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**IN THE UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION**

IN RE:	§	
	§	
THORNTON & THORNTON, ENT., INC.	§	CASE NO. 17-40759-BTR-11
	§	(Chapter 11)
DEBTOR.	§	

**THORNTON & THORNTON'S FIRST AMENDED
DISCLOSURE STATEMENT DATED APRIL 17, 2018**

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ARTICLE I
INTRODUCTION
Identity of the Debtor

1.01 Debtor, Thornton & Thornton Ent., Inc., filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code, 11 U.S.C. Section 101, et seq. ("**Code**") in the United States Bankruptcy Court for the Eastern District of Texas, Sherman Division ("**Court**"), initiating the above-styled and referenced bankruptcy proceeding. The Debtor is operating its businesses as a **Debtor-in-Possession** pursuant to Sections 1107 and 1108 of the **Code**. Any reference to plan proponents is to this operating Debtor.

Purpose of This Disclosure; Sources of Information

1.02 **Debtor** submits this Disclosure pursuant to Section 1125 of the **Code** to all known **Claimants** of the **Debtor** for the purpose of disclosing that information which the **Court** has determined is material, important, and necessary for **Creditors** of, and the Members of, the **Debtor** in order to arrive at an intelligent, reasonably informed decision in exercising the right to vote for acceptance or rejection of the **Debtor's First Amended Plan**. A copy of the First Amended Plan is attached hereto as **Exhibit "A"** and incorporated herein by this reference. The First Amended Plan sets forth in detail the repayment arrangement between the Debtor and their creditors. This Disclosure describes the operations of and subsequent liquidation of the **Debtor** contemplated under the **First Amended Plan**. Any accounting information contained herein has been provided by the **Debtor** and has been prepared using the cash method of accounting.

Explanation of Chapter 11

1.03 Chapter 11 is the principal reorganization chapter of the **Code**. Pursuant to Chapter 11, a debtor is authorized to reorganize its business for its own benefit and that of its creditors and equity interest holders. Formulation of a plan of reorganization is the principal purpose of a Chapter 11 reorganization case. A plan of reorganization sets forth the means for satisfying claims against and interests in the debtor. After a plan of reorganization has been filed, it must be accepted by holders of claims against, or interests in, the debtor. Section 1125 of the **Code** requires full disclosure before solicitation of acceptances of a plan of reorganization. This Disclosure is presented to **Claimants** to satisfy the requirements of Section 1125 of the **Code**.

Explanation of the Process of Confirmation

1.04 Even if all **Classes** of **Claims** accept the plan, its confirmation may be refused by the **Court**. Section 1129 of the **Code** sets forth the requirements for confirmation and, among other things, requires that a plan of reorganization be in the best interests of **Claimants**. It generally requires that the value to be distributed to **Claimants** and **Equity Interest Holders** may not be less than such parties would receive if the debtor were liquidated under Chapter 7 of the **Code**.

1.05 Acceptance of the plan by the **Creditors** and **Equity Interest Holders** is important. In order for the plan to be accepted by each class of claims, the creditors that hold at least two thirds (2/3) in amount and more than one-half (1/2) in number of the allowed claims actually voting

on the plan in such class must vote for the plan and the equity interest holders that hold at least two-thirds (2/3) in amount of the allowed interests actually voting on the plan in such class must vote for the plan. Chapter 11 of the **Code** does not require that each holder of a claim against, or interest in, the debtor vote in favor of the plan in order for it to be confirmed by the **Court**. The plan, however, must be accepted by: (i) at least the holder of one (1) class of claim by a majority in number and two-thirds (2/3) in amount of those claims of such class actually voting; or (ii) at least the holders of one (1) class of allowed interests by two-thirds (2/3) in amount of the allowed interests of such class actually voting.

1.06 The **Court** may confirm the plan even though less than all of the classes of claims and interests accept it. The requirements for confirmation of a plan over the objection of one or more classes of claims or interests are set forth in Section 1129(b) of the **Code**.

1.07 Confirmation of the plan discharges the debtor from all of its pre-confirmation debts and liabilities except as expressly provided for in the plan and Section 1141(d) of the **Code**. **Confirmation** makes the plan binding upon the debtor and all claimants, equity interest holders and other parties-in-interest, regardless of whether or not they have accepted the plan.

Voting Procedures

1.08 Unimpaired Class. The Classes 1-5 **Claimants** are unimpaired as defined by Section 1124 of the Code. The **Claimants** in these classes are not entitled to vote on the **First Amended Plan** and are assumed to accept the **First Amended Plan** as the **Claimants** are or will be satisfied in full on or before the Effective Date of the **First Amended Plan**.

1.09 Impaired Classes. The Classes 6-9 **Claimants** are impaired as defined by Section 1124 of the Code. The **Debtor** is seeking the acceptance of the **First Amended Plan** by **Claimants** in their Classes 6-9. Each holder of an Allowed Claim in Classes 6-9 may vote on the **First Amended Plan** by completing, dating and signing the ballot sent to each holder and filing the ballot as set forth below. One ballot will be sent to each **Claimant** eligible to vote on the **First Amended Plan**. A sample Ballot is attached hereto as **Exhibit "C"**. For all Classes, the ballot must be returned to **Debtor's** attorney, Gary G. Lyon, Attorney at Law, 6401 Eldorado Parkway, Suite 234, McKinney, TX 75070. In order to be counted, ballots must be **RECEIVED** no later than at the time and on the date stated on the ballot.

1.10 Acceptances. Ballots that are signed and returned but fail to indicate either an acceptance or rejection will not be counted.

