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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF WASHINGTON

In re: THE CATHOLIC BISHOP OF SPOKANE a/k/a THE CATHOLIC DIOCESE OF SPOKANE, a Washington corporation sole, Debtor.	Case No. 04-08822-PCW-11 **FIRST AMENDED DISCLOSURE STATEMENT REGARDING PLAN OF REORGANIZATION DATED DECEMBER 30, 2005**

THIS DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT AS CONTAINING ADEQUATE INFORMATION WITHIN THE MEANING OF BANKRUPTCY CODE §1125. IF YOU HAVE REQUESTED AND RECEIVED A COPY OF THE DISCLOSURE STATEMENT IN CONNECTION WITH THE COURT'S HEARING TO CONSIDER APPROVAL OF THE DISCLOSURE STATEMENT, NOTHING CONTAINED HEREIN IS OR WILL BE DEEMED A SOLICITATION OF ACCEPTANCE OF THE DEBTOR'S PLAN OF REORGANIZATION FILED BY THE DEBTOR.

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The Catholic Bishop of Spokane *aka* the Catholic Diocese of Spokane, a Washington corporation sole and the debtor and debtor in possession in the above captioned Chapter 11 reorganization case (the "Diocese" or the "Debtor"), has prepared this First Amended Disclosure Statement in connection with the solicitation of acceptances of the "Debtor's First Amended and Restated Plan of Reorganization" dated December 30, 2005 (the "Plan"). A copy of the Plan is attached as Exhibit 1 to this Disclosure Statement.

I. INTRODUCTION

A. The Filing of the Reorganization Case.

On December 6, 2004 (the "Petition Date" or "Date of Filing") the Diocese commenced the above-captioned Chapter 11 reorganization case ("Reorganization Case") by filing a voluntary Chapter 11 petition. The Diocese filed the Reorganization Case in order to reorganize its financial affairs pursuant to a plan of reorganization that will, among other things, fairly compensate the victims of sexual abuse by clergy or others associated with the Diocese and bring healing to victims, parishioners and others affected by the past acts of sexual abuse committed by clergy and others, while allowing the Diocese to continue its ministry and mission. It is through the Reorganization Case that the Diocese seeks to finally and comprehensively address the issues resulting from the abuse crisis that has caused great harm to the victims, threatened the Diocese's financial viability and its traditional ministries in scores of communities in Eastern Washington.

In proposing the Plan, the Diocese seeks first to compensate those who have endured harm. The Plan, while necessarily recognizing the Diocese's financial limitations, establishes a Trust for those victims who have identified themselves and for those who recognize their Claims or identify themselves in the future. The Diocese believes that the Plan is the best vehicle that is currently available to it to ensure an equitable and fair distribution of compensation to all victims, some identified and some still unknown.

The Plan maintains the funding of programs within the Diocese which are essential to the continuation of the historic ministry of this religious organization. The ability of the

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Diocese to reorganize its financial affairs and provide an orderly way to deal with victims of abuse also provides for and allows the Diocese to continue programs that were initiated over the past several years to respond to the crisis and which are described in more detail below.

II. STATEMENTS REGARDING REPRESENTATIONS.

A. Definitions And Plan Supremacy.

Unless this Disclosure Statement expressly states that a term defined in the Plan will have a different meaning herein, all terms defined in the Plan will have the same meanings when used in this Disclosure Statement. In addition, unless otherwise stated, terms used in this Disclosure Statement will have the same meanings as in the Bankruptcy Code, the Federal Rules of Bankruptcy Procedure, or the Local Rules of the Bankruptcy Court. Terms defined in this Disclosure Statement which are also defined in the Plan or the other sources described above are solely for convenience; and the Debtor does not intend to change the definitions of those terms from the Plan or from the otherwise applicable sources. Furthermore, in the event of any inconsistency between the Plan and this Disclosure Statement, the Plan will control. The Exhibits attached to this Disclosure Statement are incorporated into and are a part of this Disclosure Statement.

B. Limited Representations.

This Disclosure Statement is submitted in accordance with Bankruptcy Code §1125 for the purpose of soliciting acceptances of the Plan from holders of certain Claims. It is subject to approval by the Bankruptcy Court as containing information of a kind, and in sufficient detail, which is adequate to enable a hypothetical reasonable investor to make an informed judgment whether to vote to accept or to reject the Plan. This Disclosure Statement will be used to solicit acceptances of the Plan only after the Bankruptcy Court enters an order approving this Disclosure Statement as containing adequate information.

In determining whether the Plan should be confirmed, the Bankruptcy Court will consider whether the Plan satisfies the requirements of the Bankruptcy Code, including whether it is feasible, and whether it is in the best interests of the holders of Claims. The

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Bankruptcy Court also will receive and consider a ballot report prepared by the Debtor concerning the votes for acceptance or rejection of the Plan by parties entitled to vote. Only holders of Allowed Claims that are impaired and who will receive a distribution under the Plan will be allowed to vote to approve or reject the Plan.

THIS DISCLOSURE STATEMENT IS NOT THE PLAN. THIS DISCLOSURE STATEMENT, TOGETHER WITH THE PLAN, WHICH IS ATTACHED HERETO AS EXHIBIT 1, SHOULD BE READ COMPLETELY. FOR THE CONVENIENCE OF CREDITORS, THE PLAN IS SUMMARIZED IN THIS DISCLOSURE STATEMENT, BUT ALL SUMMARIES AND OTHER STATEMENTS REGARDING THE PLAN ARE QUALIFIED IN THEIR ENTIRETY BY THE PLAN ITSELF, WHICH IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY.

The Bankruptcy Court will hold a hearing on confirmation of the Plan. The date and time of the hearing will be fixed by order of the Court and will be noticed to Creditors after the Disclosure Statement is approved. The Confirmation Hearing may be adjourned from time to time without further written notice.

Certain materials contained in this Disclosure Statement are taken directly from other, readily accessible documents or are digests of other documents. While every effort has been made to retain the meaning of such documents, you are urged to rely upon the contents of such documents only after a thorough review of the documents themselves.

NO REPRESENTATIONS OR ASSURANCES CONCERNING THE DEBTOR, INCLUDING, WITHOUT LIMITATION, ITS OPERATIONS, THE VALUE OF ITS ASSETS, OR THE FUTURE OPERATIONS OF THE REORGANIZED DEBTOR ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

THIS IS A SOLICITATION BY THE DEBTOR ONLY AND IT IS NOT A SOLICITATION BY THE DEBTOR'S ATTORNEYS OR ANY OTHER PROFESSIONALS EMPLOYED BY THE DEBTOR. THE REPRESENTATIONS MADE HEREIN ARE THOSE OF THE DEBTOR AND NOT OF THE DEBTOR'S ATTORNEYS OR ANY OTHER PROFESSIONAL.

REASONABLE EFFORTS HAVE BEEN MADE TO ACCURATELY PREPARE ALL UNAUDITED FINANCIAL STATEMENTS WHICH

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ARE CONTAINED IN THIS DISCLOSURE STATEMENT FROM THE INFORMATION AVAILABLE TO THE DEBTOR. HOWEVER, AS TO ALL SUCH FINANCIAL STATEMENTS, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED THEREIN IS WITHOUT ERROR.

C. Voting Procedures.

If you are the holder of a Claim that is "impaired" under the Plan, it is important that you vote. In that regard, acceptances of the Plan are sought only from those holders of Claims whose Claims are "impaired" by the Plan and who are not deemed to have accepted or rejected the Plan. Specifically, acceptances are solicited only from those Creditors and parties in interest whose legal, equitable, or contractual rights are altered by the Plan or who will not receive under the Plan the full amounts of their Allowed Claims in Cash. Holders of Claims which are not impaired under the Plan are deemed to have accepted the Plan. See Bankruptcy Code §1126(f). Conversely, acceptances need not be solicited from the holders of Claims who will receive nothing under the Plan because they are deemed to have rejected the Plan. See Bankruptcy Code §1126(g).

In order for a Class of Claims to vote to accept the Plan, ballots representing at least two-thirds in amount and more than one-half in number of those who vote in that Class must be cast in favor of the Plan. As more fully described below, the Debtor is seeking acceptances from holders of Allowed Claims in the following Classes (reserving the right to supplement as to any other impaired Class(es) of Claims, if any):

Class	**Description**	**Status**
Class 1	Priority Employee Unsecured Claims	Unimpaired – Deemed To Accept
Class 2	Prepetition Property Tax Secured Claims	Unimpaired – Deemed To Accept
Class 3	General Unsecured Convenience Claims	Unimpaired – Deemed To Accept
Class 4	Parish and Catholic Entity Unsecured Claims	Impaired – Entitled To Vote
Class 5	General Unsecured Claims	Impaired – Entitled To Vote
Class 6	Tort Claims	Impaired – Entitled To Vote

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Class 7	Priest Retirement Claims	Unimpaired – Deemed to Accept
Class 8	Parish Indemnification Claims	Impaired – Deemed to Reject
Class 9	Insurer Reimbursement Claims	Impaired – Deemed to Reject

The following Claims are not impaired under the Plan or are otherwise prohibited by the Bankruptcy Code from voting on the Plan for the reason indicated:

Description	**Status**
Administrative Claims	Unimpaired
Priority Unsecured Claims	Unimpaired
Priority Tax Claims	Unimpaired

The specific treatment of each Class under the Plan is set forth in the Plan and is summarized in Article VII of this Disclosure Statement. Bankruptcy Code §1129(b) provides that, if the Plan is rejected by one or more impaired classes of Claims, the Plan nevertheless may be confirmed by the Bankruptcy Court, if: (i) the Bankruptcy Court determines that the Plan does not discriminate unfairly and is fair and equitable with respect to the rejecting Class(es) of Claims or Interests that are impaired under the Plan; and (ii) at least one Class of Impaired Claims has voted to accept the Plan.

A VOTE FOR ACCEPTANCE OF THE PLAN BY THOSE HOLDERS OF CLAIMS WHO ARE ENTITLED TO VOTE IS MOST IMPORTANT. THE DEBTOR RECOMMENDS THAT THE HOLDERS OF ALLOWED CLAIMS VOTE IN FAVOR OF THE PLAN.

Unless otherwise expressly stated, portions of this Disclosure Statement describing the Diocese have not been subject to a certified audit, but have been prepared from information compiled by the Diocese from records maintained in the ordinary course of its business. Every effort has been made to be as accurate as possible in the preparation of this Disclosure Statement.

III. OVERVIEW OF THE PLAN.

A. General Structure Of The Plan.

The Diocese filed the Reorganization Case in order to reorganize its financial affairs pursuant to a plan of reorganization that will, among other things, fairly compensate the victims of abuse by clergy or others associated with the Diocese while allowing the Diocese to continue its ministry and mission.

Pursuant to the Plan, with regard to the provisions concerning the establishment of a Trust, which has been coordinated with the Association of Parishes, a Trust will be established (the "Plan Trust"). The Plan contemplates that, on the Effective Date, the Diocese will assign and transfer virtually all of its assets together with the Tort Claims to the Plan Trust.[1] The assets transferred to the Plan Trust will include the Remaining Unrestricted Cash, the net proceeds of sale of Diocese Real Property sold prior to the Effective Date, a pledge of the net proceeds of sale of Diocese Real Property still held by the Diocese on the Effective Date, the net proceeds of sale of the Parish Building Loans (or the assignment of the Loans directly to the Plan Trust), all proceeds contributed by Settling Insurers, the assignment of any Insurance Action Recoveries and the Insurance Actions as against any remaining Non-Settling Insurers, any and all proceeds contributed by Participating Third Parties and the Pledged Parish Real Property, net of the Administrative Reserves (the "Trust Assets"). Under the Plan, the Parish Real Properties which were the subject of the Summary Judgment Order and the TLC's initial Motion for Summary Judgment (the "Spokane County Parish Real Property") will be pledged by the Diocese to the Plan Trust as additional security for the payment of Allowed Claims. It is those properties which this Court held are property of the Estate of the Debtor.

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[1] In the case of some assets, for example, the Chancery and Bishop White Seminary, the Debtor will seek to transfer cash of equal value to the Plan Trust in lieu of the actual properties. The cash will be generated by sale/leasebacks.

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In furtherance of the purpose of the Plan Trust, the two Plan Trustees will assume on behalf of the Plan Trust all of the Tort Claims. All Tort Claimants, including Future Tort Claimants, will have their Claims resolved pursuant to the terms of the Plan Trust Agreement and the Trust Distribution Agreement, as set forth below.

B. Establishment and Purpose of the Plan Trust.

On or before the Effective Date, but after entry of the Confirmation Order, the Plan Trust shall be established by the Reorganized Debtor in accordance with the Plan Trust Agreement. A copy of the Plan Trust Agreement is attached hereto as Exhibit 2. In establishing the Plan Trust, the Reorganized Debtor will, in full release and discharge of all Claims in Class 6 (Tort Claims) cause the following to occur: (a) the execution and delivery of the Plan Trust Agreement which will establish the Plan Trust; (b) the delivery of the initial funding necessary for the Debtor to meet its obligations under the Plan as of the Effective Date; and (c) the execution and delivery of all other agreements, assignments or commitments, including the transfer of the Trust Assets, necessary to carry out the terms of the Plan.

The Plan Trust will be managed and administered by two Plan Trustees, who will be appointed by the Court. The Court will select the Trustees from a list of names and qualifications submitted by the Committees, the FCR, the AOP and the Debtor. It will be critical that, to the greatest extent possible, the Trustees have the confidence of the Committees, the FCR, the AOP and the Debtor. The Trustees must be independent of the Debtor, the Parishes, the Committees, the FCR and the Tort Claimants.

The purpose of the Plan Trust shall be to, among other things: (i) pay all Tort Claims in accordance with the Plan and the Plan Trust Agreement; (ii) preserve, hold, manage, and maximize the Plan Trust Assets for use in paying and satisfying Tort Claims in accordance with the Plan Trust Agreement; (iii) prosecute, settle and manage, in consultation with the Reorganized Debtor and the insurance coverage counsel for the Reorganized Debtor, Gordon Murray Tilden LLP, the disposition of the Insurance Actions in a manner which maximizes the recovery of value from the Insurers; (iv) defend and manage, in consultation with the Reorganized Debtor and the Insurers, any Tort Claims

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which are not settled and which go to trial for resolution and liquidation in Superior Court.

With the Plan Trust, the Debtor's goal will be to provide a mechanism for the prompt and fair determination and liquidation of the Tort Claims, and, depending on several variables, including the outcome of the Appeal, the payment in full (i.e., 100% of the liquidated value) of all Allowed Tort Claims. The Plan Trust has been designed to pay similar Tort Claims in substantially the same manner. The specific procedures for processing, determining allowance, liquidating, and paying, if allowed, all Tort Claims, including the claims of Future Tort Claimants, are set forth in the Trust Distribution Agreement ("TDA"), a copy of which is attached hereto as Exhibit 3.

Under the TDA, all Tort Claims against the Debtor shall be assigned and submitted to the Plan Trust and the TDA shall constitute the sole and exclusive method by which the holder of a Tort Claim may pursue the liquidation of his or her claim. The TDA will establish a two-pronged claims process for liquidating and resolving all Tort Claims which will involve (i) an initial non-burdensome claims review process which will result in a settlement offer to all Tort Claimants based upon a Compensable Abuse Matrix which ranges in award amounts from $15,000 to $1,500,000 per claim (the "Claims Review Process"); and (ii) a trial or agreed arbitration in Superior Court of the Tort Claims which are not resolved through the Claims Review Process. The claims liquidation process is set forth more fully and described in more detail in the TDA, a copy of which is attached hereto as Exhibit 3.

