IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION

IN RE:	§	
	§	
SI RESTRUCTURING, INC.	§	**CASE NO. 04-54504**
	§	
SR RESTRUCTURING, INC.	§	**CASE NO. 04-54506**
	§	
SRE RESTRUCTURING, INC.	§	**CASE NO. 04-54507**
	§	
SF RESTRUCTURING, LLC	§	**CASE NO. 04-54508**
	§	
SFOPS RESTRUCTURING, LLC	§	**CASE NO. 04-54509**
	§	
SBPROD RESTRUCTURING, LLC	§	**CASE NO. 04-54510**
	§	
DFW RESTAURANT TRANSFER CORP.	§	**CASE NO. 04-54511**
	§	
56TH AND 6TH, INC.	§	**CASE NO. 04-54512**
	§	
RAD ACQUISITION CORP.	§	**CASE NO. 04-54513**
	§	
SAN FELIPE, LLC,	§	**CASE NO. 04-54514**
	§	
Debtors.	§	**CHAPTER 11**
	§	(Jointly Administered under Case No. 04-54504)

FINAL DISCLOSURE STATEMENT UNDER 11 U.S.C. § 1125 IN SUPPORT OF AMENDED JOINT PLAN OF LIQUIDATION OF SI RESTRUCTURING, INC. AND ITS AFFILIATED DEBTORS DATED OCTOBER 11, 2005

HAYNES AND BOONE, LLP
901 Main Street, Suite 3100
Dallas, Texas 75202-3789
Tele: (214) 651-5000
Fax: (214) 651-5940

DATED: December 12, 2005

ATTORNEYS FOR SI RESTRUCTURING, INC., *ET AL.*

ARTICLE 1
INTRODUCTION

SI Restructuring, Inc. ("SI"), SR Restructuring, Inc. ("Restaurants"), SRE Restructuring, Inc. ("Real Estate"), SF Restructuring, LLC ("Franchisor"), SFOPS Restructuring, LLC ("Franchise Operations"), SFPROD Restructuring, LLC ("Brand Products"), DFW Restaurant Transfer Corp. ("DFW"), 56th and 6th, Inc. ("56th and 6th"), RAD Acquisition Corp. ("RAD") and San Felipe, LLC ("San Felipe") (collectively, the "Debtors"), as debtors and debtors-in-possession, submit this Disclosure Statement pursuant to Bankruptcy Code section 1125 for use in the solicitation of votes on the Plan. Although a Debtor, RAD is not a proponent of the Plan at this time and it is not being reorganized pursuant to the Plan. A copy of the Schlotzsky's, Inc., *et al.* Amended Joint Plan of Liquidation (the "Plan") is annexed as Exhibit "1" to this Disclosure Statement.[1]

This Disclosure Statement sets forth certain relevant information regarding the Debtors' prepetition operations and financial history, the need to seek Chapter 11 protection, significant events that have occurred during the Chapter 11 case, an analysis of the expected return to the Debtors' unsecured creditors and the anticipated procedures for liquidating the Debtors' remaining assets. This Disclosure Statement also describes terms and provisions of the Plan, including certain alternatives to the Plan, certain effects of confirmation of the Plan, certain risk factors associated with the Plan, and the manner in which distributions will be made under the Plan. Additionally, this Disclosure Statement discusses the confirmation process and the voting procedures that holders of Claims and Interests must follow for their votes to be counted.

A. Filing of the Debtors' Chapter 11 Cases

The Debtors filed their voluntary petitions for relief under Chapter 11 of the Bankruptcy Code on August 3, 2004 (the "Petition Date") in the United States Bankruptcy Court for the Western District of Texas, San Antonio Division (the "Bankruptcy Court"). Since the Petition Date, the Debtors have continued to operate their business and manage their properties and assets as debtors-in-possession pursuant to Bankruptcy Code sections 1107 and 1108.

