IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TEXAS
TYLER DIVISION

IN RE:	§	
	§	
LON MORRIS COLLEGE	§	**CASE NO. 12-60557**
	§	**(Chapter 11)**
Debtor.	§	
	§	
	§	
	§	

[THIRD AMENDED PROPOSED] DISCLOSURE STATEMENT UNDER 11 U.S.C. § 1125 IN SUPPORT OF THE PLAN OF LIQUIDATION OF LON MORRIS COLLEGE

[THIS IS A PROPOSED DISCLOSURE STATEMENT. IT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION. THIS IS NOT A SOLICITATION TO VOTE ON A PLAN]

YOU ARE BEING SENT THIS DISCLOSURE STATEMENT AND THE CORRESPONDING SOLICITATION MATERIALS BECAUSE YOU ARE A CLAIMHOLDER OR INTERESTHOLDER OF THE DEBTOR. THIS DISCLOSURE STATEMENT DESCRIBES A PLAN OF LIQUIDATION THAT, WHEN CONFIRMED BY THE BANKRUPTCY COURT, WILL GOVERN HOW YOUR CLAIM OR EQUITY INTEREST WILL BE PAID. THE DEBTOR ENCOURAGES YOU TO READ THE DISCLOSURE STATEMENT CAREFULLY. THE DEBTOR AND THE COMMITTEE BELIEVE THAT ALL CLAIMHOLDERS AND INTERESTHOLDERS SHOULD VOTE IN FAVOR OF THE PLAN.

MCKOOL SMITH, PC
600 Travis, Suite 7000
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DATED: November 15, 2012
Houston, Texas

ATTORNEYS FOR LON MORRIS COLLEGE

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ARTICLE 1
Introduction

Lon Morris College ("Lon Morris," the "College," or the "Debtor"),[1] Debtor and Debtor-in-possession in the above-referenced bankruptcy case, submits this Disclosure Statement under Bankruptcy Code section 1125 for use in the solicitation of votes on the Plan. A copy of the Order Fixing Time for Filing Acceptances or Rejections of Plan of Liquidation is annexed as **Exhibit A** to this Disclosure Statement. [NOTE NO ORDER IS ATTACHED AS THIS IS A PROPOSED DISCLOSURE STATEMENT]

This Disclosure Statement sets forth relevant information regarding the Debtor's prepetition operations and financial history, the events causing the filing of a voluntary petition under Chapter 11 of the Bankruptcy Code, significant events that have occurred during the Bankruptcy Case, and the anticipated procedures for liquidating the Debtor's assets. This Disclosure Statement also describes terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan, and the manner in which distributions will be made under the Plan. Additionally, this Disclosure Statement discusses the confirmation process and the voting procedures that holders of Claims and Equity Interests must follow for their votes to be counted.

A. Filing of the Debtor's Bankruptcy Case

On July 2, 2012 (the "Petition Date"), Lon Morris filed a voluntary petition for relief under chapter 11, title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Eastern District of Texas, Tyler Division (the "Bankruptcy Court"). The Debtor continues to operate its business and manage its properties and assets as Debtor-in-possession pursuant to Bankruptcy Code sections 1107 and 1108.

B. Purpose of Disclosure Statement

This Disclosure Statement is submitted in accordance with Bankruptcy Code section 1125 for the purpose of soliciting acceptances of the Plan from holders of certain Classes of Claims. The only Claimholders whose acceptances of the Plan are sought are those whose Claims are "impaired" (as that term is defined in Bankruptcy Code section 1124) by the Plan and who are receiving distributions under the Plan. Holders of Claims that are not "impaired" are deemed to have accepted the Plan. Holders of Claims or Equity Interests that are not receiving or retaining any property under the Plan are deemed to have rejected the Plan.

The Debtor prepared this Disclosure Statement in accordance with Bankruptcy Code section 1125, which requires that a copy of the Plan, or a summary thereof, be submitted to all holders of Claims against, and Equity Interests in, the Debtor, along with a written disclosure statement containing adequate information about the Debtor of a kind, and in sufficient detail, as far as is reasonably practicable, that would enable a hypothetical, reasonable investor typical of Claimholders and Interestholders to make an informed judgment in exercising its right to vote on

[1] All capitalized terms not otherwise defined herein shall have the same meaning as defined in section 1.2 of the Plan or elsewhere in the Plan.

the Plan. A copy of the Plan is included with the materials sent along with this Disclosure Statement.

This Disclosure Statement was approved by the Bankruptcy Court on _____. Such approval is required by the Bankruptcy Code. It does not constitute a judgment by the Bankruptcy Court as to the desirability of the Plan or as to the value or suitability of any consideration offered under the Plan. Such approval does indicate, however, that the Bankruptcy Court has determined that the Disclosure Statement meets the requirements of Bankruptcy Code section 1125 and contains adequate information to permit the Claimholders and Interestholders whose acceptance of the Plan is solicited, to make an informed judgment regarding acceptance or rejection of the Plan.

THE APPROVAL BY THE BANKRUPTCY COURT OF THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE AN ENDORSEMENT BY THE BANKRUPTCY COURT OF THE PLAN OR A GUARANTEE OF THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN. THE MATERIAL CONTAINED IN THIS DISCLOSURE STATEMENT IS INTENDED SOLELY FOR THE USE OF CLAIMHOLDERS AND INTERESTHOLDERS IN EVALUATING THE PLAN AND VOTING TO ACCEPT OR REJECT THE PLAN AND, ACCORDINGLY, MAY NOT BE RELIED ON FOR ANY PURPOSE OTHER THAN THE DETERMINATION OF HOW TO VOTE ON, OR WHETHER TO OBJECT TO, THE PLAN. THE DEBTOR'S LIQUIDATION PURSUANT TO THE PLAN IS SUBJECT TO NUMEROUS CONDITIONS AND VARIABLES, AND THERE CAN BE NO ABSOLUTE ASSURANCE THAT THE PLAN, AS CONTEMPLATED, WILL BE EFFECTUATED.

THE DEBTOR BELIEVES THAT THE PLAN AND THE PROPOSED TREATMENT OF CLAIMS AND EQUITY INTERESTS IS IN THE BEST INTERESTS OF CLAIMHOLDERS AND INTERESTHOLDERS AND URGES THAT YOU VOTE TO ACCEPT THE PLAN.

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION, NOR HAS THE COMMISSION PASSED ON THE ACCURACY OR ADEQUACY OF THE STATEMENTS CONTAINED HEREIN. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL. THE PLAN SHOULD BE REVIEWED CAREFULLY.

C. Hearing on Confirmation of the Plan

The Bankruptcy Court has set _____ at _____ p.m. Central Time, as the time and date for the hearing to determine whether the Plan has been accepted by the requisite number of Claimholders and Interestholders and whether the other requirements for confirmation of the Plan have been satisfied. Claimholders and Interestholders may vote on the Plan by completing and delivering the enclosed Ballot to McKool Smith, P.C., Attention: Kirk S. Cheney, 600

Travis, Suite 7000, Houston, Texas 77002, on or before _____ at _____ p.m. Central Time. If the Plan is rejected by one or more impaired Classes of Claims or Equity Interests, the Bankruptcy Court may still confirm the Plan, or a modification thereof, under Bankruptcy Code section 1129(b) (commonly referred to as a "cramdown") if it determines, among other things, that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting Classes of Claims or Equity Interests impaired under the Plan. The procedures and requirements for voting on the Plan are described in more detail below.

D. Sources of Information

Except as otherwise expressly indicated, the portions of this Disclosure Statement describing the Debtor, its properties and management, and the Plan have been prepared from information furnished by the Debtor.

Some of the materials contained in this Disclosure Statement are taken directly from other readily accessible documents or are digests of other documents. While the Debtor has made every effort to retain the meaning of such other documents or portions that have been summarized, it urges that any reliance on the contents of such other documents should depend on a thorough review of the documents themselves. In the event of a discrepancy between this Disclosure Statement and the actual terms of a document, the actual terms of the document shall govern and apply.

The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified, and neither the delivery of this Disclosure Statement nor any exchange of rights made in connection with it shall, under any circumstances, create an implication that there has been no change in the facts set forth herein since the date of this Disclosure Statement.

No statements concerning the Debtor, the value of its property, or the value of any benefit offered to the holder of a Claim or Equity Interest in connection with the Plan should be relied on other than as set forth in this Disclosure Statement. In arriving at a decision, parties should not rely on any representation or inducement made to secure their acceptance or rejection that is contrary to information contained in this Disclosure Statement. Any such additional representations or inducements should be immediately reported to counsel for the Debtor, Hugh M. Ray, III, McKool Smith, P.C., 600 Travis, Suite 7000, Houston, Texas 77002, Telephone No. (713) 485-7300.

ARTICLE 2
Explanation of Chapter 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor-in-possession attempts to reorganize its business and financial affairs or liquidate its property and assets for the benefit of the debtor, its creditors, and other interested parties.

The commencement of a chapter 11 case creates an estate comprising all of a debtor's legal and equitable interests in property as of the date the petition is filed. Unless a bankruptcy court orders the appointment of a trustee, Bankruptcy Code sections 1107 and 1108 provide that a chapter 11 debtor may continue to operate its business and control the assets of its estate as a "debtor-in-possession."

The filing of a chapter 11 petition also triggers the automatic stay under Bankruptcy Code section 362. The automatic stay halts essentially all attempts to collect prepetition claims from a debtor or to otherwise interfere with the debtor's business or its bankruptcy estate.

Formulation of a plan of reorganization/liquidation is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims of creditors against, and interests of equity security holders in, a debtor. Unless a trustee is appointed, only the debtor may file a plan during the first 120 days of a chapter 11 case (the "Exclusive Period"). After the Exclusive Period has expired, a creditor or any other interested party may file a plan, unless the debtor files a plan within the Exclusive Period. If a debtor does file a plan within the Exclusive Period, the debtor is given an additional 60 days (the "Solicitation Period") to solicit acceptances of its plan. Bankruptcy Code section 1121(d) permits a bankruptcy court to extend or reduce the Exclusive Period and the Solicitation Period on a showing of adequate "cause."

B. Plan of Reorganization/Liquidation

Although usually referred to as a plan of reorganization, a bankruptcy plan may simply provide for an orderly liquidation of a debtor's property and assets. The Debtor's Plan does, in fact, essentially provide for an orderly liquidation of its assets.

After a plan has been filed, the holders of claims against, or interests in, a debtor are permitted to vote on whether to accept or reject the plan. Chapter 11 does not require that each holder of a claim against, or interest in, a debtor vote in favor of a plan in order for the plan to be confirmed. At a minimum, however, a plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting from at least one class of claims impaired under the plan. The Bankruptcy Code also defines acceptance of a plan by a class of interests (equity securities) as acceptance by holders of two-thirds of the number of shares actually voted.

Classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and are therefore not entitled to vote. A class is "impaired" if a plan modifies the legal, equitable, or contractual rights attaching to the claims or interests of that class. Modification for purposes of impairment does not include curing defaults and reinstating maturity or payment in full in cash. Conversely, classes of claims or interests that receive or retain no property under a plan of reorganization are conclusively presumed to have rejected the plan and therefore are not entitled to vote.

Even if all classes of claims and interests accept a plan of reorganization/liquidation, a bankruptcy court may nonetheless still deny confirmation. Bankruptcy Code section 1129 sets forth the requirements for confirmation and, among other things, requires that a plan be in the "best interests" of impaired and dissenting creditors and interestholders and that the plan be feasible. The "best interests" test generally requires that the value of the consideration to be

distributed to impaired and dissenting creditors and interestholders under a plan may not be less than those parties would receive if the debtor were liquidated under a hypothetical liquidation occurring under chapter 7 of the Bankruptcy Code. A plan must also be "feasible," which generally requires a finding that there is a reasonable probability that the debtor will be able to perform the obligations incurred under the plan and that the debtor will be able to continue operations without the need for further financial reorganization or liquidation, if the plan contemplates continued operations.

A bankruptcy court may confirm a plan of reorganization/liquidation even though fewer than all of the classes of impaired claims and interests accept it. A bankruptcy court may do so under the "cramdown" provisions of Bankruptcy Code section 1129(b). In order for a plan to be confirmed under the cramdown provisions, despite the rejection of a class of impaired claims or interests, the proponent of the plan must show, among other things, that the plan does not discriminate unfairly and that it is fair and equitable with respect to each impaired class of claims or interests that has not accepted the plan.

If the proponent of a plan proposes to seek confirmation of the plan under the provisions of Bankruptcy Code section 1129(b), a bankruptcy court must further find that the economic terms of the particular plan meet the specific requirements of Bankruptcy Code section 1129(b) with respect to the subject objecting class. The proponent must also meet all applicable requirements of Bankruptcy Code section 1129(a) (except section 1129(a)(8)). Those requirements include the requirements that (i) the plan comply with applicable Bankruptcy Code provisions and other applicable law, (ii) the plan be proposed in good faith, and (iii) at least one impaired class of creditors or interestholders has voted to accept the plan.

ARTICLE 3
Voting Procedures and Confirmation Requirements

A. Ballots and Voting Deadline

A Ballot for voting to accept or reject the Plan is enclosed with this Disclosure Statement, and has been mailed to Claimholders and Interestholders (or authorized representative) entitled to vote. After carefully reviewing the Disclosure Statement, including all exhibits, each Claimholder or Interestholder (or authorized representative) entitled to vote should indicate its vote on the enclosed Ballot. Each Claimholder and Interestholder (or authorized representative) entitled to vote must (i) carefully review the Ballot and corresponding instructions, (ii) execute the Ballot, and (iii) return it to the address indicated on the Ballot by the deadline for the Ballot to be considered.

The Bankruptcy Court has directed that, in order to be counted for voting purposes, Ballots for the acceptance or rejection of the Plan must be received no later than _____ at _____ p.m. Central Time, at the following address:

MCKOOL SMITH, P.C.
Attn: Kirk Cheney
600 Travis, Suite 700
Houston, Texas 77002
Facsimile: (713) 485-7344

BALLOTS MUST BE RECEIVED AT THE ABOVE ADDRESS NO LATER THAN _____ at _____ P.M. CENTRAL TIME. ANY BALLOTS RECEIVED AFTER THAT DEADLINE WILL NOT BE COUNTED.