C. <u>Estimated Distributions To Creditors.</u>

The following is a summary of the projected recoveries for each of the holders of Allowed Claims (or provisionally Allowed Claims) under the Plan:

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Class/ Nature of Claim	Treatment	Approximate Total Estimated Allowed (Or Provisionally Allowed) Claims	Estimated Dates of Distributions	Estimated Distributions
Class 1 Prepetition Employee Claims	Unimpaired	$ 13,527	Various depending upon Employee's status and use of vacation time and sick leave time	To be satisfied by Diocese assuming and honoring policy after Effective Date
Class 2 Prepetition Property Tax Secured Claims	Unimpaired	$ 5,303	30 Days after Effective Date[2]	$ 5,303
Class 3 General Unsecured Convenience Claims	Unimpaired	$ Unknown	30 Days after the Effective Date or applicable Claim Payment Due	Up to $500 per Claim
Class 4 Parish and Catholic Entity Unsecured Claims	Impaired	$4,545,185	60 monthly payments of principal only commencing the month following the final distribution to the holders of claims in Class 6.	$4,545,185[3]
Class 5 General Unsecured Claims	Impaired	$247,714	60 equal monthly payments of principal and interest beginning 30 days after the Effective Date	$247,714 +4.5% interest per annum

[2] Unless the real property is sold prior to the Effective Date, in which case the taxes will be paid in full in cash at closing.

[3] It is anticipated that the Parishes may contribute some portion of the amounts owed to become Participating Third Parties under the Plan. Any such contribution will be deducted from the amount owed.

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Class/ Nature of Claim	Treatment	Approximate Total Estimated Allowed (Or Provisionally Allowed) Claims	Estimated Dates of Distributions	Estimated Distributions
Class 6 Tort Claims	Impaired	$25 million to $45 million	To be paid by the Plan Trust. All Tort Claimants will have their Claims determined by two Trustees and placed in Abuse Level Categories. Distribution will depend upon the level in which a Tort Claim is placed. Non-Settling Tort Claimants will have their claims liquidated in Superior Court.	$25 million to $45 million
Class 7 Priest Retirement Claims	Unimpaired	Present value of approximately $4.5 million	Dependent upon timing of retirement	In accordance with the current Priest Retirement Plan, as may be amended from time to time. The current program may be replaced with another program subject to the approval of the Priests and the AOP.

Class/ Nature of Claim	Treatment	Approximate Total Estimated Allowed (Or Provisionally Allowed) Claims	Estimated Dates of Distributions	Estimated Distributions
Class 8 Parish Indemnification	Impaired	Unknown	None	No payment will be made on account of any Claims in this Class.
Class 9 Insurer Reimbursement Claims	Impaired	Unknown	None	No payment will be made to holders of Claims in this Class.

IV. THE DEBTOR.

A. The History and Mission of the Diocese

The Spokane Diocese's roots date back to 1838 when the first Mass was celebrated at a point near Kettle Falls on the Columbia River. In the early 1840s Catholic missions were founded in Cusick, Kettle Falls and Wallula. Walla Walla's mission was founded in 1847 and the mission in Oroville was established in 1862. The presence of the Catholic community in this area goes back at least 166 years, 23 years prior to the Civil War and 51 years before statehood.

As of 2003, the Diocese ministered to 97,665 Catholics[4] representing 28,554 Catholic households in thirteen counties in Eastern Washington, including Okanogan, Ferry, Stevens, Pend Oreille, Lincoln, Spokane, Adams, Whitman, Franklin, Walla Walla, Columbia, Garfield and Asotin. The Diocese covers 24,356 square miles.

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[4] As reported in the official Catholic Directory for 2003.

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The Diocese serves the ecclesiastical, administrative and pastoral needs of eighty-one parishes, two missions, a retreat house, a college seminary house of formation, a high school in Walla Walla and sixteen Catholic elementary schools.

As of Fall 2005 the Parish Schools within the Diocese had a total student enrollment (PK-12) of 3,891. The schools within the Diocese currently employ 414 individuals and have a combined annual budget of $14,916,472. A breakdown of current enrollment and budget figures by individual school is attached hereto as Exhibit 4. In addition to the schools, the Parishes employed approximately 350 people.

The offices of the Diocese have thirty-three (33) employees. These offices include (but are not limited to): Office of the Bishop (includes Vicars General, Moderator of the Curia, Victims Assistance Coordinator, and Vicar for Clergy); Director of Vocations; Human Resources; Fiscal Services; Secretary for Diocesan Business Affairs; Secretary for Catholic Schools; Secretary for Evangelization; Director of Deacons; and The Inland Register (the "Diocesan Offices").

In the United States some dioceses receive "mission support" due to the nature of the vulnerable communities they serve. The Diocese of Spokane receives mission support based upon, among other things: the predominantly rural nature of the communities within the Diocese; the large immigrant population of Hispanic people; and the population of Native Americans that are served by the Diocese. The mission support, referred to above, comes from the annual Catholic Home Missions Appeal, and the Black & Native American Mission Appeal national collections taken up in the Catholic parishes across the United States.

Other Catholic institutions, which operate within the geographic boundaries of the Diocese, include two Catholic high schools (with 1,071 students), one Catholic university (with approximately 6,000 students), eight Catholic hospitals (including Sacred Heart Medical Center, one of the largest hospitals in the state), fourteen Catholic homes for the aged, chronically ill and disadvantaged, twelve centers for the protection of life and the family and four social services centers. Social services, provided by various Catholic institutions, include a shelter for homeless men, housing for homeless women and children, housing for the mentally impaired, immigration services, care for pregnant teenagers, housing for farm worker families, counseling services and food banks. Catholic Charities of Spokane is the largest private provider of social services between Seattle and Minneapolis and employs approximately 140 people.

B. Organizational Structure Of The Diocese. [5]

The Diocese is structured and operates in accordance with Canon Law. Among other things, Canon Law establishes that the Roman Catholic Church is comprised of "juridic persons." A "juridic person" is the equivalent of a corporation in civil law. Under Canon Law the Diocese is a juridic person. The Diocese is also a corporation sole under Washington State civil law. Under Canon Law each Parish in the Diocese is a separate juridic person. Each Parish is also an unincorporated association under Washington State civil law.[6] The Bishop is given the responsibility of supervising the juridic persons in a diocese.

The Bishop of the Diocese is the Most Reverend William S. Skylstad. According to Canon Law, the Bishop is a teacher of doctrine, priest of sacred worship, and minister of governance. The Bishop governs those within the Diocese with legislative, executive, and judicial power. The Bishop also explains the truths of the faith; fosters vocations; strives to promote holiness of the Christian faithful; presides over and administers the sacraments of the church; and protects the integrity of ecclesiastical discipline and sacraments. Part of the duties of the Bishop and the Diocese are carried out by the Diocesan Offices.

These Diocesan offices are under the direct supervision of the Bishop and conduct work of several types: work required by Canon Law; work required by civil law of a non-profit corporation; work that supports the Bishop in his responsibilities to the Catholic people and to the Parishes and schools in the territory of the Diocese; work that supports the Bishop in his responsibilities to respond to social issues and concerns; and work that is

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[5] The organization structure of the Diocese is one of the key issues in the Appeal.

[6] The legal status of the Parishes under civil law was not resolved by the Court in the Summary Judgment Order.

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involved in any business effort. Each of the Diocesan Offices performs specific functions in support of the Bishop's pastoral ministries and in support of the Parishes and schools in the territory of the Diocese which include:

• Office of the Bishop: This Office deals with official correspondence of the Bishop; scheduling of appointments with pastors, Parish clergy, Parish staff, and parishioners; pastoral visits to Parishes and schools, and confirmations at Parishes; oversight of child protection efforts and initiation and coordination of training of Parish and school staff and volunteers in creation of safe environments for children (Office of Child, Adolescent, and Adult Protection).

• Vicar General: The Vicar General has the executive power over the Diocese which belongs to the Bishop according to Canon Law, namely the power to place all administrative acts except those, however, that the Bishop has reserved to himself or which require a special mandate of the Bishop by law. There are two Vicar Generals in the Diocese: Rev. Steven Dublinski and Rev. John Steiner.

• Moderator of the Curia: The Moderator of the Curia, under the authority of the Bishop, is to coordinate those things which pertain to the treatment of administrative affairs and to take care that the other members of the curia properly fulfill the office entrusted to them. The Moderator of the Curia in the Diocese is Rev. Steven Dublinski.

• Financial Officer: The Secretary for Business Affairs administers the finances and property of the Diocese under the authority of the Bishop in accord with the budget determined by the Diocesan finance council (the "Finance Council") and, from the income of the Diocese, is to meet expenses which the Bishop or others designated by him have been legitimately authorized. The Secretary for Business Affairs of the Diocese is Deacon Michael D. Miller.

• Vocations: This office provides for the recruitment of seminarians; initiation and coordination of Parish vocation awareness programs; assistance with and facilitation of responses at the Parish level to interests in pursuing a ministry.

• Human Resources: This office participates in negotiations on behalf of all Parishes and schools with employee benefit providers; facilitation of response of Parishes and schools to employee needs; assistance with compliance by Parishes and schools with child protection policies (fingerprinting of employees and volunteers and background checks of employees and volunteers).

In addition, the Diocese provides, among other things:

• Fiscal Services: processes all financial transactions for the central administration offices; processes donor gifts to the Annual Catholic Appeal and other Diocesan collections; central payroll and Diocesan-wide benefits and retirement; training of Parish financial staff; assistance with bookkeeping and other Parish and School financial administration needs.

• Property and Insurance Services: facilitation of insurance claims reports; property recording assistance; construction project oversight assistance.

• Development Services: assistance with capital and other fundraising needs; assistance with Parish stewardship programs.

• Community Relations: publication of the diocesan newspaper, Catholic Vision.

• Tribunal: assistance with and facilitation of needs of parishioners related to the Sacrament of Marriage.

• Formation: initiation and coordination of workshops and certification training for the development of Parish lay leadership and for the permanent deacons.

• Catechesis: initiation and coordination of workshops and other training for Parish religious education teachers and youth ministers.

• Evangelization: initiation and coordination of resources and workshops and certification training for Parish-based evangelization programs.

• Catholic Schools: initiation and coordination of workshops for principals, faculty, and staff and facilitation of and assistance with certification of Catholic Schools.

• Catholic Social Mission: initiation and coordination of workshops for Parish staff and parishioners in response to social issues and concerns.

C. <u>Legal Structure of the Diocese.</u>

The Diocese is a Washington corporation sole, formed pursuant to RCW 24.12.010 et seq.

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On August 26, 2005, the Court ruled that the Bishop "in his official capacity holds title to the trust res"[7] pursuant to the terms of an express trust. The trust res, the Court found, includes the Parish Real Property. The Court also concluded that the beneficiary of the trust was "the Diocese [of Spokane] itself." See, Summary Judgment Order, page 38.

The Diocese believes and is currently arguing in the Appeal, among other things, that the corporation sole holds the property for the benefit of the beneficiaries and that the beneficiaries of the trust are the Parishes, not the Diocese. On the other hand the TLC, supported in their position by the TCC and FCR, is arguing in the Appeal that the Court correctly decided this issue. Questions regarding the nature of the trust, the identity of the trustee and who the beneficiaries of the trust are, are critical because the answers to those questions determine whether the Parish Real Property and other assets are property of the estate in this Case.

The Summary Judgment Order addressed the question of the beneficial ownership interest of the Parish Real Property.[8] The Summary Judgment Order did not address (1) the ownership of Parish Personal Property; (2) the legal nature of the Diocese's interests in the Other Entities; and (3) the legal status under civil law of the Parishes, themselves, that is to say, whether the Parishes have a separate civil legal existence separate from the Diocese.

For the purposes of this Plan, given the fact the Court's Summary Judgment Order is the law of this case, subject to a possible reversal in the Appeal, the Debtor has included the Spokane County Parish Real Property as property of the Debtor's Estate.

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[7] See the Memorandum Decision regarding the Summary Judgment Order, p. 38.

[8] Technically, the Summary Judgment Order dealt with only 22 of the 81 Parishes. However, with only a couple possible exceptions, the Court's decision should, subject to the Appeal, apply to the remaining 60 Parishes. The Diocese is working with the TLC to review all of the Parish deeds and to resolve any discrepancies in the deed language.

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D. The Financial Structure and Operations of the Diocese

The operations of the Diocese are funded through four primary sources: (1) the Annual Catholic Appeal which typically takes place in February of each year ("ACA"); (2) the difference between earnings on the Deposit and Loan Fund and the fixed rate of return paid to Parishes and other participants in regard to their deposits in the Deposit and Loan Fund; (3) grants and direct donations; and (4) investment income.

The Diocese seeks voluntary contributions through the ACA. The ACA is the primary source of funding for Diocesan operations and has, over the past five years, represented approximately fifty-four percent (54%) of the Diocese's annual budget. Attached hereto as Exhibit 5 is a graph which shows the ACA and Diocesan budget income numbers for each year since 2000. In addition, a summary of the actual results of Diocesan operations for each of the fiscal years between 2001 and 2005 and for the projected budget for fiscal years 2006 and 2007 are is attached hereto as Exhibit 6.

The Diocese also administers a Diocesan Deposit and Loan Fund. These funds consist of the regular collections and other monies of the Parishes and other entities ("Catholic Entity(ies") in excess of routine operating expenses retained by the Parishes and which are not specifically restricted (the "Unrestricted Deposits"). In addition, the Parishes and other entities remit restricted funds to the Diocese for management (the "Third Party Restricted Deposits"). The Diocese has historically received compensation for its management of the Deposit and Loan Fund. The Diocese pays the participants in the Deposit and Loan Fund a fixed rate of return on their deposits. As of the Petition Date, that rate was 1.5% (the "Participant's Rate"). As of the Petition Date, the interest rate on the Parish Building Loans was 5.5%. The difference between the Participant's Rate and the actual return on the investments is retained by the Diocese to compensate it for its services.

The Diocese has, on occasion, received restricted donations, restricted grants and similar restricted gifts (the "Diocese Restricted Funds"). Collectively, the Third Party Restricted Deposits and the Diocese Restricted Funds will hereinafter be referred to as the "Restricted Funds". The Diocese acts as a trustee, manager and custodian of the Restricted Funds. Just as a trustee under a trust can invest, re-invest and manage assets of a trust, so

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does the Diocese perform that function. In addition, just as a trustee of a trust acquires bare legal title to the assets under the trustee's management and control, so does the Diocese have bare legal title to the Restricted Funds. The Diocese has no beneficial or equitable interest in the Restricted Funds. THE TORT LITIGANTS' COMMITTEE HAS ALLEGED THAT THE RESTRICTED FUNDS ARE SUBJECT TO THE CLAIMS OF GENERAL UNSECURED CREDITORS.

In regard to the Unrestricted Deposits, the Diocese has taken the position that it holds both the legal and beneficial interests in those funds and that to the extent of Unrestricted Deposits that were held by the Diocese on the Date of Filing, a debtor-creditor relationship exists between the Diocese and the Parishes.

Finally, the Diocese also receives grants and direct testamentary and non-testamentary donations. Typically these funds are donated with a restricted purpose and are reflected on the books and records of the Diocese as restricted or endowment funds (also restricted). If no such restriction exists, those assets are considered to be part of the general assets of the Diocese.

Information regarding the Diocese's historical financial performance is contained in the Audited Financial Statements[9] for fiscal years ending June 30, 2003, 2004 and 2005, which are attached hereto as Exhibit 7 and, the unaudited internally prepared financial statement dated September 1, 2005 for the short period beginning July 1, 2005 and ending November 30, 2005, which will be attached hereto as Exhibit 8. The fiscal year for the Diocese ends on June 30th of each year.