B. Purpose of Disclosure Statement

Section 1125 of the Bankruptcy Code requires the Debtors to prepare and obtain court approval of a Disclosure Statement as a prerequisite to soliciting votes on the Debtors' Plan. The purpose of the Disclosure Statement is to provide information to Creditors and Interest holders (shareholders) that will assist them in deciding how to vote on the Plan.

This Disclosure Statement was approved by the Bankruptcy Court on December 12, 2005. Such approval does not constitute a judgment by the Bankruptcy Court as to the desirability of the Plan or as to the value or suitability of any consideration offered thereunder.

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[1] Except as otherwise provided in this Disclosure Statement, capitalized terms herein have the meanings ascribed to them in the Plan. Any capitalized term used herein that is not defined in the Plan shall have the meaning ascribed to that term in the Bankruptcy Code or Bankruptcy Rules, whichever is applicable.

The Court's approval does indicate, however, that the Bankruptcy Court has determined that the Disclosure Statement contains adequate information to permit you to make an informed judgment regarding acceptance or rejection of the Plan.

> **The Approval By The Bankruptcy Court Of This Disclosure Statement Does Not Constitute An Endorsement By The Bankruptcy Court Of The Plan Or A Guarantee Of The Accuracy Or Completeness Of The Information Contained Herein. The Material Contained Herein Is Intended Solely For The Use Of Creditors And Holders Of Interests Of The Debtors In Evaluating The Plan And Voting To Accept Or Reject The Plan And, Accordingly, May Not Be Relied On For Any Purpose Other Than The Determination Of How To Vote On, Or Whether To Object To, The Plan.**
>
> **The Debtors Believe That The Plan And The Treatment Of Claims And Interests Thereunder Is In The Best Interests Of Claimholders And Interest Holders And Urge That You Vote To Accept The Plan.**
>
> **This Disclosure Statement Has Not Been Approved Or Disapproved By The Securities And Exchange Commission, Nor Has The Commission Passed On The Accuracy Or Adequacy Of The Statements Contained Herein. Any Representation To The Contrary Is Unlawful. The Plan Should Be Reviewed Carefully.**

C. Hearing on Confirmation of the Plan

The Bankruptcy Court has set **January 23, 2006 at 9:30 a.m.** Central Time, as the time and date for the hearing (the "Confirmation Hearing") to determine whether the Plan has been accepted by the requisite number of Claimholders and whether the other standards for Confirmation of the Plan have been satisfied. Once commenced, the Confirmation Hearing may be adjourned or continued by announcement in open court with no further notice.

D. Sources of Information

Except as otherwise expressly indicated, the portions of this Disclosure Statement describing the Debtors, their business, properties and management, and the Plan have been prepared from information furnished by the Debtors. The statements contained in this Disclosure Statement are made as of the date hereof unless another time is specified.

ARTICLE 2
EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Under chapter 11, a debtor-in-possession may seek to reorganize its business or to sell the business for the benefit of the debtor's creditors and other interested parties.

The commencement of a chapter 11 case creates an estate comprising all of the Debtors' legal and equitable interests in property as of the date the petition is filed. Unless the Bankruptcy Court orders the appointment of a trustee, a chapter 11 debtor may continue to operate its business and control the assets of its estate as a "debtor-in-possession," as the Debtors have done in these cases since the Petition Date.

Formulation of a plan of reorganization/liquidation is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims of creditors against, and interests of equity security holders in, the debtor.

B. Plan of Reorganization/Liquidation

Although usually referred to as a plan of reorganization, a plan may simply provide for an orderly liquidation of a debtor's property and assets. The Debtors' Plan does, in fact, provide for an orderly liquidation of its remaining assets. The Debtors in these cases have already sold the vast majority of their assets. The chief remaining assets of these Debtors are litigation claims and a parcel of undeveloped real property in which the Debtors have equity.