Best Interests of Creditors Test

1.11 Section 1129(a)(7) of the **Code** requires that each impaired class of claims or interests accept the **First Amended Plan** or receive or retain under the **First Amended Plan** on account of such claim or interest, property of a value as of the **Effective Date** of the **First Amended Plan**, that is not less than the amount that such holder would so receive or retain if the **Debtor** were liquidated under Chapter 7 of the Bankruptcy **Code**. If Section 1111(b)(2) of the **Code** applies to the claims of such class, each holder of a claim of such class will receive or retain

under the **First Amended Plan**, on account of such claim, properly of a value, as of the **Effective Date** of the **First Amended Plan**, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims. In order for the **First Amended Plan** to be confirmed, the Court must determine that the **First Amended Plan** is in the best interest of the **Debtor's** creditors. Accordingly, the proposed plan must provide the **Debtor's** creditors with more than they would receive in a Chapter 7 liquidation. Accordingly, since the **First Amended Plan** proposes to pay all secured creditors' allowed secured claims in full by sale of their collateral and the unsecured creditors, other than the subordinated unsecured claims, will receive a 100% dividend, **Debtor** believes that the creditors are receiving more than they would receive in a Chapter 7 liquidation. Without the sale of the primary asset at an enhanced price and without the voluntary subordination of a claimant class, there would be no cash funds to pay unsecured creditors. A liquidation analysis is provided in Section IV. Accordingly, the Debtor contends that the **First Amended Plan** satisfies the requirements of Section 1129(a)(7).

Cram down

1.12 The **Court** may confirm the **First Amended Plan** even though less than all classes of claims and interests accept it. The requirements for confirmation of a plan over the objection of one or more classes of claims or interests are set forth in Section 1129(b) of the Code. Accordingly, **Debtor**, as plan proponent, requests the **Court** to determine that the **First Amended Plan** does not discriminate unfairly, and is fair and equitable with respect to any objecting creditor. A discussion of the specific requirements for Cram down of a Plan are set forth starting below.

Definition of Impairment

1.13 As set forth in section 1124 of the Bankruptcy Code, a class of claims or equity interests is impaired under a plan of reorganization unless, with respect to each claim or equity interest of such class, the plan: leaves unaltered the legal, equitable, and contractual rights of the holder of such claim or equity interest; or notwithstanding any contractual provision or applicable law that entitles the holder of a claim or equity interest to demand or receive accelerated payment of such claim or equity interest after the occurrence of a default: cures any such default that occurred before or after the commencement of the case under the Bankruptcy Code, other than a default of a kind specified in section 365(b)(2) of the Bankruptcy Code; reinstates the maturity of sue~ claim or interest as it existed before such default; compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance on such contractual provision or such applicable law; and does not otherwise alter the legal, equitable or contractual rights to which such claim or interest entitles the holder of such claim or interest.

Classification and Treatment of Claims and Interests

1.14 The Plan classifies Claims separately in accordance with the Bankruptcy Code and provides different treatment for different classes of Claims.

1.15 Only holders of Allowed Claims are entitled to receive distributions under the Plan. Allowed Claims are Claims that are not in dispute, are not contingent, are liquidated in amount, and are not subject to objection or estimation. Initial distributions or other transfers of Cash or

other consideration specified in the Plan otherwise available to the holders of Allowed Claims will be made on the (a) Effective Date, or (b) the date on which such Claim becomes an Allowed Claim, as otherwise provided in the **First Amended Plan**, or as may be ordered by the Bankruptcy Court.

1.16 In accordance with the Plan, unless otherwise provided in the Plan or the Confirmation Order, the treatment of any Claim under the Plan will be in full satisfaction, settlement, release, and discharge of and in exchange for each and every Claim.

Requirements for Confirmation of the Plan

1.17 At the confirmation hearing, the Bankruptcy Court must determine whether the Bankruptcy Code's requirements for confirmation of the Plan have been satisfied, in which event the Bankruptcy Court will enter an order confirming the Plan. As set forth in section 1129 of the Bankruptcy Code, these requirements are as follows:

The plan complies with the applicable provisions of the Bankruptcy Code.

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

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

Any payment made or promised by the Debtor, by the plan proponents, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in, or in connection with, the case, or in connection with the plan and incident to the case, has been approved by, or is subject to the approval of the Bankruptcy Court as reasonable.

- (A) The proponent of the plan has disclosed the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the Debtor, an affiliate of the Debtor participating in a joint plan with the Debtor, or a successor to the Debtor under the plan; and
- (B) the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy; and the proponent of the plan has disclosed the identity of any insider that will be employed or retained by the reorganized Debtor, and the nature of any compensation for such insider.

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

With respect to each impaired class of claims or interests:

- (I) each holder of a claim or interest of such class has (A) accepted the plan or (B) will receive or retain under the plan on account of such claim or interest property of a value, as

of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the Debtor were liquidated on such date under chapter 7 of the Bankruptcy Code on such date; or (ii) if section 1111(b)(2) of the Bankruptcy Code applies to the claims of such class, the holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

With respect to each class of claims or interests:

- (i) such class has accepted the plan; or
- (ii) such class is not impaired under the plan.

