) of the Bankruptcy Code. The Debtors believe that all of the requirements of § 1129(a) of the Bankruptcy Code (with the possible exception of § 1129(a)(8)) will be satisfied, that at least one Class of Impaired Claims will accept the Plan (excluding the votes of insiders), and that the Plan does not unfairly discriminate against and is fair and equitable in relation to each of the Classes that may vote to reject the Plan.

V.
HISTORICAL AND BACKGROUND INFORMATION

A. The Debtors and Their 70-Year History

Lack's is a Texas corporation with its corporate headquarters located in Victoria, Texas. As of the Petition Date, Lack's was one of the largest independently-owned retail furniture chains in the United States. Lack's operated under the trade names "Lack's" and "Lack's Home Furnishings" and sold a complete line of furnishings for the home, including furniture, bedding, major appliances, and home electronics.

The nucleus of the company was formed on February 28, 1938 by David and Rebecca Lack, when they opened a small auto supply store in Beeville, Texas. Because of the chronic shortage of cars and new auto parts during World War II, the company diversified into furniture in an attempt to maintain sales volume. Furniture did well and became a growing segment of Lack's total business.

In 1952, by which time the company had expanded to five retail stores, Lack's made a commitment to become a furniture and appliance chain. It continued to carry auto supplies, tires, and other hardware items at all locations, but the merchandising emphasis switched to home furnishings. The original automotive and hardware merchandise was eventually phased out in the 1970's.

As of the Petition Date, Lack's was a family-owned business that operated thirty-six (36) retail home furnishing stores in twenty-six (26) Texas cities.[6] The stores were supported by a 380,000 square foot state-of-the-art distribution center in Schertz, Texas, several cross-docking central delivery facilities, and a service center. According to surveys by Furniture/Today, an industry newspaper, Lack's sales volume placed it among the top furniture retailers in the country. In 2007, Lack's was named Retailer of the Year by the National Home Furnishings Association.

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[6] Lack's retail stores were located in Abilene, Alice, Austin (3), Bay City, Beeville, College Station, Corpus Christi (2), Del Rio, El Campo, Killeen, Longview, Lubbock (2), Lufkin, Midland, New Braunfels, Odessa, Port Lavaca, Portland, San Angelo, San Antonio (5), Sinton, Temple, Tyler, Uvalde, Victoria (2), and Waco.

As of the Petition Date, Lack Properties, a wholly-owned subsidiary of Lack's, was the owner of certain real property and improvements associated with approximately fourteen (14) store and warehouse locations it leased to Lack's.[7] Lack's leased its remaining store locations from third party lessors, including lessors that are affiliated with various members of the Lack family. A number of Proofs of Claim have been filed by lessors affiliated with various members of the Lack family asserting rejection damages claims.[8]

Starting at its inception, Lack's financed a significant portion of its customers' purchases through the underwriting of "in store" financing. Indeed, over the last several years, Lack's financed approximately 70% of all of its customer sales. The book amount of Lack's Customer Notes portfolio as of the Petition Date was approximately $133,742,000. As of the Petition Date, there were in excess of 75,000 Customer Notes, with the average balance of each note being approximately $1,700, and the average remaining term of each note being 18-24 months.

Lack's continues to service the Customer Notes portfolio with in-house employees. Lack's has historically collected approximately 95% of the balance of the Customer Notes. Since the Petition Date, Lack's collections of Customer Notes have exceeded forecasted collections. As of the Petition Date, the gross amount of the outstanding Customer Notes portfolio balance was $133.74 million, and as of November 25, 2011, it stood at approximately $39.06 million.

Lack's revenue was primarily derived from the sale of home furnishings and the interest earned from financing Customer Notes. From February 1, 2010 (the beginning of Lack's fiscal year) through the Petition Date, Lack's generated revenue of more than $122,000,000 and had operating profit of more than $1,000,000.

As of the Petition Date, Lack's employed approximately 886 persons, including numerous employees at the locations where Lack's operated its retail stores.

B. Secured Credit Facility

Lack's is the borrower under that certain Second Amended and Restated Loan and Security Agreement dated as of July 10, 2007 (as amended from time to time, the "Senior Credit Agreement") among Lack's, The CIT Group / Business Credit, Inc., as agent (in such capacity, the "Agent"), and the

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[7] Merchandise Acceptance and Lack's Furniture are also wholly-owned subsidiaries of Lack's, each of which own limited or no assets and have no operations.

[8] The following Lack family-affiliated entities hold unsecured lease rejection Claims against the Estates: (1) The Group Family Limited Partnership, Proof of Claim no. 322, and the Debtors estimate the Claim at $879,792; (2) Lack Brothers Ltd., Proof of Claim nos. 310, 472, and 499, and a scheduled amount, and the Debtors estimate the Claim at $145,015; (3) Lack Family Partners, Ltd, Proof of Claim no. 311, 470, and 490 and a scheduled amount, and the Debtors estimate the Claim at $181,541; (4) Mac Rents, LP, Proof of Claim no. 299 and scheduled amounts, and the Debtors estimate the Claim at $837,186; (5) Navarro Central, Inc., Proof of Claim nos. 312, 469, and 488 and scheduled amounts, and the Debtors estimate the Claim at $237,536; (6) Plantation Holdings, LP, Proof of Claim nos. 309, 473, and 500 and scheduled amounts, and the Debtors estimate the Claim at $9,888.25; and (7) Triple M Partnership, Proof of Claim nos. 304, 471, and 491 and scheduled amounts, and the Debtors estimate the Claim at $109,982. Two Lack family-affiliated entities also hold Claims relating to rejected equipment leases: Blue Parrot Investments, Inc. asserts an unsecured lease rejection Claim of $83,608 in Proof of Claim nos. 313 and 489, and Banana Split Investments assets an unsecured lease rejection Claim of $71,449 in Proof of Claim nos. 307 and 468. The Claims of Lack family-affiliated entities will be independently reviewed by the Committee or Oversight Committee, as appropriate.

other lenders from time to time party thereto (together with the Agent, the "Senior Lenders").[9] Lack's relationship with many of the Senior Lenders under the Senior Credit Agreement (or prior versions thereof) dates back to 1999. The Senior Credit Agreement, with a stated maturity date of October 31, 2010,[10] was a revolving credit facility. From 1999 through the maturity date, Lack's had never been in monetary default under the operative credit documents.

As of the Petition Date, the aggregate principal amount of the advances outstanding under the Senior Credit Agreement was approximately $86,600,000, which was reduced from $105,000,000 since January of 2009. Lack's obligations under the Senior Credit Agreement are guaranteed by Merchandise Acceptance, Lack's Furniture, Lack Properties, and, to a limited extent, by Melvin Lack. The Senior Lenders allege that the obligations under the Senior Credit Agreement are secured by a lien on substantially all of the Debtors' assets, excluding certain real estate. The Senior Lenders do not, however, have dominion over all of the Debtors' bank accounts.

From the Petition Date through October 31, 2011, the Debtors have made payments to the Senior Lenders totaling approximately $69,170,500.

In addition to Liens held by the Senior Lenders, certain of the properties owned by Lack Properties and leased to Lack's are or were subject to mortgages held by third party lenders, including stores in Bay City, Abilene, Wichita Falls, and Longview, as well as warehouse/distribution centers in Schertz and San Antonio.

C. Trade Creditors

Prior to closing their stores, in the ordinary course of business, the Debtors purchased merchandise from an assortment of vendors including furniture, bedding, home electronics, and appliance manufacturers. The Debtors estimate that, as of the Petition Date, the general unsecured claims held by trade vendors against their respective estates totaled approximately $12,000,000. The Debtors' three largest vendors as of the Petition Date[11] account for approximately 60% of the amounts payable to trade creditors.

D. Events Leading to the Chapter 11 Cases

As a result of the economic slowdown, consumer demand in general – and the demand for home furnishings in particular – decreased sharply starting in the second half of 2008. The decreased demand caused an approximately 20% decrease in Lack's revenues starting at the end of its 2008 fiscal year. Notwithstanding this decrease, Lack's was able to reduce expenses and reach a monthly breakeven position by February 2009. Revenue and profitability continued to improve during 2010.

At the same time, the national economic slowdown resulted in an unprecedented tightening of credit markets. The Senior Lenders stated that they would not refinance or restructure the obligations under the Senior Credit Agreement on terms that would allow the Debtors to continue their operations. The Debtors were unable to identify an alternative financing source for their business operations.

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[9] The current Senior Lenders include The CIT Group / Business Credit, Inc.; U.S. Bank National Association; PNC Bank, National Association; Capital One Leverage Finance Corp.; and JPMorgan Chase Bank, N.A.

[10] By agreement, the maturity date was subsequently extended through and including November 12, 2010.

[11] Comprised of Sealy Mattress Company, Lane Furniture Industries, and Brownchild Ltd. Inc.

Without an alternative funding source, Lack's was unable to finance the purchase of new inventory or underwrite additional Customer Notes. As a consequence, the Debtors determined that it was appropriate to commence these Cases in order to maximize the value of their assets for the benefit of their Creditors and Equity Interest Holders and to conduct an orderly – as opposed to forced – liquidation, which the Debtors submit will ultimately pay all Creditors holding Allowed Claims in full.

E. Management of the Debtors

Throughout the course of the Cases, the Debtors have been operating as debtors in possession under the Bankruptcy Code, meaning that the Debtors have continued to operate under the guidance and control of their officers, with the added assistance of Huron Consulting Group, Inc., as financial advisor. Melvin Lack – Lack's President and Chief Executive Officer and the President of the remaining Debtors – has been the primary Person in control of the Debtors throughout these Cases.

VI.
SIGNIFICANT EVENTS DURING THE BANKRUPTCY CASES

During the course of the Cases, various pleadings have been Filed with the Bankruptcy Court, and many hearings have been conducted. The following is a description of the most significant events that have transpired during the pendency of the Cases, to the extent not discussed elsewhere in this Disclosure Statement. For a comprehensive listing of the pleadings that have been Filed in the Cases, the docket for the Cases should be reviewed, and relevant pleadings referenced therein may be obtained from the Clerk's Office of the Bankruptcy Court, via the online PACER system or at the website of the Debtors' claims agent, Kurtzman Carson Consultants, at www.kccllc.net/lacks.

A. Employment of Professionals

a. Debtors' Counsel

On November 19, 2010, the Debtors Filed their *Application for Order Authorizing the Employment and Retention of Vinson & Elkins LLP as Counsel for the Debtors* [Docket No. 44] as its bankruptcy counsel effective as of the Petition Date, which application was approved by the Bankruptcy Court by its order entered on December 15, 2010 [Docket No. 183].

b. The Debtors' Other Professionals

On November 19, 2010, the Debtors Filed their *Application for Order Authorizing the Employment and Retention of Huron Consulting Group, Inc. as Financial Advisors for the Debtors* [Docket No. 45] effective as of the Petition Date, which application was approved by Bankruptcy Court order entered on December 15, 2010 [Docket No. 182].

On November 19, 2010, the Debtors Filed their *Application for Authorization to Employ and Retain Kurtzman Carson Consultants LLC as Notice, Claims, and Balloting Agent* [Docket No. 46], which application was approved by Bankruptcy Court order entered on December 15, 2010 [Docket No. 181].

On December 17, 2010, the Debtors Filed their *Expedited Motion for Authority to Retain and Compensate Professionals Used in the Ordinary Course of Business* [Docket No. 187], which application was granted by Bankruptcy Court order entered on January 12, 2011 [Docket No. 368].

B. Unsecured Creditors Committee

On November 30, 2010, the Office of the Untied States Trustee (the "U.S. Trustee") appointed an official committee of unsecured creditors (the "Committee") in these Cases [Docket No. 96]. The Committee held its formation meeting on December 2, 2010.

The members of the Committee as of October 3, 2011 are:

Sealy Mattress Company
Attn: Mike Murray
One Office Parkway at Sealy Dr.
Trinity, North Carolina 27370

Ryder Integrated Logistics, Inc.
Attn: Mike Mandel
11690 NW 105th Street
Miami, Florida 33178

Furniture Brands International
Attn: Jeff Schnurbusch
1 North Brentwood Blvd.
St. Louis, Missouri 63105

Najarian Furniture Co., Inc.
Attn: George Najarian
17560 E. Rowland Street
City of Industry, California 91748

On December 29, 2010, the Committee Filed its *Application of the Official Committee of Unsecured Creditors for Order Authorizing the Employment and Retention of Platzer, Swergold, et al., as Counsel* [Docket No. 224], which application was granted by Bankruptcy Court order entered on January 19, 2011 [Docket No. 439].

On December 29, 2010, the Committee Filed its *Application of the Official Committee of Unsecured Creditors for Order Authorizing the Employment and Retention of Strong Pipkin Bissell & Ledyard, L.L.P. as Local Counsel* [Docket No. 228], which application was granted by Bankruptcy Court order entered on January 19, 2011 [Docket No. 440].

On December 29, 2010, the Committee Filed its *Application of the Official Committee of Unsecured Creditors for Order Authorizing the Retention and Employment of Conway MacKenzie, Inc. as Financial Advisors for the Official Committee of Unsecured Creditors, Nunc Pro Tunc to December 9, 2010* [Docket No. 229], which application was granted by Bankruptcy Court order entered on January 19, 2011 [Docket No. 441].

C. Administration of the Estates and Financing of Operations

1. Cash Management System and Maintenance of Accounts

On the Petition Date, the Debtors Filed their *Emergency Motion for Interim and Final Orders Approving (I) Maintenance of Certain Prepetition Bank Accounts and Cash Management System and (II) Continued Use of Existing Checks and Business Forms* [Docket No. 8], seeking authority to utilize existing bank accounts cash management systems. The Bankruptcy Court granted this request by three interim orders on November 17, 2010 [Docket No. 26], December 1, 2010 [Docket No. 104], and December 15, 2010 [Docket No. 176], and by final order dated January 26, 2011 [Docket No. 527].

2. Employee Motions

On the Petition Date, the Debtors Filed their *Emergency Motion for Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, and Commissions to Employees and (B) Pay Prepetition Benefits and to Continue Specified Benefit Programs in the Ordinary Course, and (II) Directing Banks to Honor Prepetition Checks for Payment of Prepetition Employee Obligations* [Docket No. 9], seeking authority to pay pre-petition wages and authority, but not direction, to continue specified benefit programs in the ordinary course. The Bankruptcy Court granted this request by its interim and final orders entered on November 18, 2010 [Docket No. 36] and December 7, 2010 [Docket No. 147], respectively.

On December 20, 2010, the Debtors Filed their *Debtors' Expedited Motion Pursuant to 11 U.S.C. §§ 105(a), 363(b), 1107(a), and 1108 for Authority to Pay Bonus Amounts in the Ordinary Course of Business* [Docket 201], which was subsequently amended by the Debtors' *Amended Expedited Motion Pursuant to 11 U.S.C. §§ 105(a), 363(b), 1107(a), and 1108 for Authority to Pay Bonus Amounts in the Ordinary Course of Business* [Docket No. 235] Filed on December 31, 2010, seeking authority, but not the obligation, to make payments, in its discretion and in the exercise of their business judgment, pursuant to certain prepetition employee bonus plans and agreements. The Bankruptcy Court granted this request by its order entered on January 12, 2011 [Docket No. 369].

3. **Taxes**

On the Petition Date, the Debtors Filed their *Emergency Motion for Order Authorizing Payment of Prepetition Taxes* [Docket No. 13] seeking authority to pay all prepetition taxes. The Bankruptcy Court granted this request by its interim order entered on November 18, 2010 [Docket No. 38] and, with the exception of franchise taxes, granted it by final order dated December 1, 2010 [Docket No. 106].

On June 15, 2011, the Debtors Filed their *Expedited Motion for Nunc Pro Tunc Authority to Pay Franchise Taxes* [Docket No. 1019]. The Bankruptcy Court granted this request by its order entered on June 29, 2011 [Docket No. 1089].

4. **Utilities**

On the Petition Date, the Debtors Filed their *Emergency Motion for Interim and Final Orders Providing Adequate Assurance of Utility Payments* [Docket No. 11] seeking an order of the Bankruptcy Court prohibiting utility companies from altering, refusing, or discontinuing services to the Debtors on account of prepetition invoices and authorizing the Debtors to furnish utilities with adequate assurance of payment for postpetition services, including the payment of all prepetition amounts owed to such utilities. The Bankruptcy Court granted this request by interim order dated November 18, 2010 [Docket No. 37] and final order dated December 1, 2010 [Docket No. 105].

5. **Customer Deposits**

On the Petition Date, the Debtors Filed their *Emergency Motion for Authority to Refund Customer Deposits on Special Order Goods or Honor Special Orders and Back Orders* [Docket No. 19] seeking authority to refund customer payments in Lack's possession for back ordered or special ordered merchandise or to honor prior purchases and apply those payments. The Bankruptcy Court approved that request by order dated December 1, 2010 [Docket No. 107].

6. **In-House Warranties, Gift Cards, and Remission of Customer Payments for Insurance and Warranties**

On November 19, 2010, the Debtors Filed their *Motion for Authority to (A) Honor In-House Warranties; (B) Honor Gift Cards; and (C) Remit Customer Payments for Insurance Premiums and Third*

Party Warranties [Docket No. 50], seeking authority to honor their obligations under their in-house warranty plan, to replenish certain deposit accounts as required under state law, to honor gift cards in the ordinary course of business, and to remit payments previously collected by customers for certain insurance regarding customer financings and warranty payments relating to third party warranty services. The Bankruptcy Court granted that request by final order dated December 15, 2010 [Docket No. 179]. On December 29, 2010, the Texas Department of Licensing and Regulation (the "TDLR") Filed a motion requesting that the Bankruptcy Court reconsider that order to ensure that the Debtors are in compliance with state law [Docket No. 223] (the "Reconsideration Motion"). The Debtors and TDLR resolved the Reconsideration Motion with an agreed order, which the Bankruptcy Court incorporated into its *Amended Order Authorizing Debtors to (A) Honor In-House Warranties; (B) Honor Gift Cards; and (C) Remit Customer Payments for Insurance Premiums and Third-Party Warranties* [Docket No. 782].