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

Classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and therefore are not entitled to vote. A class is "impaired" if the plan modifies the legal, equitable, or contractual rights attaching to the claims or interests of that class. Most of the claims of the unsecured creditors of these Debtors are impaired and are not likely to receive the full value of their claims. Classes of claims or interests that receive or retain **no property** under a plan of reorganization are conclusively presumed to have rejected the plan and therefore are not entitled to vote. The class including the shareholders of SI Restructuring, Inc. (f/k/a Schlotzsky's, Inc.) is not receiving anything under the Plan and is deemed to have rejected the Plan.

ARTICLE 3
VOTING PROCEDURES AND CONFIRMATION REQUIREMENTS

A. Ballots and Voting Deadline

A ballot for voting to accept or reject the Plan is enclosed with this Disclosure Statement, and has been mailed to Claimholders (or their authorized representatives) entitled to vote. After carefully reviewing the Disclosure Statement, including all exhibits, each Claimholder (or its authorized representative) entitled to vote should indicate its vote on the enclosed ballot. All Claimholders (or their authorized representatives) entitled to vote must (i) carefully review the

ballot and instructions thereon, (ii) execute the ballot, and (iii) return it to the address indicated on the ballot by the deadline (the "Voting Deadline") for the ballot to be considered.

The Bankruptcy Court has directed that, in order to be counted for voting purposes, ballots for the acceptance or rejection of the Plan must be received no later than January 13, 2006 at 5:00 p.m. San Antonio Time, at the following address:

HAYNES AND BOONE, LLP
Attn: Dian Gwinnup
901 Main Street, Suite 3100
Dallas, Texas 75202-3789

BALLOTS MUST BE RECEIVED AT THE ABOVE ADDRESS NO LATER THAN JANUARY 13, 2006 at 5:00 P.M. CENTRAL TIME. ANY BALLOTS RECEIVED AFTER THAT DEADLINE WILL NOT BE COUNTED.

B. Claimholders and Interest Holders Entitled to Vote

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

The Debtors' Interest Holders shall not receive any distribution under the Plan. Accordingly, all such Interest Holders are deemed to have rejected the Plan and are not entitled to vote on the Plan.

C. Bar Date for Filing Proofs of Claim

The Bankruptcy Court established a bar date for filing proofs of claim or interests in the Debtors' chapter 11 cases of November 28, 2004.

D. Classes Impaired Under the Plan

Claims or Interests in Classes 1-4 are impaired under the Plan. Holders of Claims in Classes 1 and 3 are eligible to vote to accept or reject the Plan. Holders of Claims in Class 2 are not impaired and may not vote on the Plan. Interest holders within Class 4 will not receive any

distributions under the Plan. As such, Interest holders within Class 4 are conclusively presumed to have rejected the Plan and, therefore, are not entitled to vote to accept or reject the Plan.

E. Information on Voting and Ballots

1. Ballot Tabulation Procedures

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

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

(b) If a Proof of Claim has been timely filed, and has not been objected to before the expiration of the Voting Deadline, the voted amount of that Claim shall be as specified in the Proof of Claim filed with the Clerk;

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

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

(e) If a Claimholder or its authorized representative did not use the Ballot or Master Ballot form, as applicable, provided by the Debtors; the Official Ballot Form authorized under the Federal Rules of Bankruptcy Procedure; or a substantially similar form of ballot, such Ballot will not be counted;

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

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

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

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

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

2. Execution of Ballots by Representatives

If a Ballot is signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, such persons must indicate their capacity when signing and, at the Debtors' request, must submit proper evidence satisfactory to the Debtors of their authority to so act.

3. Changes to Ballots

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

F. Confirmation of Plan

1. Solicitation of Acceptances

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

No Representations Or Assurances, If Any, Concerning The Debtors Or The Plan Are Authorized By The Debtors Other Than As Set Forth In This Disclosure Statement. Any Representations Or Inducements Made By Any Person To Secure Your Vote Other Than Those Contained In This Disclosure Statement Should Not Be Relied On By You In Arriving At Your Decision, And Such Additional Representations Or Inducements Should Be Reported To Counsel For The Debtors For Such Action As May Be Deemed Appropriate.