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[9] The Diocese's financial statements for the periods ending June 30, 2003 and 2004 were audited. The 2005 financial statement has not been audited but is in audit format for comparison purposes. Due to the uncertainty of the Tort Claims and their magnitude, the independent auditors for the Diocese were unable to render an auditor's opinion on the June 30, 2005 statements. In addition, the auditors are in the process of restating the 2003 and 2004 statements to reflect the results of the actuarial analysis regarding Priest Retirement. The restated audits will be available as soon as they've been accepted by the Diocese and upon request.

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E. The Diocese's Assets And Liabilities.

Following is a description of the assets and liabilities of the Diocese.

1. Assets

(a) Real Property

(i) Diocese Real Property.

The Diocese holds both the legal and the beneficial interest in certain real property. This real property is more particularly described in Exhibit 9. As of the Petition Date, the Diocese Real Property had a combined value[10] of approximately $5.0 million dollars. As part of the Plan, the Diocese intends, with possibly one exception, to liquidate or contribute (from non-Diocesan sources) cash equivalent to the value of the Diocese Real Property. The proceeds of these sales, after the payment of costs of sale including commissions, will be used to partially fund the Plan Trust in accordance with the terms of the Plan. In regard to what is commonly referred to as the Mattausch Farm, which is a 1,000 acre farm near Rosalia, Washington, the Diocese will either sell the farm or, subject to the consent of the Committees, obtain a loan from a commercial lender for approximately 80% of the value of the farm. All of the net sale or loan proceeds from the Mattausch Farm will be assigned to the Trust in accordance with the Plan.

(ii) Parish Real Property.

The nature and extent of the Diocese's interest in Parish Real Property is the main issue in the Appeal. The Bankruptcy Court in the Summary Judgment Order found that, in regard to the real property occupied by the twenty-two (22) Parishes named in the TLC's Summary Judgment Motion (the "Spokane County Parish Real Property"), the Parish Real Property is property of the Diocese's estate. Pursuant to the Plan and subject to and conditioned upon the entry of a Final Order in the Appeal which affirms the Court's Summary Judgment Order, the Diocese (with the consent of the Spokane County Parishes)

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[10] Where recent appraisals (i.e., within the past two years) were available to the Diocese, the Diocese listed the values at fair market value. Otherwise, the values listed are book value, or if an offer has been received that is higher than book value or the appraised value, the amount of the offer has been listed.

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will pledge the Spokane County Parish Real Property to the Plan Trust as additional security for the payment of Allowed Tort Claims. The assessed value of the Spokane County Parish Real Property is set forth on the attached Exhibit 10 and totals $40,485,114. The assessed value for all Parish Real Property is $54,753,055 and is set forth on the attached Exhibit 11.

On December 22, 2005, the Court approved the joint application and appraisal plan filed by the TLC, TCC and FCR for the retention of GVA Kidder Mathews to appraise forty (40) of the highest valued properties, title to which is held in the name of the Debtor and/or the Parishes. The report of the Appraiser is scheduled to be completed by the end of March 2006, and this Disclosure Statement will be amended at that time to include summaries of the Appraiser's report.

In September 2005 the Debtor filed a Motion to Stay certain aspects of the §541 Litigation. The Debtor, if the Court deems it procedurally advisable, will file a separate Motion to Stay the impact of the Summary Judgment Order, including the sale or liquidation of the Spokane County Parish Real Property or the Parish Real Property, pending the Appeal.

Also, in September 2005, the Association of Parishes likewise filed a Motion to Stay, pending the Appeal. Depending on the results of the Appeal, individual Parishes may assert equitable liens in favor of said Parishes, as may be allowable under applicable laws of the State of Washington, as well as permitted under the applicable provisions of the Bankruptcy Code, which assertions may be made on a conditional basis either in the context of amendments to pleadings in the §541 litigation, the filing of contingent claims, or both.

The Plan Trust Agreement provides, in Section 6.2.4, that Cash Calls by the Trustees to the Diocese and the Spokane County Parishes prior to entry of a Final Order in the Appeal shall be fully enforceable, unless the Diocese and/or the Parishes have prior to the expiration date of the Call Notice, obtained a stay of any sale or liquidation of the Spokane County Parishes pending the Appeal.

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(b) Personal Property

(i) Cash

As of December 1, 2005, the balance of unrestricted Cash in the Account was $1,749,865.

(ii) Accounts Receivable

These assets consist of amounts owed to the Diocese by Parishes, primarily for construction loans that the Parishes received from the Deposit and Loan Fund administered by the Diocese (the "Parish Building Loans"). The principal balance of the Parish Building Loans, as of the Petition Date, was $3,217,514.[11] As part of the Plan, the Diocese intends to sell the Parish Building Loans and to assign the proceeds of sale to the Trusts in accordance with the Plan. In the alternative, the Diocese will assign its interest in the Parish Building Loans directly to the Trusts.

(iii) Office Equipment

As of the Date of Filing, the book value of the Diocese's office equipment, furnishing and supplies was $484,834. Given the pledge of the Spokane County Parish Real Property and the estimated value of the Insurance Coverage and except as set forth in Section IV.E.4 below, the Diocese does not propose to sell or liquidate any of these assets pursuant to the Plan. Given the relatively small value of these assets, the Diocese does not believe it would be cost effective to hire someone to appraise the Diocese's office equipment. Moreover, the Diocese does not believe that the fair market value of the office equipment exceeds its book value.

(iv) Insurance Actions

The Diocese is the insured under certain general liability insurance policies (including indemnification of sexual misconduct claims) which were issued at various times relevant to the times at which certain Tort Claims are alleged to have occurred. The

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[11] Pursuant to the Cash Management Order, the Parishes have been making payments of principal and interest to the Diocese during the Reorganization Case. As of December 1, 2005, the remaining balance on the Parish Building Loans was $2,920,805.

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Insurers issuing the Insurance Policies and the effective year(s) for each Insurance Policy are set forth in Exhibit 12 attached hereto. Each of the Insurance Policies is an occurrence policy which means that if the act occurred during a policy year, regardless of when the claim is made, then the claim is covered, subject to applicable policy terms and conditions, by the Insurance Policy.

All of the Insurers have been put on notice of the Tort Claims which are known to the Diocese. Of the nineteen lawsuits, which were pending as of the Date of Filing of the Reorganization Case, the defense of fifteen of the lawsuits had been accepted by the Insurers prior to the Date of Filing, in each case subject to a reservation of rights. The defense of the other four lawsuits[12] has not been tendered to or accepted by the Insurers because the alleged abuse dates occurred in the 1940s or early to mid-1950s, when the identity of the insurer is unknown. At the request of the Diocese, the Insurers agreed that Paine Hamblen would represent and defend the interests of the Diocese and that the Insurers would pay for a portion of the cost of the defense of the fifteen lawsuits.

On November 22, 2004, one of the Insurers, CNA, filed a declaratory relief action, naming as defendants the Diocese, the other Insurers and certain additional defendants (the "Declaratory Relief Action"). The Declaratory Relief Action was removed by the Debtor to Bankruptcy Court on January 5, 2005. On March 5, 2005, the Insurers filed a Motion for Withdrawal of the Reference, which motion was agreed to by the Debtor. The Declaratory Relief Action is currently pending in Federal District Court, under Cause No. 05-CV-00075-JLQ, before the Honorable Justin L. Quackenbush. The Declaratory Relief Action is currently scheduled to go to trial on October 23, 2006.

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[12] Joseph E. Newbury, et al. v. Corporation of the Catholic Bishop of Spokane (Spokane County Superior Court Cause No. 04-2-00260-0), J.D. v. Corporation of the Catholic Bishop of Spokane (Spokane County Superior Court Cause No. 04-2-01449-7), (Estate of) James Maguire v. Reinard Beaver and Catholic Bishop of Spokane, a Corporation Sole (Spokane County Superior Court Cause No. 03-2-04172-1), and Michael Shea v. Reinard Beaver and Catholic Bishop of Spokane, a Corporation Sole (Spokane County Superior Court Cause No. 03-2-03096-6).

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Each of the Insurers has reserved all rights with respect to whether there is coverage for the Tort Claims. The Diocese has various claims against the Insurers related to coverage. Attached hereto as Exhibit 12 is a schedule prepared by Debtor's counsel, which sets forth details regarding the Tort Claims and their relationship to the Insurance Coverage. The Debtor believes the policy limits exposure to the Insurers, based solely on the fifty-three (53) claims the Diocese is currently aware of,[13] which involve allegations of abuse between 1958 and 1988 when Diocesan general liability carriers have been identified, is in the range of approximately $43 million. This estimate does not include a discount for any Insurance Coverage defenses, nor does it consider the Insurers' risk regarding additional Claims filed by the Bar Date and claims asserted by or on behalf of Future Claimants. The Diocese, its counsel, including coverage counsel, have a great deal of additional analysis and details regarding the Insurers' exposure in this Case, but must balance the requirements of adequate information under Code §1125 against the Debtor's strategy to maximize the value of the Insurance Coverage for the benefit of the Tort Claimants and the Estate.

The Debtor's positions regarding Insurance Coverage, including but not limited to, the Debtor's coverage positions that underlie Exhibit 12 to this Amended Disclosure Statement and the Debtor's belief regarding the range of potentially available Insurance Coverage or Insurance Actions Recoveries for the Tort Claims, are disputed by one or more Insurers in the Declaratory Relief Action. Any and all disputes or issues regarding an Insurer's obligation to defend or indemnify the Debtor with respect to the Tort Claims will be decided exclusively in the Declaratory Relief Action. The Plan, the Disclosure Statement, the Plan Trust Agreement and the Trust Distribution Agreement for the Plan Trust and any Court order approving one or more of such documents, any determination

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[13] The Debtor has been advised by plaintiffs' counsel for the Tort Litigants that eight (8) additional claims will be filed against Morning Star Boys Ranch. These additional eight (8) claimants may also make demands upon the Debtor. Morning Star Boys Ranch was named in the Debtor's Insurance Policies as an additional insured. The alleged dates of abuse are not known to the Debtor at this time.

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made in any claims review proceeding or Expedited Review Process and any Tort Claim Statute of Limitations Compromise Offer are not binding upon any Insurer unless the Insurer agrees in writing to participate in the Plan or becomes a Settling Insurer.

Each Insurer will be given an opportunity to participate in the Plan and become a Settling Insurer. The Debtor has already commenced preliminary discussions with one or more of the Insurers regarding a global settlement. Any Insurer that fails to settle with the Diocese before the Effective Date (or with the Trustees after the Effective Date) on terms and conditions acceptable to the Diocese (or the Trustees) and approved by the Bankruptcy Court, will not receive the benefits of a Settling Insurer under the Plan.

Under the Plan the Diocese will assign any Insurance Action Recoveries it receives prior to the Effective Date, and will further assign any Insurance Actions that remain after the Effective Date, to the Trust.

(v) Interest of Bishop in Certain Other Corporations

The Debtor or the Bishop is a member or sole member of a number of separately incorporated nonprofit Washington corporations that assist with the mission and ministry of the Diocese. These corporations include Catholic Cemeteries of Spokane (Debtor/corporation sole is sole member and shareholder), Catholic Foundation of the Spokane Diocese (Bishop appoints Board of Directors which consists of at least nine members), The Spokane Catholic Investment Trust (members and Board include the Bishop plus a representative of each separately incorporated charitable organization that invests its funds in the Spokane Catholic Investment Trust), Morning Star Boys' Ranch (Debtor/corporation sole is one of two members and Bishop appoints other member), Catholic Charities of the Diocese of Spokane (Bishop is one of ten members and corporation president), and Immaculate Heart Retreat Foundation (neither the Bishop nor Debtor is a member or shareholder) (the "Other Entities").[14]

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[14] Three of the separately incorporated entities have been named as defendants by the Tort Litigants' Committee in the §541 Litigation, including Catholic Cemeteries, Catholic Charities and Morning Star Boys Ranch.

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The position of the Debtor and the Other Entities[15] in the §541 Litigation is that neither the Debtor nor the Bishop has any proprietary interest in the Other Entities. The Debtor contends that the Debtor or Bishop's only real authority, vis-à-vis the Other Entities, is to remove and replace the board of directors of the Other Entities. THE POSITION OF THE TLC IN THE §541 LITIGATION IS THAT THE DEBTOR AND/OR THE BISHOP EFFECTIVELY CONTROLS THE OTHER ENTITIES WHICH ARE NAMED AS DEFENDANTS IN THAT LITIGATION (MUCH LIKE WHOLLY-OWNED SUBSIDIARIES IN THE FOR-PROFIT CORPORATE WORLD) AND THAT, AS A RESULT, SOME OR ALL OF THE ASSETS OF SOME OR ALL OF THE OTHER ENTITIES CONSTITUTE PROPERTY OF THE DEBTOR'S ESTATE.

The interest of the Debtor (or the Bishop) in the Other Entities has not been resolved by the Court (or even put at issue) as of the date of this Disclosure Statement and may not be resolved for a considerable time. For purposes of this Disclosure Statement and the Plan, because the Debtor believes (1) that the property of the Other Entities is not property of the Debtor's Estate; and (2) that the value of the Trust Assets, including the estimated range of values of the Insurance Coverage and the Spokane County Parish Real Property, will far exceed the total amount of the Allowed Tort Claims, the assets of the Other Entities are not included in the Plan.[16] If the Debtor's assessment of the value of the Plan Trust Assets proves to be incorrect, then the provisions of Section IV.E.4 will apply.

(vi) Parish Personal Property.

The nature and extent of the Diocese's interest in the Parish Personal Property was not covered by the Summary Judgment Order and remains, as of the date of this Disclosure Statement, unresolved. The Debtor in September 2005 filed a Motion to Stay (1) the §541

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[15] The Other Entities are separately represented by James B. King of the law firm of Keefe King & Bowman.

[16] To the extent any of the Other Entities makes contributions to become a Participating Third Party, those contributions are included in the Plan.

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Appeal Litigation as it relates to Parish Personal Property; and (2) the Avoidance Actions, pending the Appeal. This motion has not been noted for hearing because the TLC has not indicated an intent to pursue the Parish Personal Property at this time in the §541 Litigation.[17] Because the Diocese believes the value of the Trust Assets, including the estimated range of value of the Insurance Coverage and the Spokane County Parish Real Property, will exceed the total amount of the Allowed Tort Claims, the Parish Personal Property and the pursuit of Avoidance Actions have not been included in the Plan.

If the Debtor is incorrect in its assessment that the value of the Trust Assets exceeds the total amount of Allowed Claims, the provisions of Section IV.E.4 will apply

(vii) Claim Against Sulpicians

The Diocese has a potential claim for reimbursement or indemnification against the Sulpicians, the organization which operated, at all relevant times, the seminary where Patrick O'Donnell received his training. The Diocese believes this claim has a value to the Estate of somewhere between $3 million and $9 million. Counsel for the Debtor has previously put the Sulpicians on notice of a possible claim and discussions between Debtor's counsel and counsel for the Sulpicians have been ongoing.

(viii) Restricted Assets

There are various assets which the Diocese lists on its financial statements as being held for others. As a non-profit religious organization, the Diocese is the recipient of grants, gifts and other assets which are subject to restrictions imposed by the donor or the grantor of the grant. These restricted assets are not property of the Estate nor are they available for distribution to Creditors. A list of these restricted assets is set forth in Exhibit 13 attached hereto. THE TLC HAS NOT CONCEDED THAT THE RESTRICTED ASSETS ARE NOT PROPERTY OF THE DIOCESE'S ESTATE.

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[17] A separate Motion for Stay of the sale or liquidation of any Parish Real Property, through a Plan or otherwise, pending the outcome of the Appeal, will be filed at a later time if necessary. See discussion above at Section IV,E.1.(a)(ii) regarding Parish Real Property. The TLC did recently re-note the Avoidance Action motion.

