

UNITED STATES BANKRUPTCY COURT
FOR THE MIDDLE DISTRICT OF NORTH CAROLINA
DURHAM DIVISION

IN RE:)
)
SCARBOROUGH & HARGETT)
FUNERAL HOME, INC.) Case No: 16-80220
)

Debtor)

SCARBOROUGH & HARGETT FUNERAL HOME, INC.'S AMENDED DISCLOSURE STATEMENT FOR THE AMENDED PLAN OF REORGANIZATION

This is the Amended Disclosure Statement (the "Amended Disclosure Statement") in the small business Chapter 11 case of Scarborough & Hargett Funeral Home, Inc. (the "Debtor"). This Amended Disclosure Statement contains information about the Debtor and describes the Amended Plan of Reorganization (the "Amended Plan") filed by the Debtor on December 26, 2016. A full copy of the Amended Plan has been circulated with this Amended Disclosure Statement. **Your rights may be affected. You should read the Amended Plan and this Amended Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.**

The proposed distributions under the Amended Plan are discussed at pages 5 through 10 of this Amended Disclosure Statement. General unsecured creditors will receive a distribution of thirty-nine-point three percent (39.3%) of their allowed claims, to be paid through the issuance of a promissory note with quarterly payments distributed over a sixty (60) month period.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO FUTURE BUSINESS OPERATIONS OR AS TO THE VALUE OF ITS PROPERTY OR THE AMOUNTS ANTICIPATED TO BE RECEIVED IN THE COLLECTION, SALE AND LIQUIDATION OF CERTAIN ASSETS) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS AMENDED DISCLOSURE STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE TO THE AMENDED PLAN WHICH ARE OTHER THAN AS CONTAINED IN THIS AMENDED DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. REPORTS KEPT BY THE DEBTOR ARE DEPENDENT UPON INTERNAL ACCOUNTING. FOR THE FOREGOING REASON, THE DEBTOR IS

UNABLE TO WARRANT OR REPRESENT THE INFORMATION CONTAINED HEREIN IS WITHOUT ANY INACCURACY, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE.

I. INTRODUCTION

A. Purpose of This Document

This Amended Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case;
- How the Amended Plan proposes to treat claims of equity interests;
- Who can vote on or object to the Amended Plan;
- What factors the Bankruptcy Court (the "Court") will consider when deciding whether to confirm the Amended Plan;
- Why Scarborough & Hargett Funeral Home, Inc. believes the Amended Plan is feasible, and how the treatment of your claim or equity interest under the Amended Plan compares to what you would receive on your claim or equity interest in liquidation; and
- The effect of confirmation of the Amended Plan.

Be sure to read the Amended Plan as well as the Amended Disclosure Statement. This Amended Disclosure Statement describes the Amended Plan, but it is the Amended Plan itself that will, if confirmed, establish your rights.

B. Deadlines for Voting and Objecting; Date of Amended Plan Confirmation Hearing

The Court has not yet confirmed the Amended Plan described in this Amended Disclosure Statement. This section describes the procedures pursuant to which the Amended Plan will or will not be confirmed. You will be sent a notice setting forth the Time and Place of Hearing to Finally Approve This Amended Disclosure Statement and Confirm Amended Plan including the Deadline for Voting to Accept or Reject the Amended Plan and to file Objections to the Adequacy of the Amended Disclosure Statement and Confirmation of Amended Plan.

If you want additional information about the Amended Plan, you should contact Florence A. Bowens at 3622 Lyckan Parkway, Suite 3003, Durham, NC 27707.

C. Disclaimer

The Court has conditionally approved this Amended Disclosure Statement as containing adequate information to enable parties affected by the Amended Plan to make an informed judgment about its terms. The Court has not yet determined whether the Amended Plan meets the legal requirements for confirmation and the fact that the Court has approved this Amended Disclosure Statement does not constitute an endorsement of the Amended Plan by the Court, or a recommendation that it be accepted. The Court's

approval of this Amended Disclosure Statement is subject to final approval at the hearing on confirmation of the Amended Plan.

II BACKGROUND

A. Description and History of the Debtor's Business

Scarborough & Hargett Funeral Home, Inc. ("Scarborough & Hargett") is a North Carolina corporation which was organized in February 1958. However, the first funeral home was started in 1871. In 1888, Joseph Crooms Hargett, the father-in-law, formed a partnership with John Clarence Scarborough, Sr., the son-in-law, as Scarborough and Hargett Undertakers. The company moved to Durham in 1900 and has been providing services to African American families continuously for the past 142 years.