This Is A Solicitation Solely By The Debtors, And Is Not A Solicitation By Any Shareholder, Attorney, Or Accountant For The Debtors. The Representations, If Any, Made Herein Are Those Of The Debtors And Not Of Such Shareholders, Attorneys, Or Accountants, Except As May Be Otherwise Specifically And Expressly Indicated.

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

2. Requirements for Confirmation of the Plan

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

(i) The Plan comply with the applicable provisions of the Bankruptcy Code;

(ii) The Debtors have complied with the applicable provisions of the Bankruptcy Code;

(iii) The Plan has been proposed in good faith and not by any means forbidden by law;

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

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

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

(vii) With respect to each impaired Class of Claims or Interests, either each holder of a Claim or Interest of the Class has accepted the Plan, or will receive or retain under the Plan on account of that 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 Debtors were liquidated on such date under Chapter 7 of the Bankruptcy Code. If Bankruptcy Code

section 1111(b)(2) applies to the Claims of a Class, each holder of a Claim of that Class will receive or retain under the Plan on account of that Claim property of a value, as of the Effective Date, that is not less than the value of that holder's interest in the Debtors' interest in the property that secures that Claim;

(viii) Each Class of Claims or Interests has either accepted the Plan or is not impaired under the Plan;

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

(x) If a Class of Claims or Interests is impaired under the Plan, at least one such Class of Claims or Interests has accepted the Plan, determined without including any acceptance of the Plan by any insider holding a Claim or Interest of that Class; and

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

The Debtors believe that the Plan satisfies all of the statutory requirements of the Bankruptcy Code for confirmation and that the Plan was proposed in good faith. The Debtors believe they have complied, or will have complied, with all the requirements of the Bankruptcy Code governing confirmation of the Plan.

3. Acceptances Necessary to Confirm the Plan

Voting on the Plan by each holder of a Claim (or its authorized representative) is important. Chapter 11 of the Bankruptcy Code does not require that each holder of a Claim vote in favor of the Plan in order for the Court to confirm the Plan. Generally, to be confirmed under the acceptance provisions of Bankruptcy Code section 1126(a), the Plan must be accepted by each Class of Claims that is impaired under the Plan by parties holding at least two-thirds in dollar amount and more than one-half in number of the Allowed Claims of such Class actually voting in connection with the Plan. Even if all Classes of Claims accept the Plan, the Bankruptcy Court may refuse to confirm the Plan.

4. Cramdown

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

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

With respect to an unsecured claim, "fair and equitable" means either (i) each impaired creditor receives or retains property of a value equal to the amount of its allowed claim or (ii) the holders of claims and equity interests that are junior to the claims of the dissenting class will not receive any property under the plan.

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

In the event at least one Class of impaired Claims or Interests rejects or is deemed to have rejected the Plan, the Bankruptcy Court will determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any rejecting impaired Class of Claims or Interests.

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

ARTICLE 4
BACKGROUND OF THE DEBTORS

A. Nature of the Debtors' Business

On the Petition Date, SI Restructuring, Inc. (f/k/a Schlotzsky's, Inc.) was a publicly held Texas corporation with its corporate headquarters in Austin, Texas. Through its wholly-owned subsidiaries, SI was a franchisor and operator of restaurants in the fast casual sector under the Schlotzsky's brand. Schlotzsky's restaurants offer a menu of hot sandwiches and pizza served on Schlotzsky's proprietary buns and crusts as well as wraps, chips, salads, soups, desserts and beverages.

As of August 2, 2004, the Schlotzsky's system included 471 domestic franchised restaurants located in thirty-six (36) states, twenty-one (21) company-owned restaurants ("Company Restaurants"), and twenty-one (21) international franchised restaurants.

In 2003, the Schlotzsky's system generated revenues of approximately $56.2 million through franchise operations and restaurant operations. As the franchisor or licensor of the Schlotzsky's brand, SI Restructuring's revenues included royalties paid by franchisees and license fees paid by manufacturers and supply chain managers of Schlotzsky's brand products. As of August 2, 2004, the business day immediately prior to the Petition Date, the Debtors employed approximately 776 individuals, many of whom worked in the Company Restaurants.