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Because the Diocese believes the value of the Trust Assets, including the value of the Insurance Coverage and the Spokane County Parish Real Property, will exceed the total amount of the Allowed Tort Claims, the Restricted Assets have not been included in the Plan. In the event the Debtor's assessment of the Plan Trust Assets proves to be incorrect, the provisions of Section IV.E.4 will apply.

2. Liabilities

(a) Parish Claims

Some of the Parishes and other Diocesan-related entities (the "Catholic Entity(ies") have Claims against the Diocese for the amount of their Unrestricted Deposits.[18] A list of these Parishes and entities and the amount of each of their claims is set forth on Exhibit 14 attached hereto. The total amount of the Unrestricted Deposits, as of the Date of Filing, was $4,545,185.07. Pursuant to the Cash Management Order, certain of the Parishes have made withdrawals from the Deposit and Loan Fund since the Date of Filing. A list of the Parishes that have withdrawn funds and the amounts withdrawn is attached hereto as Exhibit 15. Net of post-petition withdrawals (which total $44,493.00), the Parishes have (net) Unsecured Claims against the Diocese (the "Parish Unsecured Claims") in the amount of $4,500,692.07.

(b) Trade Debt

The Diocese, as a business, has incurred certain trade debt. As of the Petition Date, the Diocese had $247,713.80 in trade debt.

(c) Tort Claims

As discussed in detail below, the Diocese, as of the Date of Filing, was a party to nineteen (19) lawsuits wherein the claimants allege that they were abused by clergy or others associated with the Diocese (the "Sex Abuse Lawsuits"). In the Sex Abuse Lawsuits, the Tort Litigants assert, among other things, that the Diocese is liable because it

[18] Some of the Parishes and Catholic Entities may (1) dispute the Diocese's characterization of their deposits as unrestricted, and (2) have not waived any of their rights thereto. Some of the Parishes may have set-off rights.

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failed to properly supervise these individuals and that the Diocese knew or should have known about the actions of these individuals. The Diocese has denied these allegations and has been defending those suits.[19] The Diocese has received a Statement of Damages from twenty-four (24) of the fifty-seven (57) Tort Litigants, totaling between $70,650,000 and $84,140,000. In addition, the Diocese has received settlement demands totaling $54,875,000 from twenty-seven (27) Tort Litigants, many of whom had previously submitted a Statement of Damages. Settlement demands totaling $350,000 were also received from three (3) Claimants who are not Tort Litigants. Of the seventy-one (71) total Claims of which the Diocese is currently aware, forty-one (41) Tort Litigants/Claimants have not yet provided any specific monetary demand to date. The average amount submitted by the Tort Litigants in their Statement(s) of Damages was between $2.94 million and $3.5 million per claim. If the remaining forty-seven (47) Tort Litigants/Tort Claimants who have not yet submitted Statement(s) of Damages elect to submit Statement(s) of Damages in the same range as was previously submitted by the twenty-four (24) Tort Litigants, the total range of demands through Statement(s) of Damages from the seventy-one (71) known Claimants would be between $208 million and $248 million. If the forty-one (41) Tort Litigants/Tort Claimants who have not yet provided any specific monetary demand elect to submit settlement demands for the same average ($1.84 million) as the previous thirty (30) settlement demands received from the Tort Litigants/Tort Claimants, the total settlement demands for seventy-one (71) known Claimants would exceed $130 million. These amounts do not include estimates for the Claims which may be made between now and the Bar Date or Claims of Future Tort Claimants. Essentially, the Diocese is facing Tort Claim related demands well in excess of $100 million.[20]

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[19] The Sex Abuse Lawsuits were removed from Spokane County Superior Court to Bankruptcy Court on January 5, 2005, and subsequently remanded to Spokane County Superior Court on May 4, 2005.

[20] The Debtor has been advised of the existence of an additional eight (8) claims that will be made against Morning Star Boys Ranch. Demands relating to Morning Star Boys Ranch may also be made against the Diocese.

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In addition to the currently identified Claims, which are seventy-one (71) in number, the Diocese believes that there likely are Tort Claimants who, for one reason or another, have not yet come forward and, therefore, are not known to the Diocese. The Diocese further believes that there may be other potential Tort Claimants whose memories are repressed or who have not connected an abusive event(s) with damages relating thereto (the "Future Tort Claimants"). The Diocese currently estimates that the total of Allowed Tort Claims, including Claims held by Future Claimants, will end up somewhere between $25 million and $45 million.

Each of these categories of Tort Claimants have claims that satisfy the definition of "claim" under the Bankruptcy Code and are addressed under the Plan. The Bankruptcy Code has the broadest possible definition of a claim which is designed to ensure that "all legal obligations of the Debtor, no matter how remote or contingent, will be able to be dealt with in the bankruptcy case." California Dept. Health Services v. Jensen (In re Jensen), 995 F.2d 925, 929 (9th Cir. 1993) quoting H.R. Rep Non. 595, 95th Cong. 2nd Sess. 1, 309 (1978).

The Court on June 17, 2005, appointed Mr. Gayle E. Bush to represent the interests of the Future Claimants (the "Future Claims Representative"). The Future Claimants include (a) those persons who know that they had an incident of sexual contact/touching, sexual abuse, or sexual misconduct by an alleged agent of the Diocese while the claimant was a minor yet, prior to any claims bar date established in this matter, fail to make the connection between such incident and injuries arising therefrom; (b) those persons who, prior to any claims bar date established in this matter, had not discovered or could not have reasonably discovered that, as a minor, they had an incident of sexual contact/touching, sexual abuse, or sexual misconduct by an alleged agent of the Diocese; and (c) those persons who did not reach the age of eighteen prior to any claims bar date established in this matter who have claims for sexual abuse by an alleged agent of the Diocese. The Future Claims Representative is required to file a proof of claim or proofs of claim for and on behalf of the Future Claimants.

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(d) Priest Retirement

The Diocese is the sponsor of the Priest Retirement Plan, which is a defined benefit plan. As of June 30, 2005, the Diocese's Priest Retirement Obligation included an unfunded liability which the Diocese estimated to total approximately $4.5 million. An actuarial analysis has been conducted for and on behalf of the Diocese to determine the unfunded portion of the Priest Retirement Obligation. The actuarial analysis will be provided upon request. The Diocese and Parishes are currently discussing the establishment of an entirely new priest retirement system to provide for the long-term retirement needs of all priests.

3. Summary of Assets and Liabilities

(a) Assets

DESCRIPTION	AMOUNT IN MILLIONS
i. Diocese Real Property	$ 5.0
ii. Cash	1.6
iii. Parish Loans	2.9
iv. Insurance Policy Limits (pending resolution of the Declaratory Relief Action)	43.0
v. Sulpicians	5.0
vi. Pledged Parish Real Property (assessed value)	40.4
TOTAL	$ 97.9[21]

[21] Without the Pledged Parish Real Property, assets total $57.5 million.

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(b) Liabilities

DESCRIPTION	AMOUNT IN MILLIONS
i. Tort Claims	$ 25.0 – 45.0
ii. Other Creditors	.3
iii. Parish Claims (subordinated to Tort Claims)	4.5
iv. Administrative Expenses (includes accrued but unpaid plus remaining estimated)	3.5
TOTAL of Non-Subordinated Claims[22]	$28.8 - $48.8

4. **Provision for Disputed Assets**

The total of Allowed Claims could exceed the value of the Trust Plan Assets if, for example, the Summary Judgment Order is reversed in the Appeal and the Pledged Parish Real Properties are removed from the Plan Trust and/or if the Insurance Recoveries fall short of the Debtor's estimate of value. IN THAT EVENT, THE DEBTOR WILL, THROUGH FUNDRAISING OR OTHER MECHANISMS, CONTRIBUTE TO THE PLAN TRUST (FROM NON-DIOCESAN SOURCES) THE LIQUIDATION VALUE OF ALL OTHER ASSETS FOUND TO BE PROPERTY OF THE DEBTOR'S ESTATE.

Specifically, in the event the total of Allowed Claims should, for whatever reason, exceed the value of the Plan Trust Assets, then the Tort Litigants' Committee will be authorized to pursue the §541 Litigation against (1) the Other Entities; and (2) the Restricted Assets and will further be authorized to investigate and pursue any Avoidance Actions.[23] In addition, the Debtor will be required to obtain an appraisal of its Office

[22] Does not include Priest Retirement Obligations.

[23] To toll the running of the statute of limitations under Code §546(a)(1)(A), the Debtor (or the TLC) will commence an Avoidance Action prior to December 6, 2006 to preserve the rights of creditors.

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Equipment and to contribute that value, in cash, to the Plan Trust.[24]

V. SIGNIFICANT EVENTS PRIOR TO THE REORGANIZATION CASE.

A. The Sex Abuse Crisis

The Diocese of Spokane filed for Chapter 11 Reorganization as a result of numerous legal claims arising out of the sexual abuse of minors by Diocesan clergy.

Between 1988 and 2002, the Diocese had nine claims of sexual abuse asserted against it. One claim, the Fontenot matter, was dismissed by the court. The remainder of the claims were resolved through settlements with the claimants. The settlements, for the most part, were paid by Insurers and the perpetrators, themselves. These settlements had very little financial impact on the Diocese.

Beginning in early 2002, however, the Spokane Diocese began to receive a dramatic increase in the number of claims of abuse. The first sexual abuse lawsuit filed in 2002 against the Diocese was the case of Michael Corrigan, et al., v. Catholic Bishop of Spokane. The Corrigan case was filed in Spokane County Superior Court on September 26, 2002. Over the following two years twenty (20) additional sexual abuse lawsuits were filed against the Diocese. Two of those lawsuits were subsequently settled. As of the Date of Filing of the Reorganization Case, the Diocese was a named defendant in nineteen sexual abuse lawsuits involving fifty-seven (57) individuals (the "Sex Abuse Litigation" or "Lawsuits").

The Sex Abuse Litigation contains allegations of sexual abuse by Catholic priests occurring as long ago as the 1930s. Currently, there are seven priests of the Spokane Diocese still living against whom credible accusations of sexual abuse and/or inappropriate sexual behavior with minors have been made. They are Patrick O'Donnell, James

[24] The Debtor is not opposed to permitting the §541 Litigation to proceed at the present time, but is simply trying to reduce or eliminate expensive, litigious activity that may prove at the end of the day to have been totally unnecessary.

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O'Malley, Reinard Beaver, Bernard Oosterman, Theodore Bradley, Arthur Mertens, and Gary Boulden. They have all been formally removed from ministry by Bishop Skylstad and have all been named as perpetrators in lawsuits filed since October 2002.

Additionally, two deceased priests, Joseph Knecht (who died in 1956) and Joseph Sondergeld (who died in 1969), have been accused of sexual abuse and named as perpetrators in lawsuits filed since October 2002. A third deceased priest, Joseph Pineau (who died in 1982) has been accused of sexual abuse, but has not been named as a perpetrator in any lawsuit.

There have also been five priests and other religious who have in the past worked within the Spokane Diocese, but were not Spokane Diocesan priests, who have been credibly accused of sexual abuse or sexual improprieties and/or named as perpetrators in abuse lawsuits. These are Dominic Doyle, a Jesuit who died in 2005; Peter O'Grady, a Jesuit who died in 2003; Augustine Ludwig, a Marianist brother who has been removed from ministry and is now residing in Richmond, Virginia, under supervision of his religious order; Berard Connelly, a Franciscan brother who no longer resides in Washington; Camillus Cavagnaro, a Franciscan priest who is now living in Arizona under the supervision of his religious order; Gerald Dezurik, a Benedictine priest who died in 1986; and, Sr. Mary Howard Christiansen, a Franciscan nun who is living under the supervision of her religious superiors.

In addition to the deceased priests previously mentioned, there have also been three credible allegations of abuse made against two other deceased priests of the Spokane Diocese and a deceased priest from another diocese who temporarily served in the Spokane Diocese for a short time in the late 1950s. At the request of the reporting victims, pursuant to the policy of the Spokane Diocese and the Diocesan Review Board, the names of these deceased priests have not been made public. The abuse in one of those matters occurred in the 1930s or 1940s and the priest in that matter died in 1957. In the other two matters, the abuse occurred in the mid to late 1950s. The priest involved in the matter which occurred in the late 1950s, left the Diocese in 1959, never returned, and to the Diocese's knowledge died sometime later. The two reporting victims of that priest came

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forward to the Diocese in 2003. The priest involved in the matter which occurred in the mid 1950's, died in 2000. The Diocese in that matter received the report of abuse from the victim's counselor in 1990. The involved priest admitted to the occurrence and was immediately removed from ministry and sent to six months of inpatient psychological assessment, care and counseling. Following that he was required to participate in an ongoing aftercare program. He retired in 1994 and died in 2000. To the knowledge of the Diocese there have been no other claims of abuse by these three deceased priests reported to the Diocese.

Recently, Fr. Joseph Weitensteiner, a retired priest in the Spokane Diocese, and Fr. Marvin Lavoy have been accused in a lawsuit filed with Spokane County Superior Court of sexual abuse. Fr. Weitensteiner adamantly denies the accusations. Lavoy died in 1994.

Some abuse victims and survivors contend that there have been many more priests and religious members in the Spokane Diocese who were abusers and that the Spokane Diocese is concealing such information. To the knowledge of the Spokane Diocese, the information provided herein by the Diocese regarding clergy and religious against whom credible accusations have been made or who have been accused in lawsuits as abusers is complete and accurate.

In the Lawsuits the plaintiffs generally allege that the Diocese either knew or should have known of the sexual abuse taking place within the Diocese and, therefore, the Diocese bears legal responsibility through the doctrines of negligence, Respondeat Superior and related theories of liability.

The Diocese has identified the insurers which provided general liability coverage to the Diocese from 1958 to the present. As the Lawsuits were filed, the Diocese notified the particular carrier or carriers which provided coverage to the Diocese during the relevant period of time. Of the nineteen Lawsuits which were pending as of the Date of the Filing, the defense of fifteen of the Lawsuits was accepted by six different insurance

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carriers (the "Insurers"),[25] in each case subject to a reservation of rights by the respective Insurers. The other four Lawsuits involved claims prior to 1958 during periods when the insurance carrier has not been identified

In addition to the fifty-seven (57) individuals who are named as plaintiffs in the Lawsuits, the Diocese is aware of[26] at least an additional eighteen (18) individuals who have indicated they will file claims. The Diocese has also received an additional sixty (60) reports of abuse pertaining to individuals who have not yet asserted claims for damages. Some of these reports were made by individuals who wish to remain anonymous; some reports were made by individuals stating they were friends or relatives of a person they thought may have been abused; other reports were made by individuals who stated they did not intend to make a claim; and others gave no indication whether they intended to make a claim or not (the "Additional Claimants"). The majority of the Additional Claimants had not, at least as of the Date of Filing, sought damages from the Diocese. Some of the Additional Claimants, however, are receiving counseling and other pastoral services at the expense of the Diocese.

Approximately half of the plaintiffs in the Lawsuits (i.e., twenty-eight) have claimed damages based on sexual abuse by one former Spokane Diocesan priest, Patrick O'Donnell (the "O'Donnell Claimants"). Patrick O'Donnell served within the Diocese between 1971 and 1985, when he was removed from ministry.

During the first week of November 2004, the Diocese participated in a four day mediation session in Seattle with representatives of the O'Donnell Claimants and the Insurers (the "Seattle Mediation"). The Seattle Mediation failed to result in a settlement of

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[25] The insurance carriers include Safeco (General Insurance Company of America), Oregon Auto Insurance Company, CNA (Continental), Indiana Insurance Company, Aetna (ACE USA), and Washington Insurance Guaranty Association (WIGA) in place of Home Insurance which is in receivership (the "Insurers"). The Insurers have, to date, accepted the Diocese's tender of defense of fifteen of the Lawsuits, subject to a reservation of rights.