7. **Authorization to Use Cash Collateral and Grant Adequate Protection**

On the Petition Date, the Debtors Filed their *Emergency Motion for Interim and Final Orders Approving Use of Cash Collateral and Grant of Adequate Protection* [Docket No. 10] (the "Cash Collateral Motion"), seeking authority of the Bankruptcy Court to use cash collateral of the Senior Lenders in accordance with certain terms and a budget set forth therein. The Court approved the Cash Collateral Motion by six interim orders dated November 22, 2010 [Docket No. 62], December 15, 2010 [Docket No. 185], February 16, 2011 [Docket No. 649], March 9, 2011 [Docket No. 778], June 7, 2011 [Docket No. 1008], and September 28, 2011 [Docket No. 1237]. On September 16, 2011, the Debtors filed their *First Amended Motion for Final Order Approving Use of Cash Collateral and Grant of Adequate Protection* [Docket No. 1226], and that motion is set for hearing on November 2, 2011. On November 4, 2011, the Bankruptcy Court entered a seventh interim cash collateral order [Docket No. 1315], which authorizes the Debtors' use of cash collateral through February 1, 2012.

D. Dispositions of Assets of the Debtors' Estates

1. **Store Closing Sales**

On the Petition Date, the Debtors Filed their *Emergency (I) Motion for Authority to (A) Conduct Store Closing Sales and (B) Assume Consulting Agreement and (II) Application for Order Authorizing Retention of a Joint Venture Comprised of Hilco Merchant Resources, LLC and SB Capital Group, LLC as Consultant to the Debtors* [Docket No. 12] in which the Debtors requested that the Bankruptcy Court approve Store Closing Sales at the Debtors' stores to be conducted by a joint venture between Hilco Merchant Resources, LLC and SB Capital Group, LLC. The Bankruptcy Court approved that relief by an interim order dated November 17, 2010 [Docket No. 34] and a final order dated December 15, 2010 [Docket No. 184]. The Store Closing Sales lasted approximately eight (8) weeks and concluded, ahead of the Debtors' originally projected schedule, on or about January 16, 2011 with the closing of all of Lack's remaining retail locations. Cash and credit card sales during the Store Closing Sales totaled approximately $34,654,000, greatly exceeding projected receipts by approximately $12,214,000, and the cumulative gross margin on such sales was approximately 28%.

2. **Customer Notes**

Since the Petition Date, the Debtors have continued to collect the Customer Notes in the ordinary course of business. Collections for the fifty (54) week period ended on November 25, 2011 totaled approximately $75,337,000, placing the Debtors approximately $13,493,000 ahead of cumulative projections.

3. **Lease Rejections**

On November 19, 2010, the Debtors Filed their *Motion for Order Approving Procedures for Rejecting Unexpired Leases of Nonresidential Real Property* [Docket No. 49] in which the Debtors requested that the Bankruptcy Court approve certain procedures for rejecting nonresidential real property leases in lieu of having to seek separate authority each time the Debtors intended to reject such a lease. The Bankruptcy Court approved that request by order dated December 15, 2010 [Docket No. 177]. To date, the Debtors have rejected all nonresidential real property leases that have either not been otherwise terminated, assumed, sold, and/or assigned.

4. **New or Amended Leases**

Lack's entered into a new lease in San Antonio for office space for regional Customer Notes collections staff, and the Debtors filed a motion seeking approval thereof [Docket No. 555], which was approved by the Bankruptcy Court on February 14, 2011 [Docket No. 639].

Lack's entered into an amended lease for the Debtors' headquarters in Victoria, Texas, which provides for a shorter term and reduced square footage and rent, and the Debtors filed a motion seeking approval of the amendment and assumption of that lease, as amended, in order to provide office space for the Debtors' management and accounting personnel and for regional Customer Notes collections staff as well as storage space for repossessed furniture relating to ongoing collections efforts [Docket No. 684], which the Bankruptcy Court approved by Order dated March 9, 2011 [Docket No. 779].

Lack's filed its *Expedited Motion Requesting Authority for Lack Properties, Inc. to Enter into Lease with Alpha Furniture, LLC (Relates to Fee Owned Store No. 142 Wichita Falls, Texas)* [Docket No. 961] (the "Alpha Lease Motion"), which requested Bankruptcy Court approval of a five-year lease with Alpha Furniture d/b/a the Home Store relating to real estate owned by Lack Properties in Wichita Falls, Texas in order to increase the value of the property such that its value could be maximized when sold. The Alpha Lease Motion was approved by Bankruptcy Court order dated May 18, 2011 [Docket No. 990].

Lack's also entered into several short-term leases pursuant to the Court's order [Docket No. 1128] authorizing the Debtors to enter into short-term leases for the Halloween season with respect to certain properties owned by Lack Properties, in order to bring in additional rents on properties not otherwise being used by the Debtors. The Debtors continued to market the properties subject to such short-term leases during the terms of those leases.

5. **DJM Realty Services, LLC**

On November 29, 2010, the Debtors Filed their *Application Pursuant to 11 U.S.C. §§ 327(a) and 328(a) for Authority to Employ and Retain DJM Realty Services, LLC as Real Estate Consultant and Advisor* [Docket No. 88], as amended [Docket No. 204], which application was approved by the Bankruptcy Court by its order dated December 22, 2010 [Docket No. 215].

6. **Assumptions and Sales of Leases**

On December 31, 2010, the Debtors Filed their *Expedited Motion to Approve Procedures and Bid Protections for the Sales and Assignments of Real Property Leases Free and Clear of Liens, Claims, Encumbrances, and Other Interests (Real Property Leases)* [Docket No. 233] (the "Sale Procedures (Leased Real Property)") requesting Bankruptcy Court approval of the procedures set forth therein for assumption and sale by auction of Lack's leasehold interests, which request was approved by the Bankruptcy Court by its order dated January 12, 2011 [Docket No. 364]. In accordance with the Sale

Procedures (Leased Real Property), the Debtors, working with DJM, have assumed and sold the following leases as of [September 23, 2011]:

- Store # 134, 2004 E. 42nd Street, Odessa, TX 79762 (*Notice of Sale Procedures, Auction Date, and Hearing* Filed on January 18, 2011 [Docket No. 430], approved by Bankruptcy Court order dated January 31, 2011 [Docket No. 559]);
- Store # 140, 3111 Cuthbert, Midland, TX 79701 (*Notice of Sale Procedures, Auction Date, and Hearing* Filed on January 18, 2011 [Docket No. 431], approved by Bankruptcy Court order dated January 31, 2011 [Docket No. 560]);
- Store # 116, 3901 S. Padre Island Dr., Corpus Christi, TX 78415 (*Notice of Sale Procedures, Auction Date, and Hearing* Filed on January 18, 2011 [Docket No. 429], approved by Bankruptcy Court order dated February 1, 2011 [Docket No. 561]);
- Store # 125, 8611 Perrin Beitel Road, San Antonio, TX 78217 (*Notice of Sale Hearing* Filed February 9, 2011 [Docket No. 595], approved by Bankruptcy Court order dated March 2, 2011 [Docket No. 734]);
- Store # 114, 60 Lack Lane, Clute, Texas 77531 (*Notice of Sale Hearing* Filed March 7, 2011 [Docket No. 764], approved by Bankruptcy Court order dated March 16, 2011 [Docket No. 802]; and
- Store # 120, 2600 S.W. Military Drive, San Antonio, TX 78224 (*Notice of Sale Hearing* Filed February 9, 2011 [Docket No. 594], as amended [Docket No. 719], approved by Bankruptcy Court order dated April 6, 2011 [Docket No. 911]).

7. **Sales of Real Property**

On December 31, 2010, the Debtors Filed their *Expedited Motion to Approve Procedures and Bid Protections for the Sales of Real Property Free and Clear of Liens, Claims, Encumbrances, and Other Interests (Owned Real Property)* [Docket No. 234] (the "Sale Procedures (Owned Real Property)") requesting Bankruptcy Court approval of the procedures set forth therein for the sale by auction of Lack Properties' real estate interests, which request was approved by the Bankruptcy Court by its order dated January 12, 2011 [Docket No. 365]. In accordance with the Sale Procedures (Owned Real Property), the Debtors, working with DJM, have Filed notices of sale with respect to the following real property as of December 6, 2011:

- Store # 108, 1818 East Main, Alice, TX 78332 (*Notice of Sale Procedures, Auction Date, and Sale Hearings* Filed February 8, 2011 [Docket No. 589], approved by Bankruptcy Court order dated March 2, 2011 [Docket No. 735]);
- Store # 115, 2020 West Anderson Lane, Austin, TX 78757 (*Notice of Sale Procedures, Auction Date, and Sale Hearings* Filed February 8, 2011 [Docket No. 590], approved by Bankruptcy Court order dated March 2, 2011 [Docket No. 736]);
- Store # 143, 3110 H.G. Mosley Parkway, Longview, TX 75605 (*Notice of Sale Procedures, Auction Date, and Sale Hearings* Filed February 8, 2011 [Docket No. 591], approved by Bankruptcy Court order dated March 2, 2011 [Docket No. 737]);

- Store # 105, 1019 South Highway 35, Port Lavaca, TX 77979 (*Notice of Sale Procedures, Auction Date, and Sale Hearings* Filed February 28, 2011 [Docket No. 721], approved by Bankruptcy Court order dated March 16, 2011 [Docket No. 804]);

- Store # 106, 5802 North Navarro, Victoria, TX 77904 (*Notice of Sale Procedures, Auction Date, and Sale Hearing* Filed March 17, 2011 [Docket No. 814], approved by Bankruptcy Court order dated April 6, 2011 [Docket No. 912]);

- Store # 131, 1550 Wildcat Drive, Portland, TX 78374 (*Notice of Sale Procedures, Auction Date, and Sale Hearing* Filed March 28, 2011 [Docket No. 876], approved by Bankruptcy Court order dated April 21, 2011 [Docket No. 940]);

- Store # 120, 2600 SW Military Drive, San Antonio, TX 78224 (*Notice of Sale Procedures, Auction Date, and Sale Hearing* Filed May 3, 2011 [Docket No. 962], approved by Bankruptcy Court order dated May 18, 2011 [Docket No. 991]); and

- Store # 141, 6381 Buffalo Gap Road, Abilene, TX 79606 (*Notice of Sale Procedures, Auction Date, and Sale Hearing* Filed August 10, 2011 [Docket No. 1171], approved by Bankruptcy Court order dated August 31, 2011 [Docket No. 1209]).

- Store # 118, 2100 S. 61st at Loop 363, Temple, TX 76504 (*Notice of Sale Procedures, Auction Date, and Sale Hearing* Filed November 16, 2011 [Docket No. 1338], set for auction and hearing on December 7, 2011 at 2:30 p.m. prevailing Central Time at the United States Courthouse, Courtroom of the Honorable Jeff Bohm, 515 Rusk Avenue, Houston, Texas 77002.

Each of the foregoing sales (except for Store #118 in Temple, Texas, which is set for upcoming hearing) has closed and funded. The Debtors and DJM also continue to market the remaining five (5) properties and anticipate filing further notices of sale with the Bankruptcy Court.

The Debtors also obtained court approval by separate motion to sell Lack Properties' one-half interest in certain real property located in Lubbock, TX adjacent to the Debtors' former store # 137 [Docket No. 1224].

8. **Schertz Auction**

On January 13, 2011, the Debtors Filed their *Expedited Motion to Approve Sale or Abandonment of Miscellaneous Personal Property* [Docket No. 373] (the "Personal Property Sale Motion"), as amended [Docket No. 470], which requested that the Bankruptcy Court approve the sale of certain personal property, including vehicles and various equipment, owned by the Debtors and by entities owned by members of the Lack family, at auction in Schertz, TX on February 17, 2011 (the "Schertz Auction"). In connection with the Personal Property Sale Motion, on January 13, 2011, the Debtors also Filed their *Expedited Application to Employ Taylor & Martin, Inc. as Liquidator and Auctioneer* [Docket No. 366], as amended [Docket No. 471], which requested that the Bankruptcy Court approve Taylor and Martin, Inc. ("T&M") to serve as auctioneers at the Schertz Auction. On January 26, 2011, 2011 the Bankruptcy Court approved the Personal Property Sale Motion [Docket No. 528] and the employment of T&M [Docket No. 529]. Accordingly, the Debtors held the Schertz Auction on February 17, 2011. The Schertz Auction was a success. The Schertz Auction yielded $950,055 in gross proceeds for Lack's, and, after deductions of $38,002.20 for T&M's commission and $206.52 for expenses, Lack's netted $911,846.28 from the Schertz Auction [Docket No. 993].

9. **Personal Property Leases and Executory Contracts**

On February 15, 2011, the Debtors filed their *Omnibus Motion for Entry of an Order Authorizing Rejection of Certain Executory Contracts and Personal Property Leases* [Docket No. 643], requesting authority to reject service contracts and personal property leases relating to the Debtors' closed stores, which the Bankruptcy Court approved by order dated March 9, 2011 [Docket No. 780].

On April 14, 2011, the Debtors filed their *Second Omnibus Motion for Entry of an Order Authorizing Rejection of Certain Executory Contracts and Personal Property Leases* [Docket No. 928], requesting authority to reject additional service contracts and personal property leases relating to the Debtors' closed stores, which was approved by Bankruptcy Court order dated May 18, 2011 [Docket No. 983].

10. **Sales of Miscellaneous Assets**

On May 2, 2011, the Debtors filed their *Motion to Sell Miscellaneous Assets of the Estate Free and Clear of Liens, Claims, and Encumbrances* [Docket No. 958] (the "Miscellaneous Asset Motion") requesting authority to sell assets with a sale price of $12,000 or less (on a per item basis), which do not fall under previously-approved sale procedures, such as approximately $4,000 in publicly-traded stock, extraneous business assets such as office furniture and computer monitors, vehicles currently used in support of collections efforts that will subsequently become unnecessary, and furniture that is repossessed from non-paying customers. The Miscellaneous Asset Motion was approved by Bankruptcy Court order dated May 18, 2011 [Docket No. 989]. To date, the Debtors have filed five sale reports with the Bankruptcy Court with respect to miscellaneous asset sales in June, July, August, September, and October 2011 [Docket Nos. 1104, 1123, 1223, 1252, and 1324 respectively]. The Debtors have received a total of approximately $164,665 in proceeds from such sales to date.

11. **Sale of Delinquent Customer Notes**

On May 2, 2011, the Debtors filed their *Expedited Motion to Sell Certain Delinquent Accounts in the Ordinary Course of Business* [Docket No. 957] seeking Court authority to sell certain delinquent Customer Notes that meet defined parameters and are considered "bad debt" or uncollectible, in accordance with its prepetition ordinary and customary industry practice. The motion was approved by Bankruptcy Court order dated May 18, 2011 [Docket No. 988]. In accordance with the order approving the motion, the Debtors have sold, and will continue to sell, certain delinquent accounts in the ordinary course of business, in consultation with the Committee.

12. **Monthly Operating Reports**

The Debtors have filed monthly operating reports with the Bankruptcy Court for the months of November 2010 through September 2011 [Lack's Docket Nos. 860, 1015, 1016, 1169, 1170, 1229, 1291, 1314, 1334, 1335, and 1354, respectively].[12] The Debtors are finalizing the remaining reports through the current date and will file with the Bankruptcy Court as they are finalized.

E. Bar Dates

1. **General Claims and Equity Interests**

On December 15, 2010, the Bankruptcy Court entered its *Order Establishing General Bar Date* [Docket No. 178] setting February 18, 2011 as the last date by which non-governmental entities could

[12] The Debtors have also filed corresponding Monthly Operating Reports in each of the Debtors' Cases.

timely File proofs of Claims or proofs of Equity Interests in the Cases (the "Bar Date"). The Bar Date order was served on Creditors as evidenced by the certificates of service dated December 18, 2010 [Docket Nos. 189 and 205]. In addition, the Notice of Commencement [Docket No. 261], setting forth the Bar Date, accompanied by a proof of claim form, was served on Creditors on December 17, 2010 [Docket No. 252], on December 22, 2010 [Docket No. 253], on January 5, 2011 [Docket No. 345], on January 10, 2011 [Docket No. 489], on January 18, 2011 [Docket No. 490], and on January 4, 2011 [694]. Pursuant to Local Bankruptcy Rule 3003-1, the bar date for governmental entities to File Proofs of Claims was May 15, 2011, which was 180 days after the order for relief in the Cases was entered.

2. 503(b)(9) Claims

On February 16, 2011, the Debtors (after working with the Committee and 503(b)(9) claimants) filed their *Expedited Motion for Entry of an Order Establishing Procedures for Assertion and Resolution of Claims Pursuant to 11 U.S.C. § 503(b)(9)* [Docket No. 654] (the "503(b)(9) Procedures Motion"), which requested that the Bankruptcy Court approve the procedures set forth therein with respect to the assertion of any Claims under Bankruptcy Code § 503(b)(9) ("503(b)(9) Claims") and set a bar date for filing such claims. On March 16, 2011, the Court approved the procedures set forth in the 503(b)(9) Procedures Motion, with certain modifications negotiated by the Debtors, the 503(b)(9) claimants, and the Committee, and set April 15, 2011 as the 503(b)(9) Bar Date [Docket No. 803]. To date, the Debtors have filed stipulations with the Bankruptcy Court with respect to the resolution of all of the 503(b)(9) Claims [Docket Nos. 930, 955, 965, 1106, 1178].