Except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that:

- (i) with respect to a claim of a kind specified in section 507(a)(1) or 507(a)(2) of the Bankruptcy Code, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;
- (ii) with respect to a class of claims of a kind specified in section 507(a)(3), 507(a)(4), 507(a)(5) or 507(a)(6) of the Bankruptcy Code, each holder of a claim of such class will receive: (i) if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or (ii) if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim; and
- (iii) with respect to a claim of a kind specified in section 507(a)(7) of the Bankruptcy Code, the holder of a claim will receive on account of such claim deferred cash payments, over a period not exceeding six years after the date of assessment of such claim, of a value, as of the effective date of the plan, equal to the allowed amount of such claim.

If a class of claims is impaired under the plan, at least one class of claims that is impaired has accepted the plan, determined without including any acceptance of the plan by any insider holding a claim of such class.

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

All fees payable under 28 U.S.C. §1930, as determined by the Bankruptcy Court at the hearing on confirmation of the plan, have been paid or the plan provides for the payments of all such fees on the effective date of the plan.

The plan provides for the continuation after its effective date of payment of all retiree benefits, as that term is defined in section 1114 of the Bankruptcy Code, at the level

established pursuant to subsection (e)(1)(B) or (g) of section 1114, at any time prior to confirmation of the plan, for the duration of the period the Debtor has obligated itself to provide such benefits.

The Debtor believes that the Plan satisfies all the statutory requirements of chapter 11 of the Bankruptcy Code, that the Debtor has complied with or will have complied with all the requirements of chapter 11, and that the Plan is proposed in good faith.

At the Confirmation Hearing, the Bankruptcy Court will determine whether holders of Allowed Claims or Allowed Equity Interests would receive greater distributions under the Plan than they would receive in a liquidation under chapter 7.

The Debtor believes that the feasibility requirement for confirmation of the Plan is satisfied by the fact that the future operating revenues will be sufficient to satisfy the obligations under the Plan in addition to supporting the operations of the enterprise. These facts demonstrating the confirmability of the Plan will be shown at the Confirmation Hearing.

Cram down

1.18 The bankruptcy court may confirm a plan of reorganization even though fewer than all the classes of impaired claims and interests accept it. For a plan of reorganization to be confirmed despite its rejection by a class of impaired claims or interests, the proponents of the plan must show, among other things, that the plan does not "discriminate unfairly" and that the plan is "fair and equitable" with respect to each impaired class of claims or interests that has not accepted the plan.

1.19 "Fair and equitable" has different meanings with respect to the treatment of secured and unsecured claims. As set forth in section 1129(b)(2) of the Bankruptcy Code, those meanings are as follows:

With respect to a class of **secured claims**, the plan provides:

- (a)(i) that the holders of such claims retain the liens securing such claims, whether the property subject to such liens is retained by the Debtor or transferred to another entity, to the extent of the allowed amount of such claims; and
- (ii) that each holder of a claim of such class receive on account of such claim deferred cash payments totaling at least the allowed amount of such claim, of a value, as of the effective date of the plan, of at least the value of such holder's interest in the estate's interest in such property;
- (b) for the sale, subject to section 363(k) of the Bankruptcy Code, of any property that is subject to the liens securing such claims, free and clear of such liens, with such liens to attach to the proceeds of such sale, and the treatment of such liens on proceeds under clause (a) and (b) of this subparagraph; or
- (c) the realization by such holders of the "indubitable equivalent" of such claims.

With respect to a class of **unsecured claims**, the plan provides:

- (a) that each holder of a claim of such class receive or retain on account of such claim property of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or
- (b) the holder of any claim or interest that is junior to the claims of such class will not receive or retain under the plan on account of such junior claim or interest any property.

With respect to a class of **interests**, the plan provides:

- (a) that each holder of an interest of such class receive or retain on account of such interest property of a value, as of the effective date of the plan, equal to the greatest of the allowed amount of any fixed liquidation preference to which such holder is entitled, any fixed redemption price to which such holder is entitled or the value of such interest; or
- (b) that the holder of any interest that is junior to the interests of such class will not receive or retain under the plan on account of such junior interest any property.

1.20 In the event that one or more classes of impaired Claims reject the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable with respect to, and does not discriminate unfairly against, any rejecting impaired class of Claims. SO LONG AS THE CLASSES OF UNSECURED CREDITORS VOTE FOR THE PLAN THEN THE PLAN WILL NOT VIOLATE THE ABSOLUTE PRIORITY RULE. The absolute priority rule requires that prior to the equity interest holders in the Debtors retaining or receiving any property the senior classes of claims must be paid in full or vote to accept the Plan.

The Debtor believes the Plan does not discriminate unfairly against, and IS fair and equitable with respect to, each impaired class of Claims.

ARTICLE II

REPRESENTATIONS

2.01 This Disclosure is provided pursuant to Section 1125 of the **Code** to all of the **Debtor's** known **Creditors** and other parties in interest in connection with the solicitation of acceptance of its **First Amended Plan** of reorganization, as amended or modified. The purpose of this Disclosure is to provide such information as will enable a hypothetical, reasonable investor, typical of the holders of **Claims**, to make an informed judgment in exercising its rights either to accept or reject the **First Amended Plan**.

2.02 The information contained in this Disclosure has been derived from information submitted by the **Debtor**, unless specifically stated to be from other sources.

2.03 No representations concerning the **Debtor** is authorized by the **Debtor** other than those set forth in this Disclosure. The **Debtor** recommends that any representation or inducement made to secure your acceptance or rejection of the **First Amended Plan** which is not contained in this Disclosure should not be relied upon by you in reaching your decision on how to vote on the **First Amended Plan**. Any representation or inducement made to you not contained herein should

be reported to the attorneys for **Debtor** who shall deliver such information to the **Court** for such action as may be appropriate.