[26] This number was as of December 1, 2005. The number of claimants is expected to increase between December 1, 2005 and the Bar Date.

the O'Donnell claims. The first trial of the O'Donnell lawsuits was scheduled to commence in Spokane County Superior Court on November 29, 2004. The Reorganization Case was commenced the following week.

B. The Diocese's Response to the Sex Abuse Crisis

William S. Skylstad ("Bishop Skylstad") became the Bishop of the Diocese of Spokane in 1990. Bishop Skylstad has led the Diocese's response to the sexual abuse issues by: (1) providing and offering support to the victims of sexual abuse; (2) reforming Diocesan operations to provide improved transparency regarding finances and historic and present abuse allegations; and (3) reforming Diocesan operations to prevent future abuse from occurring and to appropriately respond to abuse allegations. Examples of steps taken by the Diocese under the leadership of Bishop Skylstad are attached to this Disclosure Statement as Exhibit 16. The TLC and others strongly disagree with the Diocese's characterization of the steps taken to respond to the abuse crisis and to prevent abuse from happening in the future, calling such descriptions inaccurate and self-serving propaganda. The Diocese, on the other hand, disputes that characterization.

C. The Reasons for Filing the Reorganization Case

Many dioceses around the country have, because of their own extensive, unrestricted, non-parish property holdings and/or the attitude and mix of their insurance carriers, been able to avoid bankruptcy through multi-million dollar settlements. For example, in September 2005 the Diocese of Orange was able to secure a $50 million line of credit from Bank of America for use in settling abuse claims. The collateral the Diocese of Orange used for the loan was its portion (worth well in excess of $50 million) of a pooled investment fund valued at more than $300 million. Unfortunately, the Diocese of Spokane had, as of the Date of Filing, less than $10 million in unrestricted, non-parish property holdings that could be used for settlement. In addition, the Diocese's Insurers were, by and large, not supportive of settlement prior to the Chapter 11.

Based on the collective experience of several dioceses around the country, including the Archdiocese of Portland and the Diocese of Tucson, the Diocese of Spokane concluded it could not assume that the sexual abuse claims of which the Diocese was

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aware in early December 2004 constituted the entire universe of sexual abuse claims. As of the Date of Filing, the Diocese of Spokane had reason to believe there were individuals who had not yet asserted sexual abuse claims, either formally or informally, against the Diocese. The Diocese became concerned that the finality provided by a global settlement would, given Washington's open-ended statute of limitations (i.e., RCW 4.16.340), be legally impossible to obtain outside Chapter 11.

In light of the sheer number and size of the claims that had been formally made against the Diocese in the Lawsuits, the number of informal claims of which the Diocese was aware in late 2004, the likelihood that additional claims would be made against the Diocese in the future, the relatively (in comparison with other dioceses) small amount of unrestricted, non-parish assets, and, further, in light of the ongoing and ever-increasing expense of the Lawsuits, particularly as the Lawsuits proceeded to trial, the inability to successfully mediate the O'Donnell claims at the Seattle mediation, the lack of any finality outside Chapter 11, operational losses that were incurred by the Diocese in 2003 and 2004, the net worth[27] of the Diocese, the lack of liquidity, and the coverage positions taken by the Diocese's Insurers[28], the Diocese announced its decision on November 10, 2004 to file the Reorganization Case.[29]

VI. SIGNIFICANT EVENTS IN CHAPTER 11.

The following significant events have occurred since the Date of Filing:

- ❖ The Court entered orders approving the Debtor's employment of its professionals:

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[27] Based on the Diocese's audited statements for the twelve month period ending June 30, 2004.

[28] For example, CNA filed an action for Declaratory Relief in Spokane County Superior Court on November 22, 2004. In its complaint, CNA sought to avoid coverage.

[29] The trial date for one of the Lawsuits was initially scheduled for November 29, 2004, but was continued based on an agreement with counsel for the O'Donnell claimants. As a result of that continuance, the Diocese pushed back its Chapter 11 filing one week to December 6, 2004.

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The law firm of Paine, Hamblen, Coffin, Brooke & Miller LLP
The law firm of Turner, Stoeve & Gagliardi PS
The law firm of Gordon Murray Tilden LLP
The accounting firm of Langenhorst, Norwood & Hopkins

- ❖ Because of the confidential nature of the Tort Claims and the concern of the Diocese not to publicize the names of victims, the Court on December 6, 2004, entered an Order authorizing the filing of certain information under seal.

- ❖ The Court granted the Diocese's application to pay certain prepetition wages.

- ❖ The Court granted the motion of the Diocese to honor employee benefit plans for vacation and sick pay in order to retain its current employees.

- ❖ The Court granted a motion to establish a procedure for the allowance and payment of professionals during the course of the Reorganization Case.

- ❖ The Court entered an order permitting the Diocese to continue to use its bank accounts and its cash management system in order to avoid disruption in the Diocese's business.

- ❖ The United States Trustee appointed the Tort Claimants' Committee and the Court approved the retention of Riddell Williams LLP as attorneys for the Tort Claimants' Committee.

- ❖ The United States Trustee appointed the Tort Litigants' Committee and the Court approved the retention of Pachulski Stang Ziehl Young Jones & Weintraub and Esposito, George & Campbell, P.L.L.C. as attorneys for the Tort Litigants' Committee.

- ❖ The Court entered an order on motion of the Diocese appointing Gayle E. Bush as the Future Claims Representative.

- ❖ The Diocese removed the Declaratory Relief Action, which involves all of the Insurers in the Reorganization Case, to U.S. District Court, and the Insurers subsequently filed a Motion for Withdrawal of the Reference to U.S. District Court, which the Diocese agreed to.

- ❖ The Tort Litigants' Committee filed the §541 Litigation to determine whether the Parishes and Other Entities were property of the estate of the Debtor.

- ❖ The Court granted the Tort Litigants' Motion to Remand the Sex Abuse Litigation back to Superior Court.

- ❖ The Court denied the Tort Claimants' Committee's Motion to Intervene in the §541 Litigation. The Tort Claimants' Committee appealed the Court's order to the Bankruptcy Appellate Panel, which appeal is pending.

- ❖ The Court entered a scheduling order establishing a fast-track resolution process for the §541 Litigation and further scheduled an all day in-court hearing for June 27, 2005 to hear (1) the Tort Litigants' Committee's Motion for Partial Summary Judgment; (2) the Diocese's Cross-Motion for Summary Judgment; (3) certain jurisdictional motions filed by the AOP; and (4) the AOP's Motion to Dismiss the §541 Litigation.

- ❖ The Court on August 2, 2005 extended the Diocese's exclusivity period for filing a Plan from April 5, 2005 to October 10, 2005.

- ❖ The Court on August 26, 2005 granted summary judgment in favor of the Tort Litigants' Committee and Michael Shea ruling in essence that the Bishop holds the Parish Real Property in trust for the Diocese, with the result that the Parish Real Property is property of the estate of the Diocese in the Reorganization Case.

- ❖ The Diocese and the AOP on September 6, 2005 filed Notices of Appeal of the Court's order granting summary judgment in favor of the Tort Litigants' Committee and Michael Shea in the §541 Litigation (the "Appeal"). The Appeal is currently pending in United States District Court.

- ❖ The Diocese and the AOP filed motions for stay (of the §541 Litigation or portions of that litigation) pending the Appeal.

- ❖ The Court scheduled a hearing for November 17-18, 2005 to determine the Bar Date for filing claims and other issues related thereto.

- ❖ The Diocese filed its Plan of Reorganization and Disclosure Statement on October 10, 2005.

- ❖ The Court on November 30, 2005 established a Claims Bar Date of March 10, 2006, and related notice procedures pursuant to which notice of the March 10, 2006 deadline for filing claims will be given to known and potential creditors both by direct mail and by publication in local, regional and national newspapers and other sources.

- ❖ The Court on December 9, 2005, extended the Diocese's exclusivity period for filing a plan to January 16, 2006. One of the conditions to this extension was the filing, by the Debtor, of this Amended Disclosure Statement and Amended Plan on or before December 30, 2005.

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- ❖ The Court on December 22, 2005 approved the Appraiser's plan for the valuation of real properties held in the name of the Debtor and/or the Parishes.
- ❖ The Diocese filed its Amended Plan of Reorganization and Amended Disclosure Statement on December 30, 2005.

VII. DESCRIPTION OF THE PLAN.

The following description of the Plan is for informational purposes only. Creditors and holders of Equity Interests should not rely on this description for voting purposes, but should read the Plan in its entirety. This summary of the Plan does not purport to be complete. THE PLAN IS CONTROLLING IN THE EVENT OF ANY INCONSISTENCY BETWEEN THE CONTENTS OF THE PLAN AND THIS DISCLOSURE STATEMENT.

A. Classification And Treatment Of Claims Under The Plan.

1. Claim Amounts.

Until Allowed by the Court, certain Claims against the Diocese are in unknown or undetermined amounts. Accordingly, the amounts of Claims specified in this Disclosure Statement reflect only the Diocese's best estimates. Additionally, the amounts of Claims specified in this Disclosure Statement do not include all Claims that may arise from the rejection of certain executory contracts or other contingent or unliquidated Claims against the Diocese.

2. Effective Date of the Plan.

The "Effective Date" of the Plan determines when the performance of many of the obligations under the Plan are due. The Effective Date is defined in the Plan.

3. Classification Generally.

The Plan divides Claims against the Diocese into nine (9) separate Classes which the Diocese believes complies with the requirements of the Bankruptcy Code. Unless otherwise expressly stated in the Plan, the respective treatments under the Plan of Allowed Claims are in full discharge and satisfaction of those Allowed Claims. Except as provided in the Plan, all Claims against the Diocese arising prior to entry of the Confirmation Order will be discharged as of the Confirmation Date pursuant to Bankruptcy Code §1141(d).

B. Unclassified Claims

1. Administrative Claims.

The Administrative Claims consist of the Allowed fees of the Chapter 11 Professionals and other Claims that would be allowable as Administrative Claims pursuant to Bankruptcy Code §503. The holder of an Allowed Administrative Claim will receive, in full satisfaction of such Claim: (a) a single Cash payment in the Allowed amount of the Claim on the Effective Date (or the applicable Claim Payment Date if the Administrative Claim is not an Allowed Claim on the Effective Date); or (b) as otherwise agreed in writing by the holder of the Allowed Claim or ordered by the Bankruptcy Court. Every Allowed Administrative Claim for an expense of operation of the Debtor incurred in the ordinary course of such operations will be paid fully in the ordinary course of business (including any payment terms applicable to any such expense).

2. Priority Unsecured Claims.

The holder of every Allowed Priority Unsecured Claim will be paid, in full satisfaction of such Claim: (a) a single Cash payment in the Allowed amount of the Claim on the Effective Date (or the applicable Claim Payment Date if the Unsecured Priority Claim is not an Allowed Claim on the Effective Date); or (b) as otherwise agreed in writing by the holder of the Allowed Claim or ordered by the Bankruptcy Court. The Priority Unsecured Claims include all Claims entitled to priority pursuant to Bankruptcy Code §507 other than Employee Unsecured Priority Claims which are treated elsewhere in the Plan. The Diocese does not believe that there are any Priority Unsecured Claims.

C. Unimpaired Claims.

1. Class 1: Priority Employee Unsecured Claims.

Class 1 consists of every Unsecured Claim of an employee of the Diocese for vacation or sick leave pay which is otherwise entitled to priority pursuant to Bankruptcy Code §507(a)(3)(A). No holder of an Allowed Priority Employee Unsecured Claim will receive any Cash on account of such Claim. All Allowed Priority Employee Unsecured Claims will be satisfied, in full, in accordance with the policies and procedures regarding

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vacation and sick leave pay in effect at the Diocese at the time such Priority Employee Unsecured Claim becomes matured and liquidated.

2. Class 2: Pre-petition Date Secured Tax Claims.

Class 2 Claims consist of every whole or prorated portion of a Secured Tax Claim which arose before the Petition Date. Class 2 Claims, when and as they become Allowed Claims, will be determined based upon the Property Tax Claims Proration, if necessary. Any Allowed Class 2 Claims will be paid in full in cash thirty (30) days after the Effective Date.

3. Class 3: General Unsecured Convenience Claim.

Class 3 General Unsecured Convenience Claims will consist of all Unsecured Claims (other than Tort Claims) in an amount of $500 or less, and the Claims of any holder of a General Unsecured Claim that makes an election to reduce such holder's General Unsecured Claim to an amount of $500 or less, in which event such Claim will be treated as a General Unsecured Convenience Claim for all purposes. Such election will be made on the ballot for accepting or rejecting the Plan, completed and returned within the time fixed by order of the Court. The Diocese believes that the total amount of the Class 3 General Unsecured Convenience Claims will not exceed $2,000.

4. Class 8: Priest Retirement Claims.

The legal, equitable and contractual rights of the holders of Priest Retirement Claims will either: (a) not be altered by the Plan; or (b) at the option of the Debtor, be treated in any other matter that will result in such claims being deemed unimpaired under Bankruptcy Code §1124, including (with the consent of the Priests and the Parishes) a completely new retirement plan for the Priests of the Diocese.

D. Impaired Claims

1. Class 4: Parish and Catholic Entity Unsecured Claims.

The Class 4 Parish and Catholic Entity Unsecured Claims will consist of every Unsecured Claim against the Diocese now held by a Parish, school, Other Entity or Catholic Entity, including, but not limited to, all Claims of a Parish (net of any post-petition withdrawals) for any funds on deposit with the Diocese on the Date of Filing and managed by the Diocese through the Deposit and Loan Fund. Each Allowed Parish and Catholic Entity Unsecured Claim that is not otherwise contributed or becomes part of the consideration for a Parish or Catholic Entity to participate as a Participating Third Party will be treated as follows: subsequent to the time all payments to members of Class 6 have been paid in full in accordance with the terms of the Plan, the remaining Allowed Parish and Catholic Entity Unsecured Claims shall be repaid without interest in sixty (60) equal monthly installments.

2. Class 5: General Unsecured Claims.

The Class 5 Claims will consist of all General Unsecured Claims that are not General Unsecured Convenience Claims, Administrative Priority Claims, Priority Unsecured Claims, Priority Tax Claims, Priority Employee Unsecured Claims, Parish Unsecured Claims or Tort Claims. Class 5 Claims will also include every Unsecured Claim arising from the rejection of an Executory Contract and every Claim which is the undersecured portion of any Secured Claim. The holders of all General Unsecured Claims will be paid in full. Such Claims will bear interest at the rate of four and one-half percent (4.5%) per annum or such other rate as set by the Bankruptcy Court in the Confirmation Order. Each holder of an Allowed General Unsecured Claim will be paid the Allowed amount of such General Unsecured Claim in sixty (60) monthly installments, including interest, with the first installment to be paid on the first Business Day that is thirty (30) days after the Effective Date (or the applicable Claim Payment Date) and fifty-nine (59) succeeding monthly installments to be paid on the same day of each month thereafter until paid in full.

3. Class 6: Tort Claims.

(a) Definition of Class 6 Tort Claims.