In addition to its franchise operations and Company Restaurants, on the Petition Date, the Debtors owned certain undeveloped real estate (the "Pad Sites") as well as the real estate on which certain closed restaurants were located.

B. Debtors' Corporate Structure

NOTE: John and Jeff Wooley dispute many of the factual characterizations in this section.

SI is the parent corporation of Franchisor, Restaurants, Real Estate, Franchise Operations, DFW and RAD. Franchisor is a Delaware limited liability company wholly owned by SI and is the parent company of Brand Products.

In June of 2003, SI formed a number of new legal entities including Franchisor, Franchise Operations, Brand Products, and NAMF Funding, LLC (not a debtor). SI formed these entities as part of an attempt to raise funds through the securitization of the royalties and advertising contributions paid by franchisees. In anticipation of completing a securitization, SI transferred its key assets to these new entities. With respect to the assets transferred to Franchisor and Brand Products, wholly owned subsidiaries of SI, so long as the assets were not pledged to third parties, their value remained available to SI. SI did not complete the securitization it anticipated. Instead, the transferred assets were pledged to (a) John and Jeff Wooley to secure a loan of $2.5 million as well as other obligations to the Wooleys, (b) NS Associates I, Ltd. ("NSA") to secure its debt of approximately $23,268,000 and in exchange for a one year reduction in note payments to NSA, and (c) to Commerce National Bank to secure a loan of $3 million. As a result of the pledging of the assets, the value of the transferred assets was no longer available to SI to pay its unsecured debts although SI still owned the stock in Franchisor.

Franchisor is the "Franchisor" or "Licensor" under all franchise agreements, area developer agreements and master license agreements, owns Schlotzsky's intellectual property, including the trademarks, and also licenses Brand Products the right to sublicense private label use of the Schlotzsky's brand.

Brand Products is a Delaware limited liability company wholly owned by Franchisor. Brand Products receives license fees from licensed third party manufacturers and supply chain managers based on their sales of Schlotzsky's brand products to distributors who in turn sell to the Schlotzsky's restaurant system and to retail outlets.

NAMF Funding, LLC, a non-debtor, was purportedly granted the right to collect advertising contributions from franchisees. John and Jeff Wooley assert that they fulfilled all of their fiduciary duties to NAMF Funding, LLC and NAMF, Inc.

Franchise Operations is a Delaware limited liability company that was formed to manage Franchisor and Brand Products and non-debtors, NAMF Funding and its affiliate, NAMF, Inc.

Other SI affiliates, all of which are Texas corporations, were formed to undertake specific business activities including the ownership of real estate or the operation of Company Restaurants. In some instances the functions of these entities were intertwined. Restaurants is a Texas corporation wholly-owned by SI and is the parent corporation of 56th and 6th. Real Estate owned certain real property, much of which has been sold during these cases. DFW and RAD were formed primarily to own area developer agreements.

San Felipe is a Texas limited liability company that is owned 50% by Restaurants and 50% by a third party named Uptown Restaurants, Inc. Restaurants had sole right and authority to control the operations of San Felipe. San Felipe owned certain real property in Houston that the Debtors allowed the lender to foreclose after determining that there was no equity in the property.

C. Existing and Potential Litigation/Proceedings

1. Potential Litigation

The Debtors may be potential plaintiffs in other lawsuits, claims, and administrative proceedings. While the outcome of those proceedings cannot be predicted with certainty, the Debtors reasonably estimate that the recoveries generated from, and/or the costs associated with pursuing, those claims will not materially affect the financial condition of the Debtors or the distributions to be made under the Plan. The Debtors continue to investigate potential claims to determine if they would be likely to yield a significant recovery for the Estates.