Mr. Scarborough III's fifty-two-year tenure as an official in the family company began in 1961. He served as Assistant Manager of the business until he became President and Chief Executive Officer (CEO) of Scarborough and Hargett Funeral Home, Inc. in 1972. He also has been elected National President of the Funeral Directors and Morticians Association and Chairman of this professional organization which was founded by his grandfather.

Mr. Scarborough III is the fourth generation heading the family business.

B Insiders of the Debtor

The insiders of the debtor include Scarborough family members. There are no claims anticipated from the insiders and the Amended Plan makes no provisions for payments to insiders or equity shareholders, other than salary and wages to the employees of the business.

C. Management of the Debtor Before and During the Bankruptcy

The two (2) years prior to the date on which the bankruptcy petition was filed, as well as prior to that time, John Clarence Scarborough, III was and is the President of the corporation. During the Chapter 11 case, Scarborough & Hargett has remained in control of the Debtor and responsible for its operation. After the effective date of the Order confirming the Amended Plan, Scarborough & Hargett will remain in control of the Debtor.

D. Events Leading to the Chapter 11 Filing

In 2006, the principal office of the funeral home was taken through eminent domain by Durham County to be used for the new location of the court house. The funeral home had three years (until 2009) to build/purchase a new location to avoid capital gains tax.

Debtor purchased the property and construction began on the new building, but was not complete in 2009. Thus, the Debtor was granted a two-year extension (until 2011) to complete the new building and avoid capital gains tax. There were construction complications, and the

building was not complete, thus the Debtor was not allowed to take advantage of the tax-free exchange. This created an IRS form 1120 tax liability of \$885,270.00 and a NC Department of Revenue liability of \$238,052.00.

In addition, in late 2011 and early 2012, the Debtor uncovered a scheme orchestrated and operated by the then General Manager, to manufacture two sets of books: one set of books to be given to the CPA firm, and the second set of books to be maintained in the office. This scheme allowed him to siphon more than \$250,000.00 of the funeral home's funds into his personal account. This individual, alone with an associate of his, were prosecuted by the State of North Carolina.

By early 2012, management recognized that the financial data provided to the CPA firm for the year 2011 was wrong, so there was a delay in preparing the 2011 tax return until the Debtor could get a better understanding of that the business should look like.

While the Debtor has yet to complete the review of all files that may have been affected by the former GM, the CPA firm in late 2014 insisted that the 2011 tax return be prepared using the information available. That return was complete on or about March 10, 2016 and submitted. The Debtor is working diligently to complete the outstanding tax returns so they may be filed. Currently, the accountant is preparing the outstanding tax returns and is trying to have them ready shortly. The Debtor anticipates paying the owed taxes at the time of the filing the outstanding tax returns.

E. Significant Events During the Bankruptcy Case

During the Chapter 11 proceeding, the Debtor has focused on maximizing revenues and reducing costs while maintaining a cash flow.

F. Projected Recovery of Avoidable Transfers

The Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

G. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtor reserves the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article IV of the Amended Plan.

H. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in Exhibit A "Chapter 7 Liquidation analysis."

A monthly report for each month that the Debtor has been in possession under the supervision of the United States Bankruptcy Court has been filed with the Bankruptcy Court. With the filing of the Voluntary Petition in the bankruptcy herein, the Debtor was required to file and did file Statements of Financial Affairs and Schedules of Assets and Liabilities. The Monthly Reports, Schedules of Assets and Liabilities and Statements of Financial Affairs may be inspected by all interested parties to obtain a broader financial picture of the Debtor and the Debtor's Estate. These documents may be examined in the Office of the Clerk of the United States Bankruptcy Court, 101 South Edgeworth Street, Greensboro, North Carolina 27401.

A Summary of the Debtor's actual income and expenses is set forth in Exhibit B.

III. SUMMARY OF THE AMENDED PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Amended Plan of Reorganization?

As required by the Code, the Amended Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Amended Plan also states whether each class of claims or equity interest is impaired or unimpaired. If the Amended Plan is confirmed, your recovery will be limited to the amount provided by the Amended Plan.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Amended Plan. They may, however, object if their view, their treatment under the Amended Plan does not comply with that required by the Code. As such, the Amended Plan Proponent has not placed the following claims in any class:

1. Administrative Expenses

Administrative expenses are costs or expenses of administering the Debtor's Chapter 11 case which are allowed under §507(a)(2) of the Code. Administrative expenses also include the value of goods sold to the Debtor in the ordinary course of business and received within twenty (20) days before the date of the Bankruptcy Petition. The Code requires that all administrative expenses be paid on the Effective Date of the Amended Plan, unless a claimant agrees to a different treatment.