B. Claimholders and Interestholders Entitled to Vote

Any Claimholder or Interestholder of the Debtor whose Claim or Equity Interest is impaired under the Plan is entitled to vote if either (i) the Debtor has scheduled the Claimholder's or Interestholder's Claim or Equity Interest (and such Claim or Equity Interest is not scheduled as disputed, contingent, or unliquidated) or (ii) the Claimholder or Interestholder has filed a proof of claim or interest on or before the deadline set by the Bankruptcy Court for such filings. Any holder of a Claim or Equity Interest as to which an objection has been filed (and such objection is still pending) is not entitled to vote, unless the Bankruptcy Court (on motion by a party whose Claim or Equity Interest is subject to an objection), temporarily allows the Claim or Equity Interest in an amount that it deems proper for the purpose of accepting or rejecting the Plan. Such motion must be heard and determined by the Bankruptcy Court before the first date set by the Bankruptcy Court for the Confirmation Hearing of the Plan. In addition, a Claimholder's or Interestholder's vote may be disregarded if the Bankruptcy Court determines that the Claimholder's or Interestholder's acceptance or rejection was not solicited or procured in good faith or in accordance with the applicable provisions of the Bankruptcy Code.

C. Bar Date for Filing Proofs of Claim

The Bankruptcy Court has established October 12, 2012 as the bar date for filing proofs of claim or interests in this Bankruptcy Case, except for governmental entities. The bar date for governmental entities to file proofs of claim in this Bankruptcy Case is December 29, 2012. The Claims neither scheduled as undisputed, liquidated claims, nor filed as timely proofs of claim may be disallowed or subordinated.

D. Definition of Impairment

Under Bankruptcy Code section 1124, a class of claims or equity interests is impaired under a plan of reorganization/liquidation unless, with respect to each claim or equity interests of such class, the plan:

a. leaves unaltered the legal, equitable, and contractual rights of the holder of the claim or interest; or

b. notwithstanding any contractual provision or applicable law that entitles the holder of a claim or interest to receive accelerated payment of his claim or interest after the occurrence of a default:

c. cures any the default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in Bankruptcy Code section 365(b)(2);

d. reinstates the maturity of the claim or interest as it existed before the default;

e. compensates the holder of the claim or interest for damages incurred as a result of reasonable reliance on a contractual provision or applicable law; and

f. does not otherwise alter the legal, equitable, or contractual rights to which the claim or equity interest entitles the holder of such claim or interest.

E. Classes Impaired Under the Plan

All classes of Claims except for Class 3C and 3E are impaired under the Plan. Equity interests, if they exist, are impaired. Therefore, holders of those impaired Claims or Equity Interests are eligible, subject to the limitations set forth above, to vote to accept or reject the Plan.

Holders of Equity Interests are deemed to reject the Plan. The Debtor (a nonprofit charity) is unaware of any Equity Interests existing and therefore has not made provision for them to receive any assets. Instead, any residual recovery above the amount needed for Creditors will be paid to the purchaser of the majority of the Debtor's assets if the majority of the Debtor's assets are acquired by an educational or charitable entity continuing the historic charitable mission of the Debtor or, if the purchaser is not qualified to receive the residual benefit as a charity, then to Southwestern College (or similar entity designated by the Texas Methodist Foundation acceptable to the Plan Agent) in Georgetown, Texas as a *cy pres* distribution for the charitable goal of the College, or such other entity designated by the Plan Agent. The Texas Attorney General reserves its rights to contest the disposition of any residual assets held by or for the benefit of the Debtor and its charitable mission.

All Claimholders will be paid in accordance with the provisions of the Plan.

F. Information on Voting and Ballots

1. Transmission of Ballots to Claimholders and Interestholders

Except as otherwise provided in the Order under 11 U.S.C. § 1125 and Fed. R. Bankr. P. 3017 Approving Disclosure Statement and Fixing Time for Filing Acceptances or Rejections of Plan of Liquidation, entered on _____, Ballots are being forwarded to all Claimholders in those classes eligible to vote. Those Claimholders whose Claims are unimpaired under the Plan (Class 3C and 3E) are conclusively presumed to have accepted the Plan under Bankruptcy Code section 1126(f), and therefore need not vote with regard to the Plan. Under Bankruptcy Code section 1126(g), Claimholders or Interestholders who do not either receive or retain any property under the Plan are deemed to have rejected the Plan. In the event a Claimholder does not vote, the Bankruptcy Court may deem such Claimholder to have accepted the Plan. As the Debtor is a not-for-profit, any Interestholders (if any exist) are deemed to reject the Plan and will not vote.

2. Ballot Tabulation Procedures

For purposes of voting on the Plan, the amount and classification of a Claim or Equity Interest and the procedures that will be used to tabulate acceptances and rejections of the Plan shall be exclusively as follows:

a. If no proof of claim or interest has been timely filed, the voted amount of a Claim shall be equal to the amount listed for the particular Claim in the Schedules of Assets and Liabilities, as and if amended, to the extent such Claim is not listed as contingent, unliquidated, or disputed, and the Claim shall be placed in the appropriate Class, based on the Debtor's records, and consistent with the Schedules of Assets and Liabilities and the Claims registry of the Clerk of the Bankruptcy Court;

b. If a proof of claim or interest has been timely filed, and has not been objected to before the expiration of the Voting Deadline, the voted amount of that Claim shall be as specified in the proof of claim or interest filed with the Clerk;

c. Subject to subparagraph (d) below, a Claim that is the subject of an objection filed before the Voting Deadline shall be disallowed for voting purposes, except to the extent and in the manner that the Debtor indicates in its objection that the Claim should be allowed for voting or other purposes;

d. If a Claim has been estimated or otherwise allowed for voting purposes by order of the Bankruptcy Court, the voted amount and classification shall be that set by the Bankruptcy Court;

e. If a Claimholder or its authorized representative did not use the Ballot form provided by the Debtor or the Official Ballot Form authorized under the Federal Rules of Bankruptcy Procedure, such Ballot will not be counted;

f. If the Ballot is not received by the Debtor on or before the Voting Deadline at the place fixed by the Bankruptcy Court, the Ballot will not be counted;

g. If the Ballot is not signed by the Claimholder (or its authorized representative), the Ballot will not be counted;

h. If the individual or institution casting the Ballot (whether directly or as a representative) was not the holder of a Claim on the Record Date, the Ballot will not be counted;

i. If the Claimholder (or its authorized representative) did not check one of the boxes indicating acceptance or rejection of the Plan, or checked both such boxes, the Ballot will be counted as an acceptance;

j. If no Ballots are received on or before the voting deadline established by the Court with respect to a particular Class of Claims or Equity Interests, then such Class of Claims shall be deemed to have accepted the Plan;

k. Whenever a Claimholder (or its authorized representative) submits more than one Ballot voting the same Claim(s) before the applicable deadline for submission of Ballots, except as otherwise directed by the Bankruptcy Court after notice and a hearing, the last such Ballot shall be deemed to reflect the voter's intent and shall supersede any prior Ballot(s).

3. Execution of Ballots by Representatives

If a Ballot is signed by a trustee, executor, administrator, guardian, attorney-in-fact, corporate officer, or others acting in a fiduciary or representative capacity, such person must indicate his/her capacity when signing and, at the Debtor's request, must submit proper evidence satisfactory to the Debtor of his/her authority to so act.

4. Waivers of Defects and Other Irregularities Regarding Ballots

Unless otherwise directed by the Bankruptcy Court, all questions concerning the validity, form, eligibility (including time of receipt), acceptance, and revocation or withdrawal of Ballots will be determined by the Debtor in its sole discretion, whose determination will be final and binding. The Debtor reserves the right to reject any and all Ballots not in proper form, the acceptance of which would, in the opinion of the Debtor or its counsel, be unlawful. The Debtor further reserves the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot. Unless waived, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtor determines. Neither the Debtor nor any other Person will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots, nor will any of them incur any liability for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots will not be deemed to have been made until any irregularities have been cured or waived. Ballots previously furnished, and as to which any irregularities have not subsequently been cured or waived, will be invalidated.

5. Withdrawal of Ballots and Revocation

Any holder of a Claim or Equity Interest (or authorized representative) in an impaired Class who has delivered a valid Ballot for the acceptance or rejection of the Plan may withdraw such acceptance or rejection by delivering a written notice of withdrawal to counsel for the Debtor at any time before the voting deadline established by the Court.

To be valid, a notice of withdrawal must: (i) contain the description of the Claim(s) to which it relates and the aggregate principal amount or number of shares of membership interests, represented by such Claim(s); (ii) be signed by the Claimholder (or authorized representative) in the same manner as the Ballot; and (iii) be received by counsel for the Debtor in a timely manner at the address set forth in this Disclosure Statement. The Debtor expressly reserves the absolute right to contest the validity of any such withdrawal of Ballot.

Unless otherwise directed by the Bankruptcy Court, a purported notice of withdrawal of a Ballot that is not received in a timely manner by the Debtor will not be effective to withdraw a previously furnished Ballot.

Any Claimholder (or authorized representative) who has previously submitted a properly completed Ballot to counsel for the Debtor before the Voting Deadline may revoke such Ballot and change its vote by submitting to counsel for the Debtor before the Voting Deadline a subsequent, properly completed Ballot for acceptance or rejection of the Plan.

G. Confirmation of the Plan

1. Solicitation of Acceptances

The Debtor is soliciting your vote. The Debtor will bear the cost of any solicitation by the Debtor. No other additional compensation shall be received by any party for any solicitation other than as disclosed to the Bankruptcy Court.

NO REPRESENTATIONS OR ASSURANCES, IF ANY, CONCERNING THE DEBTOR OR THE PLAN ARE AUTHORIZED BY THE DEBTOR EXCEPT THOSE SET FORTH IN THIS DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE BY ANY PERSON TO SECURE YOUR VOTE OTHER THAN THOSE CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED ON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR FOR APPROPRIATE ACTION.

THIS IS A SOLICITATION SOLELY BY THE DEBTOR AND IS NOT A SOLICITATION BY ANY SHAREHOLDER, ATTORNEY, OR ACCOUNTANT FOR THE DEBTOR. THE REPRESENTATIONS, IF ANY, MADE IN THIS DISCLOSURE STATEMENT ARE THOSE OF THE DEBTOR AND NOT OF SUCH SHAREHOLDER, ATTORNEY, OR ACCOUNTANT, EXCEPT AS MAY BE OTHERWISE SPECIFICALLY AND EXPRESSLY INDICATED.

Under the Bankruptcy Code, a vote for acceptance or rejection of a plan may not be solicited unless the claimant has received a copy of a disclosure statement approved by a bankruptcy court prior to, or concurrently with, the solicitation. This solicitation of votes on the Plan is governed by Bankruptcy Code section 1125(b). Violation of Bankruptcy Code section 1125(b) may result in sanctions by the Bankruptcy Court, including disallowance of any improperly solicited vote.

2. Requirements for Confirmation of the Plan

At the Confirmation Hearing, the Bankruptcy Court shall determine whether the requirements of Bankruptcy Code section 1129 have been satisfied, in which event the Bankruptcy Court shall enter an order confirming the Plan. For the Plan to be confirmed, Bankruptcy Code section 1129 requires that:

a. The Plan comply with the applicable provisions of the Bankruptcy Code;

b. The Debtor has complied with the applicable provisions of the Bankruptcy Code;

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

d. Any payment or distribution made or promised by the Debtor or by a person issuing securities or acquiring property under the Plan for services or for costs and expense in connection with the Plan has been disclosed to the Bankruptcy Court, and any such payment made before the confirmation of the Plan is reasonable, or if such payment is to be fixed after confirmation of the Plan, such payment is subject to the approval of the Bankruptcy Court as reasonable;

e. The Debtor has disclosed the identity and affiliation of any individual proposed to serve, after confirmation of the Plan, as a director, responsible officer or voting trustee of the Debtor, an affiliate of the Debtor participating in a joint plan with the Debtor, or a successor to the Debtor under the Plan; the appointment to, or continuance in, such office of such individual is consistent with the Equity Interests of Claimholders and Interestholders and with public policy; and the Debtor has disclosed the identity of any insider that will be employed or retained by the reorganized debtor and the nature of any compensation for such insider;

f. Any government regulatory commission with jurisdiction (after confirmation of the Plan) over the rates of the Debtor has approved any rate change provided for in the Plan, or such rate change is expressly conditioned on such approval;

g. With respect to each impaired Class of Claims or Equity Interests, either each holder of a Claim or Equity Interest of the Class has accepted the Plan, or will receive or retain under the Plan on account of that 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 Debtor were liquidated on such date under chapter 7 of the Bankruptcy Code. If Bankruptcy Code section 1111(b)(2) applies to the Claims of a Class, each holder of a Claim of that Class will receive or retain under the Plan on account of that Claim property of a value, as of the Effective Date, that is not less than the value of that holder's interest in the Debtor's interest in the property that secures that Claim;

h. Each Class of Claims or Equity Interests has either accepted the Plan or is not impaired under the Plan;

i. Except to the extent that the holder of a particular Administrative Claim or Priority Claim has agreed to a different treatment of its Claim, the Plan provides that Administrative Claims and Priority Claims shall be paid in full on the Effective Date or the Allowed Date;

j. If a Class of Claims or Equity Interests is impaired under the Plan, at least one such Class of Claims or Equity Interests has accepted the Plan, determined without

including any acceptance of the Plan by any insider holding a Claim or Equity Interest of that Class; and

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

The Debtor believes that the Plan satisfies all of the statutory requirements of the Bankruptcy Code for confirmation and that the Plan is proposed in good faith. The Debtor believes it has complied, or will have complied, with all requirements of the Bankruptcy Code governing confirmation of the Plan.

3. Acceptances Necessary to Confirm the Plan

Voting on the Plan by each holder of a Claim or Equity Interest (or its authorized representative) is important. Chapter 11 of the Bankruptcy Code does not require that each holder of a Claim or Equity Interest vote in favor of the Plan in order for the Court to confirm the Plan. The Bankruptcy Code defines acceptance of a plan by a class of creditors as acceptance by holders of at least two-thirds in dollar amount and more than one-half in number of the claims of that class that actually cast ballots for acceptance or rejection of the plan; that is, acceptance takes place only if creditors holding claims at least two-thirds in amount of the total amount of claims and more than one-half in number of the creditors actually voting cast their ballots in favor of acceptance. The Bankruptcy Code defines acceptance of a plan by a class of equity interests as acceptance by holders of at least two-thirds in amount of the allowed equity interests of that class. Even if all Classes of Claims and Equity Interests accept the Plan, the Bankruptcy Court may refuse to confirm the Plan.