2.04 ANY BENEFITS OFFERED TO THE CREDITORS ACCORDING TO THE PLAN WHICH MAY CONSTITUTE "SECURITIES" HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC"), THE TEXAS SECURITIES BOARD, OR ANY OTHER RELEVANT GOVERNMENTAL AUTHORITY IN ANY STATE OF THE UNITED STATES. IN ADDITION, NEITHER THE SEC, NOR ANY OTHER GOVERNMENTAL AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE OR UPON THE MERITS OF THE PLAN. ANY REPRESENTATIONS TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

2.05 THE INFORMATION CONTAINED HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT. FOR THE FOREGOING REASON, AS WELL AS BECAUSE OF THE IMPOSSIBILITY OF MAKING ASSUMPTIONS, ESTIMATES AND PROJECTIONS INTO THE FUTURE WITH ACCURACY, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS COMPLETELY ACCURATE, ALTHOUGH EVERY REASONABLE EFFORT HAS BEEN MADE TO ENSURE THAT SUCH INFORMATION IS ACCURATE. THE APPROVAL BY THE COURT OF THIS DISCLOSURE DOES NOT CONSTITUTE AN ENDORSEMENT BY THE COURT OF THE PLAN OR GUARANTEE THE ACCURACY OR COMPLETENESS OF THE INFORMATION CONTAINED HEREIN.

2.06 THE DEBTOR BELIEVES THAT THE PLAN WILL PROVIDE CLAIMANTS WITH AN OPPORTUNITY ULTIMATELY TO RECEIVE MORE THAN THEY WOULD RECEIVE IN A LIQUIDATION OF THE DEBTOR'S ASSETS, AND SHOULD BE ACCEPTED. CONSEQUENTLY, THE DEBTOR URGES THAT CLAIMANTS VOTE FOR THE PLAN.

2.07 DEBTOR DOES NOT WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED HEREIN IS CORRECT, ALTHOUGH GREAT EFFORT HAS BEEN MADE TO BE ACCURATE. THE STATEMENTS CONTAINED IN THIS DISCLOSURE ARE MADE AS OF THE DATE HEREOF UNLESS ANOTHER TIME IS SPECIFIED HEREIN.

ARTICLE III

FINANCIAL PICTURE OF THE DEBTOR

Financial History and Background of the Debtor

Misty Thornton and Kristy Thornton are identical twin sisters. The sisters have been in the daycare business together for many years. On July 1, 1997, the sisters formed Thornton & Thornton Ent., Inc. Thornton & Thornton Ent., Inc. established and owned Twin Oaks Private School, child care facility and real property located at 1001 E. Main Street, Allen, Texas.

The Company

3.01 In the beginning, Misty Thornton and Kristy Thornton divided the responsibilities of running the child care facility. However, around 2011, when the business had become less profitable, Kristy Thornton left the day to day operation of the child care facility to Misty Thornton. In light of the failure of Kristy Thornton to repay loans owed to the Debtor, action was completed in 2015 to foreclose the share ownership of Kristy Thornton, pursuant to applicable Texas statutes.

Management

3.02 Misty Thornton is the principal and manager of the Debtor and the 100% shareholder of the outstanding shares of the business.

Financials

3.03 After the continually reduction in income and numerous repair and restoration costs and legal fees to defend the Debtor, the operation of the Debtor became so all-encompassing and the failure of previous attempts to sell Twin Oaks Private School, Misty Thornton entered into a contract to sell the school, which was then frustrated by legal wrangling within the state courts. Thereupon, the Debtor filed for protection under Chapter 11 bankruptcy reorganization, desiring to quickly complete the sale for the purpose to maximize the value of the school which would then make it possible to allow for the full payment of all creditors. In conjunction with the bankruptcy filing, the Debtor has filed income reports filed monthly with the court. The reports can be obtained from the Debtor's counsel and online at <http://www.txeb.uscourts.gov> under the names of the Debtor's case.

Future Income and Expenses Under the First Amended Plan

3.04 The Debtor is to be fully liquidated, all expenses to be paid in full and all remaining assets in the form of cash will be disbursed to the allowed claimants.

Future Management of the Debtor

3.05 The Debtor anticipates that Misty Thornton will oversee the wind down of the company as proposed in the Plan of Reorganization.

ARTICLE IV ANALYSIS AND VALUATION OF PROPERTY

4.01 The Debtor has liquidated all assets belonging to the company by enhanced price sale and transfer upon previous order of this Court. The remaining funds have been deposited into the IOLTA Trust Account of Debtor's counsel. The funds are to be disbursed by (i) Order of the Bankruptcy Court and (ii) the terms and conditions of the Plan of Reorganization upon confirmation.

There is the amount of \$700,000.00 remaining from the Sale of All Assets of the company.

Taking into account the priority and nonpriority unsecured claims in this case, based on the above analysis a Chapter 7 liquidation would pay all general unsecured claims approximately 79%. Debtor's plan pays the priority creditors 100%, pays the nonpriority unsecured claims 100% and pays the nonpriority unsecured subordinated claims 86.14%, thus Debtor's plan will pay the creditors more than in a Chapter 7 liquidation.

The projected amount of nonpriority unsecured debt is \$177,245.34 and the projected amount of nonpriority unsecured subordinated debt is \$575,949.72.

ARTICLE V

SUMMARY OF THE FIRST AMENDED PLAN

The Plan will be funded from the liquidation of the Debtor and all assets will be distributed in cash. Several companies owned by the principal of the Debtor will subordinate their claims allowed for all unsecured claims (other than the subordinated claims) to receive a 100% distribution on their Allowed Claim.

DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS

The Debtor designates the following Classes of Claims and Interests pursuant to Bankruptcy Code Section 1123. The Debtor shall pay all fees assessed by the Office of the United States Trustee until this Case is closed by the Court or the Debtor is otherwise released from such obligations by the Court.

The Claims and Interests classified herein shall be treated in the manner set forth in this Article V.

- Class 1: Allowed Secured Claims of Ad Valorem Taxing Authorities
- Class 2: Allowed Priority Claim of the Internal Revenue Service
- Class 3: Allowed Secured Claim of Synergy Bank, SSB
- Class 4: Allowed Secured Claim of Samson's Carpet Care, Inc.
- Class 5: Allowed General Unsecured Claims Exceeding \$10,000.00
- Class 6: Allowed General Unsecured Claims Not Exceeding \$10,000.00
- Class 7: Allowed Unsecured Claim of A+ Builders
- Class 8: Allowed Secured Claim of Misty Thornton & Associates
- Class 9: Allowed General Subordinated Unsecured Claims
- Class 10: Equity Interests

Administrative Expenses and Priority Tax Claims of the kinds specified in §§ 507(a)(1), 502(i) and 507(a)(8) of the Bankruptcy Code are excluded from the Debtor's respective classes below in accordance with §1123(a)(1) and are not separately classified. Such expenses and claims shall be treated as specified in this Article. The estimate for attorney's fees for the Debtor is \$60,000.00. The attorney's fees will be paid from the cash of the liquidated assets but such payment will not disturb the fixed returns projected to creditors due to the subordinated nature of certain unsecured claims.

Treatment of Allowed Administrative Expenses

Allowed Administrative Expenses will be paid in full once Allowed, on or before the Effective Date, or at a later date as set by the Court, if the allowance process extends beyond the Effective Date. Provided, however, that the holder of an Allowed Administrative Expense may agree to a different treatment.

Treatment of Allowed Priority Claims

Allowed Priority Claims will be paid by the Reorganized Debtor, once Allowed, over two (2) months with interest on such amounts at the rate of 12% per annum until paid in full. The payments shall be made in equal monthly payments on the first day of the month following the Effective Date and shall continue on the first day of each month thereafter until paid in full. There are no priority claims.

Title 28 U.S.C. Section 1930 Fees

Debtors shall pay all fees assessed by the Office of the United States Trustee until this Case is closed by the Court or the Debtors are otherwise released from such obligations by the Court.

Class 1 - Allowed Secured Claims of Ad Valorem Taxing Authorities

Class 1 shall consist of the Allowed Secured Claims of Ad Valorem Taxing Authorities on the Debtor's real and personal property which accrued on or prior to April 7, 2017 (the "**Class 1 Claims**") in the estimated amount of \$69,457.12.

- a. The Class 1 Claims have been paid in full under this plan by the sale of the assets of the Debtor. There are no remaining unsatisfied Class 1 claims.
- b. Class 1 Claims are unimpaired by the Plan. The holders of Class 1 Claims are not entitled to vote to accept or reject the Plan.

Class 2 – Allowed Priority Claim of the Internal Revenue Service

Class 2 shall consist of the Allowed Priority Unsecured Claims of the Internal Revenue Service in the estimated amount of \$65,399.18.

- a. The Class 2 Claim shall be paid by the Debtor, once Allowed, in full on the Effective Date.
- b. Class 2 Claims are unimpaired by the Plan. The holders of Class 2 Claims are not entitled to vote to accept or reject the Plan.

Class 3 – Allowed Secured Claim of Synergy Bank, SSB

Class 3 shall consist of the Allowed Secured Claim of Synergy Bank, SSB, in the estimated amount of \$1,047,282.24.

- a. The Class 3 Claim has been paid in full under this plan by the sale of the assets of the Debtor. There are no remaining unsatisfied Class 3 claims.
- b. Class 3 Claims are unimpaired by the Plan. The holders of Class 3 Claims are not entitled to vote to accept or reject the Plan.

Class 4 – Allowed Secured Claim of Samson's Carpet Care, Inc.

Class 4 shall consist of the Allowed Secured Claim of Samson's Carpet Care, Inc., in the estimated amount of \$2,007.24.

- a. The Class 4 Claim shall be paid by the Debtor, once Allowed, in full on the Effective Date. As the claim was not satisfied at the time of the sale of the assets of the Debtor, the holder of a Class 4 claim is impaired.
- b. Class 4 Claims are impaired by the Plan. The holders of Class 4 Claims are entitled to vote to accept or reject the Plan.

Class 5 – Allowed General Unsecured Claims exceeding \$10,000.00

- a. The Claims in this class will be paid by the Debtor, once Allowed, over 2 months in full in the amount of \$150,247.11. The payments shall commence on the first day of the month following the Effective Date and shall continue on the first day of each succeeding month thereafter until the end of the payment term as defined herein.
- b. The total of claims in this class is estimated at \$150,247.11.
- c. This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.
- d. Insider Unsecured Claims shall be paid nothing under this Plan.

Class 6 - Allowed General Unsecured Claims Not Exceeding of \$10,000.00

- a. The Claims in this class will be paid by the Debtor, once Allowed, over 2 months in full in the amount of \$26,998.23. The payments shall commence on the first day of the month following the Effective Date and shall continue on the first day of

each succeeding month thereafter until the end of the payment term as defined herein.