The following chart lists the Debtor's estimated administrative expenses and the proposed treatment for each under the Amended Plan:

TYPE	ESTIMATED AMOUNT OWED	PROPOSED TREATMENT
Expenses Arising in the ordinary Course of Business	NONE	Paid in full on the Effective Date of the Plan or per Court orders or by agreement with the parties.

Professional Fees, as approved by Court	NONE APPROVED	terms of obligation. Paid in full on the Effective Date of the Plan or per Court order or by agreement between the parties.
	Est of legal fees to Be \$12,000 and Accounting fees \$10,000.	
Clerk's Office Fees, Bankruptcy Administrator's Fees, and Other Administrative Quarterly Fees	NONE, Other than current due fees	Paid in full on the Effective Date of the Amended Plan.

2. Priority Tax Claims

Certain priority claims that are referred to in §§507(a)(1),(4),(5),(6), and (7) of the Code are required to be placed in classes. The Code requires that each holder of such a claim receive cash on the Effective Date of the Amended Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment.

Priority tax claims are unsecured income, employment, and other taxes described by §507(a)(8) of the Code. Unless the holder of such a §507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding five (5) years from the Order of Relief. The Internal Revenue Service has filed a priority claim in the amount of \$106,385.29. This debt will be paid quarterly over a sixty (60) month period with an interest rate of four percent (4%).

C. Classes of Claims and Equity Interests

The following are the classes set forth in the Amended Plan, and the proposed treatment that they will receive under the Amended Plan:

1. Classes of Secured Claims

Allowed Secured Claims are claims secured by property of the Debtor's bankruptcy estate (or that are subject to setoff) to the extent allowed as secured claims under §506 of the Code. If the value of the collateral or setoffs securing the creditor's claim is less than the amount of the creditor's allowed claim, the deficiency will be classified as a general unsecured claim

The following chart lists all classes containing the Debtor's secured pre-petition claims and their proposed treatment under the Amended Plan:

CLASS	DESCRIPTION	INSIDER?	IMPAIRED?	TREATMENT
Class I	Secured Claim of	No	Yes	To be paid quarterly over

NCDR for 60 months.

The secured portion of the claim will be paid quarterly with an interest rate of eight percent (8%).

2. Classes of Unsecured Claims

CLASS	DESCRIPTION	INSIDER?	IMPAIRED?	TREATMENT
Class II-a	Batesville Casket (trade debt - goods)	No	Yes	This debt will be paid quarterly over a 60-month period.
Class II-b	Adams Products (trade debt -goods)	No	Yes	The debt will be paid quarterly for a 60-month period.
Class II-c	Verizon Select (unsecured creditor services)	No	Yes	The debt shall be paid quarterly for a 60-month period.
Class II-d	IRS (unsecured creditor-taxes)	No	Yes	The debt shall be paid quarterly for a 60-month period.
Class II-e	NCDR (unsecured creditor-taxes)	No	Yes	The debt shall be paid quarterly for a 60-month period.

General unsecured claims are not secured by property of the estate and are not entitled to priority under §507(a) of the Code.

Based on the claims filed, it is estimated that there is approximately Four hundred thirteen thousand seven hundred forty-three and thirty-two /100 dollars (\$413,743.32) of allowed Class II General Unsecured Claims. It is expected that each class of unsecured claims shall receive a promissory note in the amount of thirty-nine-point three percent (39.3%) of their allowed unsecured claim. Payments on the promissory notes shall be paid quarterly, commencing on the twentieth (20th) day of the first full month following confirmation of the Amended Plan of Reorganization.

All unsecured creditors will also receive an additional annual payment. That payment is based upon a pro-rata share of 30 % of the before tax profits as determined by the tax preparer. This payment will be made 90 days after the yearly tax returns are filed and paid. As such, any unsecured claims will be impaired.

3. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (i.e., equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company ("LLC"), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

The equity security holders, which are family members of the Scarborough family, shall retain their ownership interest in the Debtor with all rights and interests in the Debtor as of the date of the Order confirming the Chapter 11 Amended Plan. The equity security holders shall receive no payment as members until any general unsecured claimants receive payments as required under the Amended Plan or have been paid in full, whichever occurs first. There are no payments anticipated to be due or paid to Equity security holders.

4. Class of Insiders of the Debtor

The insiders of the debtor include Scarborough family members. There are no claims anticipated from the insiders and the Amended Plan makes no provisions for payments to insiders or equity shareholders, other than salary and wages to the employees of the business.