The Class 6 Tort Claims are all Claims, demands, suits, causes of action, proceedings or any other rights or asserted rights to payment, including, but not limited to: (i) any Claims, demands, suits, or causes of action for personal injuries, including loss of consortium and emotional distress claims; (ii) for damages; (iii) for attorneys' fees and other expenses, fees or costs, and for any equitable remedy, heretofore, now or hereafter

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asserted against the Debtor, any Participating Third Parties, any Settling Insurers or the Trusts, whether or not reduced to judgment, including Claims held by Future Tort Claimants, based upon or in any manner arising from or related to: (a) acts of sexual abuse committed by any clergy or other person associated with the Diocese or any Parish, including but not limited to all employees and volunteers; (b) the failure of the Diocese or any Parish to properly supervise any clergy or any other employee of or person associated with the Diocese, including, but not limited to volunteers; (c) the processing, adjustment, defense, settlement, payment, negotiation or handling of any claims, demands, suits, proceedings or causes of action based upon or relating in any way to the Claims made as a result of any alleged abuse or other Tort Claim asserted by a Tort Claimant; or (d) the failure to warn, disclose or provide information concerning, the alleged sexual abuse and other misconduct of clergy or other employees of or persons associated with the Diocese or the Parishes, including, without limitation, volunteers. An identification and status summary of the nineteen (19) known sexual abuse lawsuits is attached hereto as Exhibit 17.

(b) Treatment.

The Claim of each Tort Claimant will automatically be determined and treated pursuant to the terms of the Plan Trust. The Diocese will, on or before the Effective Date, deliver to the Trustees of the Plan Trust the Trust Assets. In addition, the Diocese will also deliver such commitments and assignments to fulfill its obligations under the Plan, the Plan Trust Agreement and the Trust Distribution Agreement.

The Tort Claims will be determined and satisfied as follows:

(i) Determination and Treatment pursuant to Plan Trust.

The Plan Trust will be established on or after the Confirmation Date, but before the Effective Date, and will be funded by the Diocese no later than the Effective Date. The Tort Claimants will receive payment of Allowed Claims in accordance with the terms, provisions and procedures set forth in the Plan Trust. The following contains a brief description of the Plan Trust and the procedure for allowing and treating Claims. For a full description and understanding of the Plan Trust, any reader of this Disclosure Statement

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should refer to the Plan Trust Agreement, attached hereto as Exhibit 2, and the Trust Distribution Agreement, attached hereto as Exhibit 3. If there is any inconsistency between the Plan Trust Agreement and the Trust Distribution Agreement, on the one hand, and this Disclosure Statement and the Amended and Restated Plan, on the other hand, the Amended and Restated Plan will control.

The Court will, with significant input from the Committees, the FCR, the AOP and the Debtor, appoint two Trustees to oversee all aspects of the Plan Trust. The Plan Trustees will designate three (3) Claims Reviewers, comprised of independent, disinterested persons, one each from the legal, medical and mental healthcare professionals, and who are nominated by the Debtor, the AOP, the TLC, the TCC and/or the FCR, and approved by the Court.

Each holder of a Tort Claim shall have his or her Tort Claim reviewed by the Claims Reviewers in an Expedited Review Process. The Tort Claims will be reviewed in a certain order based on the date the Tort Claim was filed in Superior Court or the date that a proof of claim was subsequently filed in the Reorganization Case. The Plan Trustees shall provide to each Tort Claimant who has filed a proof of claim a packet of Claims Reviews Materials for completion and submission back to the Claims Reviewers by the Tort Claimant. The Tort Claimant shall provide to the Claims Reviewers the completed Claims Reviews Materials with any additional evidence the Tort Claimant desires. In response to each Tort Claim, the Debtor, with input from its Insurers, shall have the opportunity to provide evidence it has regarding the Tort Claim, if any, including evidence pertaining to statute of limitations defenses. For each claim, the Claims Reviewers will initially make a determination, based on the evidence submitted by the Tort Claimant and any evidence submitted by the Reorganized Debtor, including any defense based on a state statute of limitations, as to whether there is Credible and Competent Evidence that the abuse claimed more likely than not occurred and the Tort Claim should be allowed. A Tort Claimant must provide Credible and Competent Evidence of exposure to sexual abuse by the Debtor's agent for which the Debtor has legal liability. If it is determined by the Claims Reviewers, based on the evidence submitted, that the Tort Claim should be allowed, the

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Claims Reviewers will then give notice of their allowance determination to the Tort Claimant and to the Reorganized Debtor, who shall be entitled to object to the allowance of a Tort Claim by the Claims Reviewers. If the Reorganized Debtor does not object to the allowance of such Tort Claim, the Claims Reviewers shall use the Compensable Abuse Matrix set forth in Section 3.1(d) of the Trust Distribution Agreement to determine the value of Allowed Tort Claims as expeditiously as possible.

If the Claims Reviewers determine that, based on the evidence, abuse of the Tort Claimant more likely than not occurred for which the Debtor would have been legally liable, but the claim should be barred because it is untimely under the statute of limitations, instead of denying such a Tort Claim, the Claims Reviewers will offer to such a Tort Claimant a compromise settlement of $10,000. The Claims Reviewers will also provide notice of this settlement offer to the Reorganized Debtor, who can object to the offer. If there is no objection by the Reorganized Debtor, and if the Tort Claimant accepts the settlement offer and signs a release of the Tort Claim, the Tort Claim shall be placed in the FIFO Payment Queue, following which the Plan Trustees shall disburse payment subject to the terms of the Trust Distribution Agreement and the Plan Trust Agreement. If the Tort Claimant rejects, or the Reorganized Debtor objects to, the offer of settlement, the Tort Claimant can then proceed with the processing of his or her Tort Claim by proceeding with the trial or arbitration of the Tort Claim as provided in the Trust Distribution Agreement.

If the Exposure Evidence is sufficient to allow a Tort Claim then, based on the Exposure Evidence and Abuse Criteria presented by each Tort Claimant, along with any evidence concerning the Claim submitted by the Reorganized Debtor, the Claims Reviewers will place an Allowed Tort Claim in the most serious applicable Abuse Category Level warranted by the Exposure Evidence and the Abuse Criteria. The Compensable Abuse Matrix includes five (5) levels of abuse. The Claims Reviewers will place each Allowed Claim in one of the five (5) abuse levels in accordance with the criteria set forth in the Trust Distribution Agreement. The range for each level will be as set forth in the Compensable Abuse Matrix. If an Abuse Category Level is determined by Credible and Competent Evidence, based on the proof of claim and any additional Claims

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Review Materials provided to the Claims Reviewers, the Claims Reviewers shall tender to the Tort Claimant a Liquidated Value Offer for the relevant Abuse Category Level based upon the Compensable Abuse Matrix, together with the form of release approved by the Plan Trustees. This determination can be accepted or rejected by the Tort Claimant. This determination can also be accepted or objected to by the Reorganized Debtor. If the Liquidated Value Offer is accepted by both the Tort Claimant and the Reorganized Debtor and the Tort Claimant returns the release properly executed, the Tort Claim shall be placed in the FIFO Payment Queue, following which the Plan Trustees shall disburse payment subject to the terms of the Trust Distribution Agreement and the Plan Trust Agreement. If a Tort Claim is not Allowed, or the Tort Claimant or the Reorganized Debtor rejects a Liquidated Value Offer, the Tort Claimant may proceed with the processing of his or her Tort Claim by proceeding with the trial or arbitration of his or her Tort Claim. Tort Claimants who proceed with the trial or arbitration of their Tort Claim retain the right to a trial (including the right to a trial by jury) or arbitration to determine their Tort Claim against the Plan Trust. All other Tort Claimants shall have and shall be deemed to have irrevocably waived any right to a trial (including the right to a trial by jury).

All claims and defenses (including, with respect to the Plan Trust, claims and defenses which could have been asserted by the Debtor) that exist under applicable law shall be available to both sides at trial. The offer of the Claims Reviewers and/or the positions and admissions of the parties during any of the Expedited Claims Review Process which occurred prior to any trial or arbitration, shall not be admissible for any purpose at trial or arbitration by any party or third party.

The Plan Trust shall provide for and fund the defense of a Tort Claim either from the Plan Trust Assets or through tender of the defense to the Insurer or Insurers which insured the Debtor for the time period or periods in which the events of each Claim occurred.

If, and when, the holder of a Tort Claim obtains a Liquidated Value Judgment in the tort system in accordance with the Trust Distribution Agreement, such Liquidated Value Judgment shall be placed in the FIFO Payment Queue based on the date on which the Liquidated Value Judgment became final.

4. Class 8: Parish Indemnification Claims.

Class 8 Claims will consist of every Claim of a Parish against the Debtor for indemnification arising out of or in any way relating to a Tort Claim. Under the Plan, the holders of any Class 9 Claims will not receive or retain any property under the Plan on account of its Claim.

5. Class 9: Insurer Reimbursement Claims.

Class 10 Claims will consist of any Insurer who holds an Insurer Claim. Under the Plan, the holders of Insurer Claims will not receive or retain any property under the Plan or on account of its Claim.

VIII. MEANS FOR EXECUTION OF THE PLAN.

A. Creation and Funding of the Plan Trust

On or before the Effective Date (but after entry of the Confirmation Order), the Reorganized Debtor will, in full release, satisfaction and discharge of all Claims in Class 6 (Tort Claims) cause the following to occur: (a) the execution and delivery of the Plan Trust Agreement and the Trust Distribution Agreement, which will establish the Plan Trust and the procedures and processes for paying all Allowed Tort Claims; (b) the delivery of the initial funding to the Plan Trust; and (c) the execution and delivery of all other agreements, assignments, pledges or commitments necessary to carry out the terms of the Plan Trust and the funding of the Plan Trust. Any funds received by the Debtor from the Settling Insurers and Insurance Action Recoveries will be paid into the Plan Trust. If, on the Effective Date, there remain any Insurance Actions that have not been resolved prior to the Effective Date, the Debtor will assign all of its rights and interests in the Insurance Actions to the Plan Trust. To the extent the Insurance Actions are assigned to the Plan Trust, the Plan Trust will substitute in any Insurance Actions as the real party in interest after the Effective Date.

The Trustees of the Plan Trust will assume full responsibility for resolving all Tort Claims pursuant to the Plan Trust Agreement and the Trust Distribution Agreement, as

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applicable; for making payments to the holders of Allowed Tort Claims that become Allowed under the conditions set forth in the Plan Trust Agreement or the Trust Distribution Agreement; for collecting, investing and distributing funds for the benefit of the holders of Allowed Tort Claims; for fulfilling all other obligations under the Plan Trust Agreement; and for paying the costs and expenses of the Plan Trust, all set forth more fully in the Plan Trust Agreement and the Trust Distribution Agreement, which are attached hereto as Exhibits 2 and 3 respectively.

B. Treatment of Executory Contracts.

1. Assumption and Rejection of Executory Contracts.

On the Confirmation Date, except as otherwise provided herein including specifically the Priests Retirement Plan which, to the extent it is treated as executory in nature, will be assumed [or rejected] by the Diocese under the Plan (see Class 7), all Executory Contracts of the Debtor will be deemed rejected in accordance with the provisions and requirements of Bankruptcy Code §§365 and 1123 other than those Executory Contracts that: (a) have already been assumed by order of the Bankruptcy Court; (b) are subject to a motion to assume Executory Contracts that is pending on the Confirmation Date; or (c) are subject to a motion to reject an Executory Contract pursuant to which the requested effective date of such rejection is after the Confirmation Date. Approval of any motions to assume Executory Contracts pending on the Confirmation Date will be approved by the Bankruptcy Court on or after the Confirmation Date by a Final Order. Each Executory Contract assumed will revest in and be fully enforceable by the Reorganized Debtor in accordance with its terms, except as such terms are modified by the provisions of the Plan or any order of the Bankruptcy Court authorizing and providing for its assumption or applicable law.

2. Claims Based on Rejection of Executory Contracts.

Every Claim asserted by a Creditor arising from the rejection of an Executory Contract pursuant to the Plan must be filed with the Bankruptcy Court no later than the first Business Day which is thirty (30) days after the Confirmation Date or the first Business Day that is thirty (30) days after entry of the Final Order of the Bankruptcy Court

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approving rejection if such Final Order is entered after the Confirmation Date. Every such Claim which is timely filed, as and when it becomes an Allowed Claim, will be treated under Class 5 of the Plan. Every such Claim which is not timely filed by the deadline stated above will be forever barred, unenforceable, and discharged, and the Creditor holding the Claim will not receive or be entitled to any distribution under the Plan on account of such Claim.

3. Effect of Assumption of Executory Contracts.

Any Executory Contracts assumed prior to the Effective Date, whether assumed prior to the Confirmation Date or as part of the confirmation process will be dealt with in accordance with the terms of the Executory Contract.

C. Funding on the Effective Date.

All payments under the Plan which are due on the Effective Date will be funded from the Cash on hand, from the proceeds of the sale of the Diocese Real Property, from any contributions or settlements with any Participating Third Party and Settling Insurers and from the proceeds of any Debtor in possession or exit financing, if any, received by the Debtor during the course of the case or prior to or in conjunction with the Confirmation Hearing.

D. Funding After the Effective Date.

The funds necessary to ensure continuing performance under the Plan after the Effective Date will be (or may be) obtained from any Cash retained by the Reorganized Debtor after the Effective Date; any Cash generated from the post-Effective Date operations of the Reorganized Debtor; and any other contributions or financing (if any) which the Reorganized Debtor may obtain on or after the Effective Date.

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E. Procedure for Determination of Claims Other Than Class 6 Tort Claims.

(a) Objections to Claims.

Notwithstanding the occurrence of the Effective Date, and except as to any Claim that has been Allowed prior to the Effective Date or any Tort Claim, the Reorganized Debtor may object to the allowance of any Claim against the Debtor or seek estimation thereof on any grounds permitted by the Bankruptcy Code by filing an objection within one hundred eighty (180) days after the Effective Date.

(b) Disputed Claims.

No payments or other distributions will be made to holders of Claims unless and until such Claims are Allowed Claims pursuant to a Final Order.

(c) Treatment of Contingent Claims.

Until such time as a Contingent Claim or a Contingent portion of an Allowed Claim becomes fixed or absolute or is Disallowed, such Claim will be treated as a Disputed Claim for all purposes related to distributions under the Plan.

F. Payments Effective Upon Tender.

Whenever the Plan requires payment to be made, such payment will be deemed made and effective upon tender thereof by the Debtor or the Reorganized Debtor to the Creditor to whom payment is due. If any Creditor refuses a tender, the amount tendered and refused will be held by the Debtor or the Reorganized Debtor for the benefit of that Creditor pending final adjudication of the dispute. However, when and if the dispute is finally adjudicated and the Creditor receives the funds previously tendered and refused, the Creditor will be obliged to apply the funds in accordance with the Plan as of the date of the tender; and while the dispute is pending and after adjudication thereof, the Creditor will not have the right to claim interest or other charges or to exercise any other rights which would be enforceable by the Creditor if the Debtor or the Reorganized Debtor failed to pay the tendered payment.

G. Preservation of Debtor's Claims, Demands, And Causes of Action.

All claims, demands, and causes of action of any kind or nature whatsoever held

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by, through, or on behalf of the Debtor and/or the Estate against any other Person, including but not limited to all Avoidance Actions arising before the Effective Date, are hereby preserved for the benefit of the Reorganized Debtor, except for such claims or causes of action, cross-claims, and counterclaims which have been released hereunder or pursuant to a Final Order prior to the Effective Date. To the extent necessary, the Trustees are hereby designated as the estate representative pursuant to and in accordance with Bankruptcy Code §1123(b)(3)(B). Furthermore, in accordance with Bankruptcy Code §1123(b)(3), after the Effective Date, the Plan Trust, acting through the Trustees, will own and retain, and may prosecute, enforce, compromise, settle, release, or otherwise dispose of, any and all claims, defenses, counterclaims, set offs, and recoupments belonging to the Debtor or its Estate. All defenses, counterclaims, Claims and demands related to the Tort Claims are preserved and transferred to the Trustees of the Plan Trust in accordance with Bankruptcy Code §1123(b). The Debtor and the Reorganized Debtor will also be entitled to assign their rights under the Plan. On the Effective Date, the Trustees and the Trust are hereby designated as the estate representative pursuant to and in accordance with Bankruptcy Code §1123(b)(3)(B) with respect to the Insurance Actions.