- b. The total of claims in this class is estimated at \$26,998.23.
- c. This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.
- d. Insider Unsecured Claims shall be paid nothing under this Plan

Class 7 – Allowed Unsecured Claim of A+ Builders

Class 7 shall consist of the Allowed Subordinated Unsecured Claim of A+ Builders, in the estimated amount of \$135,350.00.

- a. The Claims in this class will be paid by the Debtor, once Allowed, over 2 months on a Pro Rata basis, out of approximately \$116,595.11. The payments shall commence on the first day of the month following the Effective Date and shall continue on the first day of each succeeding month thereafter until the end of the payment term as defined herein.
- b. This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.

Class 8 – Allowed Secured Claim of Misty Thornton & Associates

Class 8 shall consist of the Allowed Subordinated Unsecured Claim of Misty Thornton & Associates, in the estimated amount of \$6,000.00.

- a. The Claims in this class will be paid by the Debtor, once Allowed, over 2 months on a Pro Rata basis, out of approximately \$5,168.60. The payments shall commence on the first day of the month following the Effective Date and shall continue on the first day of each succeeding month thereafter until the end of the payment term as defined herein.
- b. This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.

Class 9 – Allowed General Subordinated Unsecured Claims

Class 9 shall consist of the Allowed Subordinated Unsecured Claim of, in the estimated amount of \$435,599.72.

- a. The Claims in this class will be paid by the Debtor, once Allowed, over 2 months on a Pro Rata basis, out of approximately \$375,240.49. The payments shall commence on the first day of the month following the Effective Date and shall continue on the first day of each succeeding month thereafter until the end of the payment term as defined herein.
- b. This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.

Class 10 - Equity Interests

Class 10 shall consist of the Equity Interests of Misty Thornton, as the President and Sole 100% Shareholder of the Debtor.

On the Confirmation Date, all Equity Interests shall be treated as follows:

On the Effective Date, all equity interests shall be cancelled.

This class is Impaired and the holder of a Claim in this class is entitled to vote to accept or reject the Plan.

The Debtor believes that the Plan will not violate the absolute priority rule and will be consensual as to the unsecured creditors.

ARTICLE VI

MEANS FOR IMPLEMENTATION OF FIRST AMENDED PLAN

6.01 Implementation of Plan. This Plan will be implemented, pursuant to §1123(a)(5) of the Code, by the commencement of payments as called for above.

6.02 Claims and Causes of Action. Any and all Avoidance Actions, claims, causes of action or enforceable rights of the Debtor against third parties, or assertable by the Debtor on behalf of Creditors, its Estate, or itself for recovery, turnover or avoidance of obligations, or preferential or fraudulent transfers of property or interests in property and other types or kinds of property or interests in property recoverable or avoidable pursuant to Chapter 5 or other sections of the Bankruptcy Code or any applicable law including, without limitation, 11 U.S.C. §§ 502, 510, 522(f), 522(h), 542, 543, 544, 545, 547, 548, 549, 550, 551, or 553;

Any and all claims or causes of action of the Debtor or its Estate relating to any pre- or post-petition activities against any one or more of any entity or person related to, owned by or affiliated with any current or former professionals of the Debtor (including, without limitation, legal, accounting, tax advisors or consultants) including, without limitation, claims or causes of action for: (i) breaches of fiduciary duty; (ii) fraud or fraudulent inducement; (iii) negligence; (iv)

fraudulent or negligent misrepresentations; (v) legal, accounting or other professional negligence or malpractice; (vi) illegal dividends or payments received; (vii) civil conspiracy; (viii) fraudulent insurance acts; (ix) violations of any consumer protection act or deceptive trade practice act; (x) unjust enrichment; (xi) breach of contract; (xii) tortious interference with contracts or prospective relations; (xiii) deceit by misrepresentation or concealment; (xiii) common law fraud; (xiv) corporate waste; (xv) deepening insolvency; (xvi) alter ego; and (xvii) embezzlement;

Any and all claims or causes of action of the Debtor or its Estate relating to any pre- or post-petition activities against the Debtor's former officers, directors, principals or advisors; and any current or former professionals of the Debtor (including, without limitation, legal, accounting, tax advisors or consultants) including, without limitation, claims or causes of action for: (i) breaches of fiduciary duty; (ii) fraud or fraudulent inducement; (iii) negligence; (iv) fraudulent or negligent misrepresentations; (v) legal, accounting or other professional negligence or malpractice; (vi) illegal dividends or payments received; (vii) civil conspiracy; (viii) fraudulent insurance acts; (ix) violations of any consumer protection act or deceptive trade practice act; (x) unjust enrichment; (xi) breach of contract; (xii) tortious interference with contracts or prospective relations; (xiii) deceit by misrepresentation or concealment; (xiii) common law fraud; (xiv) corporate waste; (xv) deepening insolvency; or (xvi) alter ego; and

Nothing shall estop the Debtor from asserting claims or causes of action just because they were not scheduled or described in detail in the Debtor's Schedules or Disclosure Statement. Debtors may have claims objections.

ARTICLE VII

TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

7.01 Rejection of Executory Contracts and Unexpired Leases. Debtor may assume or reject pursuant to Bankruptcy Code Section 1123(b)(2), its unexpired leases of real property and executory contracts by separate motion and order prior to the Confirmation Date. The Debtor may do the same through the Plan.

7.02 Reservation of Rights. The Debtors shall have the right to assume or reject, pursuant to Bankruptcy Code Section 365, prior to the Confirmation Date, any executory contract or unexpired lease of real property (to the extent permitted under the Bankruptcy Code) and to the terms of this Plan.