F. Claim Objections

On April 21, 2011, the Debtors filed their *Motion Pursuant to Bankruptcy Local Rule 3007-1(f) to Pursue Omnibus Objections to Claims* [Docket No. 938]. The Bankruptcy Court granted this request by its order entered on May 18, 2011 [Docket No. 986]. Pursuant to the omnibus rejection procedures established by that order, the Debtors have filed four omnibus claims objections to date. On July 14, 2011, the Debtors filed their *First Omnibus Objection to Claims That Have Been Satisfied or Released* [Docket No. 1113]. The Bankruptcy Court sustained that objection by its order dated August 17, 2011 [Docket No. 1187]. Also on July 14, 2011, the Debtors filed their *Second Omnibus Objection to Late Filed Claims* [Docket No. 1114]. The Bankruptcy Court sustained that objection by its order dated August 17, 2011 [Docket No. 1188]. On October 14, 2011, the Debtors filed their *Third Omnibus Objection to Claims That are Inconsistent with the Debtors' Books and Records* [Docket No. 1261]. The Bankruptcy Court sustained that objection by its order dated November 30, 2011 [Docket No. 1363]. Also on October 14, 2011, the Debtors filed their *Fourth Omnibus Objection to Duplicative Claims and/or Amended Claims* [Docket No. 1262]. The Bankruptcy Court sustained that objection by its order dated November 30, 2011 [Docket No. 1365]. The Debtors continue to review Claims and will file additional objections as appropriate.

G. Compromises and Settlements

1. City Bank of Lubbock

On March 14, 2011, the Debtors filed their *Expedited Motion to Approve Settlement and Release Agreement Between the Debtors and City Bank Pursuant to Fed. R. Bankr. P. 9019* [Docket No. 796] (the "City Bank Settlement"). The City Bank Settlement was approved by Bankruptcy Court order dated March 30, 2011 [Docket No. 886]. As part of the City Bank Settlement, the Debtors have paid $925,000 and have conveyed all of their right, title, and interest in their warehouses in Schertz, Texas and San Antonio, Texas to City Bank of Lubbock in exchange for the release of any and all claims or causes of action pursuant to that certain Settlement and Release Agreement dated March 14, 2011. The City Bank

Settlement completely resolved the second largest claim (approximately $23.7 million) asserted in the Cases.

2. **LG Interiors, LLC**

On March 4, 2011, the Debtors filed their *Motion to Approve Settlement Agreement by and Among Lack's Stores, Incorporated, LG Interiors, LLC, and Steven Wayland* [Docket No. 757], which was approved by Bankruptcy Court order dated March 30, 2011 [Docket No. 883] (the "LG Settlement"). The LG Settlement consisted of a release of claims among the parties relating to undelivered furniture shipments and resulted in a refund of approximately $69,921 to Lack's.

3. **1st Source Parts Center**

On February 16, 2011, the Debtors filed their *Expedited Motion to Approve Compromise By and Between Lack's Stores, Incorporated and 1st Source Parts Center* [Docket No. 655], which was approved by Bankruptcy Court order dated March 9 [Docket No. 776] ("1st Source Compromise"). The 1st Source Compromise authorized the transfer of unneeded repair parts to 1st Source in satisfaction of its general unsecured claim in the scheduled amount of approximately $12,956 and the release of any and all claims of 1st Source against the Debtors.

H. Personal Injury Claimants' Motions to Lift Stay

To date, five motions have been filed in the Debtors' Cases by various personal injury claimants allegedly involved in certain automobile incidents requesting relief from the automatic stay to pursue personal injury claims against the Debtors with any and all recoveries to which they may be entitled to be limited to funds available for indemnity of the Debtors and other named defendants in the litigation, to the full extent of available and unimpaired primary and excess insurance policy limits [Docket Nos. 491, 978, 1196, 1216, and 1274 respectively]. The Bankruptcy Court granted the limited relief in each of these motions by agreed orders, which were previously approved by the Committee [Docket Nos. 657, 1085, 1221, 1233, and 1377 respectively].

I. Schedules and Statements of Financial Affairs

In accordance with Bankruptcy Court order dated November 17, 2010 [Docket No. 25], the Debtors' Schedules of Assets and Liabilities and Statements of Financial Affairs (collectively, the "Schedules and Statements") were timely filed with the Court on December 31, 2010.[13] Lack's filed its First Amendments to Statement of Financial Affairs on February 18, 2011 [Docket Nos. 669, 670] and filed its First Amendments to Schedules on July 28, 2011 [Docket No. 1134].

[13] Lack's Schedules and Statements may be found at Docket Nos. 238-248, Case No. 10-60149. Lack Properties' Schedules and Statements may be found at Docket Nos. 8-18, Case No. 10-60150. Lack Furniture's Schedules and Statements may be found at Docket Nos. 8-19, Case No. 10-60151. Merchandise Acceptance's Schedules and Statements may be found at Docket Nos. 8-18, Case No. 10-60152.

VII.
SUMMARY OF THE CLAIMS, CLASSIFICATION, AND TREATMENT UNDER THE PLAN

A. Introduction

A summary of the principal provisions of the Plan relating to the treatment of Classes of Claims and Equity Interests is set out herein. The summary is qualified in its entirety by the Plan itself, which is controlling in the event of any conflict. Additionally, the estimated amount of allowable Claims in the various Classes are estimates only and are not intended to be exact determinations. While the Debtors have made every effort to reasonably estimate such amounts, there is no guarantee that such estimates are accurate. Moreover, none of the descriptions herein below in relation to such estimates shall constitute an admission on the part of the Debtors as to the validity of any Disputed Claims. Any Claim that is not Allowed by an Order of the Bankruptcy Court or pursuant to a settlement approved by an Order of the Bankruptcy Court may be Disallowed or reduced in amount if an objection has been, or is timely hereafter, Filed and sustained by the Bankruptcy Court.

B. Classification of Claims and Equity Interests

The Plan provides for the division of Claims against and Equity Interests in each of the Debtors (except Administrative Claims) into Classes. A Claim is classified within a particular Class only to the extent that the Claim qualifies under the description of that Class. A Proof of Claim asserting a Claim that is properly includable in more than one Class is only entitled to inclusion within a particular Class to the extent that it qualifies under the description of such Class and shall be included within a different Class(es) to the extent that it qualifies under the description of such different Class(es). The Plan classifies Claims and Equity Interests as follows:

1. Classes of Claims Against and Equity Interests in the Debtors

The Claims against and Equity Interests in the Debtors are classified as follows:

Class	Class Description	Status	Voting Rights
Class 1	Allowed Ad Valorem Tax Claims	Unimpaired	Not Entitled to Vote
Class 2	Allowed Priority Claims	Unimpaired	Not Entitled to Vote
Class 3	Allowed Other Secured Claims	Unimpaired	Not Entitled to Vote
Class 4	Allowed First Victoria Claim	Impaired	Entitled to Vote
Class 5	Allowed Prosperity Bank Claim	Impaired	Entitled to Vote
Class 6	Allowed Thrivent Financial for Lutherans Claim	Impaired	Entitled to Vote
Class 7	Allowed Senior Lender Secured Claim	Impaired	Entitled to Vote
Class 8	Allowed General Unsecured Claims	Impaired	Entitled to Vote
Class 9	Allowed Convenience Claims	Unimpaired	Not Entitled to Vote
Class 10	Allowed Preferred Equity Interests	Unimpaired	Not Entitled to Vote
Class 11	Allowed Common Equity Interests	Unimpaired	Not Entitled to Vote
Class 12	Allowed Subsidiary Debtor Equity Interests	Unimpaired	Not Entitled to Vote

The Plan contemplates and is predicated upon the consolidation of the Estates of Lack's, Lack Properties, Lack's Furniture Centers, and Merchandise Acceptance only for purposes of voting on the Plan and making Distributions to Holders of Claims under the Plan. On the Effective Date, (i) all assets

and liabilities of the Debtors will, for voting and Distribution purposes only, be merged or treated as if they were merged, (ii) each Claim against the Debtors will be deemed a single Claim against and a single obligation of the Debtors, (iii) all Intercompany Claims by, between, and among the Debtors will be eliminated, and (iv) any obligation of the Debtors and all guaranties thereof by one or more of the other Debtors will be deemed to be one obligation of all of the Debtors. Except as set forth in Article IV of the Plan, such consolidation shall not (other than for purposes related to the Plan) affect the legal and corporate structures of the Debtors or Reorganized Debtors. The consolidation called for in the Plan shall not affect the obligation of each Debtor or Reorganized Debtor, as applicable, to pay quarterly fees to the Office of the United States Trustee pursuant to 28 U.S.C. § 1930 until the earlier of the time such Debtor's or Reorganized Debtor's Case is closed, dismissed, or converted to a case under chapter 7 of the Bankruptcy Code.

As an alternative to or in addition to Substantive Consolidation, as contemplated by Section 4.01 of the Plan, the Debtors and the Reorganized Debtors, reserve the right to merge, in their sole discretion, any or all of the Reorganized Debtors pursuant to Bankruptcy Code § 1123(a)(5)(C). The Debtors or Reorganized Debtors are authorized to take any and all actions necessary or incidental to the merger of any or all of the Reorganized Debtors without further authorization by the Court.

2. **Classification, Treatment, and Voting Rights of Classified Claims and Equity Interests**

(a) **Class 1 – Allowed Ad Valorem Tax Claims**

(i) Classification. Class 1 consists of all Allowed Ad Valorem Tax Claims against the Debtors.

(ii) Treatment. On the later of the Effective Date, or as soon as reasonably practicable thereafter, or the date such Claim is Allowed, each Holder of an Allowed Ad Valorem Tax Claim shall, at the election of the Reorganized Debtors, (a) receive a Distribution from the Senior Claim Distribution Reserve in the amount of such Holder's Allowed Ad Valorem Tax Claim or (b) receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of such Holder's Allowed Ad Valorem Tax Claim.

(iii) Impairment and Voting. Class 1 is Unimpaired under the Plan. Each Holder of an Allowed Ad Valorem Tax Claim is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(iv) Estimated Amount of Allowed Claims: approximately $0[14]

(b) **Class 2 – Allowed Priority Claims**

(i) Classification. Class 2 consists of all Allowed Priority Claims against the Debtors.

[14] The Debtors have amounts outstanding for certain 2011 ad valorem taxes on real and personal property which the Debtors estimate at approximately $144,000.

(ii) Treatment. On the later of the Effective Date, or as soon as reasonably practicable thereafter, or the date such Claim is Allowed, each Holder of an Allowed Priority Claim shall, at the election of the Reorganized Debtors, (a) receive a Distribution from the Senior Claim Distribution Reserve in the amount of such Holder's Allowed Priority Claim or (b) receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of such Holder's Allowed Priority Claim.

(iii) Impairment and Voting. Class 2 is Unimpaired under the Plan. Each Holder of an Allowed Priority Claim is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(iv) Estimated Amount of Allowed Claims: approximately $82,897

(c) **Class 3 – Allowed Other Secured Claims**

(i) Classification. Class 3 consists of all Allowed Other Secured Claims against the Debtors.

(ii) Treatment. On the later of the Effective Date, or as soon as reasonably practicable thereafter, or the date such Claim is Allowed, each Holder of an Allowed Other Secured Claim shall, at the election of the Reorganized Debtors, (A) receive a Distribution from the Senior Claim Distribution Reserve in the amount of such Holder's Allowed Other Secured Claim, (B) receive title to such Holder's Collateral, (C) be reinstated and paid by the relevant Reorganized Debtor under the terms of the agreement under which the Other Secured Claim arose, provided that the relevant Reorganized Debtor shall cure any arrearages under such agreement on the later of (i) the Effective Date (or as soon as reasonably practicable thereafter) and (ii) five (5) Business Days following the date such Claim is Allowed by Final Order, or (D) receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of such Holder's Allowed Other Secured Claim.

(iii) Impairment and Voting. Class 3 is Unimpaired under the Plan. Each Holder of an Allowed Other Secured Claim is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(iv) Estimated Amount of Allowed Claims: approximately $0

(d) **Class 4 – Allowed First Victoria Claim**

(i) Classification. Class 4 consists of the Allowed First Victoria Claim against the Debtors.

(ii) Treatment. In the event the Debtors have not closed upon the sale of Store # 142 in Wichita Falls, Texas prior to the Effective Date, the Reorganized Debtors shall continue to seek to sell such property after the

Effective Date free and clear of Liens, Claims, and other interests pursuant to Bankruptcy Code § 1123(a)(5)(D). The holder of an Allowed First Victoria Claim against the Reorganized Debtors shall, to the extent such Claim is not otherwise satisfied before the Effective Date, be paid (A) monthly payments in the amount of $3,945.69, to be paid on the first Business Day of each calendar month following the Effective Date until Store # 142 in Wichita Falls, Texas is sold free and clear of any and all Liens, Claims, and other interests and (B) the net proceeds, less applicable closing costs and any other amounts recoverable under Bankruptcy Code § 506(c), from such sale of Store # 142, with such payment not to exceed the unpaid Allowed amount of such Holder's Claim plus capitalized interest, calculated at the non-default contract rate, on such Claim from the Petition Date through the month in which the Effective Date occurs. Alternatively, the Holder of the Allowed First Victoria Claim shall receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of the Holder's Allowed First Victoria Claim.

(iii) Impairment and Voting. Class 4 is Impaired under the Plan. The Holder of the Allowed First Victoria Claim is entitled to vote to accept or reject the Plan.

(iv) Estimated Amount of Allowed Claim: approximately $344,000

(e) **Class 5 – Allowed Prosperity Bank Claim**

(i) Classification. Class 5 consists of the Allowed Prosperity Bank Claim against the Debtors.

(ii) Treatment. In the event the Debtors have not closed upon the sale of Store # 111 in Bay City, Texas prior to the Effective Date, the Reorganized Debtors shall continue to seek to sell such property after the Effective Date free and clear of Liens, Claims, and other interests pursuant to Bankruptcy Code § 1123(a)(5)(D). The holder of an Allowed Prosperity Bank Claim against the Reorganized Debtors shall, to the extent such Claim is not otherwise satisfied before the Effective Date, be paid (A) monthly payments in the amount of $8,245.90, to be paid on the first Business Day of each calendar month following the Effective Date until Store # 111 in Bay City, Texas is sold free and clear of any and all Liens, Claims, and other interests and (B) the net proceeds, less applicable closing costs and any other amounts recoverable under Bankruptcy Code § 506(c), from such sale of Store # 111, with such payment not to exceed the unpaid Allowed amount of such Holder's Claim plus capitalized interest, calculated at the non-default contract rate, on such Claim from the Petition Date through the month in which the Effective Date occurs. Alternatively, the Holder of the Allowed Prosperity Bank Claim shall receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of the Holder's Allowed Prosperity Bank Claim.

(iii) Impairment and Voting. Class 5 is Impaired under the Plan. The Holder of the Allowed Prosperity Bank Claim is entitled to vote to accept or reject the Plan.

(iv) Estimated Amount of Allowed Claim: approximately $213,000

(f) **Class 6 – Allowed Thrivent Financial for Lutherans Claim**

(i) Classification. Class 6 consists of the Allowed Thrivent Financial for Lutherans Claim.

(ii) Treatment. The Holder of an Allowed Thrivent Financial for Lutherans Claim against the Reorganized Debtors shall, to the extent such Claim is not otherwise satisfied before the Effective Date, be paid the net proceeds, less applicable closing costs and any other amounts recoverable under Bankruptcy Code § 506(c), from the sale, free and clear of any Liens, Claims, and other interests, of Store # 141 in Abilene, Texas, with such payment not to exceed the Allowed amount of such Holder's Claim plus interest, calculated at the non-default contract rate, on such Claim from the Petition Date through the Effective Date. Alternatively, the Holder of the Allowed Thrivent Financial for Lutherans Claim shall receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of the Holder's Allowed Thrivent Financial for Lutherans Claim.

(iii) Impairment and Voting. Class 6 is Impaired under the Plan. The Holder of the Allowed Thrivent Financial for Lutherans Claim is entitled to vote to accept or reject the Plan.

(iv) Estimated Amount of Allowed Claim: approximately $1,214,000

(v) *The Debtors do not believe that the Thrivent Financial for Lutherans Claim is Impaired; however, the Debtors have changed the classification of that Claim in order to address Thrivent's objection to the Disclosure Statement [Docket No. 1352]. See attached **Exhibit E**, Additional Disclosures – Thrivent Financial for Lutherans for additional disclosures regarding the Thrivent Financial for Lutherans Claim.*

(g) **Class 7 – Allowed Senior Lender Secured Claim**

(i) Classification. Class 7 consists of the Allowed Senior Lender Secured Claim against the Debtors.

(ii) Treatment. The Senior Lender Secured Claim is Disputed. Prior to the Confirmation Date, the Debtors will seek authorization from the Bankruptcy Court to retain special counsel to and will file an objection or otherwise seek a determination from the Bankruptcy Court of the Allowed Amount, if any, of the Senior Lender Secured Claim, including a determination under Bankruptcy Code § 506(b) of the allowable amount of interest (if any) on such Claim and the allowable amount of

any reasonable fees, costs, or charges related to such Claim (if any) under the Senior Lender Credit Agreement. Additionally, such objection or determination will include any and all Causes of Action that the Estates may hold against the Agent and/or the Senior Lenders, including, but not limited to, any Causes of Action under Bankruptcy Code § 506(c). The unpaid amount of the Allowed Senior Lender Secured Claim as of the Effective Date shall (subject to funding of the Senior Claim Distribution Reserve and Expense Reserve) (a) (i) continue to be secured by all Liens that secured such Claims as of the Petition Date; (ii) accrue interest at a rate equal to 7.25% per annum or such lesser rate as may be determined by the Bankruptcy Court at the Confirmation Hearing; and (iii) be satisfied by Distributions from the General Account consisting of monthly payments on the third Business Day of each calendar month following the Effective Date, in an amount equal to 85% of the funds on deposit in the General Account (after deducting any transfers of funds required by Sections 9.03(c) and 9.04(b) of this Plan) on the last Business Day of the immediately preceding calendar month, and such payments shall continue to be made until the Allowed Senior Lender Secured Claim is paid in full or (b) receive such other less favorable treatment agreed upon in writing by the Senior Lenders and the Reorganized Debtors. From and after the Effective Date, all payments made on account of the Allowed Senior Lender Secured Claim under this Plan will first be applied to accrued but unpaid interest and then to outstanding principal. This treatment will be in exchange for and in full satisfaction and discharge of the Allowed Senior Lender Secured Claim.