H. Special Provisions Governing Unimpaired Claims.

Except as otherwise provided in the Plan, nothing will affect the Debtor's or the Reorganized Debtor's rights and defenses with respect to any Unimpaired Claims, including, but not limited to, all rights with respect to legal and equitable defenses to or setoffs or recoupments against such Unimpaired Claims.

I. Operative Documents.

The Debtor will prepare any documents which the Debtor and the Reorganized Debtor deem are necessary or appropriate to execute the Plan or provided for under the Plan. If there is any dispute regarding the reasonableness or propriety of any such documents after reasonable and good faith efforts by the Debtor to negotiate and obtain approval of the documents by the other affected Person(s), any such dispute will be presented to the Bankruptcy Court for determination at or in conjunction with the Confirmation Hearing.

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J. Return of Deposits.

To the extent that the Debtor was required to and did pay deposits to any Creditors after the Petition Date as a condition of or as security for continued service after the Petition Date, then, upon satisfaction of the Claims of such Creditor(s) pursuant to the Plan, any such deposits, together with any interest or other income earned thereon, if any, will be refunded to the Reorganized Debtor within fifteen (15) days of demand by the Reorganized Debtor for return of such deposit(s).

K. Administrative Claims Bar Date.

All requests for payment of administrative costs and expenses incurred prior to the Effective Date pursuant to Bankruptcy Code §§507(a)(1) and 503(b) will be served and filed with the Bankruptcy Court no later than thirty (30) days after the Effective Date. Any such Claim which is not served and filed within this time period will be forever barred. Any Claims for fees, costs, and expenses incurred by any Chapter 11 Professionals after the Effective Date will be treated as part of the fees and expenses of the Reorganized Debtor and need not be submitted to the Bankruptcy Court for approval. After approval of the final fee applications of the Chapter 11 Professionals by the Bankruptcy Court for services provided and costs incurred during the course of administration of the Reorganization Case and prior to the Effective Date, the Chapter 11 Professionals will not be required to submit any further fee applications to the Bankruptcy Court in accordance with Bankruptcy Code §330.

L. Delivery Of Distributions.

Distributions will be made by the Debtor or the Reorganized Debtor with respect to all Claims other than Tort Claims[30] as follows:

(a) At the addresses set forth in the proofs of Claim filed by holders of Claims (or the last known addresses of such holders if no proof of Claim is filed or if the Debtor or the Reorganized Debtor has not been notified of a change of address);

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(b) At the addresses set forth in written notices of address change delivered to the Debtor or the Reorganized Debtor after the date of any related proof of Claim;

(c) At the addresses reflected in the Schedules if no proof of Claim has been filed and the Debtor or the Reorganized Debtor has not received a written notice of change of address; or

(d) If any distribution to a holder of an Allowed Claim is returned as undeliverable, no further distributions to such holder will be made unless and until the Debtor or the Reorganized Debtor is notified of such holder's then-current address, at which time all missed distributions will be made to the holder without interest.

All claims for undeliverable or uncashed distributions must be made on or before the first (1st) anniversary of the date applicable to such distribution, or with respect to the a final distribution to a Creditor holding an Allowed Claim, within ninety (90) days thereof. After such date, all such unclaimed property will revert to the Reorganized Debtor for further distribution in accordance with the Plan, and the Claim of any holder or successor to such holder with respect to such property will be discharged and forever barred, notwithstanding any federal or state escheat law to the contrary.

M. <u>Limitation on De Minimis Payments.</u>

The Debtor or the Reorganized Debtor will make no distributions of less than $50 to any Creditor holding an Allowed Claim. If a Creditor holding an Allowed Claim does not receive a distribution due to the provisions of this Section on any date on which is a distribution is to be made to Creditors in the same Class as the Creditor being entitled to such de minimis payment, then the Claim (so long as it is an Allowed Claim) will remain eligible for distributions on any subsequent distribution date, subject to the provisions of this Section. In all events, the Creditor holding an Allowed Claim which has not received a distribution on any previous distribution dates because of this provision, will receive such

[30] Distributions to Tort Claimants will be pursuant to the terms of the Plan Trust Agreement and the Trust Distribution Agreement although the procedures may be similar or the same as the procedures set forth above.

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distribution on the date that final distribution is made to Creditors in the same Class as the Creditor being entitled to such de minimis payment.

IX. CONDITIONS TO EFFECTIVE DATE

A. Conditions To Occurrence Of Effective Date.

Each of the following are conditions to the Effective Date, which conditions must be satisfied or waived by the Debtor.

(a) The Confirmation Order has been entered by the Bankruptcy Court and the Confirmation Order has become a Final Order.

(b) The Confirmation Order is in form and substance satisfactory to the Debtor.

(c) All actions, documents, and agreements necessary to implement the Plan will have been effected or executed.

B. Debtor's Obligations to Cause Effective Date to Occur.

Upon satisfaction of the conditions to the Effective Date, the Reorganized Debtor shall pay or make provision for the prompt payment to holders of Allowed Claims to whom payments, pursuant to the Plan, are to be made on the Effective Date. The Reorganized Debtor will also make the transfers required to be made to the Settlement Trust and the Litigation Trust unless such transfers have occurred prior to the Effective Date, and such transfers will be in full release and complete satisfaction and discharge of the Tort Claims.

C. Waiver Of Conditions.

The Debtor, in its sole discretion, may waive any of the conditions to the occurrence of the Effective Date including waiver of the Final Order condition any time from and after the Confirmation Date. In that event, the Debtor will be entitled to render any or all of its performance under the Plan prior to what otherwise would be the Effective Date if the above-referenced conditions were not waived, including, but not limited to, the right to perform under any circumstances which would moot any appeal, review, or other challenge of any kind to the Confirmation Order if the Confirmation Order is not stayed

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pending such appeal, review, or other challenge.

D. Effect of Non-occurrence of Conditions Set Forth in Art. IX, A.

If the consummation of the Plan does not occur, the Plan will be null and void in all respects and nothing contained in the Plan or this Disclosure Statement will: (a) constitute a waiver or release of any Claims by or against the Debtor; (b) prejudice in any manner the rights of the Debtor; or (c) constitute an admission, acknowledgement, offer, or undertaking by the Debtor in any respect.

E. Merger; Choice of Law.

All obligations of the Debtor to all Claimants will be merged into the Plan and the documents executed by the Reorganized Debtor at Closing and delivered to the respective affected Claimants. All such obligations of the Reorganized Debtor will be evidenced by the Plan and such executed and delivered documents. Unless otherwise provided therein, such documents will be governed by and construed in accordance with Washington law.

F. Other Obligations of the Reorganized Debtor.

The Reorganized Debtor will review all Claims other than Tort Claims filed against the estate and, if warranted, object to Claims within the time period provided in the Plan; and perform all of its obligations under the Plan Documents, including, without limitation, those obligations provided in the Settlement Trust Agreement and the Litigation Trust Agreement.

G. Modifications To Plan.

The Plan may be modified by the Debtor or the Reorganized Debtor (as applicable) subject to and in accordance with the provisions and requirements of Bankruptcy Code §1127.

X. EFFECT OF CONFIRMATION.

A. Discharge.

Except as otherwise expressly provided in the Plan or in the Confirmation Order, on the Effective Date the Reorganized Debtor will be discharged from and its liability shall be extinguished completely in respect of any Claim, including, without limitation, Tort

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Claims and Claims held by Future Tort Claimants, and any Debt, whether reduced to judgment or not, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or not, matured or unmatured, disputed or undisputed, legal or equitable, known or unknown, that arose from any agreement of the Debtor entered into or obligation of the Debtor incurred before the Petition Date, or from any conduct of the Debtor prior to the Petition Date, or that otherwise arose before the Petition Date, including, without limitation, all interest, if any, on any such Claims and Debts, whether such interest accrued before or after the Petition Date, and including, without limitation, all Claims and Debts based upon or arising out of Tort Claims or Claims held by Future Tort Claimants, and from any liability of the kind specified in Bankruptcy Code §§502(g), 502(h), and 502(i), whether or not a proof of claim is filed or is deemed filed under Bankruptcy Code §501, such Claim is Allowed under Bankruptcy Code §502, or the holder of such Claim has accepted this Plan.

B. <u>Vesting.</u>

Except as otherwise expressly provided in the Plan, the Plan Trust, the Trust Distribution Agreement, or the Confirmation Order, on the Effective Date the Plan Trust shall be vested with all of the Trust Assets, subject only to Administrative Expenses and the impact of the Appeal, which will continue to be prosecuted by the Reorganized Debtor and its counsel, otherwise free and clear of all Claims, Liens, encumbrances, charges and other interests of Creditors, and will thereafter hold, use, dispose or otherwise deal with such property and operate its business free of any restrictions imposed by the Bankruptcy Code or by the Court. All Debtor Actions and all Insurance Actions shall be transferred to the Plan Trust, the proceeds of which shall be used, as necessary for funding obligations of the Trust.

Any property that is not transferred to the Plan Trust will revest in the Reorganized Debtor post-Confirmation or post-Effective Date, as the case may be.

C. <u>Permanent Injunction Against Prosecution of Released Claims and Claims Against Participating Third Parties and Settling Insurers.</u>

Except as otherwise expressly provided in the Plan and the Plan Trust, for the

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consideration described in the Plan, on the Effective Date all Persons who have held, hold, or may hold Channeled Claims or Claims against the Diocese, and their respective agents, attorneys, and all others acting for or on their behalf, shall be permanently enjoined on and after the Effective Date from: (a) commencing or continuing in any manner, any action or any other proceeding of any kind with respect to any Claim against the Parties, the Diocese, the Reorganized Debtor, the Plan Trust, the Trustees, and their respective predecessors, successors, officials, shareholders subsidiaries, divisions, affiliates, representatives, attorneys, merged or acquired companies or operations or assigns (collectively, the "Parties") or the property of the Parties; (b) seeking the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree, or order against the Parties or the property of the Parties, with respect to any discharged Claim or Channeled Claim; (c) creating, perfecting, or enforcing any encumbrance of any kind against the Parties or the property of the Parties with respect to any discharged Claim or Channeled Claim; (d) asserting any setoff, right of subrogation, or recoupment of any kind against any obligation due to the Parties with respect to any discharged Claim or Channeled Claim; and (e) taking any act, in any manner and in any place whatsoever, that does not conform to or comply with provisions of the Plan, the Plan Trust Agreement or the Trust Distribution Agreement. Notwithstanding, such provisions in the Plan, each Non-Settling Tort Claimant will be entitled to continue or commence an action against the Trustees of the Plan Trust (in their capacity as Trustees only and not in their individual capacity) in which the Non-Settling Tort Claimant will be entitled to a jury trial for the sole purpose of obtaining a judgment as permitted by the Trust Distribution Agreement, thereby liquidating such Non-Settling Tort Claimant's Claim so that it may be paid with other Allowed Tort Claims in the ordinary course of the operations of the Trust, consistent with the provisions of the Plan Trust Agreement. The holder of any such judgment will be enjoined from executing against the Trust or its assets. In the event any Person takes any action that is prohibited by, or is otherwise inconsistent with the provisions the Plan related to the release, discharge and injunction, then, upon notice to the Court by an affected Party, the action or proceeding in which the Claim of such Person is

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asserted will automatically be transferred to the Court (or, as applicable, the District Court) for enforcement.

The discharge and injunction provisions of the Plan are integral parts of the Plan.

XI. RETENTION OF JURISDICTION

Notwithstanding confirmation of the Plan and the occurrence of the Effective Date, the Bankruptcy Court will retain jurisdiction for the following purposes specifically described in the Plan which include, but are not limited to:[31] (i) determine the allowance and payment of any Claims upon any objections thereto (or other appropriate proceedings) other than Tort Claims unless specifically provided for in the Plan Trust; (ii) determine any dispute which may arise regarding the interpretation of any provision of the Plan or the Plan Trust; (iii) approve the Trustees of the Plan Trust; (iv) approve the Claims Reviewers selected by the Plan Trustees; (v) enforce any provisions of the Plan and any and all documents relating to the Plan, including the Plan Trust Agreement; (vi) determine any matter relating to the implementation, effectuation, and/or consummation of the Plan as expressly provided in any provision of the Plan; (vii) facilitate the performance of the Plan by entering, consistent with the provisions of the Plan, any further necessary or appropriate order regarding enforcement of the Plan; (viii) facilitate or implement the allowance, disallowance, treatment, or satisfaction of any Claim, or any portion thereof; (ix) adjudicate any dispute or to hear and determine any action taken, proposed, or threatened by any state, federal, or local governmental regulatory agency or unit having or asserting jurisdiction or power over the conduct of the business of the Debtor and/or the Reorganized Debtor; (x) enter an appropriate final decree in the Bankruptcy Case; (xi) implement and enforce the Confirmation Order and the Plan according to their terms; (xii) determine any and all motions regarding assumption or rejection of Executory Contracts

[31] However, the continuing and retained jurisdiction of the Court is limited so that any internal disputes between a Parish and the Diocese or any other entity whose dispute should be determined in a church tribunal or in accordance with Canon Law, will be determined in such tribunal and not in the Bankruptcy Court.

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and any and all Claims arising therefrom; (xiii) hear and determine any claim or cause of action by or against the Debtor other than Tort Claims; the Debtor's officers, directors, and employees; the Chapter 11 Professionals; and the Reorganized Debtor; (xiv) adjudicate any causes of action or other proceeding currently pending or otherwise referenced here or elsewhere in the Plan, including, but not limited to, any and all "core proceedings" under 28 U.S.C. §157(b) which may be pertinent to the Reorganization Case and which the Debtor or the Reorganized Debtor may deem appropriate to initiate and prosecute before the Court in aid of the implementation of the Plan; and (xv) modify the Plan pursuant to the provisions of the Plan.

If the Bankruptcy Court abstains from exercising or declines to exercise jurisdiction or is otherwise without jurisdiction over any matter arising out of the Reorganization Case, the provisions regarding retention of jurisdiction by the Bankruptcy Court will not diminish, control, prohibit or limit the exercise of jurisdiction by any other court having competent jurisdiction with respect to such matter.

XII. GENERAL PROVISIONS

A. Extension Of Payment Dates.

If any payment date falls due on any day which is not a Business Day, then such due date will be extended to the next Business Day.

B. Notices.

Any notice required or permitted to be provided under the Plan will be in writing and served by regular first class mail, overnight delivery, or hand-delivery.

C. Closing of the Case.

At such time as the Plan has been fully administered and/or the Plan has been substantially consummated, the Reorganized Debtor will file an application for Final Order showing that the Plan has been substantially consummated. The Reorganized Debtor will file an application for Final Order upon notice to only those Creditors, holders of Interests, and parties that, after the Effective Date, have specifically requested, after which an order approving the Reorganized Debtor's final report and closing the Reorganization Case may

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be entered.

D. Interest.

Whenever interest is to be computed under the Plan, interest will be simple interest and not compounded.

E. Additional Assurances.

The Debtor, the Reorganized Debtor, and the Creditors holding Claims herein will execute such other further documents as are necessary to implement any of the provisions of the Plan.

F. Confirmation By Nonacceptance Method.

The Debtor has requested, as part of the Plan, confirmation of the Plan pursuant to Bankruptcy Code §1129(b) with respect to any impaired Class of Claims which does not vote to accept the Plan.