7.03 Bar Date for Claims Based on Rejection. If the rejection of an executory contract or an unexpired lease by the Debtor results in damages to the other party or parties to such contract or lease, a Claim for such damages shall be forever barred and shall not be enforceable against the Debtor or their properties or agents, successors, or assigns, unless a proof of Claim is filed with the Bankruptcy Court and served upon the Debtor, within 60 days of the Confirmation Date. Any Rejection Claim arising from the rejection of an unexpired lease or executory contract shall be treated as a General Unsecured Claim; provided, however, that any Rejection Claim based upon the rejection of an unexpired lease of real property either prior to the Confirmation Date or upon the entry of the Confirmation Order shall be limited in accordance with section 502(b)(6) of the

Bankruptcy Code and state law mitigation requirements. Nothing contained herein shall be deemed an admission by the Debtor that such rejection gives rise to or results in a Claim or shall be deemed a waiver by the Debtor of any objections to such Claim if asserted.

ARTICLE VIII

FEASIBILITY OF FIRST AMENDED PLAN

8.01 Debtor asserts that their Plan is feasible based on the availability of existing funds from the sale of all hard assets of the company currently available for paying claim.

Procedure for Filing Proofs of Claims and Proofs of Interests

8.02 All proofs of claims and proofs of interests must be filed by those **Claimants** and Equity Interest Holder who have not filed such instruments on or before the **Bar Date** fixed by the **Court**.

8.03 If **Claimants** have already filed a proof of claim with the **Court** or are listed in the **Debtor's** Schedules as holding non-contingent, liquidated and undisputed claims, a proof of claim need not be filed. The schedules and amendments thereto are on file with the **Court** and are open for inspection during regular **Court** hours. If the equity security interest of an **Equity Interest Holder** is properly reflected in the Debtor's books and records, a proof of interest need not be filed.

ARTICLE IX

ALTERNATIVES TO DEBTORS' FIRST AMENDED PLAN

9.01 If the **Debtor's First Amended Plan** is not confirmed, the Debtor's bankruptcy case may be converted to a case under Chapter 7 of the **Code**, in which case a trustee would be appointed to liquidate the assets of the **Debtor** for distribution to its **Creditors** in accordance with the priorities of the Code. Since the **Debtor's** assets are subject to liens that there could be a substantially reduced percentage distribution to unsecured creditors in Chapter 7.

9.02 The **Debtor** has litigation claims which may be pursued.

ARTICLE X

RISKS TO CREDITORS UNDER THE DEBTOR'S FIRST AMENDED PLAN

10.01 Claimants should be aware that there are few risks involved in consummation of the **First Amended Plan**. The **First Amended Plan** contemplates that the liquidation of the **Debtor** which will and has generated sufficient funds to pay the general unsecured creditors in full. The **Debtor** cannot, however, "guarantee" that the expenses of claims objection and possible litigation against former shareholders will equal those in the projections; however, the **Debtor** believes that the projections are reasonable. The **Debtor's** anticipated litigation and claims analysis does show the ability to propose a plan in this case.

ARTICLE XI

TAX CONSEQUENCES TO THE DEBTORS

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS OF CLAIMS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS DISCLOSURE STATEMENT IS NOT INTENDED OR WRITTEN TO BE USED OR RELIED UPON, AND CANNOT BE USED OR RELIED UPON, BY HOLDERS OF CLAIMS OR INTERESTS OR ANY OTHER PERSONS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS OF CLAIMS OR ANY OTHER PERSONS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF U.S. TREASURY DEPARTMENT CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS OF CLAIMS AND INTERESTS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

A. Introduction

The following discussion summarizes certain material U.S. federal income tax consequences of the Plan to the Debtor and holders of Claims and Interests. The summary is provided for general informational purposes only and is based on the United States Internal Revenue Code of 1986, as amended (the "Tax Code"), the treasury regulations promulgated thereunder, judicial authority and current administrative rulings and practice, all as in effect as of the date hereof (except as otherwise noted below with regard to the American Recovery and Reinvestment Act of 2009), and all of which are subject to change, possibly with retroactive effect. Changes in any of these authorities or in their interpretation could cause the United States federal income tax consequences of the Plan to differ materially from the consequences described below. The United States federal income tax consequences of the Plan are complex and in important respects uncertain. No ruling has been requested from the Internal Revenue Service (the "Service"); no opinion has been requested from Debtors' counsel concerning any tax consequence of the Plan; and no tax opinion is given by this Disclosure Statement.

The following discussion does not address all aspects of federal income taxation that may be relevant to a particular holder of a Claim or Interest in light of its particular facts and circumstances or to particular types of holders of Claims subject to special treatment under the Tax Code. For example, the discussion does not address issues of concern to broker-dealers or other dealers in securities; or foreign (non-U.S.) persons, nor does it address any aspects of state, local, or foreign (non-U.S.) taxation, or the taxation of holders of Interests in a Debtor. In addition, a substantial amount of time may elapse between the Confirmation Date and the receipt of a final distribution under the Plan. Events subsequent to the date of this Disclosure Statement, such as the enactment of additional tax legislation, court decisions or administrative changes, could affect the federal income tax consequences of the Plan and the transactions contemplated hereunder.

On February 13, 2009, the House of Representatives and the Senate passed H.R.1, the American Recovery and Reinvestment Act of 2009 (the Recovery Act), a stimulus bill that includes tax breaks for businesses and individuals. The President signed the Recovery Act on February 17, 2009. The following discussion does not address any aspects of the Recovery Act, some of which may be relevant to a particular holder of a Claim or an Interest.