D. Means of Implementing the Amended Plan

1. Source of Payments

This Amended Plan of Reorganization contemplates payments to the various classes of creditors using income derived from the continued operations of the Debtor's operation and business. Attached hereto and incorporated herein by reference as Exhibit B is a schedule of the actual monthly income and expenses for the Debtor's operation for the period April, 2016 through November, 2016. Attached hereto and incorporated herein by reference as Exhibit C is a revised summary five-year plan of payments to the Debtor's creditors. The Debtor anticipates that it will have adequate cash available from the business to make all periodic payments which are required by the Amended Plan of Reorganization on a timely basis. Exhibits C is used to illustrate the feasibility of the Amended Plan Reorganization.

THE PROJECTION OF NET INCOME FROM OPERATION OF THE DEBTOR AS FILED IN THE SEPTEMBER 7, 2016 DSCLOSURE IS BASED UPON EXISTING CONDITIONS AFFECTING THE OPERATION OF THE DEBTOR'S BUSINESS AND DOES NOT REFLECT THE UNKNOWN EFFECTS OR POSSIBLE FUTURE DETRIMENTAL ECONOMIC CONDITIONS WHICH MAY AFFECT THE CONTINUED OPERATION OF ANY BUSINESS.

2. Post-confirmation Management

The Post-Confirmation Officers and Directors of the Debtor, and their compensation, shall be as follows:

John C. Scarborough III	Insider	Compensation commensurate with responsibilities.
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Queen M.B. Scarborough Insider Compensation commensurate with responsibilities.

Each officer is currently receiving approximately \$2600.00 a month. It is anticipated that salaries will increase the third year into the Amended Plan to \$2,860.00 a month which is no more than ten percent (10%) of the current salary. The selection and compensation of these individuals shall be consistent with the interest of creditors, the equity security holders if any, public policy, and this Amended Plan.

E. Risk Factors

The Debtor obtains its revenues from providing funeral services in the Durham community. This industry is subject to fluctuations based on the economy which is beyond the Debtor's control. Additionally, projections of revenue from business operations, as set forth in Exhibit "C", result from estimates of the Debtor's future revenues received from its business. The projections of revenue are also subject to a degree of error due to the various influences on the economy.

While proponents of the Amended Plan of Reorganization have attempted to be accurate and realistic in making the projections contained herein, there may be variables that exist other than those set out in the Risk Factors stated herein (such as market conditions, expenses, and interest rates) which make these projections subject to a certain amount of speculation, and therefore, subject to a degree of error.

While future economic trends cannot be predicted, it is believed that the Amended Plan will afford the secured and unsecured creditors an opportunity of realizing the maximum amount of money on their claims in the shortest period.

F. Executory Contracts And Unexpired Leases

The Amended Plan, in Section 5.01, lists all executory contracts and unexpired leases that the Debtor will assume under the Amended Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any. Section 5.01 also lists how the Debtor will cure and compensate the other party to such contract or lease for any such defaults, if applicable.

If you object to the assumption of your unexpired lease or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Amended Plan within the deadline for objection to the confirmation of the Amended Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in Section 5.1 will be rejected under the Amended Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your

objection to the Amended Plan within the deadline for objecting to the confirmation of the Amended Plan.

The deadline for filing a proof of claim based on a claim arising from the rejection of a Lease or Contract is 30 days from the effective date of the Amended Plan. Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

G. Tax Consequences Of Amended Plan

Creditors and Equity Interest Holders Concerned with How the Amended Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.

Revenues and expenses from the Debtor's business operations, as contemplated by the Amended Plan, are likely to result in taxable income being produced, which will be reportable to the State of North Carolina and to the United States of America. However, without knowing the amount of additional business deductions resulting from interest on secured debt, depreciation of fixed assets and the availability of any carry-forward tax losses or other tax attributes, it is difficult to estimate the Debtor's tax exposure, if any, at this time. The Debtor is working diligently to get the outstanding tax returns prepared and filed. Currently, the accountant is preparing the outstanding tax returns and is trying to have them ready shortly. The Debtor anticipates paying the owed taxes at the time of the filing the outstanding tax returns.

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Amended Plan must meet the requirements listed in §§1129(a) or (b) of the Code. These include the requirements that: the Amended Plan must be proposed in good faith; at least one impaired class of claims must accept the Amended Plan, without counting votes of insiders; the Amended Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Amended Plan; and the Amended Plan must be feasible. These requirements are not the only requirements listed in §1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party in interest may object to the confirmation of the Amended Plan if the party believes that the requirements for confirmation are not met.