4. Cramdown

In the event that any impaired Class of Claims or Equity Interests does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Debtor if, as to each impaired Class that has not accepted the Plan, the Plan "does not discriminate unfairly" and is "fair and equitable." A plan of reorganization/liquidation does not discriminate unfairly within the meaning of the Bankruptcy Code if no class receives more than it is legally entitled to receive for its claims or equity interests. "Fair and equitable" has different meanings for holders of secured and unsecured claims and equity interests.

With respect to a secured claim, "fair and equitable" means either (i) the impaired secured creditor retains its liens to the extent of its allowed claim and receives deferred cash payments at least equal to the allowed amount of its claims with a present value as of the effective date of the plan at least equal to the value of such creditor's interest in the property securing its liens, (ii) property subject to the lien of the impaired secured creditor is sold free and clear of that lien, with that lien attaching to the proceeds of sale, and such lien proceeds must be treated in accordance with clauses (i) and (iii), or (iii) the impaired secured creditor realizes the "indubitable equivalent" of its claim under the plan.

With respect to an unsecured claim, "fair and equitable" means either (i) each impaired creditor receives or retains property of a value equal to the amount of its allowed claim, or (ii)

the holders of claims and equity interests that are junior to the claims of the dissenting class will not receive any property under the plan.

With respect to equity interests, "fair and equitable" means either (i) each impaired equity interest receives or retains, on account of that equity interest, property of a value equal to the greater of the allowed amount of any fixed liquidation preference to which the holder is entitled, any fixed redemption price to which the holder is entitled, or the value of the equity interest, or (ii) the holder of any equity interest that is junior to the equity interest of that class will not receive or retain under the plan, on account of that junior equity interest, any property.

In the event at least one Class of impaired Claims rejects or is deemed to have rejected the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any rejecting impaired Class of Claims. As the Equity Interests are in a charitable not-for-profit, the Court will determine that any recovery for the benefit of equity accomplishes a similar charitable purpose by donation to a similar institution, such as Southwestern University in Georgetown, Texas.

The Debtor believes that the Plan does not discriminate unfairly and is fair and equitable with respect to each impaired Class of Claims and Equity Interests.

ARTICLE 4
Background of the Debtor

A. Nature of the Debtor's Mission, Assets and Liabilities and Causes of Bankruptcy

In 1854, Lon Morris College was founded as a not-for-profit religiously affiliated two-year degree granting institution. Over the past 158 years, the College has impacted the lives of countless members of the local Jacksonville community. The College has been affiliated with the United Methodist Church insofar as it received donations from various Methodist institutions. Many Methodist ministers were educated at the College. A significant number of Methodist clergy served on the Board of Trustees at all times.

The Debtor maintained the books and records required to comply with not-for-profit laws and with educational reporting requirements.[2] The Debtor had routine audited financial statements produced annually and audited by Aker & Co., an accounting firm. The audits show that, since 2007, the College began losing money at a rate in excess of $1 Million to $2 Million a year, as shown by the following chart:

[2] The Texas Attorney General has not reviewed all of the Debtor's books and records and therefore reserves the right to question whether the Debtor has complied with all laws and/or requirements.

Fiscal Year Ended July 31	Net Increase (Decrease)
2007	$442,033
2008	$(1,357,086)
2009	$(3,437,516)
2010	$(2,044,335)
2011	$(723,548)
2012*	$(106,053)

* Change in net assets thru April 30, 2012

Contribution revenue decreased, as alumni and donation resources had been over-utilized in an effort to make up for the negative cash flow:

Fiscal Year	Contributions
2007	$2,744,097
2008	$1,492,060
2009	$2,103,361
2010	$2,112,079
2011	$1,334,331
2012*	$790,438

* Contribution revenue through April 2012

The College (which is a tuition-dependent institution) offered significant scholarships to students in an effort to increase enrollment; however, much of the scholarship aid provided was unfunded, meaning it was not supported by donor gifts or endowments, and was merely a discount to the stated tuition. The following chart illustrates the relationship between discount rates and headcount:

Fiscal Year	Gross Tuition	Student Aid	Net Tuition	Discount	Headcount
2007	$5,406,808	$(1,982,537)	$3,424,271	37%	395
2008	$5,397,499	$(2,159,285)	$3,238,214	40%	340
2009	$5,298,574	$(2,452,357)	$2,846,217	46%	818
2010	$13,960,774	$(7,437,949)	$6,522,824	53%	1,070
2011	$15,655,083	$(7,328,782)	$8,326,301	47%	931
2012	$9,686,877	$(3,654,009)	$6,032,868	38%	547

As the number of students paying tuition at full rate continued to decline, the College accepted more students with Pell grants. Pell recipients are at a higher risk of failure to complete degree requirements and indicate a higher degree of financial need.

These new students also occasioned a dramatic increase in accounts receivable and bad debts. As poor policies and controls allowed students to continue to remain enrolled in classes

and receive grades and transcripts, without satisfying their bill, a student accounts receivable balance in excess of $1 Million was generated, much of which is expected to become bad debt.

The College was not prepared for the additional students it enrolled, particularly with respect to dorm space. To accommodate the increased enrollment, the College built and acquired additional buildings and dorms and leased a local hotel by taking on additional debt.

The College had significant staff. In 2011, the College employed a total of 42 full-time and 16 adjunct professors. However, the College was unable to pay competitive salary to those professors because of its cash flow issues, which impacted its ability to attract and retain high quality faculty.

According to its books, on April 30, 2012, the College had approximately $35 Million in assets, including $11 Million in endowments and restricted funds, and approximately $18 Million in funded debt and $2 Million in trade and other liabilities. Most of the endowments were either pledged as collateral against long term debt or restricted for purposes that made the funds unavailable to the Debtor for general operating needs. The College had limited unrestricted cash available and would not generate any significant additional cash until the fall semester commenced. The Debtor had systemic problems, and had been operating at a considerable loss for several years prior to this bankruptcy. The donor base was no longer willing to provide the necessary support without a plan to show improvement.

The College's intangible assets consisted of mostly beneficial interests in foundations, bequests, and mineral rights. The College's real property holdings were substantial, consisting of nearly 112 acres of buildings, practice fields, a library, a chapel, parking lots, a rodeo arena, neighboring real estate, a cafeteria, a band hall, an administration building, class buildings of differing sizes, a student center, and similar real property. The College also owned unique items of personal property such as an antique Texas revolution musket, artwork, and historical documents.

In addition to approximately $2 Million in trade debt, the College had several secured and unsecured loan facilities, which are summarized in the chart below, as of April 30, 2012:[3]

[3] These numbers are upon information supplied by the Debtor and may be inaccurate.

Description	Original Date	Maturity Date	Collateral Description	Prin Balance	Current Rate
Amegy	4/10/2006	4/10/2016	Certain Endowmts & RE	$ 5,983,285	3.50
Lodge Capital Lease	4/1/2011	1/1/2030	Lodge	$ 3,236,650	
TNB-Combined Note (2-1-2012)	2/1/2012		Athletic Facility/Oil&Gas Royalties	$ 2,789,932	
Long Endowment	8/1/2010			$ 1,092,796	5.90
UMF Line of Credit	12/1/2008	11/1/2014	Guar by Tex An Conf	$ 1,000,000	6.50
Scurlock Swap Note	2/14/2011	3/15/2016	Endw Accts at Heartspring	$ 992,000	5.50
Archive Mgmt/Bailey - Landmark	8/30/2010	8/30/2030	Landmark	$ 887,978	
Scurlock Line of Credit	5/22/2009	9/15/2012	2nd lien on Amegy Collateral	$ 500,000	0.00
Smith Duplexes	8/4/2010	8/5/2030	Smith Duplexes	$ 498,285	5.90
University (CalFirst) Lease	7/31/2010	10/1/2013	WIFI & Equipment	$ 354,792	
Austin Bank Cottages Notes	5/13/2011	5/28/2014	8 Cottages	$ 342,053	5.00
Scurlock - Short Term Note	12/14/2010	9/15/2011		$ 250,000	0.00
N/P GBHEM (Temp Loan)	4/14/2011			$ 250,000	
Miles McCall (loans & deferred comp	Various			$ 155,464	
Austin Bk-LOC-Cole Scholarship	6/23/2011	6/23/2012	Personal CD's of Trustees	$ 99,000	4.25
StateFarm Jones Insurance	5/21/2009		Cash Sur Val of Policy	$ 66,262	-
Gym Roof-TMF	2/7/2010	1/7/2013	Gym Roof	$ 30,433	5.00
Hawkes Learning Systems	7/1/2010	9/15/2012	PC Equipment	$ 21,469	12.00
				$ 18,550,398	

As the chart shows, most of these loans were made in 2009 through 2011, during the College's expansion stage. Several of these loans were made by supporters of the College.

There is significant information available about the Debtor's assets and liabilities in the Debtor's Schedules and Statements of Financial affairs, filed of record in this Bankruptcy Case. Likewise, the Debtor has filed Monthly Operating Reports of its receipts and expenditures of funds on a monthly basis. For information about the liabilities of the Debtor, one may also consult the Claims Register maintained by the Clerk of the Bankruptcy Court. The official Claims Register lists the proofs of claim on file and the nature of those claims. The actual proof of claims forms are also available. These documents (and more) are available from the Clerk of the Bankruptcy Court upon request.

In February 2012, Texas National Bank ("TNB") restructured obligations with the Debtor and cross-collateralized by security interests on mineral interests held by the Debtor.[4] Those mineral interests consist of numerous small participating and non-participating interests in oil and gas wells in Texas and neighboring states. The Debtor received irregular income of approximately $15,000 a month from that source. Before the bankruptcy, TNB instructed the operators to forward payments to it. Some of the mineral rights are now in suspense. During the bankruptcy, TNB turned over funds collected by it on the petition date. Those funds are now held in a segregated account by the Debtor under a letter agreement with TNB.

In early 2012, many members of the College's Board of Trustees quit. The Comptroller quit in February 2012. The President of the College, Dr. Miles McCall, resigned in May 2012. The College had failed to pay employees for three payroll periods by May 14, 2012.

On May 14, 2012, Dawn Ragan of Bridgepoint Consulting was engaged by the College's Board of Trustees as Chief Restructuring Officer ("CRO") at the College to evaluate

[4] A list of those mineral interests is available upon request from the Debtor's counsel. The Debtor has no determination of value for those interests and thus relied on the book value shown on the publicly filed schedules of assets.

reorganization options. She was forced to immediately furlough the vast majority of the staff with the hope the layoffs would not be permanent if the College could be sold as a going concern. Ms. Ragan is a turnaround consultant, whose staff assisted with the reorganization analysis. The reorganization analysis concluded that the College could not continue to operate and must be sold, ideally as a going concern, otherwise as an asset sale.

Lacking funds to operate sufficiently or conduct a sale or fund a chapter 11, unable to raise debtor-in-possession ("DIP") financing and with certain foreclosure actions pending, the Debtor intended to file a petition for bankruptcy liquidation under chapter 7. Prior to any chapter 7 petition, Amegy Bank, a senior secured lender, agreed to fund a limited short term DIP loan to permit the Debtor to file chapter 11 and propose a sale as a going concern.

Capstone Partners LLC ("Capstone"), an investment banking and financial advisory firm, was employed to market the Debtor as a going concern. Capstone began contacting prospective purchasers and compiling marketing materials. During the Bankruptcy Case, the Debtor (with Capstone) attempted to find purchasers to acquire an operating college. Operations were modified from previous programs, including the elimination of athletic programs and unfunded scholarship aid, so that the Debtor could remain cash neutral and not incur further losses from operations.

On August 2, 2012, the Department of Education ("DOE") issued an emergency revocation order revoking the Title IV status of the College solely because of the Debtor's bankruptcy. The order prohibited the Debtor from participating in federal tuition financing programs. As a tuition-dependant institution, this would be fatal unless reversed. The Debtor sought emergency relief from the Bankruptcy Court to reverse the decision as an illegal revocation of a license solely because of bankruptcy, explicitly prohibited by 11 U.S.C. § 525. The Bankruptcy Court held that Bankruptcy Code Section 525 and the Higher Education Act were conflicting and irreconcilable federal statutes, and found for the DOE.

The result of the Bankruptcy Court's decision was that the Debtor could not enroll a fall class. Students were dependent upon federal aid and would be unable to pay for their education; the Debtor would have no receipts and would be unable to pay faculty and operating expenses. The Debtor was forced on an emergency basis to transfer its students to other colleges and suspend the fall semester, while it continued to attempt to sell itself as a going concern, to no avail. After discussions and meetings with secured lenders, the Debtor proposed the Auction under the Auction Procedure with a sale confirmed through a plan of reorganization that permits the Debtor to dispose of its assets.

In the sale of the Debtor and its assets, it is possible that a new purchasing entity may acquire the Debtor's assets to continue in the mission of the Debtor. That may include non-profit entities and even Methodist-affiliated non-profit educational entities. As a result, there is the potential that the Debtor and/or its educational mission may continue after the asset sale. The foundations/endowments/trusts and similar entities that hold money for the Debtor's benefit will continue to do so pending resolution (as detailed later herein). The Texas Attorney General reserves its rights to contest the disposition of any endowments or restricted or charitable assets held by or for the benefit of the Debtor and its charitable mission.

The CRO and Capstone agreed the assets could not be sold as a going concern and the Debtor should engage a real estate auctioneer as soon as possible. The Debtor contacted auctioneers and selected one to perform the Auction of the Debtor's real estate and certain associated personal property. The Auctioneer's expenses are subject to Bankruptcy Court approval under 11 U.S.C. §330.

B. Professionals Retained in the Bankruptcy Case

1. Professionals Retained by the Debtor

Pursuant to orders entered by the Bankruptcy Court, the Debtor retained certain Professionals to represent its interests in the Bankruptcy Case. In particular, the Debtor retained the law firm of McKool Smith, P.C. ("McKool Smith") as its special bankruptcy counsel in connection with the Bankruptcy Case. Tim Webb was originally retained for routine general bankruptcy advice but has had scheduling conflicts and resource constraints requiring more work from McKool Smith than originally contemplated.