THE DISCUSSION THAT FOLLOWS IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND PROFESSIONAL TAX ADVICE BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT WITH ITS TAX ADVISORS REGARDING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE PLAN.

B. Certain Definitions

Except as expressly otherwise provided or unless the context otherwise requires, all capitalized terms not otherwise defined herein or in the Plan shall have the respective meanings assigned to them in this Article.

"**COD**" shall mean cancellation of indebtedness income.

"**NOL**" shall mean net operating loss.

C. Certain Material Federal Income Tax Consequences to the Debtor

Cancellation of a Debtor's debt is generally taxable income to the Debtor. COD is the amount by which the indebtedness of a Debtor discharged exceeds any consideration given in exchange therefore. Cancellation of a debt may not necessarily be COD, however. To the extent that the Debtor is insolvent, or if the Debtor is in bankruptcy, as is the case here, the Tax Code permits the Debtor to exclude the COD from its gross income. The statutory exclusion for COD in a title II case generally excludes COD from gross income if the discharge is granted by a court to a Debtor under its jurisdiction in a title 11 case, as is sought herein.

The price for the bankruptcy COD exclusion (as well as the insolvency exclusion) is reduction of the Debtors' tax attributes to the extent of the COD income, generally in the following order: NOLs for the year of the discharge and NOL carryovers from prior years; general business tax credit carryovers; minimum tax credit available as of the beginning of the year following the year of discharge; net capital loss for the year of discharge and capital loss carryovers from prior years; basis of the Debtor's assets; passive activity loss and credit carryovers from the year of discharge; and foreign tax credit carryovers to or from the year of discharge. The reduction of attributes does not occur until after the end of the Debtor's tax year in which the COD occurred, so they are available to the Debtor in determining the amount of its income, loss and tax liability for the year of discharge.

As a result of the implementation of the Plan, the Debtor will have COD and potential attribute reduction. Because any reduction in tax attributes does not effectively occur until the first day of the taxable year following the taxable year in which the COD is incurred, the resulting COD, on

its own, should not impair the ability of the Debtor to use their tax attributes (to the extent otherwise available) to reduce their tax liability, if any, otherwise resulting from the implementation of the Plan.

Under section 382 of the Tax Code, if a corporation undergoes an "ownership shift," the amount of its Pre-Change Losses that may be utilized to offset future taxable income generally is subject to an annual limitation. Although the Plan allows for an ownership change it is doubtful that one will occur and as such any owner of the Debtor should consult his own tax adviser concerning the effect of the Plan.

The United States federal income tax consequences of payment of Allowed Claims pursuant to the Plan will depend on, among other things, the consideration received, or deemed to have been received, by the holder of the Allowed Claim, whether such holder reports income on the accrual or cash method, whether such holder receives distributions under the Plan in more than one taxable year, whether such holder's Claim is allowed or disputed at the Effective Date, whether such holder has taken a bad debt deduction or worthless security deduction with respect to its Claim.

In general, a holder of a Claim should recognize gain or loss equal to the amount realized under the Plan in respect of its Claim less the amount of such holder's basis in its Claim. Any gain or loss recognized in the exchange may be long-term or short-term capital gain or loss or ordinary income or loss, depending upon the nature of the Claim and the holder, the length of time the holder held the Claim and whether the Claim was acquired at a market discount. If the holder realizes a capital loss, its deduction of the loss may be subject to limitations under the Tax Code. The holder's aggregate tax basis for any property received under the Plan generally will equal the amount realized. The amount realized by a holder generally will equal the sum of the cash and the fair market value of any other property received (or deemed received) by the holder under the Plan on the Effective Date and/or any subsequent distribution date, less the amount (if any) allocable to Claims for interest. All holders of Allowed Claims are urged to consult their tax advisors. A holder of a Claim constituting an installment obligation for tax purposes may be required to recognize currently any gain remaining with respect to the obligation if, pursuant to the Plan, the obligation is considered to be satisfied at other than its face value, distributed, transmitted, sold or otherwise disposed of within the meaning of Section 453B of the Tax Code.

D. Importance of Obtaining Professional Tax Assistance

The foregoing discussion is intended only as a summary of certain U.S. federal income tax consequences of the Plan, and is not a substitute for careful tax planning with a tax professional. The above discussion is for general information purposes only and is not tax advice. The tax consequences are in many cases uncertain and may vary depending on a holder's individual circumstances.

HOLDERS OF CLAIMS ARE URGED TO CONSULT WITH THEIR TAX ADVISORS ABOUT THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF THE PLAN.

ARTICLE XII

PENDING LITIGATION

12.01 As of the date of the filing of this Disclosure the significant matters pending are as follows:

Adversary No. 17-04077 – Kristy Thornton vs Misty Thornton, et al. – United States Bankruptcy Court for the Eastern District of Texas, Sherman Division.

The basis of the lawsuit is a complaint based upon an alleged wrongful foreclosure of the share interest of Kristy Thornton upon her default to pay a promissory note owed to the Debtor. No justiciable claim has been made against the Debtor, and the outcome is not expected to affect the terms or effectuation of the proposed plan.

ARTICLE XIII **SUMMARY OF SIGNIFICANT ORDERS ENTERED DURING THE CASE**

13.01 As of the date of the filing of this Disclosure the significant orders in this case are:

Employment of Professionals, Agreed Order Granting Application of Counsel for Synergy Bank, SSB for Administrative Expenses; Order on Motion to Sell Property Free and Clear of Liens and those relating to general administration of the case.

Respectfully submitted,

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