Many parties in interest, however, are not entitled to vote to accept or reject the Amended Plan. A creditor or equity interest holder has a right to vote for or against the Amended Plan only if the creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

In this case, the Amended Plan Proponent believes that classes are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Amended Plan. The Amended Plan Proponent believes that classes are unimpaired and that holders of claims in each of these classes, therefore, do not have the right to vote to accept or reject the Amended Plan.

1. What Is an Allowed Claim or an Allowed Equity Interest?

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Amended Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

The deadline for filing a proof of claim in this case was July 18, 2016.

2. What is an Impaired Claim or Impaired Equity Interest?

As noted above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is impaired under the Amended Plan. As provided in §1124 of the Code, a class is considered impaired if the Amended Plan alters the legal, equitable, or contractual rights of the members of that class.

3. Who is Not Entitled to Vote?

The holders of the following five types of claims and equity are not entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;
- holders of other claims or equity interest that are not "allowed claims" or "allowed equity interests" (as discussed above), unless they have been "allowed" for voting purposes.
- holders of claims or equity interest in unimpaired classes;
- holders of claims entitled to priority pursuant to §§507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interest in classes that do not receive or retain any value under the Amended Plan; and
- administrative expenses.

Even If You Are Not Entitled to Vote on the Amended Plan, You Have a Right to Object

to the Confirmation of the Amended Plan [and to the Adequacy of the Amended Disclosure Statement].

4. Who Can Vote in More Than One Class?

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject an Amended Plan in each capacity, and should cast one ballot for each claim.

B. Votes Necessary to Confirm the Amended Plan

If impaired classes exist, the Court cannot confirm the Amended Plan unless (1) at least one impaired class of creditors has accepted the Amended Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Amended Plan, unless the Amended Plan is eligible to be confirmed by a cram down of non-accepting classes, as discussed later in Section [B.2.].

1. Votes Necessary for a Class to Accept the Amended Plan

A class of claims accepts the Amended Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Amended Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Amended Plan.

A class of equity interests accepts the Amended Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Amended Plan.

2. Treatment of Non-Accepting Classes

Even if one or more impaired classes reject the Amended Plan, the Court may nonetheless confirm the Amended Plan if the non-accepting classes are treated in the manner prescribed by §1129(b) of the Code. An Amended Plan that binds non-accepting classes is commonly referred to as a cramdown Amended Plan. The Code allows the Amended Plan to bind non-accepting classes of claims or equity interest if it meets all the requirements for consensual confirmation except the voting requirements of §1129(a)(8) of the Code, does not discriminate unfairly, and is fair and equitable toward each impaired class that has not voted to accept the Amended Plan.

You should consult your own attorney if a cramdown confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity

interest holders would receive in a Chapter 7 liquidation.

It is the opinion of the Debtor that payments to General Unsecured Claims, if this reorganization proceeding were converted to Chapter 7 liquidation, would be less than those set forth in the Amended Plan of Reorganization. If the assets which are attached to the secured debt of the NCDR were sold in a Chapter 7 proceeding, it is anticipated that such liquidation would generate equity for the unsecured creditors of approximately zero percent (0%) of debts owed. Attached hereto and incorporated herein by reference as Exhibit A is a breakdown of all remaining assets owned by the Debtor which could be liquidated, with analysis of liens and claims, along with valuation. The proceeds generated from a sale in a Chapter 7 proceeding would first be used to pay all expenses of administration in the Chapter 7 and Chapter 11 proceedings before any payment is made on pre-petition priority claims. Based on Exhibit A it appears that the Debtor's equity derived from the liquidation of its assets in a Chapter 7 proceeding would be sufficient to pay zero percent (0%) on all alleged unsecured claims.

D. Feasibility

The Court must find that confirmation of the Amended 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, unless such liquidation or reorganization is proposed in the Amended Plan.

1. Ability to Initially Fund Amended Plan

The Amended Plan Proponent believes that the Debtor will have enough cash on hand on the effective date of the Amended Plan to pay all claims and expenses that are entitled to be paid on that date.

2. Ability to Make Future Amended Plan Payments And Operate Without Further Reorganization

The Amended Plan Proponent must also show that it will have enough cash over the life of the Amended Plan to make the required Amended Plan payments

The Amended Plan Proponent has provided financial information. The projections are listed in Exhibit C.

You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections.