(iii) Impairment and Voting. Class 7 is Impaired under the Plan. Each Holder of an Allowed Senior Lender Secured Claim is entitled to vote to accept or reject the Plan.

(iv) Estimated Amount of Allowed Claims: TBD

(h) **Class 8 – Allowed General Unsecured Claims**

(i) Classification. Class 8 consists of all Allowed General Unsecured Claims[15] against the Debtors.

(ii) Treatment.

(A) If a Holder of an Allowed Claim in Class 8 makes the Discounted Early Payment Election, such Claim shall be paid its Discounted Early Payment Election Payment from the Senior Claim Distribution Reserve, with such payments to be made on the later of the Effective Date or as soon as reasonably practicable thereafter or the date such Claim is Allowed. This treatment will be in exchange for and in full satisfaction and discharge of the Allowed Claims subject to the Discounted Early Payment Election.

[15] The Committee or Oversight Committee, as appropriate, will independently review General Unsecured Claims filed by Lack family-affiliated entities.

(B) Each Holder of an Allowed General Unsecured Claim that does not make the Discounted Early Payment Election shall (a) receive (i) its Pro Rata share of Distributions from the General Account after payment in full of Claims in Classes 1 through 7, as and at the time provided under Section 8.01 of the Plan, in the amount of such Holder's Allowed General Unsecured Claim until such Claim has been paid in full and (ii) if such Claim is paid in full, its Pro Rata share of Distributions from the General Account in the amount of interest that accrued since the Petition Date on such Claim, calculated at the federal judgment rate or (b) receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Reorganized Debtors. This treatment shall be in exchange for and in full satisfaction and discharge of such Holder's Allowed General Unsecured Claim.

(iii) Impairment and Voting. Class 8 is Impaired under the Plan. Each Holder of an Allowed General Unsecured Claim is entitled to vote to accept or reject the Plan.

(iv) Estimated Amount of Allowed Claims: approximately $16,930,000

(i) **Class 9 – Allowed Convenience Claims**

(i) Classification. Class 9 consists of all Allowed Convenience Claims against the Debtors.

(ii) Treatment. On the Effective Date, each Holder of an Allowed Convenience Claim shall be entitled to receive a one-time Cash payment in the amount of such Holder's Claim (as reduced, if applicable, pursuant to an election made by such Holder on its Ballot to reduce its optional Convenience Claim to $5,000 and to accept treatment in Class 9). Other than the Cash payment set forth above, Holders of Class 9 Claims (including those electing Class 9 treatment on their respective Ballots) shall not receive any other Distributions on account of such Allowed Class 9 Claims. This treatment shall be in exchange for and in full satisfaction and discharge of such Holder's Allowed Convenience Claim.

(iii) Impairment and Voting. Class 9 is Unimpaired under the Plan. Each Holder of an Allowed Convenience Claim is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(iv) Estimated Amount of Allowed Claims: approximately $324,000

(j) **Class 10 – Allowed Preferred Equity Interests**

(i) Classification. Class 10 consists of all Allowed Preferred Equity Interests in Lack's.

(ii) Treatment. The Holders of Preferred Equity Interests in Class 10 shall retain such Preferred Equity Interests. Only after payment of all Allowed Claims, in full, as provided in the Plan, shall the Holders of Preferred

Equity Interests be entitled to any Distributions on account of such Preferred Equity Interests. So long as the Reorganized Debtors do not elect to continue in business after payment in full of all Allowed Claims as contemplated by Section 6.05 of the Plan, in accordance with the Debtors' articles of incorporation, a Holder of a Preferred Equity Interest shall receive its Pro Rata share of Distributions from the General Account in the amount of the value of such Holder's Preferred Equity Interests, not to exceed $20.00 per share plus the amount of unpaid current dividends thereon, without interest.

(iii) Impairment and Voting. Class 10 is Unimpaired under the Plan. Each Holder of an Allowed Preferred Equity Interest is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(k) **Class 11 – Allowed Common Equity Interests**

(i) Classification. Class 11 consists of all Allowed Common Equity Interests in Lack's.

(ii) Treatment. The Holders of Common Equity Interests in Class 11 shall retain such Common Equity Interests. Only after payment of Class 10 Preferred Equity Interests in full, as provided in the Plan, shall the Holders of Common Equity Interests be entitled to any Distributions on account of such Common Equity Interests. If so entitled, in accordance with Lack's articles of incorporation, a Holder of a Common Equity Interest shall receive its Pro Rata share of Distributions from the General Account.

(iii) Impairment and Voting. Class 11 is Unimpaired under the Plan. Each Holder of an Allowed Common Equity Interest is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

(l) **Class 12 – Allowed Subsidiary Debtor Equity Interests**

(i) Classification. Class 12 consists of all Allowed Subsidiary Debtor Equity Interests in the Debtors.

(ii) Treatment. On the Effective Date, all Allowed Subsidiary Debtor Equity Interests shall be retained and reinstated and shall vest in Reorganized Lack's, except to the extent that the Reorganized Debtors have been merged in accordance with Section 4.02 of the Plan.

(iii) Impairment and Voting. Class 12 is Unimpaired under the Plan. Each Holder of an Allowed Subsidiary Debtor Equity Interest is conclusively presumed to have accepted the Plan and is not entitled to vote on the Plan.

C. Treatment of Unclassified Claims Under the Plan

1. Treatment of Allowed Administrative Claims

Except as otherwise provided in the Plan, the Holder of an Allowed Administrative Claim, in full satisfaction and discharge of, and in exchange for such Claim, shall (a) be paid by the Reorganized Debtors from the Senior Claim Distribution Reserve such Holder's Allowed Claim in one Cash payment on the later of (i) the Effective Date (or as soon as reasonably practicable thereafter) or (ii) ten (10) Business Days following the date such Claim is Allowed by Final Order or (b) receive such other less favorable treatment as may be agreed upon in writing by such Holder and the Debtors or Reorganized Debtors. Notwithstanding the foregoing, any Administrative Claim based upon liability incurred by the Debtors in the ordinary course of business during the Cases shall be paid by the Debtors or the Reorganized Debtors as Administrative Claims in the ordinary course of business, in accordance with the terms and conditions of any agreement related thereto or upon such other terms as may be agreed upon between the Holder of such Claim and the Debtors or the Reorganized Debtors, without application by or on behalf of such parties to the Bankruptcy Court, and without notice and a hearing, unless specifically required by the Bankruptcy Court.

2. **General Administrative Claims**

Each Holder of an Administrative Claim (other than Administrative Claims paid in the ordinary course of business pursuant to Section 2.01 of the Plan, 503(b)(9) Claims, or Claims for U.S. Trustee fees) shall File with the Bankruptcy Court, and serve upon all parties required to receive notice, an application for allowance of such Administrative Claim on or before the Post-Confirmation Bar Date. The failure to timely File such an application will result in such Administrative Claim being forever barred and discharged. An Administrative Claim with respect to which such an application has been properly and timely filed pursuant to Section 2.02 of the Plan shall be treated and paid as an Administrative Claim only to the extent Allowed by Final Order (which may be the Confirmation Order).

The estimated total amount of Allowed 503(b)(9) Claims is approximately $2,928,790.

3. **Administrative Claims Asserted Under Bankruptcy Code § 503(b)(9)**

Each Holder of an Administrative Claim asserted under Bankruptcy Code § 503(b)(9) must file any asserted 503(b)(9) Claims in accordance with the 503(b)(9) Procedures by the 503(b)(9) Bar Date. The failure to timely File 503(b)(9) Claims by the 503(b)(9) Bar Date will result in such 503(b)(9) Claims being forever barred and discharged.

4. **Professional Fee Claims**

Each Professional whose retention with respect to the Debtors' Cases has been approved by the Bankruptcy Court and who holds or asserts an Administrative Claim that is a Professional Fee Claim shall File with the Bankruptcy Court, and serve on all parties required to receive notice, a final Fee Application on or before the Post-Confirmation Bar Date. The failure to timely File the Fee Application shall result in the Professional Fee Claim being forever barred and discharged. A Professional Fee Claim with respect to which a Fee Application has been properly and timely Filed pursuant to Section 2.04 of the Plan shall be treated and paid as an Administrative Claim only to the extent allowed by Final Order. No Professional Fee Claim shall be allowed on account of any services rendered by a Professional whose retention with respect to the Cases has not been approved by the Bankruptcy Court.

5. **U.S. Trustee Fees**

All unpaid U.S. Trustee Fees shall be paid by the Reorganized Debtors from the Senior Claim Distribution Reserve, in Cash and in full on the Effective Date, and as soon as reasonably practicable after such fees become due, thereafter.

VIII.
MEANS FOR IMPLEMENTATION OF THE PLAN

A. Conditions Precedent to the Effective Date

The following events are conditions precedent to the occurrence of the Effective Date, each of which must be satisfied:

(a) the Confirmation Order, in a form and substance reasonably acceptable to the Debtors, shall have been entered by the Bankruptcy Court and shall not be subject to any stay; and

(b) all other documents required to be included in the Plan Supplement, each in form and substance reasonably acceptable to the Debtors, shall have been executed and delivered by the parties thereto, and all conditions to their effectiveness shall have been satisfied or waived.

B. Vesting of the Vested Assets

On the Effective Date, all property and assets of each Debtor's Estate, including the Customer Notes and Real Property Interests, shall re-vest in the applicable Reorganized Debtor. Thereafter, the Reorganized Debtors may operate their businesses and may use, acquire, and dispose of property free of any restrictions or requirements in the Bankruptcy Code, in the Bankruptcy Rules, or of the Bankruptcy Court. As of the Effective Date, all property of the Reorganized Debtors shall be free of all Liens, Claims, and other interests except as otherwise provided in the Plan or in the Confirmation Order. After the Effective Date, the Reorganized Debtors may present such proposed order(s) or assignment(s) to the Bankruptcy Court, suitable for filing in the records of every county or governmental agency where the Reorganized Debtors' assets are or were located, which provide that such property is conveyed to and vested in the respective Reorganized Debtor. The Order(s) or assignment(s) may designate all Liens, Claims, or other interests that appear of record and/or from which the property is being transferred and assigned. The Plan shall be conclusively deemed to be adequate notice that such Lien, Claim, or other interest is being extinguished, and no notice, other than by the Plan, shall be given prior to the presentation of such Order(s) or assignment(s). Except as otherwise provided in the Plan, any Person having a Lien, Claim, or other interest against any Estate's assets shall be conclusively deemed to have consented to the vesting of such assets in the applicable Reorganized Debtor free and clear of such Lien, Claim, or other interest by failing to object to confirmation of the Plan.

C. Termination of Directors of the Debtor

Effective as of the Effective Date, all of the directors of the Debtors shall be deemed terminated. On the Effective Date, Melvin Lack shall be appointed as the sole director of each of the Reorganized Debtors.

D. Amendment of Debtor's Certificates and Agreements

On the Effective Date, the Reorganized Debtors' articles of incorporation and bylaws (as applicable) shall be amended and filed (both only as required) with the appropriate secretary of state's office on the Effective Date or as soon thereafter as is reasonably practicable. All necessary action will be taken to prohibit the issuance of non-voting equity securities of the Reorganized Debtors to the extent required by Bankruptcy Code § 1123. Copies of the proposed form of the amendments to the Reorganized Debtors' articles of incorporation and bylaws (as applicable) shall be included in the Plan Supplement.

E. Continuation of Business

From and after the Effective Date, the Reorganized Debtors shall continue their prepetition business of collecting the outstanding Customer Notes in the ordinary course of business until, in the exercise of the Reorganized Debtors' sole business judgment, collection of the remaining Customer Notes is no longer economically practical, at which time the Reorganized Debtors reserve the right to sell the remaining Customer Notes. After all Distributions to Creditors contemplated by the Plan have been made, the Reorganized Debtors further reserve the right, in their sole discretion, to transact any or all lawful business for which a corporation may be incorporated under the Texas Business Corporation Act.

F. Disposition of Assets

From and after the Effective Date and in accordance with Bankruptcy Code § 1123(a)(5)(D), the Reorganized Debtors are authorized to sell (free and clear of any Liens, Claims, or other interests) or otherwise dispose of any and all property and remaining assets of the Reorganized Debtors, including Real Property Interests, that have not been sold or otherwise disposed of during the Cases, to the extent necessary to pay Claims of Creditors pursuant to the Plan.

G. Authority

All actions and transactions contemplated under the Plan shall be authorized upon Confirmation of the Plan without the need of further approvals, notices, or meetings of the Debtors' directors or officers, other than the notice provided by serving (1) a Notice of Unimpaired Status and Scheduling of Confirmation Hearing, as approved by the Bankruptcy Court, upon Unimpaired Creditors and Equity Interest Holders and (2) a copy of the Plan on all known Holders of Impaired Claims against the Debtors' Estates. Specifically, all amendments to the articles of incorporation and/or bylaws of the Debtors, as applicable, and all other corporate action on behalf of the Debtors or the Reorganized Debtors as may be necessary to put into effect or carry out the terms and intent of the Plan may be effected, exercised, and taken without further action by the Debtors' directors or officers as if effected, exercised, and taken by unanimous action of the directors or officers of the Debtors or the Reorganized Debtors (as applicable). The Confirmation Order shall include provisions dispensing with the need for further approvals, notices, or meetings of the Debtors or Holders of Equity Interests and authorizing any director or officer of each respective Debtor to execute any document, certificate, or agreement necessary to effectuate the Plan on behalf of such Debtor, and such documents, certificates, and agreements shall be binding on the Debtors, the Reorganized Debtors, and all Holders of Claims or Equity Interests.

H. Dissolution of Committee and Creation of Oversight Committee.

1. **Dissolution and Creation**. The Committee shall continue with all of its rights, powers, and authority vested by the Bankruptcy Code through the Effective Date. On the Effective Date, the Committee shall be dissolved, and the Oversight Committee shall then be deemed created and established.

2. **Procedures and Rules**. Notwithstanding any other procedures, bylaws, or other governing rules that may have been enacted by the Committee prior to the Effective Date, after the Effective Date, the Oversight Committee shall function under the following rules:

   a. Any member of the Oversight Committee may act by proxy.

   b. The Oversight Committee shall prescribe in its own rules of procedures, subject, however, to the following requirements:

(i) All action by the Oversight Committee shall be upon the affirmative vote of a majority of the members of the Oversight Committee voting, either personally or by proxy;

(ii) Presence of a majority of the members by conference call shall constitute a quorum;

(iii) Authorization for or approval of any action may be evidenced by either the written or oral consent of a majority of the members of the Oversight Committee;

(iv) Meetings of the Oversight Committee shall be conducted in person or by conference call;

(v) Upon complete consummation of all of the payments under the Plan, the Oversight Committee shall dissolve without further order of the Bankruptcy Court;

(vi) In the event of the death or the resignation of any member of the Oversight Committee, the remaining members of the Oversight Committee shall have the right to designate a successor from among the Holders of Allowed Unsecured Claims; and

(vii) If an Oversight Committee member assigns its Claim or releases the Reorganized Debtors from payment of the balance of its Claim, such act shall constitute a resignation from the Oversight Committee. Until a vacancy on the Oversight Committee is filled, the Oversight Committee shall function in its reduced number. In the event of the death or resignation of the chairperson of the Oversight Committee, his or her successor shall be elected by the remaining members of the Oversight Committee.

c. The Oversight Committee may adopt its own bylaws; provided that such bylaws are not inconsistent with the Plan.

3. **Retention of Counsel**. The Oversight Committee may retain counsel and other professionals, as it deems necessary. It is anticipated that the counsel for the Committee will serve as counsel for the Oversight Committee. Any professional retained on behalf of the Oversight Committee may perform services at the request of the Reorganized Debtors or the Oversight Committee. Any potential conflict of interest arising from such work shall be deemed waived.

4. **Limited Liability**. Neither the Oversight Committee nor any of its members, agents, advisors, or professionals shall be liable for the post-petition act, default, or misconduct of any other members of the Oversight Committee. Neither the Oversight Committee nor any of their members, agents, advisors, or professionals shall incur or be under any liability or obligation by reason of any post-petition act done or omitted to be done except for willful misconduct or gross negligence.

5. **Authority**. The Reorganized Debtors shall consult with the Oversight Committee on such matters as may be required by the Plan. The Reorganized Debtors shall keep the Oversight Committee reasonably apprised regarding the administration of the Plan including the status of the collection of the Customer Notes or the sale of the Real Property Interests. To the extent that an action to be taken by the Reorganized Debtors is

outside the ordinary course of the Reorganized Debtors business as contemplated by the Plan or is inconsistent with the Reorganized Debtors' financial projections, and is in an amount in excess of $50,000, the Debtors will advise the Oversight Committee prior to undertaking such course of action or conduct. The Oversight Committee shall be considered a party in interest with standing to be heard, if necessary, before the Bankruptcy Court or any other court of competent jurisdiction.

6. **Oversight Committee Members**. The initial members of the Oversight Committee shall be designated by the Committee in the Plan Supplement.

The Oversight Committee shall make decisions on matters that fall under its authority by majority vote, except as such matters directly or indirectly pertain to litigation against one of its members. In the case of such litigation, the affected member shall not be eligible to vote on the relevant matter, and unanimous action by the other two members shall be required.

7. **Reporting**. The Reorganized Debtors shall submit similar financial reports to the Oversight Committee as were provided to the Committee prior to the occurrence of the Effective Date or such other financial information as may be reasonably requested by the Oversight Committee. The Reorganized Debtors shall also report and provide information to the Oversight Committee, at the request of any member of the Oversight Committee, on any matter that reasonably relates to the administration under the Plan; provided, however, the Reorganized Debtors shall not be obligated to provide any report or information that would in any way infringe on attorney-client privilege. In furtherance of the foregoing, the Reorganized Debtors shall conduct a status call with the Oversight Committee on not less than a monthly basis in order to apprise the Oversight Committee on the status of Plan administration. The Oversight Committee may consult with the Reorganized Debtor's financial advisors upon notice to the Reorganized Debtors.