As stated above, Ms. Ragan was employed prepetition as CRO of the Debtor and has been compensated on an hourly basis at $300 per hour. The Court gave the CRO broad limitations of her liability as part of her employment. Since being engaged, she has diligently used her skills in an effort to provide a positive outcome for Creditors.

As described above, the Debtor employed Capstone to market and sell the College as a going concern. The terms of the employment are described in the engagement agreement, but generally consisted of a retainer paid pre-bankruptcy and a 3% commission on any transaction they originated, subject to a minimum dollar figure. Since the termination of Capstone's services, the Debtor has discussed paying Capstone a commission on certain buyers Capstone engaged in active discussions with prior to termination of the investment banking process.

2. Professional Fees and Expenses

Based on current information, the Debtor reasonably believes that it will incur Professional fees and expenses in the approximate total amount of $600,000 in the Bankruptcy Case prior to confirmation of the Plan, though this number could be higher depending upon the level of litigation or other unanticipated requirements in the Bankruptcy Case. The total amount of professional fees and expenses ultimately incurred by the Debtor is dependent, at least in part, on contingencies that are outside the Debtor's control, including activities by third parties in any litigation involving the Debtor, claims by the Debtor, and other issues. The above amount is merely provided as an estimate, and shall not be construed as a limitation on the total amount of professional fees and expenses that can be incurred by the Debtor.

The professional fees were increased as a direct result of the investigation by the Attorney General and the Debtor's independent duty to inquire as to the circumstances surrounding the use of a certain $1 Million endowment fund.

The Debtor does not have sufficient information to be able to estimate the total amount of Professional fees and expenses that may be incurred by the Plan Agent or any other party entitled to have their Professional fees and expenses paid by the Debtor.

C. The Debtor-in-Possession Financing

As referenced above, the Debtor did not have enough cash on hand to file a chapter 11 bankruptcy. The Debtor owed a significant amount of unpaid employee wages, a secured lender was about to foreclose on a dormitory, the utility companies were terminating service, and there was no money to pay teachers and staff to open in the fall.

Prior to the Petition Date the Debtor made inquiries of several new banks and investment companies seeking post-petition financing. The Debtor also contacted certain existing pre-petition secured banks. The Debtor eventually entered into substantive discussions with Amegy Bank, and the Debtor, in consultation with its legal and financial advisors, negotiated and entered into a Credit Agreement with Amegy Bank to provide debtor-in-possession financing.

In the Credit Agreement, Amegy Bank offered an additional loan of $750,000 ("DIP #1") that would allow the College to enter bankruptcy and market itself as a going concern. The Credit Agreement was signed on June 28, 2012. The College's voluntary chapter 11 petition was filed four days later. Immediately with the petition, the College sought authority to approve the loan as a Debtor-in-possession loan. As additional collateral, the College pledged four dormitories and one additional building, and provided Amegy Bank with protection against the diminution of cash collateral held on the Petition Date. The Court approved the Credit Agreement by Final Order entered on July 24, 2012.

The Debtor is currently in discussions with a syndicate of lenders led by Amegy as agent to provide a second debtor-in-possession financing facility in the amount of $500,000 ("DIP #2). The participants in this lending facility are Amegy, Heartspring United Methodist Foundation, the Scurlock Foundation and Martha Squibb, chairwoman of the board. The purpose of this facility is to enable the Debtor to complete the auction and sale process. Interest will be charged at 10%, and due at maturity of March 31, 2013 (unless extended). The repayment of DIP #2 will be secured by a first priority lien and security interest on certain of the Debtor's currently unencumbered assets, as follows:

Cole Learning Center, 410 Tilley, Jacksonville, TX;

Athletic Coaches Office, 404 Devereaux, Jacksonville, TX;

Chaplain's Home, 409 Tilley, Jacksonville, TX;

Student Center, 502 Devereaux, Jacksonville, TX; and

Visual Arts Building, 905 College, Jacksonville, TX. (Currently the Debtor is negotiating on this building and it may end up excluded from DIP #2.)

DIP #2 will also be secured by a second lien in the Debtor's currently encumbered property, as well as a superpriority administrative expense claim *pari passu* with DIP #1's current superpriority claim. The Debtor and Amegy are drafting documentation of the DIP #2

facility, which should be filed concurrently with this Disclosure Statement.[5] The Debtor will file a motion and schedule a hearing to approve DIP #2 in the future. Any objections to the amount, advisability, or application of the DIP #2 funds will be addressed at that hearing.

D. Secured Creditors' Positions and the Proposed Auction

Much of the Debtor's real property in Jacksonville, Texas is secured by a loan to one entity or another. See map attached as **Exhibit B**. The map is not to scale and may contain inaccuracies, but graphically demonstrates the nature of the secured lenders' real estate collateral—intertwined and of limited use in separate parcels.

Thus, if the secured lenders foreclose, they might hold a dormitory with no dining facilities, or a classroom with no parking lot, or a sports facility with no college. Before proposing the Auction and this Plan, the Debtor met with representatives of all the major secured lenders. Amegy Bank, N.A. and the Scurlock Foundation, both secured creditors, have agreed to the Auction, with no credit bidding, in a multi-step process that includes offering parcels separately to establish a proportional value of each parcel, as well as offering the parcels as a complete single unit, which should obtain the most interest.

The Debtor interviewed auctioneers and chose Tranzon Auction Solutions to market and auction the Debtor's real property in a no-reserve cash auction as outlined above. The Debtor subsequently ended its engagement with Tranzon and retained Ameribid as auctioneer. The Plan proposed herein will use the proceeds of the Auction to create Reserves for Unsecured and Priority Unsecured Creditors, administrative expenses, and pay each secured Creditor the applicable portion of the fair value of its Claim after reserves and sale expenses. The Plan Agent created by the Plan will take control of the Debtor's beneficial interests in the endowments and charities, all the other assets of the Debtor, and the rights of the Debtor, including rights to litigation.

The procedures for the Auction are generally set forth in the Auction Procedures Motion, filed in the Bankruptcy Case as Docket #___ (to be filed before November 15, 2012).[6] These procedures require bidders to disclose the identity of any principals, show proof of qualification to consummate the sale, produce a cashier's check for $100,000 and a written bid to appear at the auction. The bidders would then participate in an auction that prohibited intra-bidder collusion and that offer parcels for the whole and a part of the campus. Bidders on the whole of the campus would allocate a portion of their bid on to separate parts into order to facilitate offers on the separate parts and a fair allocation of collateral proceeds. The Debtor maintains control of the Auction, but the United States Trustee may send one representative to observe (but not participate).

The proposed auction would presume a sale of a single unit, but will determine the value of separate units by holding at least one stage of collateral-specific lot bidding. For example, if

[5] The motion to approve DIP #2 has not been filed and the arrangement has not been discussed with counsel for the Texas Attorney General's Office. At this time, the Texas Attorney General anticipates objecting to DIP #2.

[6] The motion to approve Auction Procedures has not yet been filed and the Texas Attorney General anticipates objecting to the auction procedures motion based on its current understanding following discussions with the Debtor.

there were a bid of $10 Million on the entire property, then the secured lenders and unsecured creditors still need a mechanism to divide the proceeds. The proposed auction would seek a bid on the entirety, but it would also offer each lender's assets up separately in a cash-only no-reserve, non-credit bid auction. In this procedure, the free market determines the value of each lender's collateral and the unencumbered property. As a hypothetical example: the assets of lender 1 might be bid for at $1 Million, Lender 2 at $2 Million, and the unencumbered property at $500,000. The $10 Million hypothetical proceeds would first fund the Reserves (needed to confirm the Plan and ensure some recovery to Unsecured Creditors) and any blanket DIP loan lien; the remainder would then be split proportionally—with Lender 1 receiving 2/7^{ths}, lender 2 receiving 4/7^{ths}, and the unsecured receiving 1/7th of the amount remaining, up to the amount of their Allowed Secured Claim. Conversely, if the unsecured assets were bid for $1 Million, Lender 1's collateral were bid at $500,000, and Lender 2's collateral were bid at $500,000, then the Unsecured Creditors would receive half of the proceeds (after the Reserves and blanket DIP liens were funded). Finally, if the unitary bid were $8 Million, but Lender 1 received a bid for its collateral of $6 Million, Lender 2 received a bid for its collateral of $2 million, and the Unsecured Creditors received a bid for $800,000 then (after funding the Reserves and any blanket DIP liens from the proceeds in proportion to the amount of the bids) the Property would be sold separately and the Unsecured Creditors would receive $800,000 net of Plan Costs. There is the potential that nobody would bid, but as this Auction is without reserve that is unlikely.

In connection with the Debtor's application to employ an auctioneer, the City of Jacksonville filed an objection to the sale of certain property without its consent. In resolution of that objection, the Debtor agreed to incorporate the following statement into this disclosure statement, though the Debtor does not necessarily adopt, approve, stipulate or agree to it:

> "On or about August 7, 2009, the City of Jacksonville, Texas (the "City") donated certain property to Debtor Lon Morris College ("Debtor"). The property conveyed to the Debtor consisted of a number of different parcels of real property and all accompanying buildings and structures thereon (collectively, the "Donated Property"), including the following: (a) the rodeo grounds and arena, located at 736 Mulberry; (b) the RV parking/connections, located at 736 Woodlawn; (c) the defense football field, located at 913 Peeples; (d) the basketball court, located at 905 Peeples; (e) the recreation center, located at 903 Peeples; and (f) the animal pound, located at 739 Woodlawn.
>
> The Donated Property was conveyed by the City to the Debtor pursuant to a Special Warranty Deed. The Special Warranty Deed, which the Debtor executed, stipulates that title to the Donated Property "immediately revert[s] to and vest[s] in the City of Jacksonville, Texas" in the event the Debtor either (a) fails to construct or install certain improvements on the Donated Property, the value of which shall equal $250,000; or (b) conveys the Donated Property prior to the construction or installation of the above-described improvements.
>
> To date, the Debtor has failed to construct or install the requisite improvements and, given the bankruptcy filing and the proposed

> liquidation of the Debtor, the City does not believe that the Debtor will ever be able to construct the requisite improvements.
>
> On October 22, 2012, the City filed an Objection to the Debtor's initial application to employ an auctioneer, highlighting the most significant parcel conveyed to the Debtor—the rodeo grounds—and objecting to the auctioneer application to the extent that the Debtor sought to sell the rodeo grounds in violation of the language in the Special Warranty Deed. The Debtor subsequently withdrew its initial application and, on October 25, filed an amended application to employ. In response to the City's arguments, the Debtor has now agreed that it will not sell any of the Donated Property without the City's consent.
>
> In light of this agreement, the City has agreed to allow the Debtor to market the Donated Property, but the City reserves and retains its right to consent (or not consent) to any sale of the Donated Property. Further, absent the express consent of the City, no sale or other conveyance of any of the Donated Property may contravene the provisions of the Special Warranty Deed. The City believes that absent its express consent, any attempt by the Debtor to sell or convey the Donated Property in contravention of the Special Warranty Deed would result in title to the Donated Property vesting in the City." [End of City of Jacksonville Statement]

The Debtor would also note in response that the City of Jacksonville permitted the required $250,000 in modifications to be made over a seven year period, which time will not expire until 2016. Thus, the Debtor's position is that such improvements may be made in the future by the new tenant or owner of the premises. The Debtor believes that it is not forbidden from leasing the premises, and indeed *is* leasing the premises. Accordingly, it is the Debtor's position that it could retain title and lease the premises to a tenant who completes the improvements by 2016. The City of Jacksonville does not agree with the Debtor's position. The Debtor still intends and has agreed on the record to seek the consent of the city to any transaction.

The City has an annual rodeo, held on the rodeo grounds and put on by the Jacksonville Rodeo Association. At present, the Debtor does not intend, through its contemplated auction or otherwise, to take any action to cancel or adversely impact the rodeo.

E. Existing and Potential Litigation/Proceedings

1. *Dell Marketing LP vs. Lon Morris College*; Cause No. 12-0321-C368 in the 368th Judicial District Court, Williamson County, Texas. This is a collection suit against the Debtor and will be dismissed upon the Confirmation Date as all Allowed Claims against the Debtor will be converted into Beneficial Interests for the Plaintiff. The Claim is for $19,000.

2. *S.S.M., LLC vs. Lon Morris College*; Cause No. 2011-06-0480 in the 2nd Judicial District Court, Cherokee County, Texas. This is a breach of contract suit that will be dismissed upon the Confirmation Date as all Allowed Claims against the Debtor will be converted to Beneficial Interests for the Plaintiff. The Debtor believes the litigation is baseless and causes no liability.

3. *Third Party Actions* Actions may be taken by third parties such as the Attorney General of Texas, Department of Education, private donors, or other persons against officers or members of the Board of Trustees, lenders, trustees of Foundations, Foundations, Endowments, Trusts, Creditors and Codebtors of the Debtor based on alleged wrongs that predate bankruptcy Planning. These may be litigation or administrative proceedings/ The Debtor is not expected to be a party to those actions as all claims against the Debtor shall be dealt with by the Plan and Bankruptcy claims allowance process and the Debtor is otherwise discharging all claims in the Plan.

F. Miscellaneous Potential Litigation

The Debtor has investigated and is still investigating the potential that the Debtor, as trustee, may have borrowed or taken funds from endowments, foundations, or other gifts that were restricted. The Plan Agent may pursue this litigation. The claims of the endowments, foundations, or donors for improper use of restricted gifts would give rise to potential Unsecured Claims against the Estate. As the bar date for governmental entities has not run, the Debtor may also face potential liability for regulatory issues for actions taken while an active college, though no regulatory claims are currently known.

TNB has posted a standby letter of credit for the benefit of the Department of Education should it make a claim under the terms of that letter of credit. Under the Plan, the Debtor retains the right (but not the obligation) to object to any actions taken by the Department of Education and seek return of monies. In the event money is taken under the letter of credit and returned, the money would be returned to the Debtor after payment of all bank properly chargeable bank expenses. The Department of Education also has previously consented to give notice and to certain other conditions and restrictions in the event of an intended draw under the TNB Letter of Credit. Those restrictions will remain after confirmation. The Debtor is not aware of any conditions justifying the default or draw with relation to the letter of credit. If one exists, it must be asserted before the applicable bar date.