V. EFFECT OF CONFIRMATION OF AMENDED PLAN

A. Discharge of Debtor

On effective date of the Amended Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Amended Plan, subject to the occurrence of the effective date, to the extent specified in §1141(d)(1)(A) of Code, except that the Debtor shall not be discharged

of any debt (i) imposed by the Amended Plan, (ii) of a kind specified in §1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in §1141(d)(6)(B). After the effective date of the Amended Plan your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. Modification of Amended Plan

The Amended Plan Proponent may modify the Amended Plan at any time before confirmation of the Amended Plan. However, the Court may require a new Amended Disclosure statement and/or revoting on the Amended Plan.

The Amended Plan Proponent may also seek to modify the Amended Plan at any time after confirmation only if (1) the Amended Plan has not been substantially consummated and (2) the Court authorized the proposed modifications after notice and a hearing.

C. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Amended Plan Proponent, or such other party as the Court shall designate in the Amended Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

VI. OTHER AMENDED PLAN PROVISIONS

Definitions and Rules of Construction. The definitions and rules of construction set forth in §§101 and 102 of the Code shall apply when terms defined or construed in the Code are used in this Amended Plan, and they are supplemented by the following definitions:

Allowed Claim: Any claim against the Debtor for which a Proof of Claim was filed on or before the date designated for such filing by the United States Bankruptcy Court as of the last day on which to file Claims in this proceeding, or which is listed in the Schedules filed by the Debtor (unless listed as unliquidated, disputed, or contingent) and, in either case, to which no objection has been filed within the applicable period of limitation fixed by the United States Code, the Rules of Bankruptcy Procedure, or Order of this Court, unless the objection has been determined by Final Order or Judgment of the Court, or any applicable court, allowing such Claim. This definition shall include allowed secured claims and, to the extent authorized under the Code and approved by the Court, an allowed secured claim shall include 11 U.S.C. §§506(b) expenses.

Bankruptcy Code: Provisions of Title 11, United States Code, as amended by the Bankruptcy Reform Act of 1978, and as may be hereinafter amended from time to time.

Cash: Cash, cash equivalent, or other available market securities or instruments.

Collateral: Property of the Debtor which has been pledged to a creditor to secure and indebtedness.

Claim: A duly scheduled Allowed Claim or timely allowed filed Proof of Claim, or any Debtor obligation which would be allowed administrative expense claim under 11 U.S.C. §503 or 11 U.S.C. §507.

Confirmation of the Amended Plan: The entry by this Court of an Order confirming the Amended Plan in accordance with Title 11, Chapter 11, of the United States Bankruptcy Code.

Consummation of the Amended Plan: The consummation of all things contained in or provided for in this Amended Plan, and the entry of an Order of Consummation of Final Decree finally dismissing this Reorganization case.

Court: The United States Bankruptcy Court for the Middle District of North Carolina, Durham Division.

Debtor: The Debtor in this proceeding is Scarborough & Hargett Funeral Home, Inc.

Estate: The property belonging to the Debtor on the date this case was commenced and as defined §541 of the Bankruptcy Code and other applicable law.

Lien: A mortgage, judgment lien, materialmen's lien, statutory lien, security interest, charging order, or other charge or encumbrance on the Debtor's property, effective under applicable laws as of the date of Debtor's petition for reorganization or thereafter as authorized by Order of the Bankruptcy Court.

Notice and Hearing: Notice and Hearing as defined by §102(1) of the United States Bankruptcy Code.

Amended Plan: This Amended Plan of Reorganization dated December 6, 2016 and any modification thereof as approved by the Court.

Pro Rata: The proportion that each Allowed Claim in a particular class of creditors bears to the aggregate of all Allowed Claims in that class on that date.

Reorganized Debtor: Scarborough & Hargett Funeral Home, Inc., after entry of an Order confirming this Chapter 11 Amended Plan and is revested with properties that were formerly property of the Estate as provided in §1141(b) of the United States Bankruptcy Code.

Secured Claim: An Allowed Claim under 11 U.S.C. §506(a) by identified Collateral, properly perfected, and not avoidable under applicable law.

Substantial Consummation: The date at which the Debtor has commenced the distribution of initial Amended Plan payments, has issued promissory Notes as required under

the Amended Plan, completed all procedures necessary to obtain Bankruptcy Court approval of any disposition of the Debtor's Estate as described and closed on the sale of any of the Debtor's real and personal property.

Unsecured Trade Claim: An allowed trade claim that arose or accrued prior to March 11, 2016 that is unsecured and is not entitled to priority under §507 of the United States Bankruptcy Code.

Unsecured Creditor: A creditor with an Allowed Claim that arose or accrued prior to March 11, 2016, which is unsecured and is not entitled to priority under §507(1) of the United States Bankruptcy Code.