8. **Fees and Expenses**. The Reorganized Debtors shall, upon request, reimburse each member of the Oversight Committee for its reasonable out-of-pocket expenses as well as for any reasonable professional fees and expenses incurred by the Oversight Committee from the Expense Reserve. The fees and expenses of such professionals shall be paid within the ordinary course of business, within ten (10) Business Days after submission of a detailed invoice therefore to the Reorganized Debtors. Undisputed fees and expenses of such professionals shall be paid without any further approval of the Bankruptcy Court required; however, if the Reorganized Debtors dispute the reasonableness of any such invoice, the Reorganized Debtors shall timely pay the undisputed portion of such invoice, and the Reorganized Debtors or the affected professional may submit such dispute to the Bankruptcy Court for a determination of the reasonableness of such invoice. In furtherance of the foregoing, the aggregate amount of out-of-pocket expenses and professional fees or costs for the members of the Oversight Committee and its professionals shall be budgeted by the Reorganized Debtors in the amount of $15,000 per month (the "Budgeted Amount"). Any portion of the Budgeted Amount not expended during any particular month shall be carried over and increase the subsequent months' budgeted amounts.

I. Plan Administration

1. Plan Administration. As of the Effective Date, the Reorganized Debtors shall retain and have all the rights, powers, and duties necessary to carry out their responsibilities under the Plan and as may be otherwise provided in the Confirmation Order.

2. Retention of Professionals. The Reorganized Debtors shall have the right to retain the services of attorneys, accountants, and other professionals that, in their sole discretion, are necessary to assist them in the performance of their duties with respect to the Plan. The reasonable fees and expenses of such professionals shall be paid from the Expense Reserve upon the monthly submission of statements to the Reorganized Debtors. The payment of the reasonable fees and expenses of the Reorganized Debtors' retained professionals shall be made in the ordinary course of business from the Expense Reserve and shall not be subject to the approval of the Bankruptcy Court. Former employees of the Debtors and Professionals of, among others, the Debtors and the Committee shall be eligible for retention by the Reorganized Debtors.

3. Director Compensation. The Director's compensation, on a post-Effective Date basis, shall be $120,000 per year, paid for his work as President of the Reorganized Debtors, with no additional compensation for his role as sole Director, which is commensurate with the compensation he received prior to the Petition Date. The payment of the fees of the Director and any professionals retained by the Reorganized Debtors shall be made from the Expense Reserve in the ordinary course of business and shall not be subject to Bankruptcy Court approval.[16]

4. Reorganized Debtors' Expenses. All costs, expenses, and obligations incurred by the Reorganized Debtors in administering the Plan, in any manner connected, incidental, or relating to such administration, or in effecting Distributions from the Reorganized Debtors thereunder (including the reimbursement of reasonable expenses) shall be a charge against the collective property of the Reorganized Debtors. Such expenses shall be paid in the ordinary course from the Expense Reserve as they are incurred without the need for Bankruptcy Court approval.

J. Available Assets

1. Debtors' Assets Available for Distribution: The following is a summary description of material assets of the Debtors available for distribution to Holders of Allowed Claims and Equity Interests in accordance with the provisions of the Plan. The Debtors have made every effort to include all material assets in this listing, and any omissions are wholly unintentional. All amounts are based on book values as of October 31, 2011 unless otherwise noted.

   a. Cash on hand: approximately $16.92 million as of November 25, 2011 (Cash on hand includes approximately $1.5 million in proceeds from the sale of the sale Store #141 in Abilene, TX, which are subject to a Lien by Thrivent Financial for Lutherans. Cash on hand also includes approximately $1.3 million held in a segregated account pursuant to Texas Department of Licensing requirements.)

[16] Although she will not be a Director, the Reorganized Debtors will also continue to employ Jane S. Lack post-Effective Date in the positions of Vice President and Secretary-Treasurer with annual compensation of $117,000.

b. Customer Notes: (gross amount) approximately $39.06 million as of November 25 (This total amount of Customer Notes will be reduced by sales tax, bad debt write-offs, and certain potential interest rebates.)

c. Other accounts receivable: approximately $2.05 million (Other accounts receivable includes approximately $1.6 million insurance proceeds receivable from Wright Titus, approximately $350,000 in credit card processing holdbacks from Visa/Mastercard and American Express, and approximately $64,000 in utility deposits.)

d. Outstanding prepaid amounts: approximately $589,000 (Outstanding prepaid amounts include approximately $360,000 of prepaid property and casualty insurance, approximately $160,000 deposited with the Texas Department of Licensing and Regulation, and approximately $60,000 in prepaid service contracts)

e. Life Insurance cash surrender value: approximately $780,000

As set forth in Lack's Schedules and Statements, Lack's is the owner of two key man life insurance policies insuring the lives of Melvin and Janey Lack and Jay and Barbara Lack, respectively. The coverage limit of those policies is approximately $4.2 million each. The current cash surrender value of the policies totals approximately $780,000.

f. Life Insurance Trust Receivable: approximately $4.1 million.

As set forth in Lack's Schedules and Statements, Lack's is also entitled to reimbursement of certain amounts relating to a number of split-dollar life insurance policies, which insure the lives of Melvin and Janey Lack and Jay and Barbara Lack, and which are owned by certain non-debtor insurance trusts, Melvin Lack, individually, or Jay Lack, individually. With respect to each split-dollar life insurance policy, Lack's is owed a receivable based upon premiums paid on those policies prepetition, in the ordinary course of business, on behalf of the owners of the policies, and such receivables are payable to Lack's either as (1) amounts owed on notes, which become due and payable in April 2017 or later (depending upon the individual note); or (2) amounts that will be paid as the first dollar out of proceeds paid upon death of the insured. The aggregate reimbursement owed to Lack's on account of those policies is approximately $4.1 million.

g. Land and buildings: approximately $6.2 million (based upon the following information)

The Debtors remaining real property consists of Store # 109 in Falfurrias, TX, Store # 111 in Bay City, TX, Store # 118 in Temple, TX, Store # 130 in San Angelo, TX, Store # 133 in Leon Valley, TX, and Store # 142 in Wichita Falls, TX. As previously disclosed in this Disclosure Statement, the approval of the sale of Store # 118 in Temple, TX for $1.2 million is set for hearing on December 7, 2011. Three of the properties are currently either under contract (Store # 142) or the Debtors have received a letter of intent from a potential buyer (Store ## 130, 133). The Debtors anticipate that those three properties will

yield approximately $4.2 million in aggregate proceeds for the Debtors' Estates, based upon the offers the Debtors have received and expected further negotiations subject to any overbids. Closing on the sales may occur within the next 60 to 90 days (subject to Bankruptcy Court approval). The two remaining properties (Store ## 109 and 111) are currently being marketed, and the Debtors estimate aggregate proceeds on those properties of at least $775,000, the estimated gross price for Store #111.

h. Furniture and fixtures: approximately $99,000

i. Trucks and automobiles: approximately $39,000

j. As listed in Lack's Bankruptcy Schedules, Potential claim against City of Schertz and County of Comal for reimbursement of development costs relating to distribution center in Schertz: *unknown value*

k. As listed in Lack's Bankruptcy Schedules, Registered trademarks and other intellectual property: *unknown value*

K. Financial Projections

The Debtors, with the assistance of Huron Consulting Group, Inc., have prepared the financial projections attached hereto as **Exhibit C** (the "Financial Projections"). The Financial Projections cover the Debtors'/Reorganized Debtors' projected operations as of November 1, 2011 and through the period ending December 31, 2013. The Financial Projections have been prepared in good faith based, in part, upon the Debtors' historic collection efforts with respect to the Customer Notes, both before and after the Petition Date. The Financial Projections indicate that the Reorganized Debtors should have sufficient cash flow to make the Distributions required under the Plan on the Effective Date and to otherwise pay Allowed Claims in full. The Debtors caution that no representations or guaranty can be made as to the accuracy of the Financial Projections or as to the Reorganized Debtors' ability to achieve the projected results. Many of the assumptions upon which the Financial Projections are based are subject to uncertainties outside the control of the Debtors. Some assumptions inevitably will not materialize, and events and circumstances occurring after the date on which the Financial Projections were prepared may be different from and may adversely affect the Reorganized Debtors' financial results. THE FINANCIAL PROJECTIONS WERE NOT PREPARED WITH A VIEW TOWARD COMPLIANCE WITH THE GUIDELINES ESTABLISHED BY THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OR THE RULES AND REGULATIONS OF THE SECURITIES AND EXCHANGE COMMISSION REGARDING FINANCIAL PROJECTIONS. FURTHERMORE, THE FINANCIAL PROJECTIONS HAVE NOT BEEN AUDITED BY THE DEBTORS' INDEPENDENT CERTIFIED ACCOUNTANTS. ALTHOUGH PRESENTED WITH NUMERICAL SPECIFICITY, THE FINANCIAL PROJECTIONS ARE BASED UPON A VARIETY OF ASSUMPTIONS, SOME MAY NOT BE REALIZED IN THE FUTURE, AND ARE SUBJECT TO BUSINESS, LITIGATION, AND ECONOMIC UNCERTAINTIES AND CONTINGENCIES, MANY OF WHICH ARE BEYOND THE CONTROL OF THE DEBTORS. CONSEQUENTLY, THE FINANCIAL PROJECTIONS SHOULD NOT BE REGARDED AS A REPRESENTATION, WARRANTY OR GUARANTY BY THE DEBTORS, OR ANY OTHER PERSON, THAT THE FINANCIAL PROJECTIONS WILL BE REALIZED. ACTUAL RESULTS MAY VARY MATERIALLY FROM THE THOSE PRESENTED IN THE FINANCIAL PROJECTIONS.

IX.
LEGAL PROCEEDINGS AFFECTING THE DEBTORS AND ESTATES

This Article of this Disclosure Statement contains a discussion of the specific Causes of Action held by the Estates and which shall be preserved under the Plan for assertion by the Reorganized Debtors.

A. Preservation of Rights of Action; Settlement of Litigation Claims

1. Preservation of Rights of Action. Except as otherwise ordered by the Bankruptcy Court and subject to any releases in the Plan, on the Effective Date, all Causes of Action shall vest in the respective Reorganized Debtors who, in consultation with the Oversight Committee, may waive, enforce, sue on, and, subject to Bankruptcy Court approval (except as otherwise provided in the Plan), settle or compromise (or decline to do any of the foregoing) any or all of the Causes of Action. Except as otherwise ordered by the Bankruptcy Court, the Reorganized Debtors shall be vested with authority and standing to prosecute any Causes of Action.

2. Settlement of Litigation Claims and Disputed Claims. At any time after the Confirmation Date and before the Effective Date, notwithstanding anything in the Plan to the contrary, the Debtors may settle some or all of the Causes of Action and/or the Disputed Claims, subject to obtaining any necessary Bankruptcy Court approval. To the extent they would

be payable to one or more of the Reorganized Debtors, the net proceeds from the settlement of a Cause of Action shall vest in the applicable Reorganized Debtor on the Effective Date in accordance with the Plan.

B. Litigation Pending as of the Petition Date[17]

The following litigation is currently pending as of the Petition Date against one or more Debtors. The status of each is also noted below:

1. *Abelino Garza, Jr., Elizabeth Parks, individually and as personal representative of the estate of Abelino Garza, deceased, and Shirley Gonzales vs. Banana Split Investments, Inc., Lack Family Partners, Ltd., Lack Properties, Inc., Lack Ventures, Inc., Lacks Furniture Centers, Inc., Lacks Stores, Incorporated, and Jose Rogelio Burciaga*, Cause No. 2010-CI-13201. This litigation (the "Garza Litigation") is a personal injury action relating to an auto accident in Hondo, Texas. The Garza Litigation is currently pending in the 224th Judicial District, Bexar County, Texas. On February 15, 2011, the Bankruptcy Court entered an *Agreed Order Granting Limited Relief from the Automatic Stay Under 11 U.S.C. § 362* [Docket No. 644] (the "Garza Order"), which modified the automatic stay to allow plaintiffs named in the Garza Order to proceed against the Debtors in the Garza Litigation and to collect any final judgment, with such recovery limited to funds available for indemnity of the defendants named in the action, to the full extent of available and unimpaired primary and excess insurance policy limits. On September 12, 2011, the Bankruptcy Court entered an *Agreed Order Granting Limited Relief from the Automatic Stay Under 11 U.S.C. § 362* [Docket No. 1221] (the "Rodriguez Order"), which modified the automatic stay to allow Oscar Rodriguez to join the Garza Litigation, proceed to final judgment therein, and to collect upon any final judgment, with such recovery limited to funds available for indemnity of the defendants named in the action, to the full extent of available and unimpaired primary and excess insurance policy limits. On September 26, 2011, the Bankruptcy Court entered an *Agreed Order Granting Stacy Urrutia Limited Relief from the Automatic Stay Under Section 362(d)(1)* [Docket No. 1233] (the "Urrutia Order"), which modified the automatic stay to allow Stacy Urrutia to proceed to final judgment on her claim against the Debtors arising out of the Hondo accident and to collect upon any final judgment, with such recovery limited to funds available for indemnity of the defendants named in the action, to the full extent of available and unimpaired primary and excess insurance policy limits. Rodriguez and Urrutia moved to intervene in the Garza Litigation, and they, as well as certain other plaintiffs under the Garza Order, entered into settlement agreements with the insurer as a result of mediation that occurred on September 30, 2011.

2. *Steven Defau vs. Joshua Bryant and Lack's Stores, Incorporated*, Cause No. 24-985-B. This litigation (the "Defau Litigation") is regarding a personal injury automobile accident in Abilene, Texas. The Defau Litigation is currently pending in the 104th District Court, Taylor County, Texas. On June 28, 2011, the Bankruptcy Court entered an *Agreed Order Granting Steven Defau Limited Relief from the Automatic Stay Under 11 U.S.C. § 362* [Docket No. 1085), which modified the automatic stay to allow Steven Defau to proceed to final judgment in the Defau Litigation, and to collect upon any final judgment, with such recovery limited to funds available for indemnity of the defendants named in the

[17] The Debtors believe this list of pre-petition litigation is all-inclusive, but to the extent any litigation is not listed herein, it shall not be deemed a waiver of any claims or defenses or an acknowledgement or admission that other litigation may exist.

action, to the full extent of available and unimpaired primary and excess insurance policy limits.

3. *Dilia Duckett v. Lack's Stores, Incorporated*, in the County Court at Law No. 7, Bexar County, Texas. This litigation relates to an employment discrimination claim. This litigation is currently pending.

4. *Salvador Vasquez v. Lack's Furniture Center, Inc.*, Case No. 5:10-cv-00600-OLG. This litigation is pending in the District Court for the Western District of Texas.

5. *Doyle W. Cox v. Lacks Home Furnishings*, SC2010-129. This litigation is currently pending in the State of Texas, Williamson County, Precinct Three, Small Claims Court and relates to property damage in the amount of approximately $1,786.

The following litigation was instituted by one or more of the Debtors prepetition and is currently pending as of the Petition Date. The status of each is also noted below:

1. *Lack's Stores, Incorporated v. Bexar County Appraisal District*, 2008-CI-15433, pending in Bexar County, San Antonio, Texas in the 37th Judicial District Court. This litigation relates to property tax assessments. This litigation has been settled, and Lack's is awaiting refunds estimated to be approximately $113,000 (less counsel fees)

2. *Lack's Stores, Incorporated v. Gregg County Appraisal District*, 2007-1969-B, pending in Gregg County, Longview, Texas in the 127th Judicial District Court. This litigation relates to property tax assessments. Lack's lost this property tax assessment challenge, and this litigation is no longer pending.

3. *Lack's Stores, Incorporated v. Wichita County Appraisal District*, 166-964-A, in Wichita County, Wichita Falls, Texas in the 30th Judicial District Court. This litigation relates to property tax assessments. This litigation remains pending.

4. *Lack's Stores, Inc. v. Mary C. Alonzo*, Cause No. 2010-692-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained judgment in this action.

5. *Lack's Stores, Inc. v. Jerode Chavis and Tara Chavis*, Cause No. 2010-144-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained and filed an agreed judgment and forbearance agreement. Lack's sent a demand letter due to non-payment and is filing an abstract of judgment in McLennan County.

6. *Lack's Stores, Inc. v. George Contreras*, Cause No. 2006-45-J1, 2, pending in the Justice Court, Precinct 1, Place 2, McLennan County, Texas. This litigation is a collection action on a Customer Note, which has been dismissed.

7. *Lack's Stores, Inc. v. Diana Diaz*, Cause No. 2010-620-J1, 1, pending in the Justice Court Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained a judgment in this action.

8. *Lack's Stores, Inc. v. Encarnacion Escamilla*, Cause No. 2010-556-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, which is currently pending.

9. *Lack's Stores, Inc. v. John Everett*, Cause No. 2010-68-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained a judgment in this action.

10. *Lack's Stores, Inc. v. Jeffrie Howard*, Cause No. 2010-640-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, which is currently pending. Defendant is now current on account.

11. *Lack's Stores, Inc. v. Cynthia A. Lewis*, Cause No. 2010-691-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, which is currently pending. This matter is being set for trial.

12. *Lack's Stores, Inc. v. Maryann Puente*, Cause No. 2010-619-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained a judgment in this action.

13. *Lack's Stores, Inc. v. Sheila A. Rockett*, Cause No. 2008-1226-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, which has recently been dismissed.

14. *Lack's Stores, Inc. v. Mercedes H. Ruiz*, Cause No. 2010-500-J1, 1, pending in the Justice Court, Precinct 1, Place 1, McLennan County, Texas. This litigation is a collection action on a Customer Note, and Lack's has obtained a judgment in this action.