The Debtor is owed over $1 Million from former students. It does not believe these sums are collectable. The charitable nature of the school would generally not support suing former students for tuition. Nevertheless, the Plan reserves all of the Debtor's right to commence collection suits for unpaid tuition, including selling the claims and placing those rights with collection companies. Also the Debtor is aware there may be potential claims against contractors and subcontractors who worked on the construction of the athletic facility and certain dormitories (including "the Lodge") between 2009 and the present. The Debtor has agreed to permit the lender of the Lodge to foreclose on it. The Plan will preserve the rights of the Debtor to pursue those claims, or seek offset against any deficiency claim of the Lodge lender.

As set forth in the Plan, the Debtor has potential claims against anyone who was an officer or director or trustee of the Debtor at any time before the bankruptcy. The Plan Agent may pursue any relevant officer or employee of the Debtor for misuse of endowment funds. The Plan preserves all the Debtor's rights against all insiders except as specifically released. Unless specifically released in writing, no claims by the Debtor are released. The Debtor proposes, to encourage board members to assist in the participation of the case, that certain board members receive a release for work in connection with the Debtor and its Case. Specifically, the Plan contains the following limited release language:

> **Except as provided in this section, no Claimholder or Interestholder or other party in interest, none of their respective agents, employees, representatives, financial advisors, attorneys or affiliates, and no successors or assigns of the foregoing, shall have any Rights of Action, claim, cause of action, or other legal or equitable right against the following parties for any act or omission in connection with, relating to, or arising out of the decision to file bankruptcy, the Bankruptcy Case, the pursuit of confirmation of the Plan, the consummation of the Plan, the administration of the Plan or the Property to be distributed under the Plan, except for their fraud or willful misconduct:**
>
> - **the Debtor;**
> - **Certain members of the Debtor's Board of Trustees in their representative capacity;**[7]
> - **the Professionals retained in the Bankruptcy Case;**[8] **and**
> - **any of such parties' agents, and any of such parties' successors and assigns.**
>
> **In all instances, the above-referenced parties shall be and have been entitled to reasonably rely on the advice of counsel with respect to their duties and responsibilities in connection with the Bankruptcy Case and under the Plan.**
>
> **The CRO of the Debtor has considered that the good faith and uncompensated actions of the specifically-named members of the Board of Trustees and the Scurlock Foundation, in giving honest and charitable assistance to the Debtor, should render them free from suit for their actions while acting to assist the Debtor. Therefore the Plan**

[7] Such Board members include Martha Squibb, Dr. Jim Bankston, Judy Bartay, Helen Dubcak, Russ Frank, Dr. Emory Lane, Tim McRae, Dr. Jack Nelson, Nedra Oyen, Rev. Nick Sholars, Robert Staton, Jr., Sandy Smith, Tim Turner and Charles Hill, Bill Wagner; John Kroll; Jim Crawford; June Deadrick; Rev. Tommy Williams, and Bishop Janice Huie. This also includes, for convenience, Jack Blanton Jr., an advisory board member who has contributed to the school with the assistance of the Scurlock Foundation and who has provided financing for DIP #2.

[8] Such Professionals include McKool Smith P.C.; Webb & Associates; Bridgepoint Consulting LLC; Capstone Partners; and AmeriBid LLC.

will propose to exculpate and release these specifically named Trustees and the Scurlock Foundation from any suit relating to their prebankruptcy operation of the Debtor.

Notwithstanding the forgoing, the Confirmation Order shall preserve the claims of certain governmental units as follows: Notwithstanding anything to the contrary in the Plan of Liquidation or Confirmation Order, nothing in this Confirmation Order shall release any individual or entity (except Debtor's counsel, the Chief Restructuring Officer and Professionals retained in the bankruptcy case) from any claim that could be brought by the Texas Office of Attorney General, Texas State University System or any other Texas state 'governmental unit' as defined under 11 U.S.C. § 101(27).

The Exculpation above shall not apply to Dr. Miles McCall, Lynn Acker or Acker & Co., the auditors for the Debtor pre-petition, or any foundation, charity, or similar entity holding funds for the benefit of the College or its staff. The Debtor is investigating whether potential claims may exist against them and reserves all Rights of Action against them, including (but not limited to) Rights of Action for breach of duty, negligence, malpractice, negligent misrepresentation, fraudulent transfer, Avoidance Action and any other Right of Action.

The Plan reserves the rights of the Texas Office of Attorney General, Texas State University System (TSUS) and/or other governmental units in Texas to assert claims under either the Comprehensive General Liability Policy and/or the Directors and Officers Liability Policy for, *inter alia*, breach of fiduciary duty by the Debtor and/or its Officers and/or Directors. Debtor reserves all of its defenses to such claims if/when asserted.

G. Preference and Other Avoidance Litigation

During the 90-day period immediately preceding the Petition Date, the Debtor made various payments and other transfers while insolvent to creditors on account of antecedent debts. In addition, during the one-year period before the filing date, the Debtor made certain transfers to, or for the benefit of, certain "insider" creditors. Some of those payments may be subject to avoidance and recovery by the Estate as preferential and/or fraudulent transfers pursuant to Bankruptcy Code sections 329, 544, 547, 548 and 550. Under Bankruptcy Code section 1123(b)(3)(B), the Debtor operated by the Plan Agent, on behalf of holders of Allowed Claims and Allowed Equity Interests, shall retain all Rights of Action, claims, causes of action, and other legal and equitable rights that the Debtor has (or had power to assert) immediately prior to Confirmation of the Plan, including Avoidance Actions under Bankruptcy Code sections 329 and 550, or transfers avoidable under Bankruptcy Code sections 544, 545, 547, 548, 549 or 553(b), and the Plan Agent may commence or continue, in any appropriate court or tribunal, any suit or other proceeding for the enforcement of such actions. All Rights of Action, claims, causes of action, and other legal or equitable rights shall become Property available for recovery for the benefit of creditors. All recoveries from the above-referenced actions will become Property

available for recovery for the benefit of creditors, and will be distributed to holders of Allowed Claims and Allowed Equity Interests in accordance with the Plan.

With respect to any potential avoidance actions, the likelihood of successful recovery must be weighed against the legal fees and other expenses that would likely be incurred by the Estate in determining whether to pursue legal remedies for the avoidance and recovery of any transfers. Inasmuch as the Debtor's investigation of such payments is in the nascent phase, it is unable to provide any meaningful estimate of the total amount that could be recovered. The Debtor's Statement of Financial Affairs on file with the Bankruptcy Court identifies the creditors and insiders who received transfers from the Debtor during the applicable periods as well as the corresponding amount of those transfers. Each of the transfers may constitute an avoidable preference and/or fraudulent conveyance.

Additionally, the Plan specifically preserves causes of action against TNB to avoid the imposition of a lien and incurrence of an obligation in February 2012, which may have been made without reasonably equivalent value while the Debtor was insolvent, or with actual intent to hinder, delay or defraud the Debtor's creditors. TNB modified the debts and liens relating to the Debtor with respect to a building and oil and gas mineral interests. The incurrence of an obligation or lien without reasonable equivalent value may be avoided under Bankruptcy Code sections 544, 548, 550 and 551 and/or the Texas Uniform Fraudulent Transfer Act. If avoided the entire proceeds from the liened property would be preserved for unsecured creditors under Bankruptcy Code section 551.

ARTICLE 7
Description of the Plan

A. Introduction

A summary of the principal provisions of the Plan and the treatment of Classes of Allowed Claims and Allowed Equity Interests is set out below. The summary is entirely qualified by the specific provisions of the Plan. The following is only a summary of the terms of the Plan; it is the Plan and not the Disclosure Statement that governs the rights and obligations of the parties. The Plan is attached as **Exhibit C**.

B. Designation of Claims and Equity Interests

The following is a designation of the Classes of Claims and Equity Interests under the Plan. In accordance with Bankruptcy Code section 1123(a)(1), Administrative Claims, Professional Fee Claims, and Priority Unsecured Tax Claims have not been classified and are excluded from the following classes. A Claim or Equity Interest is classified in a particular Class only to the extent that the Claim or Equity Interest qualifies within the description of that Class, and is classified in another Class or Classes to the extent that any remainder of the Claim or Equity Interest qualifies within the description of such other Class or Classes. A Claim or Equity Interest is classified in a particular Class only to the extent that the Claim or Equity Interest is an Allowed Claim or Allowed Equity Interest in that Class and has not been paid, released, or otherwise satisfied before the Effective Date; a Claim or Equity Interest that is not an Allowed Claim or Equity Interest is not in any Class. Notwithstanding anything to the contrary

contained in the Plan, no Distribution shall be made on account of any Claim or Equity Interest that is not an Allowed Claim or Allowed Equity Interest.

Class 1	Allowed Secured Claims of Taxing Authorities
Class 2	Allowed Convenience Claims of Less than $1,000
Class 3A	Allowed Secured Claims of Amegy Bank
Class 3B	Allowed Secured Claims of TNB
Class 3C	Secured Claims of Tilley LLC
Class 3D	Allowed Secured Claims of the Scurlock Foundation
Class 3E	Secured Claims of Austin Bank, NA
Class 3F	Allowed Secured Claims of all other Secured Claimants
Class 4A	Allowed Priority Unsecured Non-Tax Claims
Class 4B	Allowed General Unsecured Claims
Class 5	Allowed Subordinated Claims
Class 6	Equity Interests

Claims in all Classes except 3C and 3E are impaired under the Plan. Claimholders in Classes 1, 2, 3A, 3B, 3D, 3F, 4 and 5 are entitled to vote to accept or reject the Plan. Interestholders (if any exist) may not vote and are deemed to reject the Plan.

C. Treatment of Claims and Equity Interests

1. Treatment of Unclassified Claims

a. **Payment of Administrative Claims, Professional Fee Claims, and Priority Unsecured Tax Claims.** Administrative Claims are Claims for any cost or expense of the Bankruptcy Case allowable under Bankruptcy Code sections 503(b) and 507(a)(1). Those expenses include all actual and necessary costs and expenses related to the preservation of the Estate or the operation of the Debtor's business, all claims for cure payments arising from the assumption of Executory Contracts under Bankruptcy Code section 365, and all United States Trustee quarterly fees. Under the Plan, Allowed Administrative Claims incurred through the Confirmation Date shall be paid by the Plan Agent from the Administrative Expense Reserve within 10 days following the Allowance Date.

Professional Fee Claims are Claims for compensation and reimbursement of expenses by Professionals to the extent allowed under the Bankruptcy Code and Bankruptcy Rules. Allowed Professional Fee Claims incurred through the conclusion of the Closing shall be paid by the Plan Agent within 10 days following the Allowance Date: (i) first from the balance of any retainers held by Professionals until fully exhausted, and (ii) then from the Administrative Expense Reserve. Any Professional Fee Claims incurred by any Professionals retained by the Debtor related solely to the Closing, but arising after the conclusion of the Closing, shall be paid by the Plan Agent from Available Cash as a Cost, without further application to the Bankruptcy Court, and such payment shall be made prior to any Distributions to Class 4A, 4B, 5 Claimholders and Class 6 Interestholders.

Priority Unsecured Tax Claims are unsecured Claims of Governmental Units that are entitled to priority status under Bankruptcy Code section 507(a)(8). Allowed Priority Unsecured Tax Claims shall be paid by the Plan Agent from the Priority Unsecured Claims Reserve within 10 days following the Allowance Date. The Debtor has scheduled Priority Unsecured Tax Claims in the approximate amount of approximately $16,300.

b. **Bar Dates for Unclassified Claims.** All requests for payment of Administrative Claims arising on or before the Confirmation Date (except those noted in the following paragraph) must be filed with the Bankruptcy Court and served on the Debtor and the United States Trustee within 10 days after the Effective Date, or by such earlier deadline that may govern a particular Administrative Claim pursuant to an order of the Bankruptcy Court entered before the Confirmation Date. Any Administrative Claim (except those noted in the following paragraph) for which an application or request for payment is not filed within the above-referenced time period shall be discharged and forever barred, and shall not be entitled to any Distributions under the Plan.

All requests for payment of Professional Fee Claims arising on or before the conclusion of the Closing must be filed with the Bankruptcy Court and served on the Debtor and the United States Trustee within 30 days after the Effective Date. Any request for payment of an Administrative Tax Claim must be filed with the Bankruptcy Court and served on the United States Trustee and Plan Agent by the later of (i) 30 days after the Effective Date, or (ii) 90 days after the filing of any required tax return relating to the Administrative Tax Claim. The Debtor is currently unaware of any Administrative Tax Claim but is still in the process of investigating any such Claims. Any such Professional Fee Claims or Administrative Tax Claims for which an application or request for payment is not filed within the above-referenced time periods shall be discharged and forever barred, and shall not be entitled to any Distributions under the Plan.

c. **United States Trustee Fees.** After the Closing Date and until the Bankruptcy Case is closed, the Plan Agent shall pay as a Cost all fees incurred under 28 U.S.C. § 1930(a)(6).

2. Classification and Treatment of Classified Claims and Equity Interests

a. **General.** It is not possible to accurately predict the Distributions that will ultimately be paid to holders of Claims and Equity Interests in the following Classes because of the variables involved in the calculation (*e.g.*, the total amount of Allowed Claims in each Class, the amount to be realized from certain property and assets, and the amounts recoverable from third parties).

b. **Treatment of Class 1 Allowed Secured Claims of Taxing Authorities.**

(i) **Determination of Class 1 Allowed Secured Claims.** Class 1 is comprised of Secured Claims of Taxing Authorities against the Debtor for unpaid taxes, for which the particular Taxing Authority has filed a valid Lien against Property. The Plan Agent may seek a determination regarding the allowability of any Class 1 Secured

Claim pursuant to the Bankruptcy Code and the Bankruptcy Rules. The Plan Agent may, at its sole option, initiate litigation seeking a determination of the amount, extent, validity, and priority of any Liens securing any Class 1 Secured Claim.

(ii) **Treatment of Class 1 Allowed Secured Claims.** Each Class 1 Allowed Secured Claim shall be satisfied by the transfer to the holder of the Class 1 Allowed Secured Claim of any Property constituting the cash collateral of such holder. Any cash collateral securing a Class 1 Allowed Secured Claim remaining after full satisfaction of that Claim shall remain Property free and clear of all Liens, except Liens already on such Property for Classes 3A through 3F.