2. Committee Litigation

Litigation Against NSA

On or about October 30, 2004, the Creditors' Committee requested authority to pursue certain claims of the Debtors' estates against NSA. The Court granted the request. On December 14, 2004, the Committee filed suit asserting a number of different claims arising under sections 506, 544, 547, 548, 549 and 550 of the Bankruptcy Code and sections 24.005, 24.006 and 24.008 of the Texas Business and Commerce Code. NSA strongly contested the merits of the Committee's claims and filed various procedural motions in response to the Committee's Complaint. To avoid needlessly expending estate assets on legal fees, the Committee, after carefully weighing the risks and benefits of the litigation, encouraged settlement discussions among the parties. Progress was slow. However, after more than seven weeks of negotiations, the parties reached a settlement that reduced NSA's secured claim by close to $5 million. The settlement was approved by the Bankruptcy Court on February 23, 2005.

Litigation Against Officers and Directors

On February 23, 2005, the Committee was authorized to pursue claims against former officers and directors of the Debtors. A complaint alleging breaches of fiduciary duties and other wrongdoing was filed on March 28, 2005, thus initiating Adversary no. 05-5055. The Debtors believe their duty to indemnify their former officers and directors for defense costs and recoveries under certain of the claims asserted in the litigation is covered by a $5 million Directors and Officers liability policy. Defense costs erode the availability of funds under the policy to satisfy covered claims. The Wooleys and other defendants in this lawsuit have denied all allegations in the Committee's Complaint and have asked the Court to dismiss the suit. The Court granted the defendants' motion to dismiss one cause of action but allowed the litigation to go forward on all other claims.

The Committee's complaint against the former officers and directors includes claims to avoid the liens of the Wooleys and to equitably subordinate their claims. The doctrine of equitable subordination would allow the Bankruptcy Court to conclude, if the evidence so warranted, that the Wooleys' secured claims and unsecured claims should be entitled to payment only after all other Allowed Claims have been paid. This would make over $3 million dollars available for distribution to holders of Administrative, Priority and Unsecured Claims.

Litigation Against Grant Thornton

On June 23, 2005, the Committee was authorized to pursue claims against Grant Thornton, the Debtors' accountants and auditors for years 2002 and 2003. The Committee sought authority to pursue these claims because it believed they have potential value to the estates. However, at this preliminary stage, the Committee cannot assign any specific value to the claims against former officers and directors or Grant Thornton.

D. Preference and Other Avoidance Litigation

During the 90-day period immediately preceding the Petition Date, the Debtors made various payments and other transfers while insolvent to creditors on account of antecedent debts. In addition, during the one-year period before the filing date, the Debtors made certain transfers to, or for the benefit of, certain "insider" creditors. While most of those payments were made in the ordinary course of the Debtors' business, some of those payments may be subject to avoidance and recovery by the Debtors' bankruptcy estate as preferential and/or fraudulent transfers pursuant to Bankruptcy Code sections 544, 547, 548 and 550. Under Bankruptcy Code section 1123(b)(3)(B), the Debtors, on behalf of themselves and holders of Allowed Claims and Allowed Interests, shall retain all claims, causes of action, and other legal and equitable rights that it had (or had power to assert) immediately prior to Confirmation of the Plan, including actions for the avoidance and recovery of estate property under Bankruptcy Code section 550, or transfers avoidable under Bankruptcy Code sections 544, 545, 547, 548, 549 or 553(b), and may commence or continue, in any appropriate court or tribunal, any suit or other proceeding for the enforcement of such actions. All claims, causes of action, and other legal or equitable rights shall remain the property of the Debtors. All recoveries from the above-referenced actions will

become Estate Property, and will be distributed to holders of Allowed Claims pursuant to the Plan.