C. Post-Petition Litigation

Since the Petition Date, the Debtors have instituted various collection actions throughout the state of Texas against customers who are delinquent in payment of Customer Notes.

D. Potential Litigation

In addition to the Causes of Action that have already been asserted by the Estates (discussed in prior sections of this Disclosure Statement), the Estates also hold the following Causes of Action:

1. Avoidance Causes of Action

The Reorganized Debtors, in consultation with the Committee, do not intend to pursue any Causes of Action under Bankruptcy Code §§ 547, 548, and 549. This decision was made in part based upon the estimated return to Holders of Allowed Claims under the Plan.

2. Collection Causes of Action

As of the date hereof, numerous customers were obligated to pay amounts to the Debtors on account of the Debtors' previous furniture sales as evidenced by Customer Notes. These obligations are fixed, liquidated, and non-contingent. To the extent that amounts owing under the relevant Customer Notes to the Debtors are currently past due or may hereafter become past due, the Estates may pursue claims against such parties for collection of the amounts owing. Any claims arising from such past due amounts shall constitute part of the Causes of Action specifically reserved and will vest in the Reorganized Debtors. The Reorganized Debtors shall pursue claims under past due Customer Notes in the ordinary course of business and in a manner that they deem prudent and cost effective.

3. **The Senior Lenders' Claim**

As provided in the Plan, prior to the Confirmation Date, the Debtors will seek authorization from the Bankruptcy Court to retain special counsel to and will file an objection or otherwise seek a determination from the Bankruptcy Court of the Allowed Amount, if any, of the Senior Lender Secured Claim, including a determination under Bankruptcy Code § 506(b) of the allowable amount of interest (if any) on such Claim and the allowable amount of any reasonable fees, costs, or charges related to such Claim (if any) under the Senior Lender Credit Agreement. Additionally, such objection or determination will include any and all Causes of Action that the Estates may hold against the Agent and/or the Senior Lenders, including, but not limited to, any Causes of Action under Bankruptcy Code § 506(c). All such Causes of Action are hereby preserved.

X.
OTHER SIGNIFICANT PLAN PROVISIONS

A. Treatment of Executory Contracts and Unexpired Leases

Except to the extent (a) the Debtors have previously assumed or rejected an executory contract or unexpired lease, (b) prior to the Effective Date, the Bankruptcy Court has entered an Order granting assumption of an executory contract or unexpired lease, (c) at the Confirmation Hearing, the Bankruptcy Court approves the assumption of an executory contract or unexpired lease, or (d) an executory contract or unexpired lease is set forth on **Exhibit A** to the Plan, all of the Debtors' executory contracts and unexpired leases shall be deemed rejected on the Effective Date, pursuant to Bankruptcy Code §§ 365 and 1123. The executory contracts and unexpired leases identified on **Exhibit A** to the Plan, which constitute the Assumed Contracts, shall be assumed by the applicable Debtor and assigned to the applicable Reorganized Debtor pursuant to the Plan.

The Plan shall serve as, and shall be deemed to be, a motion for entry of an order approving the assumption of the Assumed Contracts and the assignment of the Assumed Contracts to the appropriate Reorganized Debtor, both as of the Effective Date. Except as otherwise set by Order of the Bankruptcy Court, any objection to the assumption, vesting of, or the proposed cure amount related to an Assumed Contract (as reflected in **Exhibit A** to the Plan) must be made as an objection to Confirmation of the Plan. If no objection to the assumption, vesting of, or the proposed cure amount under any particular Assumed Contract is Filed and timely served as an objection to Confirmation of the Plan, an Order (which may be the Confirmation Order) that approves the assumption and assignment of, and the proposed cure amount under, each respective Assumed Contract may be entered by the Bankruptcy Court. If any such objections are so Filed and timely served, a hearing with respect to the assumption and assignment or cure of any of the Assumed Contracts, and the objections thereto, shall be scheduled by the Bankruptcy Court, which hearing may, but is not required to, coincide with the Confirmation Hearing.

If the Bankruptcy Court approves the assumption and assignment of one or more Assumed Contracts, such Assumed Contracts shall be assumed by the applicable Debtor and assigned to the applicable Reorganized Debtor effective as of the Effective Date. Any Cure Claims relating to the assumption and assignment of an Assumed Contract and ordered to be paid by the Bankruptcy Court shall be paid by the applicable Reorganized Debtor on or as soon as reasonably practicable after the Effective Date. Such Cure Claims shall be satisfied in full and shall be deemed in final satisfaction of all defaults, including arrearages, under the Assumed Contracts as of the Effective Date. As of the Effective Date, the Reorganized Debtors shall be relieved and discharged from any liability arising on or before the Effective Date under the Assumed Contracts other than the obligation to satisfy Cure Claims.

B. Distributions Under the Plan

Distributions under the Plan will only be made to Creditors holding Allowed Claims and Allowed Equity Interests. "Allowed" is defined under the Plan as (a) with respect to a Claim or any portion thereof: (i) a Claim against one or more of the Debtors, proof of which, if required, was Filed on or before the Bar Date, the 503(b)(9) Bar Date, or, with respect to an Administrative Claim (other than a 503(b)(9) Claim), the Post-Confirmation Bar Date, and which is not a Disputed Claim; (ii) if no Proof of Claim was so Filed, a Claim against one or more of the Debtors that has been or hereafter is listed by one or more of the Debtors in the Bankruptcy Schedules as liquidated in amount and not disputed or contingent and on account of which payment has not been made; (iii) a Claim regarding which the Holder and the Debtors or Reorganized Debtors have agreed in writing is Allowed; or (iv) a Claim Allowed under the Plan or by a Final Order; an Allowed Claim does not include any Claim or portion thereof that is a Disallowed Claim or that has been withdrawn, disallowed, released, or waived by the Holder thereof or pursuant to a Final Order; unless otherwise specifically provided in the Plan or in a Final Order, an Allowed Claim shall not include any amount for punitive or exemplary damages, penalties, fines, post-petition interest, attorney's fees or costs, or other fines or costs; and (b) with respect to an Equity Interest: an Equity Interest that has been or hereafter is listed by a Debtor in its books and records as liquidated in number or amount and not disputed or contingent; provided, however, that to the extent an Equity Interest is a Disputed Equity Interest, the determination of whether such Equity Interest will be Allowed and/or the amount of any such Equity Interest will be determined, resolved, or adjudicated, as the case may be, in the manner in which such Equity Interest would have been determined, resolved, or adjudicated if the Cases had not been commenced; provided, further, that the Reorganized Debtors may, in their discretion, bring an objection or other motion before the Bankruptcy Court with respect to resolution of a Disputed Equity Interest.

1. General Unsecured Claim Distributions

After payment in full of Allowed Claims in Classes 1 through 7, at any time that the Reorganized Debtors determine that sufficient Cash exists in the General Account (after deducting any transfers of funds required by Sections 9.03(c) or 9.04(b) or Article VII of the Plan) to make a Distribution to Holders of Allowed General Unsecured Claims (excluding those Pro Rata portions of Allowed Claims that are subject to the Discounted Early Payment Election, which, in accordance with the Plan, are to be paid from the Senior Claim Distribution Reserve), pursuant to the provisions of the Plan, the Reorganized Debtors shall make any such Distribution Pro Rata to Holders of Allowed General Unsecured Claims; provided, however, that any such Distributions shall be made no more often than the last Business Day of each calendar quarter.

2. Distributions by Agent or Servicer

The Reorganized Debtors shall make all Distributions required under the Plan, except with respect to a Claim whose Distribution is governed by an agreement and is administered by an agent or servicer, which Distributions shall be deposited with the appropriate agent or servicer who shall deliver such Distributions to the Holders of Claims in accordance with the provisions of the Plan.

3. Means of Cash Payment

Cash payments made pursuant to the Plan shall be in U.S. funds, by appropriate means, including by check or wire transfer.

4. Delivery of Distributions

Except as otherwise provided in the Plan, distributions to Holders of Allowed Claims shall be made (a) at the addresses set forth on the Proofs of Claim Filed by such Holders (or at the last known address of such Holders if no Proof of Claim is Filed or if the Debtors have been notified of a change of address), (b) at the addresses set forth in any written notices of address changes delivered to the Debtors, the Reorganized Debtors, or KCC after the date of any related Proof of Claim, or (c) if no Proof of Claim has been Filed and the Debtors, the Reorganized Debtors, or KCC have not received a written notice of a change of address, at the addresses reflected in the Bankruptcy Schedules, if any.

5. **Fractional Dollars; *De Minimis* Distributions**

Notwithstanding any other provision of the Plan, payments of fractions of dollars will not be made. Whenever any payment of a fraction of a dollar under the Plan would otherwise be called for, actual payment made shall reflect a rounding of such fraction to the nearest whole dollar (up or down). No payment of less than $25 with respect to any Claim shall be made unless a request therefor is made in writing to the applicable Reorganized Debtor. Notwithstanding the foregoing, the Reorganized Debtors may, in their discretion, make payments of fractions of dollars and/or of less than $25.

6. **Withholding and Reporting Requirements**

In connection with the Plan and all Distributions thereunder, the Reorganized Debtors shall, to the extent applicable, comply with all tax withholding and reporting requirements imposed by any federal, state, local, or foreign taxing authority, and all Distributions under the Plan shall be subject to any such withholding and reporting requirements. The Reorganized Debtors shall be authorized to take any and all actions that may be reasonably necessary or appropriate to comply with such withholding and reporting requirements.

7. **Setoffs**

The Reorganized Debtors may, but shall not be required to, set off (a) any claims they may have (of any nature whatsoever) against the Holder of a Claim against (b) such Holder's Claim and the payments or other Distributions to be made pursuant to the Plan in respect of such Claim; provided, however, that neither the failure to do so nor the allowance of any Claim against the Debtors or Reorganized Debtors shall constitute a waiver or release of any such claim that any Reorganized Debtor may have against such Holder, unless otherwise agreed to in writing by such Holder and the Reorganized Debtors.

8. **Duty to Disgorge Overpayments**

To the extent that a Claim may be an Allowed Claim in more than one Class or an Allowed Claim asserted in duplicate against multiple Debtors, the Holder of such Claim shall not be entitled to recover more than the full amount of its Allowed Claim. The Holder of an Allowed Claim that receives Distributions exceeding payment in full of its Allowed Claim shall immediately return any such excess Distributions to the Reorganized Debtors. In the event that the Holder of an Allowed Claim fails to return any excess Distributions, the Reorganized Debtors may bring suit against such Holder for the return of any such excess Distributions in the Bankruptcy Court or any other court of competent jurisdiction.

C. Accounts and Reserves Administered by the Reorganized Debtors

1. **Establishment of Reserve Accounts**

On or before the Effective Date, the Reorganized Debtors shall establish a General Account, a Senior Claim Distribution Reserve, an Expense Reserve, and an Undeliverable Distribution Reserve

(which, notwithstanding anything to the contrary contained in the Plan, in each case, may be effected either, in the sole discretion of the Reorganized Debtors, by establishing a segregated account or establishing a book entry account).

(a) **General Account**

On or before the Effective Date, the Debtors shall deposit in the General Account all funds that are not required or permitted to be deposited into any other account or reserve described in or contemplated under the Plan, including (a) any available net proceeds from the sales of Store ## 111, 141, and 142 after the payment in full of the Allowed Prosperity Bank Claim, the Allowed Thrivent Financial for Lutherans Claim, and the Allowed First Victoria Claim, respectively, and the sales of any other Real Property Interests and (b) collections on Customer Notes.

(b) **Senior Claim Distribution Reserve**

Initial Funding. On or before the Effective Date, the Reorganized Debtors shall deposit Cash in the Senior Claim Distribution Reserve in the amount estimated by the Reorganized Debtors to be reasonably necessary to satisfy in full all remaining Allowed Administrative Claims, Allowed Ad Valorem Tax Claims, Allowed Priority Claims, Allowed Other Secured Claims, Allowed Claims subject to the Discounted Early Payment Election, Allowed Convenience Claims, and U.S. Trustee Fees payable or to be paid under the Plan. The Reorganized Debtors shall use the Senior Claim Distribution Reserve to pay Allowed Administrative Claims, Allowed Ad Valorem Tax Claims, Allowed Priority Claims, Allowed Other Secured Claims, Allowed Claims subject to the Discounted Early Payment Election, Allowed Convenience Claims, and U.S. Trustee Fees payable or to be paid under the Plan.

Disallowed Claims. If all or any portion of an Administrative Claim, Ad Valorem Tax Claim, Priority Claim, Other Secured Claim, or Claims subject to the Discounted Early Payment Election, Convenience Claim shall become a Disallowed Claim, the amount on deposit in the Senior Claim Distribution Reserve attributable to such Disallowed Claim, if any, shall remain in the Senior Claim Distribution Reserve or be transferred out of the Senior Claim Distribution Reserve, as determined by the Reorganized Debtors, as follows:

(i) it shall remain in the Senior Claim Distribution Reserve to the extent that the Reorganized Debtors determine necessary to ensure that the Cash remaining in the Senior Claim Distribution Reserve is sufficient to ensure that all Allowed Administrative Claims, Allowed Ad Valorem Tax Claims, Allowed Priority Claims, Allowed Other Secured Claims, Allowed Claims subject to the Discounted Early Payment Election, Allowed Convenience Claims, and U.S. Trustee Fees payable or to be paid will be paid in accordance with the Plan; and

(ii) to the extent not required to remain in the Senior Claim Distribution Reserve pursuant to Section 9.03(b)(i) of the Plan, it shall be transferred to the General Account.

Subsequent Funding. From time to time, the Reorganized Debtors shall determine the amount of Cash required to adequately maintain the Senior Claim Distribution Reserve. If, and to the extent that, after making and giving effect to any determination referenced in the immediately preceding sentence, the Reorganized Debtors determine that the Senior Claim Distribution Reserve (i) contains Cash in an amount in excess of the amount then required to adequately maintain such Senior Claim Distribution Reserve, then at any such time the Reorganized Debtors may transfer such surplus Cash to the General Account, or (ii) does not contain Cash in an amount sufficient to adequately maintain the Senior Claim Distribution

Reserve, then at any such time the Reorganized Debtors shall transfer Cash from the General Account, to the extent Cash is available in the General Account, until the deficit in the Senior Claim Distribution Reserve is eliminated.

(c) **Expense Reserve**

Initial Funding. On the Effective Date, the Reorganized Debtors shall deposit Cash in the Expense Reserve in the amount they reasonably estimate will be sufficient to cover costs and expenses to be incurred by the Reorganized Debtors in the ninety (90) days immediately subsequent to the Effective Date in complying with their obligations and duties under the Plan, in conducting their business operations, and in the orderly sale and/or collection of the Reorganized Debtors' assets, including the Real Property Interests and the Customer Notes. Non-exclusive examples of the types of costs and expenses to be incurred include insurance, employee payroll and benefits, property maintenance, rent, sales tax, utilities, and professional fees and costs. The Expense Reserve shall be funded prior to the funding of the Senior Claim Distribution Reserve. The funds constituting the Expense Reserve are to be used by the Reorganized Debtors to satisfy their costs and expenses relating to their compliance with their obligations and duties under the Plan, in conducting their business operations, and in the orderly sale and/or collection of their assets, including the Real Property Interests and the Customer Notes.

Subsequent Funding. On the last Business Day of each calendar month following the Effective Date, the Reorganized Debtors shall transfer Cash from the General Account into the Expense Reserve in an amount that they reasonably estimate will be sufficient to replenish the Expense Reserve such that the Expense Reserve will contain Cash sufficient to pay the estimated costs and expenses to be incurred by the Reorganized Debtors in the ninety (90) days immediately subsequent to such date in complying with their obligations and duties under the Plan, in conducting their business operations, and in the orderly sale and/or collection of the Reorganized Debtors' assets, including the Real Property Interests and the Customer Notes. Funding of the Expense Reserve will continue until the Reorganized Debtors determine, in their sole discretion, that the Expense Reserve is adequately funded to permit the Reorganized Debtors to fully perform their duties under the Plan.

(d) **Undeliverable Distribution Reserve**

Deposits. If a Distribution to any Holder of an Allowed Claim is returned to the Reorganized Debtors as undeliverable or is otherwise unclaimed, such Distribution shall be deposited in a segregated, interest bearing account, designated as an "Undeliverable Distribution Reserve," for the benefit of such Holder until such time as such Distribution becomes deliverable, is claimed, or is deemed to have been forfeited in accordance with Section 9.05(b) of the Plan

Forfeiture. Any Holder of an Allowed Claim that does not assert a claim pursuant to the Plan for an Undeliverable or Unclaimed Distribution within one (1) year after the first Distribution is made to such Holder shall be deemed to have forfeited its claim for such Undeliverable or Unclaimed Distribution and shall be forever barred and enjoined from asserting any such claim for the Undeliverable or Unclaimed Distribution against any Debtor, any Reorganized Debtor, any Estate, or their respective properties or assets. In such cases, any Cash or other property held in the Undeliverable Distribution Reserve for distribution on account of such claims for Undeliverable or Unclaimed Distributions, including the interest that has accrued on such Undeliverable or Unclaimed Distribution while in the Undeliverable Distribution Reserve, shall become the property of the applicable Reorganized Debtor, notwithstanding any federal or state escheat laws to the contrary, and shall be available for immediate distribution by the applicable Reorganized Debtor according to the terms of the Plan. The Reorganized Debtors shall provide a schedule of returned Distributions to the Oversight Committee at least 60 days prior to any scheduled forfeiture.

Disclaimer. The Reorganized Debtors and their respective agents and attorneys are under no duty to take any action to either (i) attempt to locate any Creditor or (ii) obtain an executed Internal Revenue Service Form W-9 from any Creditor.

Distribution from Reserve. Within fifteen (15) Business Days after the Holder of an Allowed Claim satisfies the requirements of the Plan, such that a Distribution attributable to its Claim is no longer an Undeliverable or Unclaimed Distribution (provided that satisfaction occurs within the time limits set forth in Section 9.05(b) of the Plan), the Reorganized Debtors shall distribute out of the Undeliverable Distribution Reserve the amount of the Undeliverable or Unclaimed Distribution attributable to such Claim.