RESPECTFULLY SUBMITTED, this the 26th day of December, 2016.

Scarborough & Hargett Funeral Home, Inc.
BY: /s/John C. Scarborough, III

/s/ Florence A. Bowens
Florence A. Bowens
Attorney for the Debtor-in-Possession
North Carolina State Bar No. 19540
P.O. Box 51263
Durham, NC 27717
919.402.9700

EXHIBIT A

Scarborough and Hargett Funeral Home, Inc.
Chapter 11 Bankruptcy

Exhibit A to Disclosure Statement

Liquidation Analysis

Real Property

Durham County, North Carolina

Value - \$15,000.00

Personal Property

Automobiles - \$ 24,312.00

Office equipment - \$ 3,500.00

Furniture & Fixtures - \$ 2,000.00

Current Assets - \$214,009.52 (as of October 31, 2016)

Total Assets

\$258,821.52

Secured claims held by NCDR \$ 174,023.00

Priority claim held by the IRS \$ 106,385.29

Unsecured claims:

Old Castle/Adams \$ 6,900.00

Batesville \$ 14,007.00

Verizon \$ 2,181.86

IRS \$ 821,039.71

NCDR \$ 208,438.77

Total Liability

\$1,332,975

The total of the secured claim held by NCDR and the priority claim held by the IRS is in excess of the assets value. Therefore, there are no assets available for liquidation for general unsecured claims of the Debtor.

EXHIBIT B

SCARBOLROUGH AND HARGETT FUNERAL HOME, Inc.

Operating Statement , April 1, 2016 thru July 31, 2016

	<u>APRIL</u>	<u>MAY</u>	<u>JUNE</u>	<u>JULY</u>
Gross Cash Income:	44114	39784	105237	74898
Less: COGS				
Urn			161	
Horse/hearse rtl				1950
Caskets	3117	5508	6185	9062
Vaults	5800	2565	4200	
Suppiies				664
Contract labor	1470	2813	2920	5385
Cemetery cost	3816		1800	2000
Death Certificates	580	555	490	640
Programs			1500	1213
Flowers	4512	1101	3777	2763
Clothing/hair dress				24
Obituary page	765	1124	2210	878
Crematory	1200		1000	
Refunds		537	6214	4753
TOTAL COGS	21260	14203	30457	29332
GROSS PROFIT	22854	25581	74780	45566
OPERATING EXP:				
Rent/office	3292	3292	3292	3292
Advertising	116			
Promotional material			802	
Office supplies	513	149	92	339
Postage/freight		47	32	23
Utilities	877		224	244
Telephone		145	188	
Accounting Svc.		3473		
Bank chg./return ck	147	113	383	47
Gas/tires/oil	628	623	469	826
Auto Repairs	512	1567		1192
Equipment Leases	11069		11027	
Equipment Rental	1625		1637	912
Funeral Supplies			683	
Taxes/Licenses			401	1838
Cable/Internet		537		934

Building Repairs			1075	300
Insurance	551		1239	1897
NC sales & Use tax	2208	1072	1615	1958
Payroll exp.	7813	12854	10446	14768
Payroll taxes	4887	4764	7114	4119
Payroll fees	232	155	155	155
Storage fees	350	356	320	368
Blankets, Memorial	85			
Equipment purchased/TV				2503
Officer travel				661
Bankruptcy Fee	650			1625
Dues & Subscriptions			1530	
Other/glassware/equip	398	471	48	108
Filtered water system				443
Official check purchased not used				2503
TOTAL O/EXP	35953	30300	42088	41054
Net BTX Income	-13099	-4720	32693	4512

PROFIT PLAN THRU NOVEMBER 30, 20 (P 1 OF 2)

	<u>August</u> <u>Actual</u>	<u>Sept</u> <u>ACTUAL</u>	<u>October</u> <u>Actual</u>	<u>November</u> <u>Actual</u>	<u>1 of 2</u>
Gross Cash Income:	\$108,548.38	\$57,577.41	\$55,035.75	\$70,276.26	
Less: COGS					
Casket/ Vault/urn	19,654	6,117.96	13,442.28	13,491.69	
Horse/hearse rti		700			
Supplies	124.08	324.74		93.39	
Contract labor	5,425	2,365	2,918.00	2,805.00	
Cemetery cost	1,600	1,800		2,600.00	
Death Certificates	510	360	250	420	
Programs	2,350	877	2,269.31	550	
Flowers	4,050	966	869.85	2,250.00	
Clothing/hair dress			193.47		
Obituary page	2,061.62	279	1,094.69	1,029.04	
Crematory		3,248.00	2,780		
Refunds	577.25	275		2,600.00	
Other		250	136.99		
TOTAL COGS	<u>16697.95</u>	<u>17563.18</u>	<u>23954.59</u>	<u>25839.12</u>	
GROSS PROFIT	\$72,196.43	\$40,014.23	31,081.16	\$44,437.14	
Operating EXP:					
Rent/office	3,292	3,292.00	3,292.00	3,292.00	
Auto exp					
Advertising	200		790.57		
Promotional Mat'l	748.49				
Office supplies	149.94		211.16	161.05	
Postage/freight		32.35		68.53	
Utilities	204.64		47.9	155.4	
Telephone	72.95		223.18		
Accounting Svc.					