To the extent the cash collateral is insufficient to fully satisfy a Class 1 Allowed Secured Claim, the remaining portion of that Claim after application of the cash collateral shall be satisfied in full at the election of the Plan Agent by one or more of the following methods:

- The Plan Agent may sell for Cash any Property serving as collateral for the Class 1 Allowed Secured Claim. The holder of the Class 1 Allowed Secured Claim shall be paid from the proceeds of such sale in accordance with Bankruptcy Code. Any sale proceeds generated by the sale of any Property serving as collateral for a Class 1 Allowed Secured Claim (net of reasonable Costs, which shall be a surcharge against such collateral pursuant to section 510(c) of the Bankruptcy Code) shall be paid by the Plan Agent to the holder of the Class 1 Allowed Secured Claim in satisfaction of that Claim. Any net sale proceeds remaining after satisfaction of the Class 1 Allowed Secured Claim shall remain Property, subject to any junior lien or if there is none then free and clear of all Liens.

- The Plan Agent may satisfy any Class 1 Allowed Secured Claim by transferring and conveying to the holder thereof any Property serving as collateral for such Allowed Secured Claim to the extent of the amount of the Class 1 Allowed Secured Claim. Any collateral remaining after satisfaction of the Class 1 Allowed Secured Claim shall, subject to any junior lien or if there is none then, remain Property free and clear of any Liens.

- An agreement reached between the holder of the Allowed Secured Claim and the Debtor, which agreement shall supersede any other treatment of that Claim.

Each holder of a Class 1 Allowed Secured Claim shall retain the Liens securing such Allowed Secured Claim until such Claim is satisfied in accordance with the Plan, or until an earlier date agreed to by the holder and the Plan Agent. If the holder of a Class 1 Allowed Secured Claim has a deficiency claim, it shall be treated under the Plan as either a Class 4A Priority Unsecured Non-Tax Claim or a Class 4B General Unsecured Claim, as determined by the Bankruptcy Court.

3. Treatment of Class 2 Convenience Claims of Less Than $1,000

a. **Determination of Convenience Claim.** Class 2 will consist of: (i) General Unsecured Claims scheduled or filed in an amount equal to or less than $1,000, or (ii) the Claim of any creditor that elects to treat its Claim as a Class 2 Convenience Claim by marking the Ballot that its Claim should be treated as a Class 2 Convenience Claim and voting for the Plan in Class 2.

b. **Treatment of Class 2 Convenience Claims.** Each Claimant with an Allowed Class 2 Convenience Claim will receive $1,000 on the Effective Date if their Claim equals or exceeds $2,000. For Claims of less than $2,000 but more than $20, the claimant will receive 50% of the Allowed Claim on the Effective Date. For all Claims equal to or less than $10, the Plan Agent may elect not to make a distribution because administering the de minimis payment is a burden.

4. Treatment of Class 3A Allowed Secured Claims of Amegy Bank

The Claim of Amegy Bank shall be allowed as a Secured Claim. All Liens held by Amegy Bank shall be deemed allowed and recognized as valid and perfected. **Amegy Bank shall receive a complete release of any and all Claims by or through the Estate in exchange for its participation in providing a portion of its collateral proceeds for the Reserves to benefit the Estate and holders of Allowed Unsecured Claims, specifically including the Priority Claims Reserve and Unsecured Claims Reserve. Notwithstanding anything to the contrary in the Plan of Liquidation or Confirmation Order, nothing in the Plan or Confirmation Order shall release Amegy Bank from any claim of The Office of The Texas Attorney General (OAG), Texas State University System (TSUS) or any other Texas governmental unit as defined under 11 U.S.C. § 101(27) in relation to Amegy Bank's role as trustee or custodian, over charitable assets held by or for the benefit of Debtor and its charitable mission.**

Amegy Bank's rights in its real estate collateral shall be modified as provided by the Plan such that a sale or disposition will guarantee the proceeds are paid to the Plan Agent to fund the Reserves. Amegy Bank's real estate collateral shall be sold pursuant to the Auction Procedure. If its real estate collateral is sold as part of a Combined Parcel, Amegy Bank shall receive the proportional payment, net of sale expenses and Reserves, on its Allowed Secured Claim up to the value of the real estate collateral, said value to be established by the Auction Procedure and the highest separate cash bid for the real estate collateral at the no-reserve cash Auction (not permitting a credit bid), conducted pursuant to the Auction Procedure, or

If its real estate collateral is sold as a Separate Parcel, Amegy Bank shall receive, as and when collected, the proceeds of its collateral net of sale expenses and the proportional amount needed to provide the Reserves, as sales are made or proceeds received by the Plan Agent.

If not sold during the Sale Period, then Amegy bank will receive its real estate collateral as satisfaction of its Allowed Secured Claim on the real estate collateral, unless otherwise agreed. Any and all Cash Collateral of Amegy, net of sale expenses and

Reserves, shall be distributed to Amegy as such Cash is received by the Plan Agent until the Secured Claim of Amegy is satisfied.

Amegy Bank shall not seek to exercise its rights and remedies associated with its collateral until the expiration of the Sale Period. After such date, Amegy Bank shall have the right to exercise all of its rights, claims, and benefits existing under its collateral agreements, subject to the Plan Provisions, defined herein. Amegy Bank shall retain the Liens securing its Allowed Secured Claim until its Claim is satisfied pursuant to the Plan or until otherwise agreed.

Any excess funds remaining from the Reserves after payment of Allowed Administrative Claims, Allowed Professional Fees and Allowed Priority Unsecured Claims shall be paid to Amegy Pro Rata based upon its and Scurlock's respective Claim amounts, up to the amount of its Claim.

5. Treatment of Class 3B Allowed Secured Claims of TNB

As to alleged real estate collateral of TNB (the Athletic Building and Cooper House and Lodge identified on the Map), TNB shall not seek to exercise its rights and remedies associated with its collateral that is real estate located in Jacksonville, Texas until the expiration of the Sale Period. Any perfected, unavoidable, enforceable, liens on any of TNB's collateral (the Oil and Gas properties, the Athletic Building, the Cooper House, the Lodge, the Letters of Credit) are preserved. The Debtor remains bound by any stipulations relating to the validity of liens filed in the Bankruptcy Court, to wit, any relating to the Letter of Credit for the Department of Education.

If TNB consents to the Plan, its rights in its real estate collateral shall be modified as provided by the Plan such that a sale or disposition will guarantee the proceeds are paid to the Plan Agent to fund the Reserves. If its collateral is sold as a part of a combined parcel, TNB will receive the proportional payment, net of sale expenses and Reserves, on any Allowed Secured Claim up to the value of the collateral, said value to be established by the highest separate cash bid for the asset at the no-reserve Cash Auction (not permitting a credit bid), or

If the real estate collateral is sold as a separate parcel, TNB shall receive, as and when collected, the proceeds of such collateral net of sale expenses and the proportional amount needed to provide the Reserves, as sales are made or proceeds received by the Plan Agent.

If not an Acquired Asset or sold during the Sale Period, then TNB shall receive its real estate collateral as satisfaction of any Allowed Secured Claim, unless otherwise agreed and subject to the treatment of mineral rights or interests, below.

All proceeds from mineral rights or interests, including (but not limited to) participating and non-participating working interests, royalty interests, and/or proceeds or to real estate in which the Debtor has a legal or beneficial interest outside of Jacksonville, Texas, shall be paid to the Plan Agent. The Plan Agent will also hold all personal and intangible property that is collateral of TNB. The Plan Agent will treat those assets as

agreed with TNB until the status of TNB's Claims and Liens on those assets is determined by Final Order of the Bankruptcy Court, or until a final agreement is reached. If there is any disagreement over the treatment of these funds, the Bankruptcy Court will resolve that dispute.

TNB shall otherwise receive, as and when collected, the proceeds of its remaining collateral (that is, collateral not sold at Auction but otherwise sold or converted to cash by the Debtor or Plan Agent) as sales are made or proceeds received by the Plan Agent. The proceeds will be distributed only upon agreement or (if no agreement) a Final Order determining that TNB has the right of possession to the proceeds. The proceeds may also be subject to surcharges or other claims of the Plan Agent, Auctioneer, Estate, or others (but only as provided by law).

The Plan Agent, Debtor, or any governmental entity may initiate litigation seeking a determination of the amount, extent, validity, and priority of any Liens securing any Secured Claim of TNB, in addition to any other action or litigation to subordinate, recharacterize, enjoin, unwind, invalidate, or challenge any Claim or Lien of a Class 3B Secured Claim.

TNB shall retain any valid Liens securing its Allowed Claims until satisfied in accordance with the Plan, or until an earlier date agreed to by TNB and the Plan Agent, subject to the Plan provisions described herein.

6. Treatment of Class 3C Allowed Secured Claims of Tilley, LLC

Tilley LLC has elected to foreclose on its collateral and therefore has no secured claim. Tilley LLC can not vote as a secured creditor under the Plan. The Debtor objects to the unliquidated deficiency claim of Tilley LLC. Tilley is unimpaired as a secured creditor and may not vote.

7. Treatment of Class 3D Allowed Secured Claims of the Scurlock Foundation

The Claim of the Scurlock Foundation shall be allowed as a Secured Claim. All Liens held by the Scurlock Foundation shall be deemed allowed and recognized as valid and perfected. **The Scurlock Foundation shall receive a complete release of any and all Claims by or through the Estate in exchange for its participation in providing a portion of its collateral proceeds for the Reserves to benefit the Estate and holders of Allowed Unsecured Claims, specifically including the Priority Claims Reserve and Unsecured Claims Reserve. Notwithstanding anything to the contrary in the Plan of Liquidation or Confirmation Order, nothing in the Plan or Confirmation Order shall release The Scurlock Foundation from any claim of The Office of The Texas Attorney General (OAG), Texas State University System (TSUS) or any other Texas governmental unit as defined under 11 U.S.C. § 101(27) in relation to The Scurlock Foundation's role as trustee or custodian, over charitable assets held by or for the benefit of Debtor and its charitable mission.**

The Scurlock Foundation's rights in its real estate collateral shall be modified as provided by the Plan such that a sale or disposition will guarantee the proceeds are paid

to the Plan Agent to fund the Reserves. Scurlock Foundation's real estate collateral shall be sold pursuant to the Auction Procedure. If its real estate collateral is sold as a part of a Combined Parcel, the Scurlock Foundation shall receive the proportional payment, net of sale expenses and Reserves, on its Allowed Secured Claim up to the value of the real estate collateral, said value to be established by the Auction Procedure and the highest separate cash bid for the real estate collateral at a no-reserve cash auction (not including a credit bid), conducted pursuant to the Auction Procedure, or

If its real estate collateral is sold as a Separate Parcel, the Scurlock Foundation shall receive, as and when collected, the proceeds of its collateral net of the proportional amount needed to provide the Reserves, as sales are made or proceeds received by the Plan Agent prior to a foreclosure, if any, undertaken by the Scurlock Foundation.

If not sold during the Sale Period, then the Scurlock Foundation shall receive its real estate collateral as satisfaction of its Allowed Secured Claim on the real estate collateral, unless otherwise agreed. Any and all Cash Collateral of Scurlock Foundation, net of sale expenses and Reserves, shall be distributed to Scurlock Foundation as it is received by the Plan Agent until the Allowed Secured Claim of the Scurlock Foundation is satisfied.

The Scurlock Foundation shall not seek to exercise its rights and remedies associated with its collateral until the expiration of the Sale Period. After such date, the Scurlock Foundation shall have the right to exercise all of its rights, claims, and benefits existing under its collateral agreements. Scurlock Foundation shall retain the Liens securing its allowed Claim until its Claim is satisfied pursuant to the Plan or until otherwise agreed.

8. Treatment of Class 3E Allowed Secured Claims of Austin National Bank, N.A.

Austin National Bank, N.A. ("ANB") has elected to foreclose on its collateral and therefore has no secured claim. ANB has also waived and released any and all claims against the Debtor. ANB, therefore, cannot vote and will not receive a Distribution.

The Plan does not affect the right of ANB to take action against third parties or codebtors who have pledged certificates of deposit to secure the Debtor's obligation(s) to ANB. To the extent that ANB receives funds from collateral pledged by third parties, the value of that collateral shall directly reduce the claim of ANB against the Debtor, and may create a subrogation claim by the guarantor/pledgor/codebtor. Any subrogation claims are treated as Class 3E claims to the value of the collateral taken, subject to filing a proof of claim within 30 days of the foreclosure.

9. Treatment of Class 3F Allowed Secured Claims not included within another Class under the Plan

a. **Determination of Class 3F Allowed Secured Claims not included within another Class under the Plan.** If there is more than one Class 3F Allowed Secured Claim, each Class 3F Allowed Secured Claim shall be classified in a separate subclass as

needed. The Plan Agent may seek a determination regarding the allowability of any Class 3F Secured Claim pursuant to the Bankruptcy Code and the Bankruptcy Rules. The Plan Agent may, at its sole option, initiate litigation seeking a determination of the amount, extent, validity, and priority of any Liens allegedly securing any Class 3F Secured Claim.

b. **Treatment of Class 3F Allowed Secured Claims.** Any Class 3F Allowed Secured Claim shall be satisfied by the allowed foreclosure by the holder of the Class 3F Allowed Secured Claim of any Property constituting the collateral of such holder. Any Cash remaining after full satisfaction of the Class 3F Allowed Secured Claim shall remain Property free and clear of all Liens, except as to Liens that are asserted by Class 3A, 3B or 3D. To the extent the collateral is insufficient to fully satisfy the Class 3F Allowed Secured Claim, the balance of that Claim (after application of the collateral) shall be an Allowed Unsecured Class 4B Claim.

c. **Sale of Collateral.** The Plan Agent may sell for Cash any Property serving as collateral for a Class 3F Allowed Secured Claim. The holder of a Class 3F Allowed Secured Claim shall be entitled to bid at such sale in accordance with Bankruptcy Code section 363(k). Any proceeds generated by the sale of Property serving as collateral for a Class 3F Allowed Secured Claim (net of reasonable Plan Costs, and sale expenses which shall be a surcharge against the collateral pursuant to Bankruptcy Code section 510(c)) shall be paid by the Plan Agent to the holder of the Class 3F Allowed Secured Claim in satisfaction of that Claim. Any net sale proceeds remaining after satisfaction of a Class 3F Allowed Secured Claim shall remain Property free and clear of all Liens except as to Liens created by Bankruptcy Code Section 364(c).

d. **Other Agreements.** Notwithstanding the foregoing terms of the Plan, Class 3F Allowed Secured Claims may otherwise be satisfied by a written agreement between the holder of a Class 3F Allowed Secured Claim and the Plan Agent. The treatment set forth in any such agreement will supersede the treatment set forth above.

e. **Retention of Lien.** Holders of any Class 3F Allowed Secured Claim shall retain any Liens securing that Claim until it is satisfied in accordance with the Plan, or until an earlier date agreed to by the holder of the Class 3F Allowed Secured Claim and the Plan Agent.

f. **Deficiency Claim.** If the holder of a Class 3C Allowed Secured Claim has a deficiency claim, it shall be treated under the Plan as a Class 4B General Unsecured Claim, and remains subject to a potential claim objection by the Debtor.