D. Means for Resolving Disputed Claims

On or before the Claim Objection Deadline, the Reorganized Debtors shall File objections to Claims and serve such objections, respectively, upon the Holders of each of the Claims to which objections are made. Subject to the limitations set forth in the Plan, and in consultation with the Oversight Committee, the Reorganized Debtors shall be authorized to resolve all Disputed Claims by withdrawing or settling such objections thereto or by litigating to judgment in the Bankruptcy Court or such other court having competent jurisdiction, the validity, nature, and/or amount thereof. If the Reorganized Debtors and the Holder of a Disputed Claim agree to compromise, settle, and/or resolve a Disputed Claim by granting such Holder an Allowed Claim in the amount of $50,000 or less, then the Reorganized Debtors may compromise, settle, and/or resolve such Disputed Claim without further Bankruptcy Court approval; provided, however, that the Reorganized Debtors shall File a notice with the Bankruptcy Court advising that the Allowed Claim has been compromised, settled, and/or resolved. Otherwise, the Reorganized Debtors may only compromise, settle, and/or resolve such Disputed Claim with Bankruptcy Court approval.

Any Proofs of Claim that are Filed after the applicable Bar Date or 503(b)(9) Bar Date, including amendments to existing Proofs of Claim, and any applications for the allowance of any Administrative Claims that are Filed after the Post-Confirmation Bar Date, shall be deemed invalid and Disallowed unless consented to by the Reorganized Debtors in writing or expressly authorized by Order of the Bankruptcy Court.

E. Miscellaneous Provisions

1. Revocation, Withdrawal, or Non-Consummation

The Debtors reserve the right to revoke or withdraw the Plan prior to the Confirmation Date and to file any amended or subsequent plans. If Confirmation does not occur, or if the Effective Date does not occur on or prior to two hundred seventy (270) days after the Confirmation Date, then (a) the Plan shall be null and void in all respects, (b) any settlements or compromises embodied in the Plan (including the fixing or limiting to an amount certain of any Claim or Class of Claims), assumptions or rejections of executory contracts or unexpired leases affected by the Plan, and any documents or agreements executed pursuant to the Plan, shall be deemed null and void, and (c) nothing contained in the Plan or this Disclosure Statement shall (i) constitute a waiver or release of any Claims by or against, or any Equity Interests in, any of the Debtors or any other Person, (ii) prejudice in any manner the rights of the Debtors or any other Person, or (iii) constitute an admission of any sort by the Debtors or any other Person.

2. Severability of Plan Provisions

If, prior to Confirmation, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court, solely at the request of the Debtors, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may be altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

3. **Notices to Debtors**

Any notice, request, or demand required or permitted to be made or provided to or upon a Debtor, a Reorganized Debtor, or the Oversight Committee in the Plan shall be (a) in writing, (b) served by (i) certified mail, return receipt requested, (ii) hand delivery, (iii) overnight delivery service, or (iv) facsimile transmission, and (c) deemed to have been duly given or made when actually delivered or, in the case of notice by facsimile transmission, when received and telephonically confirmed, addressed as follows:

To the Debtors/Reorganized Debtors:

LACK'S STORES, INCORPORATED
200 South Ben Jordan
Victoria, Texas 77901
Attn: Melvin Lack
Tel: 361-578-3571
Fax: 361-576-9814

With a required copy to:

VINSON & ELKINS LLP
Trammell Crow Center
2001 Ross Avenue, Suite 3700
Dallas, Texas 75201
Attn: Daniel C. Stewart
Tel: 214-220-7700
Fax: 214-220-7716

To the Oversight Committee:

Platzer, Swergold, Karlin, Levine,
Goldberg & Jaslow, LLP
1065 Avenue of the Americas
New York, NY 10018
Attn: Clifford A. Katz
Tel: 212-593-3000
Fax: 212-593-0353

4. **Exemption from Transfer Taxes and Recording Fees**

In accordance with Bankruptcy Code § 1146(a), none of the issuance, transfer, or exchange of any securities under the Plan, the release of any mortgage, deed of trust, or other Lien, the making, assignment, filing, or recording of any lease or sublease, the vesting or transfer of title to or ownership of any of the Debtors' interests in any property, or the making or delivery of any deed, bill of sale, or other instrument of transfer under, in furtherance of, or in connection with the Plan shall be subject to any document recording tax, stamp tax, conveyance fee, sales or use tax, bulk sale tax, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, Uniform Commercial Code filing or recording fee, or other similar tax or governmental assessment in the United States. The Confirmation Order shall direct the appropriate federal, state, and/or local governmental officials or agents to forego the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

5. **Interest Accrual**

Except as otherwise provided in the Plan, no post-petition interest shall accrue on any Claim.

6. **Plan Documents**

The Plan Documents are incorporated in and are a part of the Plan as if set forth in full therein.

7. **Further Assurances**

The Debtors, Reorganized Debtors, all Holders of Claims and/or Equity Interests receiving Distributions under the Plan, and all other parties in interest may and shall, from time to time, prepare, execute, and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

8. **Successors and Assigns**

The Plan and all rights, benefits, and obligations of any Person named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor, or assign of such Person.

9. **Governing Law**

Unless a rule of law or procedure is supplied by federal law, including the Bankruptcy Code and Bankruptcy Rules, (a) the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan and (b) governance matters shall be governed by the laws of the State of Texas, without giving effect to the principles of conflicts of laws thereof.

10. **Abandonment**

As part of the Plan Supplement, the Debtors will File a list of property of the Estates to be abandoned, if any. Such property will be deemed abandoned on and as of the Effective Date, and Persons in possession of such abandoned property may dispose of such property at their discretion, and any such disposal shall be without any recourse to the Debtors, the Reorganized Debtors, or the Estates.

11. **Notice of Effective Date**

On or before five (5) Business Days after the occurrence of the Effective Date, the Reorganized Debtors shall mail or cause to be mailed to all Holders of Claims a notice that informs such Persons of (a)

the entry of the Confirmation Order, (b) the occurrence of the Effective Date, and (c) such other matters as the Reorganized Debtors deem appropriate or as may be ordered by the Bankruptcy Court.

12. **Entire Agreement**

The Plan and the Plan Documents set forth the entire agreement and understanding among the parties in interest relating to the subject matter thereof and supersede all prior discussions and documents.

13. **Modification of the Plan**

The Debtors may alter, amend, or modify the Plan or any Plan Documents under Bankruptcy Code § 1127(a) at any time prior to the Confirmation Date. After the Confirmation Date and prior to Substantial Consummation of the Plan, the Debtors may, under Bankruptcy Code § 1127(b), (a) amend the Plan so long as such amendment shall not materially and adversely affect the treatment of any Holder of a Claim or Equity Interest, (b) commence proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement, or the Confirmation Order, or (c) amend the Plan as may be necessary to carry out the purposes and effects of the Plan so long as such amendment does not materially or adversely affect the treatment of a Holder of a Claim or Equity Interest under the Plan; provided, however, prior notice of any amendment shall be served in accordance with the Bankruptcy Rules or Order of the Bankruptcy Court.

F. Effects of Confirmation of the Plan

1. **Discharge**

ON THE EFFECTIVE DATE, THE DEBTORS, THE ESTATES, THE REORGANIZED DEBTORS, AND THEIR RESPECTIVE ASSETS AND PROPERTIES ARE AUTOMATICALLY AND FOREVER DISCHARGED AND RELEASED FROM ALL CLAIMS, TO THE FULLEST EXTENT PERMITTED UNDER BANKRUPTCY CODE § 1141. EXCEPT AS OTHERWISE SET FORTH IN THE PLAN OR THE CONFIRMATION ORDER, THE RIGHTS AFFORDED UNDER THE PLAN AND THE TREATMENT OF CLAIMS UNDER THE PLAN ARE IN EXCHANGE FOR AND IN COMPLETE SATISFACTION, DISCHARGE, AND RELEASE OF ALL CLAIMS, INCLUDING ANY INTEREST ACCRUED ON ANY CLAIMS AGAINST THE DEBTORS, THE ESTATES, AND THE REORGANIZED DEBTORS. EXCEPT AS SET FORTH IN THE PLAN OR THE CONFIRMATION ORDER, AND AS PROVIDED IN § 524 OF THE BANKRUPTCY CODE, SUCH DISCHARGE SHALL VOID ANY JUDGMENT AGAINST THE DEBTORS, THE ESTATES, OR THE REORGANIZED DEBTORS AT ANY TIME OBTAINED TO THE EXTENT IT RELATES TO A DISCHARGED CLAIM. UPON THE EFFECTIVE DATE, ALL PERSONS SHALL BE FOREVER PRECLUDED AND ENJOINED, PURSUANT TO § 524 OF THE BANKRUPTCY CODE, FROM PROSECUTING OR ASSERTING ANY DISCHARGED CLAIM AGAINST THE DEBTORS, THE ESTATES, OR THE REORGANIZED DEBTORS IN ANY MANNER INCONSISTENT WITH THE PLAN.

2. **Injunction or Stay**

EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THE PLAN, CONFIRMATION ORDER, OR ANY PRIOR ORDER OF THE BANKRUPTCY COURT IN THESE CASES, ALL PERSONS WHO HAVE HELD, HOLD, OR MAY HOLD CLAIMS AGAINST OR EQUITY INTERESTS IN THE DEBTORS ARE PERMANENTLY ENJOINED, FROM AND AFTER THE EFFECTIVE DATE, FROM TAKING ANY OF THE FOLLOWING ACTIONS, WHETHER DIRECTLY OR INDIRECTLY, AGAINST THE DEBTORS, THE ESTATES, THE REORGANIZED DEBTORS, OR ANY OF THEIR RESPECTIVE ASSETS AND PROPERTIES WITH RESPECT TO SUCH CLAIM OR EQUITY INTEREST (OTHER THAN ACTIONS BROUGHT TO ENFORCE ANY RIGHTS OR OBLIGATIONS UNDER THE PLAN):

(a) **COMMENCING OR CONTINUING IN ANY MANNER ANY ACTION OR OTHER PROCEEDING OF ANY KIND;**

(b) **ENFORCING, ATTACHING, COLLECTING, OR RECOVERING BY ANY MANNER OR MEANS, ANY JUDGMENT, AWARD, DECREE, OR ORDER;**

(c) **CREATING, PERFECTING, OR ENFORCING, IN ANY MANNER, ANY LIEN OF ANY KIND;**

(d) **ASSERTING ANY RIGHT OF SETOFF, SUBROGATION, OR RECOUPMENT OF ANY KIND (EXCEPT WITH RESPECT TO ANY VALID RIGHT OF SETOFF UNDER § 553 OF THE BANKRUPTCY CODE APPLICABLE TO ANY ALLOWED CLAIM THAT WAS PROPERLY AND TIMELY FILED WITH THE BANKRUPTCY COURT BY THE APPLICABLE BAR DATE OR 503(B)(9) BAR DATE);**

(e) **PURSUING ANY CLAIM RELEASED PURSUANT TO SECTION 12.05 OF THE PLAN; OR**

(f) **PROCEEDING IN ANY MANNER IN ANY PLACE WHATSOEVER THAT DOES NOT CONFORM TO OR COMPLY WITH OR IS INCONSISTENT WITH THE PROVISIONS OF THE PLAN OR THE CONFIRMATION ORDER.**

SUCH INJUNCTION EXTENDS TO ANY SUCCESSORS OF THE DEBTORS AND THE REORGANIZED DEBTORS AND THEIR RESPECTIVE PROPERTIES AND INTERESTS IN PROPERTIES.

3. **Temporary Injunction**

SO LONG AS THE REORGANIZED DEBTORS SHALL HAVE PERFORMED THE PAYMENT PROVISIONS OF THE PLAN WITH RESPECT TO ANY PARTICULAR CREDITOR, SUCH CREDITOR IS, AS OF THE EFFECTIVE DATE, TEMPORARILY ENJOINED FROM SEEKING TO RECOVER ON ITS CLAIM IN THESE CASES FROM MELVIN LACK PURSUANT TO ANY PERSONAL GUARANTY HE MAY HAVE EXECUTED. IN THE EVENT THE REORGANIZED DEBTORS WERE TO DEFAULT ON THEIR PLAN PAYMENTS TO SUCH CREDITOR AFTER NOTICE AND AN OPPORTUNITY TO CURE, THEN SUCH CREDITOR MAY SEEK TO RECOVER AGAINST MELVIN LACK IN ACCORDANCE WITH THE TERMS OF SUCH GUARANTY WITHOUT FURTHER ORDER OF THE BANKRUPTCY COURT.

4. **Term of Injunction or Stays**

ANY INJUNCTION OR STAY ARISING UNDER OR ENTERED DURING THE CASES UNDER BANKRUPTCY CODE §§ 105 AND 362 OR OTHERWISE THAT IS IN EXISTENCE ON THE CONFIRMATION DATE SHALL REMAIN IN FULL FORCE AND EFFECT UNTIL THE LATER OF THE EFFECTIVE DATE AND THE DATE INDICATED IN THE ORDER PROVIDING FOR SUCH INJUNCTION OR STAY; EXCEPT THAT THE TEMPORARY INJUNCTION SET FORTH IN SECTION 12.03 OF THE PLAN SHALL REMAIN IN FULL FORCE AND EFFECT PURSUANT TO THE TERMS SET FORTH IN SECTION 12.03 OF THE PLAN.

5. **Debtors' Release**

AS OF THE EFFECTIVE DATE, FOR GOOD AND VALUABLE CONSIDERATION, THE ADEQUACY OF WHICH IS HEREBY CONFIRMED, THE DEBTORS AS DEBTORS IN POSSESSION, THE REORGANIZED DEBTORS, AND ANY PERSON SEEKING TO EXERCISE THE RIGHTS OF THE ESTATES, INCLUDING ANY SUCCESSOR TO THE DEBTORS OR ANY ESTATE REPRESENTATIVE APPOINTED OR SELECTED PURSUANT TO § 1123(B)(3) OF THE BANKRUPTCY CODE, WILL BE DEEMED TO HAVE CONCLUSIVELY,

ABSOLUTELY, UNCONDITIONALLY, IRREVOCABLY, AND FOREVER RELEASED, WAIVED, AND DISCHARGED THE RELEASED PARTIES FROM ANY AND ALL CLAIMS, OBLIGATIONS, SUITS, JUDGMENTS, DAMAGES, DEMANDS, DEBTS, RIGHTS, CAUSES OF ACTION, AND LIABILITIES WHATSOEVER (OTHER THAN FOR WILLFUL MISCONDUCT, OR INTENTIONAL FRAUD AND OTHER THAN THE RIGHTS OF THE DEBTORS AND THE REORGANIZED DEBTORS TO ENFORCE THE PLAN AND THE CONTRACTS, INSTRUMENTS, RELEASES, AND OTHER AGREEMENTS OR DOCUMENTS RELATED HERETO), WHETHER DIRECT OR DERIVATIVE, LIQUIDATED OR UNLIQUIDATED, FIXED OR CONTINGENT, MATURED OR UNMATURED, DISPUTED OR UNDISPUTED, KNOWN OR UNKNOWN, FORESEEN OR UNFORESEEN, THEN EXISTING OR THEREAFTER ARISING, IN LAW, EQUITY, OR OTHERWISE, THAT ARE BASED IN WHOLE OR IN PART ON ANY ACT, OMISSION, TRANSACTION, EVENT, OR OTHER OCCURRENCE TAKING PLACE ON OR PRIOR TO THE EFFECTIVE DATE, OR IN ANY WAY RELATING TO THE RESTRUCTURING OF THE DEBTORS, THE CASES, THE PLAN, OR THIS DISCLOSURE STATEMENT, AND THAT COULD HAVE BEEN ASSERTED BY OR ON BEHALF OF THE DEBTORS OR THEIR ESTATES AGAINST ANY OF THE RELEASED PARTIES.

6. Legal Binding Effect

The provisions of the Plan shall bind all Holders of Claims and Equity Interests and their respective successors and assigns, whether or not they accept the Plan. On and after the Effective Date, except as otherwise expressly provided in the Plan, all Holders of Claims and Equity Interests shall be precluded from asserting any Claim or Lien against the Debtors, the Estates, or the Reorganized Debtors or their respective property and assets based on any act, omission, event, transaction, or other activity of any kind that occurred or came into existence prior to the Effective Date.

7. Insurance

Confirmation and consummation of the Plan shall have no effect on insurance policies of any of the Debtors or their current or former directors and officers (including director and officer liability policies to the extent that the Debtors or their current or former directors and officers have any rights under such policies) in which any of the Debtors or their current or former directors and officers are or were an insured party. Each insurance company is prohibited from, and the Confirmation Order shall include an injunction against, denying, refusing, altering, or delaying coverage for any Debtors (or their current or former directors and officers) or Reorganized Debtors on any basis regarding or related to any of the Debtors' Cases and related proceedings, the Plan, or any provision within the Plan, including the treatment or means of satisfaction set out within the Plan for insured Claims.