	August <u>Actual</u>	SEPT. <u>ACTUAL</u>	October <u>Actual</u>	November <u>Actual</u>
Bank chg./return ck	122.82	36	8	24
Gas/tires/oil	601.11	535.32	859.26	1,088.19
Auto Repairs	409.85			
Equipment Leases	11,007.23	5,292.57	6,075.34	5,879.12
Equipment rental	1,387.34	1,286.59		875.00
janitorial Supplies	44.91			
Laundry exp				
Funeral Supplies	208.01			
Taxes/ Licenses				579.28
Ch. Contributions				
Cable/Internet	1,018.54		1,068.60	675.8
Bldg. Repairs				
insurance	2,665.85		335.75	1,613.85
NC Sales & Use tx	1,322.63	2,802.70	590.63	1,722.00
Payroll exp.	10,446.36	9,545.24	11,798.04	10,446.36
payroll Taxes	4,117.46	4,111.46	4,105.46	4,105.46
payroll fees	154.62	231.93	-45.38	154.62
Storage fee	368.00	368	368	368
Officer travel				
Bankruptcy Fee			1,625	
NFD &MA registration	750			
NFD &MA other expense	626.69			89.12
Dues & Subscriptions				
Other/glassware/equip		27.5		10
Filtered water system	458.83			
Ck cashed/ re-deposited in Sept.	2,000.00			
TOTAL O/EXP	<u>42378.27</u>	<u>27561.66</u>	<u>31353.51</u>	<u>31307.78</u>
Net BTX Income	29,818.16	\$12,452.57	-272.35	\$13,129.36

EXHIBIT C

Scarborough and Hargett Funeral Home, Inc.
 Revised FIVE YEAR PLAN
 .04 int

Debt RETIREMENT
 0.08

Beg. Bal.	IRS \$106,385.29 SECURED 5877/q	IRS 821,039.71 Unsecured	NCDOR \$174,023.00 SECURED 10,587/q	NCDOR \$208,438.77 Unsecured	O.Castle \$6,900.00 Unsecured	Batesville \$14,007.00 Unsecured	Verizon \$2,181.86 Unsecured	
Year #1								
Required Profit/Share	\$68,600.00	\$23,508.00	2,140.32	\$42,348.00	\$543.31	\$18.11	\$36.50	\$5.76
\$56,262.00			43,884.36		\$11,139.88	\$371.33	\$748.28	\$118.15
Year #2								
Required Profit/Share	\$68,382.00	\$23,508.00	1,970.28	\$42,348.00	\$500.15	\$16.67	\$33.60	\$5.30
\$57,905.00			45,904.60		\$11,465.19	\$382.17	\$770.14	\$121.60
Year #3								
Required Profit/Share	\$74,707.00	\$23,508.00	\$6,903.78	\$42,348.00	\$1,752.50	\$58.42	\$117.72	\$18.58
\$57,570.00			\$44,904.60		\$11,398.86	\$379.96	\$765.68	\$120.90
Year #4								
Required Profit/Share	\$112,200.00	\$23,508.00	\$36,148.32	\$42,348.00	\$9,176.00	\$305.87	\$616.38	\$97.32
\$67,867.00			\$52,936.26		\$13,437.67	\$447.92	\$902.63	\$12.52
Year #5								
Required Profit/Share	\$112,095.00	\$23,508.00	\$36,066.42	\$42,348.00	\$9,155.32	\$305.18	\$614.98	\$97.10
\$67,465.00			\$52,622.70		\$13,358.07	\$445.27	\$897.28	\$141.68
TOTAL PAID		\$117,540.00	\$322,742.94	\$211,740.00	\$81,927.06	\$2,730.90	\$5,503.19	\$868.91
Ending Bal:	zero	\$498,296.77		zero	\$126,511.71	\$4,169.10	\$8,503.81	\$1,312.95