G. Withdrawal Of Plan.

The Plan may be withdrawn or revoked by the Debtor prior to entry of the Confirmation Order.

H. Severability And Reformation.

It is the Debtor's intention to comply fully with the Bankruptcy Code and applicable nonbankruptcy law in proposing the Plan. Therefore, if any provision of the Plan is determined by the Bankruptcy Court to be contrary to the Bankruptcy Code or applicable nonbankruptcy law, that provision will be deemed severed and automatically deleted from the Plan, if it cannot be reformed or the provision or its interpretation will be deemed reformed to ensure compliance; provided, however, that nothing contained in this Section will prevent the Debtor from modifying the Plan in any manner whatsoever in accordance with and as set forth in the Plan. Pursuant to any ruling by the Bankruptcy Court regarding the subject matter of this Section, any such severance or reformation will be stated specifically in the Confirmation Order, which then will control notwithstanding any contrary or inconsistent provisions of the Plan.

I. Prohibition Against Prepayment Penalties.

If the Debtor or the Reorganized Debtor chooses, in its sole and absolute discretion,

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to prepay any obligation on which deferred payments are provided for under the Plan, the Debtor or the Reorganized Debtor will not be liable or subject to the assessment of any prepayment penalty thereon unless otherwise ordered by the Bankruptcy Court.

J. Fractional Dollars.

Notwithstanding any other provision of the Plan, no payments or distributions under the Plan of or on account of fractions of dollars will be made. When any payment or distribution of or on account of a fraction of a dollar to any holder of an Allowed Claim would otherwise be required, the actual payment or distribution made will reflect a rounding of such fraction to the nearest whole number (up or down).

K. Payment Of Statutory Fees And Filing of Quarterly Reports.

All fees payable pursuant to Section 1980 of Title 28 of the United States Code, 28 U.S.C. §1980, as determined by the Bankruptcy Court at or in conjunction with the Confirmation Hearing, will be paid on or before the Effective Date and, thereafter, in accordance with applicable bankruptcy law. All quarterly reports of disbursements required to be filed by applicable bankruptcy law will be filed in accordance with applicable bankruptcy law.

L. Reservation of Rights.

Except as expressly provided in the Plan and this Disclosure Statement, the Plan will have no force or effect unless the Confirmation Order is entered by the Bankruptcy Court and the Effective Date has occurred. None of the filing of the Plan, any statement or provision contained in the Plan or in this Disclosure Statement, or the taking of any action by the Debtor with respect to the Plan will be or will be deemed to be an admission or waiver of any rights of the Debtor with respect to the holders of Claims prior to the Effective Date.

M. No Professional Fees or Expenses.

No professional fees or expenses will be paid by the Debtor or the Reorganized Debtor with respect to any Claim except as specified in the Plan or as Allowed by Final Order of the Court.

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N. Dissolution of Committees.

The Committees will, unless the Court for cause orders otherwise, remain in place after the Effective Date, for the purpose of monitoring the progress of the Case and the Plan Trust, and, in the case of the TLC, representing the interests of the Tort Litigants in the Appeal.

O. Section 1146 Exemption.

Pursuant to Bankruptcy Code §1146(c), any transfers of property pursuant hereto will not be subject to any document, recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax or other similar tax or governmental assessment in the United States, and the confirmation Order will direct the appropriate state or local governmental officials or agents to forgo the collection of any such tax or governmental assessment and to accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax or governmental assessment.

P. Successors and Assigns.

The rights, benefits and obligations of any Person named or referred to in the Plan will be binding upon, and will insure to the benefit of, the heir, executor, administrator, successor or assign of such Person.

XIII. POST-CONFIRMATION MANAGEMENT AND REORGANIZED DEBTOR

A. The Diocese

The administration of the Reorganized Debtor will continue with the same offices and individuals in those offices as identified in Section IV.B. above.

XIV. FEDERAL TAX CONSEQUENCES.

THE FEDERAL, STATE, LOCAL, AND FOREIGN TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND, IN MANY AREAS, UNCERTAIN. ACCORDINGLY, ALL HOLDERS OF CLAIMS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISORS WITH SPECIFIC REFERENCE TO THE

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FEDERAL, STATE, AND LOCAL TAX CONSEQUENCES OF THE PLAN WITH RESPECT TO SUCH HOLDER. NEITHER THE DEBTOR NOR DEBTOR'S COUNSEL MAKES ANY REPRESENTATIONS REGARDING THE PARTICULAR TAX CONSEQUENCES OF CONFIRMATION AND CONSUMMATION OF THE PLAN AS TO THE DEBTOR OR ANY CREDITOR.

Under the Internal Revenue Code of 1986, as amended (the "Code"), there may be significant federal income tax issues arising under the Plan described in this Disclosure Statement that affect Creditors in the case.

The Plan Trust is a "qualified settlement fund" ("QSF") with in the meaning Treasury Regulations enacted under Internal Revenue Code Section 486B(g). The Trust is characterized as a QSF because:

1. The Trust is established pursuant to an order of, or is approved by, the United States, any state or political subdivision thereof, or any agency or instrumentality (including a court of law) of any of the foregoing and is subject to the continuing jurisdiction of that governmental authority;

2. The Trust is established to resolve or satisfy one or more contested or uncontested claims that have resulted or may result from an event that has occurred and that has given rise to at least one claim asserting liability arising out of, among other things, a tort, breach of contract, or violation of law (but excluding non-tort obligations of the Diocese to make payments to its general trade creditors or debt holders that relates to: a case under Title 11 of United States Code, a receivership, foreclosure of similar proceeding in a Federal or State court, or a workout); and

3. The Trust is a trust under Washington state law.[32]

The primary tax consequences of the Trust being characterized as a QSF are the following:

1. The Trust must use a calendar taxable year and the accrual method of accounting.

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[32] Treas. Reg. 1.468B-1(c).

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2. If the Diocese funds the Trust with appreciated property, the Diocese is deemed to sell the property to the Trust. Accordingly, any gain or loss from the deemed sale must be reported by the Diocese.

3. The Trust takes a fair market value basis in property contributed to it by the Diocese.

4. The Trust's gross income less certain modifications is taxable at the highest federal tax rate applicable to trusts and estates (currently 35%). The Diocese's funding of the Trust with cash and other property is not reported by the Trust as taxable income. However, earnings recognized from, for example, the short-term investment of the Trust's funds will be subject to tax.

5. The Trust may deduct from its gross income a limited number of administrative expenses; the Trust is not entitled to deduct distributions paid to its beneficiaries.

6. The Trust will have a separate taxpayer identification number and will be required to file annual tax returns (which are due on March 15). The Trust will also be required to comply with a number of other administrative tax rules including filing information returns (generally IRS Form 1099) when approved payments are made to claimants.

It is not practicable to present a detailed explanation of every possible federal income tax ramifications of the Plan.

XV. ACCEPTANCE AND CONFIRMATION.

A. Voting Procedures.

1. Generally.

Only those Classes that are impaired under the Plan are entitled to vote to accept or reject the Plan. The Diocese reserves the right to supplement this Disclosure Statement (if necessary) and to solicit any of those Classes which may prove to be impaired or unimpaired, as the Reorganization Case develops further.

Separate ballots will be sent to the known holders of Claims whether or not such

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Claims are disputed. However, only the holders of Allowed Claims (or Claims that have been temporarily allowed or have been estimated by the Bankruptcy Court) which are impaired are entitled to vote on the Plan. A Claim to which an objection has been filed is not an Allowed Claim unless and until the Bankruptcy Court rules on the objection and any appeals are determined. The holders of such Disputed Claims are not entitled to vote on the Plan unless they request that the Bankruptcy Court, pursuant to Bankruptcy Rule 3018, temporarily allow the Claims in appropriate amounts solely for the purpose of enabling the holders of such Disputed Claims to vote on the Plan, and the Bankruptcy Court does so.

2. <u>Incomplete Ballots.</u>

Ballots which are signed, dated, and timely received, but on which a vote to accept or reject the Plan has not been indicated, will not be counted as a vote either to accept or to reject the Plan or as a vote cast with respect to the Plan.

3. <u>Withdrawal Of Ballots; Revocation.</u>

Any Creditor holding an impaired Allowed Claim which has delivered a Ballot accepting or rejecting the Plan or opting out of the Settlement Trust may withdraw such acceptance or rejection or election by delivering a written notice of withdrawal to the Diocese at any time prior to the voting deadline. A notice of withdrawal, to be valid, must: (i) contain the description of the Claim to which it relates and the amount of such Claim; (ii) be signed by the voting Creditor, in the same manner as the Ballot; and (iii) be received by the Diocese in a timely manner at the address set forth below. Unless otherwise directed by the Bankruptcy Court, a purported notice of withdrawal of Ballots or change in the Claimants election to opt out of the Settlement Trust which is not received in a timely manner will not be effective to withdraw a previously furnished Ballot.

4. <u>Submission Of Ballots.</u>

The form of Ballot for each of the Classes entitled to vote on the Plan will be sent to all Creditors along with a copy of the Court-approved Disclosure Statement and a copy of the Plan. Creditors should read the Ballot carefully. If any Creditor has any questions concerning voting procedures, it may contact:

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Ballot(s) or withdrawals/revocations must be returned to BMC Group Inc., PO Box 990, El Segundo, CA 90245-0990, or BMC Group Inc., 1330 E Franklin Avenue, El Segundo, CA 90245-4306. Ballots (and withdrawals/revocations) must be postmarked no later than _______________, 2006.. To be effective, transmission of the facsimile must begin no later than 5:00 P.M. on ___________, 2006.

In addition, the Bankruptcy Court will hold a hearing on confirmation of the Plan commencing on ________________, 2006 at ________ a.m./p.m. in the [INSERT COURTROOM ADDRESS]. All objection(s), if any, to the confirmation of the Plan must be in writing; must state with specificity the grounds for any such objections); and must be filed with the Bankruptcy Court and served upon counsel for the Diocese at the following address on or before _______________, 2005:

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B. <u>Feasibility.</u>

Bankruptcy Code §1129(a)(11) requires, as a condition to confirmation, that the Bankruptcy Court find that liquidation of the Diocese or the need for future reorganization is not likely to follow after confirmation unless such liquidation or reorganization is proposed in the plan, itself. For the purpose of determining whether the Plan meets the feasibility requirement, the focus is on the phrase "unless such liquidation . . . is proposed in the plan." The Diocese's Plan provides for the liquidation of assets (Diocese Real Property, Parish Building Loans, Insurance Coverage and, subject to the Appeal and if necessary, the Pledged Parish Real Estate). The Plan will have a Plan Trust that will provide for the continued liquidation of Assets until all Claims have either (1) been paid in full; or (2) until all property of the Debtor's Estate, as that has been determined or may be determined in the future by Final Order, has been liquidated or cash contributions have been made in an amount at least equal to each Estate asset's liquidation value. Therefore, the Plan is not likely to be followed by any more liquidations than the Plan itself, through its own self-executing provisions, requires. The Debtor believes the Plan, on its face, complies with Bankruptcy Code §1129(a)(11).

C. <u>Best Interests Of Creditors And Liquidation Analysis.</u>

Under Bankruptcy Code §1129(a)(7), the Plan must provide that Creditors receive no less under the Plan than they would receive in a Chapter 7 liquidation of the Diocese.[33] Either prior to or as a part of the Confirmation Hearing, the Debtor will ask the Court to estimate the aggregate amount necessary to pay all claims in full. Upon doing so, if the Court determines that the amount being provided under the Plan will be sufficient to pay the aggregate, estimated, allowed amount of all Claims in full (as determined by the Court's estimate), the Debtor believes the requirement that the plan provides creditors with not less than they would receive in a Chapter 7 liquidation of the Debtor's Assets will have been satisfied. This is because in Chapter 7, creditors can be paid no more than the allowed amount of their claims. On the other hand, should the total of Allowed Claims exceed the value of the Estate, for example, if the Court's Summary Judgment Order is reversed on Appeal and the Pledged Parish Real Property is removed from the Plan Trust, still the holders of Allowed Claims will have received at least what they would have received through a liquidation of all Diocesan assets.

D. <u>Confirmation Over Dissenting Class.</u>

In the event that any impaired Class of Claims does not accept the Plan, the Bankruptcy Court may nevertheless confirm the Plan at the request of the Diocese if all

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[33] By filing this Amended Disclosure Statement and Plan, the Debtor does not waive its argument that, in a non-profit context, the §1129(a)(7) analysis is slightly different than in the for-profit context. This issue, however, will if necessary be briefed and argued at the time of confirmation.

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other requirements under Bankruptcy Code § 1129(a) are satisfied, and if, as to each impaired Class which has not accepted the Plan, the Bankruptcy Court determines that the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to such non-accepting Classes. Each of these requirements is discussed below.

1. No unfair discrimination.

The Plan "does not discriminate unfairly" if: (a) the legal rights of a dissenting Class are treated in a manner that is consistent with the treatment of other Classes whose legal rights are similar to those of the dissenting Class; and (b) no Class receives payments in excess of those which it is legally entitled to receive for its Claims. The Diocese believes that under the Plan: (i) all Classes of impaired Claims are treated in a manner that is consistent with the treatment of other similar Classes of Claims; and (ii) no Class of Claims will receive payments or property with an aggregate value greater than the aggregate of the Allowed Claims in such Class. Accordingly, the Diocese believes that the Plan does not discriminate unfairly as to any impaired Class of Claims.

2. Fair and Equitable Test.

The Bankruptcy Code establishes different "fair and equitable" tests for Secured Claims, Unsecured Claims, and holders of Equity Interests, as follows:

(a) Secured Creditors**.**

Either (i) each impaired Secured Creditor retains its liens securing a Secured Claim and receives on account of its Secured Claim deferred cash payments having a present value equal to the amount of its Allowed Secured Claim, (ii) each impaired Secured Creditor realizes the "indubitable equivalent" of its Allowed Secured Claim, or (iii) the property securing the Claim is sold free and clear of liens with such liens to attach to the proceeds, and the liens against such proceeds are treated in accordance with clause (i) or (ii) of this subparagraph (a).

(b) Unsecured Creditors.

Either (i) each impaired unsecured Creditor receives or retains under the Plan property of a value equal to the amount of its Allowed Claim, or (ii) the holders of Claims

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and Equity Interests that are junior to the Claims of the non-accepting Class do not receive any property under the Plan on account of such Claims and Equity Interests.

(c) Equity Interests.

Either (i) each holder will receive or retain under the Plan property of a value equal to or greater than (A) the fixed liquidation preference or redemption price, if any, of such interest or (B) the value of such interest, or (ii) the holders of interests that are junior to the non-accepting Class will not receive any property under the Plan. The Diocese believes that the Plan satisfies the "fair and equitable" test with respect to all impaired Classes.

As with the best interests of creditors test, the fair and equitable test is applied differently in this Reorganization Case than in most reorganization cases because the Diocese is not a moneyed corporation. This is the case because the members of a non-profit, in this case, the Bishop, have no personal interest in the property of the corporation. The Debtor does not have any shareholders or members who, in any sense of the term, retain an equity interest. Accordingly there is effectively no equity interest in the Diocese. Thus, what is commonly referred to as the "absolute priority rule" embodied by Bankruptcy Code §1129(b)(2)(B) does not prevent the Debtor here from continuing to operate.

XVI. RECOMMENDATIONS OF THE DEBTOR AND CONCLUSION.

The Diocese recommends that all Creditors vote to accept the Plan. The Diocese believes that the Plan provides the best possible return to Creditors under the circumstances.

DATED December 30, 2005.

THE CATHOLIC DIOCESE OF SPOKANE, a Washington corporation sole

By: ______________________
The Most Reverend William S. Skylstad

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