G. Retention of Jurisdiction

Under Bankruptcy Code §§ 105(a) and 1142, and notwithstanding entry of the Confirmation Order and occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising out of and related to the Cases or the Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

1. allow, disallow, determine, liquidate, classify, estimate, or establish the priority or the secured or unsecured status of any Claim or Equity Interest, including the resolution of any application or request for payment of any Administrative Claim, and the resolution of any objections to the allowance or priority of Claims or Equity Interests;

2. hear and determine all Fee Applications;

3. determine any and all adversary proceedings, motions, applications, and contested or litigated matters, including, but not limited to, all Causes of Action, and consider and act upon the compromise and settlement of any Claim or Cause of Action;

4. enter such Orders as may be necessary or appropriate to construe, execute, implement, or consummate the provisions of the Plan and all property, contracts, instruments, releases, and other agreements or documents transferred, vested, or created in connection therewith;

5. hear and determine disputes arising in connection with the interpretation, implementation, consummation, or enforcement of the Plan, the Confirmation Order, any transactions or payments contemplated thereby, or any disputes arising under agreements, documents, or instruments executed in connection therewith;

6. consider any modifications of the Plan or this Disclosure Statement or cure any defect or omission or reconcile any inconsistency in any Order, including the Confirmation Order;

7. issue injunctions, enter and implement other Orders, or take such other actions as may be necessary or appropriate to restrain interference by any Person with the implementation, consummation, or enforcement of the Plan, the Confirmation Order, or any other Order;

8. hear and determine any matters arising in connection with or relating to the Plan, this Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, this Disclosure Statement, or the Confirmation Order;

9. enforce all orders, judgments, injunctions, releases, exculpations, indemnifications, and rulings entered in connection with the Cases;

10. hear and determine matters concerning state, local, and federal taxes in accordance with Bankruptcy Code §§ 346, 505, and 1146 (including the expedited determination of taxes under Bankruptcy Code § 505(b));

11. hear and determine all matters related to the property of the Estates, the Debtors, or the Reorganized Debtors from and after the Effective Date;

12. hear and determine such other matters as may be provided in the Confirmation Order and as may be authorized under the provisions of the Bankruptcy Code;

13. hear and determine all matters with respect to the assumption or rejection of executory contracts or unexpired leases and the allowance of Cure Claims;

14. enter, implement, or enforce such Orders as may be appropriate in the event the Confirmation Order is for any reason stayed, reversed, revoked, modified, or vacated;

15. hear and determine any other matters related to the Plan and not inconsistent with the Bankruptcy Code;

16. determine any other matters that may arise in connection with or are related to the Plan, this Disclosure Statement, the Disclosure Statement Order, the Confirmation Order, any Plan Documents, or any other contract, instrument, release, other agreement, or other document related to the Plan, this Disclosure Statement, or the Plan Supplement;

17. resolve any disputes between the Reorganized Debtors and the Oversight Committee;

18. hear any other matter not inconsistent with the Bankruptcy Code; and

19. enter final decrees closing the Cases.

XI.

COMPARISON OF PLAN TO ALTERNATIVES

A. Chapter 7 Liquidation

The most realistic alternative to the Plan is conversion of the Cases from proceedings under chapter 11 of the Bankruptcy Code to proceedings under chapter 7 of the Bankruptcy Code. A chapter 7 case, sometimes referred to as a "straight liquidation," requires the liquidation of all of the debtor's assets by a chapter 7 trustee. The cash realized from liquidation is subject to distribution to creditors in accordance with § 726 of the Bankruptcy Code. In a chapter 7 case, the recovery, if any, to creditors holding non-priority unsecured claims will depend upon the net proceeds left in the estate after all of the debtors' assets have been reduced to cash and all claims of higher priority have been satisfied in full.

Chapter 7 liquidation theoretically adds an additional layer of expense. As referenced above, conversion of a bankruptcy case to chapter 7 will trigger the appointment of a chapter 7 trustee having the responsibility of liquidating the debtors' assets. Pursuant to §§ 326 and 330 of the Bankruptcy Code, the chapter 7 trustee will be entitled to reasonable compensation in relation to the level of disbursements made to creditors as follows: (a) up to 25% of the first $5,000 disbursed; (b) up to 10% of the amount disbursed in excess of $5,000, but not in excess of $50,000; (c) up to 5% of any amount disbursed in excess of $50,000, but not in excess of $1,000,000; and (d) up to 3% of any amount disbursed in excess of $1,000,000. Additionally, the chapter 7 trustee will be entitled to retain his or her own professionals to assist in the liquidation and administration of the estate. The fees and expenses of such professionals, to the extent allowed, are also entitled to priority in payment as administrative claims. Chapter 7 administrative costs are entitled to priority in payment over chapter 11 administrative costs. Nevertheless, chapter 11 administrative costs continue to have priority over all other non-administrative priority claims and non-priority unsecured claims in the bankruptcy case.

More critically, conversion to chapter 7 would result in the appointment of a trustee with no experience or knowledge of the prior proceedings in the bankruptcy case or of the debtors' business, their books and records, or their assets. Specifically the Distributions under the Plan to Creditors and Equity Interest Holders is predicated in large part upon the Reorganized Debtors' ability to collect on the Customer Notes over the life of such notes and in accordance with the historic business practices of the Debtors. Success of the Plan will depend upon the Reorganized Debtors' collections staff operating under the supervision of Melvin and Janey Lack, who have decades of experience in successfully collecting and servicing the Customer Notes. A chapter 7 trustee will lack this experience and expertise and will likely sell the remaining Customer Notes in a bulk sale, which will result in significantly lower value being realized on the Customer Notes.

The Debtors are opposed to conversion of the Cases to chapter 7 for several reasons. First, the Debtors believe that conversion of the Cases could lead to additional layers of expense for the reasons stated above. Second, by maintaining the Cases in chapter 11 and confirming the Plan, the assertion of additional Claims against the estates can be prevented. Third, additional time would be required in order for a chapter 7 trustee to become familiar with the Debtors, their prior business operations, assets, and pending litigation in order to wind the case up effectively.

Finally, conversion of the Cases to chapter 7 will substantively alter the path of the Debtors. In this regard, often creditors will seek conversion of a chapter 11 case in order to force a liquidation of the debtors' assets instead of the reorganization of the debtors' business. Here, the Plan provides for the maximization of the Debtors' asset value by allowing for continuation of the Debtors' business of collecting Customer Notes and realizing on other Estate assets in an orderly manner over time in order to pay Holders of Allowed Claims. Conversion would likely result in the forced sale of the Customer Notes portfolio at a significant discount to the face amount of that portfolio. A forced sale of such portfolio in chapter 7 would result in much less value for Creditors compared to the collection of such portfolio over time in an orderly manner, as is contemplated by the Plan.

With respect to the "best interest of creditors" test of § 1129(a)(7) of the Bankruptcy Code, the Debtors do not believe that Creditors will achieve a greater recovery under chapter 7 than under the Plan. To the contrary: likely distributions to Holders of Allowed Claims under the Plan will exceed likely distributions to Holders of Allowed Claims in a chapter 7 proceeding primarily because the Debtors believe that the greatest success in collecting the Customer Notes is achievable through the Plan. Furthermore, the Plan incorporates beneficial compromises which may not be available in chapter 7, and in a chapter 7 proceeding the potential for additional administrative expense and additional Claims demonstrates that distributions under the Plan are likely to exceed, or at the very least be equal to, the distributions that would be made under chapter 7.

Attached to this Disclosure Statement as **Exhibit B** is the Liquidation Analysis, which quantifies the foregoing and other related, forward-looking projections, in comparing the Plan to an alternative chapter 7 liquidation. *See also* ARTICLE XII herein (Material Risks and Uncertainties). As evidenced by the Liquidation Analysis, the anticipated range of recoveries under the Plan is greater than under a chapter 7 liquidation.

B. Alternative Plans

To date, no other proposed chapter 11 plans have been Filed in the Cases, and it is not anticipated that any other proposed chapter 11 plans will be Filed.

C. Dismissal

The most remote alternative possibility is dismissal of the Cases. If dismissal were to occur, the Debtors would no longer have the protection of the automatic stay and other applicable provisions of the Bankruptcy Code. Dismissal would force a race among Creditors to take control and dispose of the Debtors' available assets, and unsecured creditors, on an aggregate basis, would very likely realize weaker or no recovery on their Claims.

XII.
MATERIAL UNCERTAINTIES AND RISKS

In considering whether to vote to accept or reject the Plan, Creditors and Equity Interest Holders entitled to vote should consider the following risks associated with the Plan: (a) that all of the conditions to confirmation of the Plan are not satisfied or waived (as applicable); (b) that all of the conditions to the effectiveness of the Plan are not satisfied or waived (as applicable) or that such conditions are delayed by a significant period of time; (c) that estimations (including estimates of the amount of Allowed Claims) and projections may ultimately prove to be materially inaccurate; (d) that the Reorganized Debtors may not collect on their Customer Notes in a manner consistent with their Financial Projections; (e) that the Reorganized Debtors' collection and realization on other assets may be delayed or not result in the recovery of amounts projected; (f) that the loss of key management or employees could negatively affect

the Reorganized Debtors' collection efforts on the Customer Notes and other costs; and (g) that the prosecution of Causes of Action (if any) does not result in significant recoveries.

There can also be no assurance that the Plan will not be modified up to and through the Confirmation Date, and the Debtors reserve the right to modify the Plan, subject to compliance with the Bankruptcy Code, in the event modification becomes warranted or necessary in furtherance of confirmation.

Finally, the Debtors cannot guarantee that the Plan will be confirmed.

THESE FACTORS SHOULD NOT BE REGARDED AS CONSTITUTING THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION. ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO THE DEBTORS OR THAT THEY CURRENTLY DEEM IMMATERIAL MAY ALSO HARM THEIR BUSINESSES.

*Please see attached **Exhibit D**, Additional Disclosures – The CIT Group/Business Credit, Inc. for additional material uncertainties and risks associated with the Plan, as asserted by The CIT Business Group/Business Credit, Inc., as agent for the Senior Lenders, in its objection to the Disclosure Statement [Docket No. 1364]. The Debtors do not agree with the assertions as stated.*

XIII.
CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Introduction

Implementation of the Plan may have federal, state, and local tax consequences to the Debtors and their Estates as well as to Creditors and Equity Interest Holders of the Debtors. No tax opinion has been sought or will be obtained with respect to any tax consequences of the Plan, and the following disclosure does not constitute and is not intended to constitute either a tax opinion or tax advice to any Person.

This disclosure is provided for informational purposes only. Moreover, this disclosure summarizes only certain of the federal income tax consequences associated with the Plan's confirmation and implementation and does not attempt to comment on all such aspects. Similarly, this disclosure does not attempt to consider any facts or limitations applicable to any particular Creditor or Equity Interest Holder that may modify or alter the consequences described below. This disclosure does not address state, local, or foreign tax consequences or the consequences of any federal tax other than the federal income tax.

This disclosure is based upon the provisions of the Internal Revenue Code of 1986, as amended, the regulations promulgated thereunder, existing judicial decisions, and administrative rulings. In light of the expansiveness of such authorities, no assurance can be given that legislative, judicial, or administrative changes will not be forthcoming that would affect the accuracy of the discussion below. Any such changes could be material and could be retroactive with respect to the transactions entered into or completed prior to the enactment or promulgation thereof. Finally, the tax consequences of certain aspects of the Plan are uncertain due to a lack of applicable legal authority and may be subject to judicial or administrative interpretations that differ from the discussion below.

CREDITORS AND EQUITY INTEREST HOLDERS, THEREFORE, ARE ADVISED TO CONSULT WITH THEIR OWN TAX ADVISORS REGARDING THE TAX CONSEQUENCES TO THEM AND

TO THE DEBTORS OF THE TRANSACTIONS CONTEMPLATED BY THE PLAN, INCLUDING FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES.

B. Federal Income Tax Consequences to the Debtors

Under the Internal Revenue Code, a taxpayer generally must recognize income from the cancellation of debt ("COD Income") to the extent that its indebtedness is discharged during the taxable year. COD Income generally equals the excess of the adjusted issue price of the indebtedness discharged over the sum of (i) the amount of cash, (ii) the issue price of any new debt, and (iii) the fair market value of any other property (including stock) transferred by the debtor in satisfaction of such discharged indebtedness. COD Income also includes any interest that has been previously accrued and deducted but remains unpaid at the time the indebtedness is discharged.

Section 108(a)(l)(A) of the Internal Revenue Code provides an exception to this rule, however, where a taxpayer is in bankruptcy and where the discharge is granted, or is effected, pursuant to a plan approved by a bankruptcy court. In that case, instead of recognizing income, the taxpayer is required, under § 108(b) of the Internal Revenue Code, to reduce certain of its tax attributes by the amount of COD Income. The attributes of the taxpayer are to be reduced in the following order: NOLs, general business and minimum tax credit carryforwards, capital loss carryforwards, the basis of the taxpayer's assets, and finally, foreign tax credit carryforwards (collectively, "Tax Attributes").

Under the terms of the Plan, all assets of the Debtors or the Estates, and all Claims against the Debtors or the Estates, will vest in the Reorganized Debtors. The ultimate amount of COD Income realized by the Reorganized Debtors is uncertain. Regardless of the amount of the Reorganized Debtors' COD Income, the Debtors will not be required to include COD Income in gross income because the indebtedness will be discharged while the Reorganized Debtors are under the jurisdiction of a court in a Title 11 case. Accordingly, the Debtors expect that there will be no United States federal income taxes payable by the Debtors in respect of the COD Income. However, certain Tax Attributes of the Debtors will be reduced or eliminated.

C. Federal Income Tax Consequences to Creditors

A Creditor receiving a payment under the Plan in satisfaction of its Claim generally may recognize taxable income or loss measured by the difference between (i) the amount of Cash received and (ii) its adjusted tax basis in the Claim. The character of any income or loss that is recognized will depend upon a number of factors, including the status of the Creditor, the nature of the Claim in its hands, whether the Claim was purchased at a discount, whether and to what extent the Creditor has previously claimed a bad debt deduction with respect to the Claim, and the Creditor's holding period of the Claim. This income or loss may be ordinary if the distribution is in satisfaction of accounts or notes receivable acquired in the ordinary course of the Creditor's trade or business for the performance of services or for the sale of goods or merchandise. Generally, a Creditor should recognize capital gain or loss (which capital gain or loss would be long-term capital gain or loss to the extent that the Creditor has held its Claim (or the asset underlying the Claim) for more than one year) if the Claim is a capital asset in the Creditor's hands.

To the extent that any amount received by a Creditor under the Plan is attributable to accrued but unpaid interest and such amount has not previously been included in the Creditor's gross income, such amount should be taxable to the Creditor as ordinary interest income. Conversely, a Creditor may be able to recognize a deductible loss (or, possibly, a write-off against a reserve for worthless debts) to the extent that any accrued interest on the debt instruments constituting such Claim was previously included in the

Creditor's gross income but was not paid in full by the Debtors. Such loss may be ordinary, but the tax law is unclear on this point.

D. Federal Income Tax Consequences to Equity Interest Holders

Equity Interest Holders may, at some point in time, be required to recognize income or be allowed a deduction as a result of the implementation of the Plan. The exact tax treatment depends on each Equity Interest Holder's method of accounting, the basis in its Equity Interest, and the amount of Distributions received.

EACH CREDITOR, EQUITY INTEREST HOLDER, AND PARTY IN INTEREST IS URGED TO CONSULT WITH ITS OWN TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES OF ITS CLAIM OR INTEREST UNDER THE PLAN.

E. Tax Withholding

The Plan provides for the Reorganized Debtors to comply with all tax withholding and reporting requirements validly imposed on them by any governmental authority. Accordingly, the Plan provides that Distributions made pursuant to the Plan shall be subject to such withholding and reporting requirements and authorizes the Reorganized Debtors to take all actions necessary or appropriate to comply with such withholding and reporting requirements, including, without limitation, payment of applicable withholding taxes from a Claimant's or Equity Interest Holder's Distribution or conditioning a Person's Distributions upon receipt of necessary tax reporting information from a Claimant or Equity Interest Holder.

F. Disclaimers

PERSONS CONCERNED WITH THE TAX CONSEQUENCES OF THE PLAN SHOULD CONSULT THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS. THE DEBTORS MAKE THE ABOVE-NOTED DISCLOSURE OF POSSIBLE TAX CONSEQUENCES FOR THE SOLE PURPOSE OF ALERTING READERS TO TAX ISSUES THAT THEY MAY WISH TO CONSIDER. THE DEBTORS CANNOT, AND DO NOT, REPRESENT THAT THE TAX CONSEQUENCES MENTIONED ABOVE ARE COMPLETELY ACCURATE BECAUSE, AMONG OTHER THINGS, THE TAX LAW EMBODIES MANY COMPLICATED RULES THAT MAKE IT DIFFICULT TO STATE ACCURATELY WHAT THE TAX IMPLICATIONS OF ANY POTENTIAL ACTION MIGHT BE.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF CLAIMS OR EQUITY INTERESTS ARE HEREBY NOTIFIED THAT: (1) ANY DISCUSSION OF FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY ANY HOLDER OF A CLAIM OR EQUITY INTERESTS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF CLAIMS OR EQUITY INTERESTS UNDER THE TAX CODE, (2) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE CONFIRMATION OF THE PLAN TO WHICH THE TRANSACTIONS DESCRIBED IN THIS DISCLOSURE STATEMENT ARE ANCILLARY, AND (3) HOLDERS OF CLAIMS OR EQUITY INTERESTS SHOULD SEEK ADVICE BASED UPON THEIR PARTICULAR CIRCUMSTANCES FROM THEIR OWN TAX ADVISOR.

XIV.
CONCLUSION

The Debtors believe that the Plan complies with § 1129 of the Bankruptcy Code, is fair and equitable, and is in the best interests of the Debtors, their Estates, and Creditors. Accordingly, the Debtors urge Creditors receiving Ballots to vote to accept the Plan.

DATED: December 6, 2011

LACK'S STORES, INCORPORATED AND ITS AFFILIATED DEBTORS

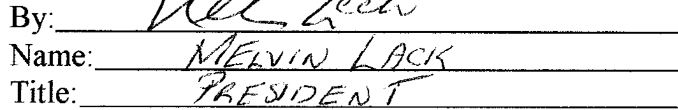

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EXHIBIT A

PLAN OF REORGANIZATION FOR DEBTORS

EXHIBIT B

LIQUIDATION ANALYSIS

EXHIBIT C

FINANCIAL PROJECTIONS

EXHIBIT D

ADDITIONAL DISCLOSURES – THE CIT GROUP/BUSINESS CREDIT, INC.

EXHIBIT E

ADDITIONAL DISCLOSURES – THRIVENT FINANCIAL FOR LUTHERANS