10. Treatment of Class 4A Allowed Priority Non-Tax Unsecured Claims

Class 4A Allowed Priority Unsecured Claims shall be treated in accordance with the terms and conditions of the Plan, which generally provides that Allowed Priority Unsecured Non-Tax Claims shall be paid by the Plan Agent from the Priority Unsecured Claims Reserve on the Effective Date.

11. Treatment of Class 4B Allowed General Unsecured Claims

Class 4B Allowed General Unsecured Claims shall be treated as follows:

(i) Class 4 Claims shall have a Beneficial Interest in Cash generated by the Plan (subject to (iv) below);

(ii) Interest shall accrue on the unpaid balance of Class 4B Allowed Claims at 2% per annum, if Class 4B claims are fully paid;

(iii) Each holder of a Class 4B Allowed Claim shall receive Distributions of Available Cash on account of its Beneficial Interest in accordance with this Plan; and

(iv) Each holder of a Class 4B Allowed Claim shall receive pro rata distributions after Allowed Claims in the previous classes are paid, except Class 4B claims shall also be entitled to receive a pro rata distribution of the Unsecured Claims Reserve, after satisfaction of the Class 2 convenience claims.

12. Treatment of Class 5 Allowed Subordinated Claims

Class 5 Allowed Subordinated Claims shall be treated as follows:

(i) Beneficial Interests in the Cash shall be allocated to holders of Class 5 Subordinated Claims after the prior payment and full satisfaction of all Class 4B Allowed General Unsecured Claims, including applicable interest;

(ii) Interest shall accrue on the unpaid balance of Class 5 Allowed Claims at the rate of 2% per annum commencing on the date the Allowed Class 4B Claims are satisfied, and only if Class 5 claims are fully paid; and

(iii) Each holder of a Class 5 Allowed Claim shall receive Distributions of Available Cash on account of its Beneficial Interest, if and only if funds exist after satisfaction of all allowed Class 4B claims, and Allowed Claims in all previous classes are paid.

13. Treatment of Class 6 Equity Interests

Equity Interests shall be terminated, if any existed (none are known to the Board of Trustees). The Distribution on account of any Equity Interest shall paid to the purchaser of the majority of the Debtor's assets if the majority of the Debtor's assets are acquired by an educational or charitable entity continuing the historic charitable mission of the Debtor or, if the purchaser is not qualified to receive the residual benefit as a charity, then to Southwestern College (or similar entity designated by the Texas Methodist Foundation acceptable to the Plan Agent) in Georgetown, Texas as a *cy pres* distribution for the charitable goal of the College, or such other entity designated by the Plan Agent with Court approval. Notice of the payment, if any, on account of Equity Interests shall be given to the Texas Attorney General's Office. The Texas Attorney

General reserves its rights to contest the disposition of any residual assets held by or for the benefit of the Debtor and its charitable mission.

ARTICLE 8
Means for Execution and Implementation of the Plan: General Overview

A. General Overview

The Plan contemplates an orderly and efficient liquidation of the Debtor and its Property by the Plan Agent. On the Effective Date, except as otherwise provided in the Plan, title to all Property shall vest in the Debtor or other entity created by the Plan Agent, subject to the Debtor's obligation to liquidate, transfer and convey all Property constituting Property on behalf of the Creditor Beneficiaries in accordance with this Plan.

Excepted from this liquidation are three main categories of assets 1) Rights against third parties, 2) rights to endowment money and 3) rights to other real and personal property. The Debtor holds potential claims against insiders and third parties as disclosed in the section describing causes of action, above. The Debtor intends to pursue those parties in post-confirmation litigation. Any Distribution from the recovery of litigation is difficult to quantify in time and amount.

The Debtor also appears to have rights to money held in endowments/foundations/trusts and/or similar entities, as disclosed on its schedules and monthly operating reports filed with the Bankruptcy Court. It also may have claims against the endowments/foundations/trusts and/or their trustees for refusing to pay funds to the Debtor when requested and the damages resulting from that decision. One of these foundations has instituted an adversary proceeding to determine the character of funds held in trust. The Debtor possesses counterclaims against that foundation for breach of duty for failing to remit the funds when requested, well prior to the bankruptcy. It intends to counterclaim against that foundation and seek damages. Any recovery on these claims would be made at an undetermined future date in a currently unknown amount and cannot now be quantified. The Texas Attorney General anticipates disputing the Debtor's claim to money held in endowments/foundations/trusts and/or similar entities. *See e.g., Salisbury v.Ameritrust Texas, N.A. (In re Bishop College),* 151 B.R. 394 (Bankr. N.D. Tex. 1993).

The Debtor also holds other real and personal property, including real estate interests in Houston Texas, potentially unencumbered mineral interests, personal property, and other assets. The Debtor anticipates that those interests will be resolved by post-confirmation liquidation which will not require court approval.[9] In the event of a dispute regarding the liquidation of these assets or disputes about the claims securing them, the Debtor will seek relief from the Bankruptcy Court to the extent the Bankruptcy Court has jurisdiction, or from another court.

All of the non-Auctioned assets that provide funds will first be applied to the Debtor's expenses and the remainder will be distributed pro rata as set forth in the Plan.

[9] *See* Debtor's schedule A, Docket No. 47.

B. The Closing

Closing of the various transactions required and contemplated under the Plan shall take place on the Closing Date at the offices of the Debtor's counsel, or at such place identified in a notice provided to those parties specified in section 16.2 of the Plan. At the Closing, all necessary actions shall be taken to elect or install the Plan Agent as the sole manager and responsible officer of the Debtor in order to implement the terms and conditions of the Plan.

C. The Plan Agent

At the Closing, the Plan Agent shall conduct an orderly liquidation of the Property consistent with the term and conditions of the Plan. The Plan Agent shall have control and authority over the Property, including the Rights of Action and other causes of action belonging to the Debtor, and over the management and disposition of the Property. The Plan Agent shall exercise its judgment for the benefit of the Beneficiaries in order to maximum the value of the Property. An illustrative list of actions the Plan Agent is authorized to take in connection with the management of the Debtor and the use of the Property is set forth in section 6.4 of the Plan. The Plan Agent shall not have any duty to, and shall not act for the sole benefit of, the holders of Class 5 Subordinated Claims or holders of Class 6 Equity Interests until such time as all Class 4B General Unsecured Claims have been paid in full, with applicable interest.

In accordance with section 6.2 of the Plan, the Debtor has selected Dawn Ragan of Bridgepoint Consulting as the Plan Agent. Bridgepoint is a Texas corporation that provides financial advisory, strategic planning, management, restructuring, and liquidation services to bankruptcy debtors. On reasonable written notice and at a reasonable time and place, Claimholders shall be entitled to meet with and interview the candidate for Plan Agent selected by the Debtor. The Debtor will seek the approval of its nomination of the Plan Agent at or before the Confirmation Hearing.

Background about Dawn Ragan and BridgePoint is found earlier herein and further detailed in the Application to Employ Dawn Ragan (Docket #2), and exhibits attached thereto.

The Plan Agent will charge the Debtor for its services on an hourly basis at its standard billing rates for similar representations, plus reimbursement of actual and necessary expenses. The Professional fees and expenses incurred by the Plan Agent will be paid by the Estate or post-confirmation Debtor as a Cost of administration. All fees of the Plan Agent incurred after the Confirmation Order shall not be subject to the fee application process of Bankruptcy Code Section 330. The following are the current hourly rates for the Plan Agent's Professionals:

Professional	**Hourly Rate**
Dawn Ragan	$300

After the Closing Date, the Plan Agent may terminate the legal existence of the Debtor. After making the final Distribution on account of Claims, the Plan Agent may sign and file appropriate articles of dissolution for the Debtor with its state of organization and provide notice of the College's dissolution to its Interestholders. Following the complete liquidation and

distribution of all Property (including Available Cash), the Plan Agent shall file with the Bankruptcy Court a final report outlining funds and assets liquidated and distributed to Beneficiaries.

D. The Liquidation

The general purpose of the Plan liquidation is to provide a mechanism for the liquidation, under Bankruptcy Code section 363, of the Debtor's Property and the satisfaction of Allowed Claims and to distribute the proceeds of the liquidation, net of all Claims, expenses, charges, liabilities, and obligations of the Debtor, to the holders of Beneficial Interests and certain Allowed Claims in accordance with the terms of the Plan. Except as otherwise provided in the Plan, all of the Debtor's Property will be liquidated for the benefit of the Estate.

After the Closing Date, the Debtor will not conduct or engage in any trade or business activities, other than those associated with or related to the liquidation of the Property and the Distributions to the Creditor Beneficiaries. In furtherance of that objective, the Plan Agent shall make continuing best efforts to (i) dispose of the remaining Property, (ii) make timely Distributions, and (iii) not unduly prolong the duration of the liquidation, all in accordance with the Plan. The purposes of the Plan include, but are not limited to the following:

(a) marshaling, liquidating, and distributing the Property at the Auction through the Auction Procedure;

(b) performing the functions and taking the actions provided for or permitted by the Plan and in any other agreement executed by the Plan Agent pursuant to the Plan;

(c) prosecuting, settling, or otherwise resolving the Rights of Action and other causes of action under the Plan as Property and to distribute the proceeds of any recoveries thereon in accordance with the terms of the Plan; and

(d) reconciling, objecting to, prosecuting, or settling all Claims and other causes of action against the Debtor to determine the appropriate amount of Distributions to be made to the Beneficiaries under the Plan.

During its existence, the Debtor shall not receive or retain Cash or Cash equivalents in excess of a reasonable amount necessary to meet Claims and contingent liabilities (including Disputed Claims) or to maintain the value of its assets during liquidation. The Plan Agent shall use its continuing best efforts to dispose of the Property, make timely Distributions, and shall not unduly prolong the duration of the liquidation. The Plan Agent is authorized to take any action as may be necessary or appropriate to minimize any potential tax liability of the Debtor and, thereafter, the Creditor Beneficiaries arising out of the operations of the Plan. The Plan Agent is directed to allocate all costs, charges, expenses, and deductions, in whole or in part, to income or principal at such time and in such a manner as the Plan Agent shall determine will reduce or eliminate the Debtor's taxes, if any. The Plan Agent shall file in a timely manner all tax returns that are required by applicable law by virtue of the existence and operations of the Debtor. The Plan Agent shall distribute Cash (whether or not allocable to income or principal, including all capital gains allocable to principal), any other Property the Plan Agent in its discretion

determines is properly distributable (whether out of income or principal), and liquidation proceeds to the Creditor Beneficiaries, after payment of expenses and liabilities, less the Reserves and reasonably necessary Reserves for expenses and other Costs.

Additionally, the Plan Agent shall, at least annually, provide to Creditor Beneficiaries such information that is appropriate or necessary to enable the Creditor Beneficiaries to determine their respective tax obligations, if any, arising out of the operations and liquidation of the Debtors. The Creditor Beneficiaries (except to the extent the IRS is a Beneficiary) shall each report their share of the net income as reported to them by the Plan Agent and pay any tax owing thereon on a current basis. All income, including amounts retained in a Disputed Claims Reserve, will be taxed either to the Creditor Beneficiaries (except to the extent the IRS is a Beneficiary) or to the Debtors (in the case of amounts allocated to a Disputed Claims Reserve) each taxable year. No Creditor Beneficiary shall have any claim to or with respect to any specific property held in trust and shall have no claim to or for a distribution of property in kind.

E. Distributions

At the Auction, the Debtor's Property being auctioned will be sold in this Plan to generate funds to pay Claims. The Plan Agent will then sell property that is not in the auction, including undivided interests in real property in Houston, Texas, oil and gas interests, and personal property. The Plan Agent will pursue litigation and other sources of funds. Having reduced the assets of the estate to money, Distributions will then be made (after satisfaction of any valid, perfected, liens) as follows:

(i) The Plan Agent will first pay all Allowed Administrative Claims in full on the Effective Date, or when the Administrative Claim becomes an allowed Claim, if after the Effective Date.

(ii) The Plan Agent will then establish and distribute the Reserves as provided in the Plan.

(iii) The Plan Agent will then make Distributions on Allowed Claims, as set forth in Article 4 of the Plan, first to Class 1, then to Class 2, then to Class 3, in accordance with the terms of the Plan governing each subclass within Class 3.

(iv) After claimants in Class 3 have received their total Distribution and/or return of their collateral on account of their secured claims in accordance with the Plan, the remainder, if any, of their Class 3 Claims will constitute unsecured Class 4B Claims.

(v) Class 4A Priority Unsecured Allowed Claims will be paid next, in an amount equal to the ratio that the amount of the holder's Allowed Class 4A Priority Unsecured Claim bears to the total amount of all Allowed Class 4A Priority Unsecured Claims. Distributions will be paid first from the Priority Unsecured Claims Reserve, which is intended to satisfy the Allowed Claims, but then from any additional unencumbered funds the Plan Agent receives, including (but not limited to) litigation proceeds or sales of unencumbered assets if not satisfied from the Reserve.

(vi) Class 4B General Unsecured Allowed Claims are entitled to a Distribution from the Unsecured Claims Reserve pro-rata. They will not receive any additional unencumbered funds the Plan Agent receives, including (but not limited to) litigation proceeds or sales of unencumbered assets until Allowed Class 4A Priority Unsecured Claims are paid in full. After Class 4A Priority Unsecured Allowed Claims are paid in full, Class 4B General Unsecured Allowed Claims will receive Distributions from the additional unencumbered funds the Plan Agent receives, including (but not limited to) litigation proceeds or sales of unencumbered assets, subject to the need to fund Plan Costs and the Debtor's expenses.

(vii) After all Class 4B Allowed Claims are paid in full with annual interest at 2% (or otherwise satisfied), the Plan Agent will make Distributions to Allowed Class 5 Claims.

(viii) After all Allowed Class 5 Claims are paid in full (or otherwise satisfied) with annual interest at 2% (commencing on the date Allowed Class 4B claims are paid), the Plan Agent will remit all other funds or Assets available for Distribution to the purchaser of the majority of the Debtor's assets if the majority of the Debtor's assets are acquired by an educational or charitable entity continuing the historic charitable mission of the Debtor or, if the purchaser is not qualified to receive the residual benefit as a charity, then to Southwestern College (or similar entity designated by the Texas Methodist Foundation acceptable to the Plan Agent) in Georgetown, Texas as a *cy pres* distribution for the charitable goal of the College, or such other entity designated by the Texas Methodist Foundation acceptable to the Plan Agent.

(ix) Class 6 Equity Interest Holders (none are known) will have their interests terminated and receive nothing.

Subject to establishing the Reserves required under the Plan and setting aside funds deemed prudently retained for post-confirmation actions, the Plan Agent shall have authority to make Distributions at such time or times as the Plan Agent believes there is sufficient Available Cash to warrant a Distribution. The Plan Agent shall not retain Cash in excess of what is reasonably necessary to fund the Reserves and take the actions contemplated. Distributions shall be applied first to the principal amount of a Beneficiary's Allowed Claim and then to accrued and unpaid interest.

ARTICLE 9
Feasibility and Risk Factors

A. Feasibility

Distributions under the Plan will be accomplished through the orderly liquidation of the Property and recoveries from third parties through Rights of Action, including Avoidance Actions under chapter 5 of the Bankruptcy Code. Feasibility of the Plan, therefore, does not depend on the Debtor's future business operations or financial viability. Based on current information and as set forth in this Disclosure Statement, the Debtor reasonably believes that it has sufficient Property, claims and other assets to make a meaningful payment (if not payment in

full) to all anticipated Allowed Priority Unsecured Non-Tax Claims, Allowed Secured Claims, Allowed Administrative Claims, Allowed Professional Fee Claims, and any other priority Claim. Consequently, the Plan is feasible and should provide a substantial Distribution to Claimholders.

B. Risks Associated with the Plan

Both the confirmation and consummation of the Plan are subject to a number of risks. If certain standards set forth in the Bankruptcy Code are not met, the Bankruptcy Court will not confirm the Plan even if Claimholders accept the Plan. Although the Debtor believes that the Plan meets those standards, there can be no assurance that the Bankruptcy Court will reach the same conclusion. If the Bankruptcy Court were to determine that such requirements were not met, it could require the Debtor to re-solicit acceptances, which could delay and/or jeopardize confirmation of the Plan. The Debtor believes that the solicitation of votes on the Plan will comply with Bankruptcy Code section 1126(b), and that the Bankruptcy Court will confirm the Plan. The Debtor, however, can provide no assurance that modifications of the Plan will not be required to obtain confirmation of the Plan, or that those modifications will not require a re-solicitation of acceptances.

The Texas Attorney General's Office, as protector of the public interest in charities, has advised the Debtor it anticipates objecting to confirmation of the Plan, *inter alia*, to the extent the Plan purports to sell property that is restricted and is not property of the estate under 11 USC 541 and whose proceeds are not protected under applicable law relating to charitable assets and the doctrine of *cy pres*. The Debtor believes that the issue of whether the title may be conveyed should be resolved by reference to the title documents and the proposed use of the purchaser. If the purchaser proposes either a charitable or educational use, the Debtor believes the Attorney General's objection will be moot or overruled. As mentioned earlier, there is the potential that the purchaser may be a charitable entity, perhaps a Methodist-connected one, which would continue the historic mission of the Debtor. In any case, this objection is a risk to the confirmation of the Plan.

ARTICLE 10
Alternatives to the Plan

There are three possible consequences if the Plan is rejected or if the Bankruptcy Court refuses to confirm the Plan: (a) the Bankruptcy Court could dismiss the Bankruptcy Case, (b) the Bankruptcy Case could be converted to liquidation case under chapter 7 of the Bankruptcy Code, or (c) the Bankruptcy Court could consider an alternative chapter 11 plan proposed by some other party.

A. Dismissal

If the Bankruptcy Case were to be dismissed, the Debtor would no longer have the protection of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code, including the automatic stay under Bankruptcy Code section 362. This will result in foreclosures by the secured lenders. Nothing would be left for Unsecured Creditors and no money would exist to pursue claims or comply with governmental obligations (see "Chapter 7 Liquidation") below.

B. Chapter 7 Liquidation

If the Plan is not confirmed, it is likely that the Bankruptcy Case will be converted to a case under chapter 7 of the Bankruptcy Code, in which case a trustee would be elected or appointed to liquidate the assets of the Debtor for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. There is very little equity in Real Property to pay unsecured creditors in a sale. Thus, the secured lenders could foreclose, leaving the chapter 7 trustee with nothing to sell and no proceeds for unsecured creditors.

Any unencumbered property would hold little value separate from the adjoining secured property. For instance, the Debtor has dormitories that have no kitchens and cafeterias with no residences. Separately they have very limited utility. A Chapter 7 trustee would liquidate the unencumbered real property for very little, perhaps less than his administrative expenses. Likewise, there is no cash in a hypothetical Chapter 7 estate to comply with obligations to governmental units. There would be no cash to investigate and pursue potential claims. There would be very little chance of the general unsecured creditors receiving anything in a hypothetical Chapter 7.

Whether the Bankruptcy Case is one under chapter 7 or chapter 11, holders of Secured Claims, Administrative Claims, and Priority Claims are entitled to be paid in Cash and in full before holders of General Unsecured Claims receive any Distributions.

If the Bankruptcy Case is converted to chapter 7, the present Administrative Claims may have a priority lower than priority claims generated in the chapter 7 case, such as the chapter 7 trustee fees or the fees of attorneys, accountants, and other professionals engaged by the trustee.

The Debtor believes that liquidation under chapter 7 would result in smaller distributions being made to Claimholders than those provided for in the Plan. Conversion to chapter 7 would give rise to (i) additional administrative expenses involved in the appointment of a trustee and attorneys and other professionals to assist such trustee, and (ii) additional expenses and Claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of Executory Contracts in connection with a full cessation of the Debtor's operations. Potential buyers of Property would be less inclined to offer full value for the Property outside of a plan. In a Chapter 7 liquidation, it is expected that holders of Unsecured Claims would receive diminished recovery on their Claims.

C. Alternative Plan

Because the Debtor has filed the Plan and seeks its confirmation within the Exclusive Period, no other alternative plans can be proposed at this time. Nonetheless, even if an alternative plan were proposed, it would more than likely be substantially similar to the Debtor's in that it would propose a liquidation of the Debtor and the distribution of Available Cash to Claimholders and Interestholders. Because the College's Title IV status has been revoked, no operating plan is possible. In comparison to the Debtor's Plan, an alternative plan would not likely provide any greater return to Creditors and any return could even be less due to the additional time and expense necessary to obtain approval of any alternative plan.

ARTICLE 11
Certain United States Federal Income Tax Consequences of the Plan

A. Introduction

The following discussion summarizes certain United States federal income tax consequences of the implementation of the Plan to the Debtor and Claimholders and Interestholders. It is based on the Internal Revenue Code of 1986, Treasury regulations thereunder, judicial decisions, and published rulings and pronouncements of the IRS in effect on the date of this Disclosure Statement. Changes in those rules, or new interpretations of those rules, may have retroactive effect and could significantly affect the federal income tax consequences described below.

The federal income tax consequences of the Plan and formation and operation of the Debtor are complex and subject to uncertainties. The tax aspects of Distributions to or from the Debtor are also complex and subject to uncertainties. The Debtor has not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. There is no assurance as to the interpretation that the IRS will adopt. Instead, the IRS may attempt to restructure the taxable events associated with liquidation of the Debtor if, for example, it determines that a different characterization of those events is necessary to reflect their true substance for federal income tax purposes. The Debtor urges Claimholders and Interestholders to seek independent professional tax advice on any tax issues arising under the Plan. In addition, this summary does not address foreign, state, or local tax consequences of the Plan, and it does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, insurance companies, financial institutions, small business investment corporations, regulated investment companies, tax-exempt organizations, or investors in pass through entities).

THE FOLLOWING SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED ON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A PARTICULAR CLAIMHOLDER OR INTERESTHOLDER. ALL CLAIMHOLDERS AND INTERESTHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS IN DETERMINING THE FEDERAL, STATE, LOCAL, AND OTHER TAX CONSEQUENCES TO THEM UNDER THE PLAN.

B. Tax Consequences to the Debtor

The Debtor will not file any future federal income tax returns except via the Plan Agent. It is expected any future tax returns will be public.

C. Tax Consequences to Creditors

The Plan has the purpose of satisfying claims by liquidating the assets of the Debtor. The Debtor shall have no objective of continuing or engaging in any trade or business except to the extent reasonably necessary to, and consistent with, the liquidating purpose of the Plan.

The Plan Agent shall use its continuing best efforts to dispose of the Property, make timely Distributions, and shall not unduly prolong the duration of the liquidation.

Generally, each Creditor will have gain or loss on receipt from the Debtor of its interest in the Property equal to the difference (if any) between (i) the "amount realized" on account of its Claim (other than any claim for accrued and unpaid interest), and (ii) its adjusted tax basis in its Claim (other than on account of accrued and unpaid interest).

Generally, to the extent any amount received by a Creditor (whether Cash or other property) is received in discharge of a Claim for interest accrued during its holding period, such amount will be taxable to the Creditor as interest income (if not previously included in the Creditor's gross income). A Creditor will recognize a deductible loss (or, possibly, a write-off against a reserve for bad debts) to the extent any accrued interest claimed was previously included in its gross income and is not paid in full.

Payment by the Debtor of the proceeds from Property to Creditors and payments by the Debtor to its Plan Beneficiaries may be subject to applicable withholding. For example, under federal income tax law, interest, dividends, and other reportable payments may, under certain circumstances, be subject to backup withholding at a 31% rate. Backup withholding generally applies only if the holder (i) fails to furnish its social security number or other taxpayer identification number ("TIN"); (ii) furnishes an incorrect TIN; (iii) fails properly to report interest or dividends; or (iv) under certain circumstances, fails to provide a certified statement signed under penalty of perjury that the TIN provided is its correct number and that it is not subject to backup withholding. Backup withholding is not an additional tax but merely an advance payment, which may be refunded to the extent it results in an overpayment of tax. Certain persons are exempt from backup withholding, including corporations and financial institutions. The Plan Agent shall use its continuing best efforts to dispose of the Property, make timely Distributions, and shall not unduly prolong the duration of the liquidation.

THE FOREGOING DESCRIPTION OF FEDERAL INCOME TAX CONSEQUENCES IS INTENDED MERELY AS AN AID FOR CLAIMHOLDERS AND INTERESTHOLDERS, AND NEITHER THE DEBTOR NOR ITS COUNSEL ASSUMES ANY RESPONSIBILITY IN CONNECTION WITH THE INCOME TAX LIABILITY OF ANY CREDITOR OR HOLDER OF AN EQUITY INTEREST.

CREDITORS AND HOLDERS OF EQUITY INTERESTS ARE URGED TO OBTAIN ADVICE FROM THEIR COUNSEL REGARDING THE APPLICABILITY OF FEDERAL AND STATE TAX LAWS.

D. Securities Laws Considerations

Confirmation of the Plan shall constitute a determination, in accordance with Bankruptcy Code section 1145(a)(1), that, except with respect to an entity that is an underwriter as defined in Bankruptcy Code section 1145(b), section 5 of the Securities Act of 1933 and any state or local law requiring registration for offer or sale of a security or registration or licensing of an issuer of, underwriter of, or broker or dealer in, a security do not apply to the Beneficial Interests represented by Allowed Claims in the Bankruptcy Case even if they are considered securities of

the Debtor, issued in exchange for Claims against the Debtor. If the Plan Agent determines that registration under the 1934 is Act is required, the Plan Agent will take steps to comply with these requirements. In addition, once registered, the Plan Agent would be required to file certain reports with the Securities and Exchange Commission, including quarterly and annual financial reports.

There is no existing trading market for the Beneficial Interests and no active trading market is expected to develop. Even if a trading market does develop, there is no assurance as to the level of liquidity, the ability of Beneficiaries to sell their Beneficial Interests, or the price at which Beneficial Interests may be able to be sold. Future trading prices of the Beneficial Interests, if any, will depend on many factors. The Plan Agent and Debtor will not seek to have the Beneficial Interests listed on any securities exchange or quoted on NASDAQ, nor will they take any action to create or facilitate the development of a trading market in the Beneficial Interests other than to comply with any applicable registration reporting requirements under the 1934 Act.

Further, if the Plan Agent determines that registration of the Beneficial Interests is required under the Investment Company Act of 1940 (the "1940 Act"), the Plan Agent will take steps to comply with those requirements. It is possible that the Beneficial Interests may be issued without compliance with the registration requirements of the 1940 Act, if the Plan Agent complies with the requirements of the 1934 Act. The Plan Agent is administering the Debtor as a liquidating entity, solely responsible for marshaling and distributing the Property. The Debtor will terminate within a reasonable period of time, and will not hold itself out as an investment company or engage in any trade or business. The Plan Agent will issue periodic reports to all Beneficiaries and will file annual reports with the Bankruptcy Court. The Beneficial Interests in the Debtor will not be transferable and they will be uncertificated. Under those circumstances, it is conceivable that the interests representing Allowed Claims may be construed as an entity not subject to the 1940 Act.

ARTICLE 12
Conclusion

This Disclosure Statement has attempted to provide information regarding the Debtor's Estate and the potential benefits that might accrue to Claimholders and Interestholders under the proposed Plan. The Plan is the result of extensive efforts by the Debtor, its advisors, and management working in conjunction with negotiations with its secured lenders to provide the holders of Allowed Claims with a meaningful dividend. The Debtor believes that the Plan is

feasible and will provide each holder of a Claim against the Debtor with an opportunity to receive greater benefits than those that would be received by any alternative plan or sale of the business to a third party. The Debtor urges interested parties to vote in favor of the Plan.

DATED: November 15, 2012.

Lon Morris College

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[Proposed] EXHIBITS TO DISCLOSURE STATEMENT