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

E. Assets of the Reorganized Debtor

The chief assets of the Reorganized Debtor are the litigation claims described above as well as any other claims asserted by the Reorganized Debtor. The Wooleys contend that additional claims should be asserted by the estates and will retain the right to seek authority from the Court to bring those actions on behalf of the Reorganized Debtor. The Debtors believe that the Reorganized Debtor will pursue any claims that are likely to bring value to the Reorganized Debtor. Nevertheless, the Debtors have agreed that the Plan does not preclude the rights, if any, of creditors or shareholders to seek authority from the Bankruptcy Court to bring claims of the estates if not pursued by the Committee, the Debtors or the Plan Administrator by ten (10) days before the deadline for joining additional parties in Adversary Proceeding Number 05-5055 or forty-five (45) days prior to the expiration of the statute of limitations for such cause of action.

Additional assets include an undeveloped parcel of real property in Travis County, Texas, which the Debtors believe will yield approximately $400,000 to the estate. The Debtors are currently negotiating a sale of the property to a restaurant chain. The Debtors also own an art collection appraised some time ago at $225,000. The Debtors do not believe they will recover the appraised value for the art. In addition, pursuant to a settlement with BCC, the Debtors own a receivable from BCC of $300,000. The Debtors also have the right to a deposit refund of $160,000.

Cash on hand on the date of this Disclosure Statement was approximately $1.65 million. This amount is insufficient to pay all outstanding Administrative Claims and leave sufficient Cash in the estate for its post confirmation operations. In addition, the Wooleys assert that the Debtors must reserve $500,000 for a secured claim they assert. The Court will determine the amount that must be reserved for the Wooleys' asserted secured claim. The Debtors estimate that there are approximately $1.5 million in outstanding professional fee claims. Other possible Administrative Claims are estimated at $150,000. With the agreement of the affected professionals, the Debtors do not intend to pay 100% of professional fees before the estate is able to secure additional funds so that the Reorganized Debtor will have at least $500,000 in the bank at confirmation for post-petition operations. Neither the Debtors nor the Creditors' Committee are able to assure that this is a sufficient amount to finish all pending litigation. The Debtors believe that many professionals who are holders of Administrative Claims will agree to wait until

assets are available to pay their Claims and not require that they be paid on the Effective Date. In addition, the Debtors understand that Winstead Sechrest & Minick, P.C. will prosecute all pending litigation until a result is reached that is in the best interests of the estate.

ARTICLE 5
EVENTS LEADING TO BANKRUPTCY

NOTE: John and Jeff Wooley and the other defendants in Adversary no. 05-5055 dispute most of the factual characterizations in this section.

Rarely does a single event lead to the bankruptcy of a company. In this case, the immediate cause of the bankruptcy was a liquidity crisis. Put simply, SI did not have the financial resources to pay its extensive debts. For several years before the bankruptcy, both the number of franchise restaurants and same store sales had been declining. Therefore, SI had fewer resources to pay its debts. In numerous instances, franchisees for whom SI had guaranteed obligations in connection with its turnkey program defaulted on their obligations and SI, as guarantor, became liable for those obligations. Starting around 1998, SI began buying back all or part of the rights of certain of its area developers. In connection with these buybacks, SI incurred over $55 million of debt. SI exhausted significant amounts of cash for the buybacks. In its Form 10-K for 2003, SI informed the public: "We will require additional financing to support Company operations and to refinance certain debt with relatively short maturities….Failure to obtain such financing or modified terms with creditors would require us to significantly modify our growth strategies, reduce our operation and capital expenditures, or potentially violate certain financial covenants to which we are subject under certain third party agreements. This failure also could materially adversely affect our ability to fund continuing operations and working capital needs." pp. 8-9.[2]

The inability to fund continuing operations disclosed as a risk in the 2003 Form 10-K materialized. By June of 2004, SI was in a desperate liquidity situation. Secured creditors had liens on substantially all of the Debtors' assets. The relationship between SI and its franchisees had deteriorated and many franchisees refused to remit their royalty and advertising contributions to Franchisor and NAMF Funding. Many franchisees were in financial difficulties that they blamed in large part on Franchisor decisions. A bankruptcy filing and a quick sale of the franchise system to a better capitalized company appeared to offer the best hope for SI's creditors and franchisees.

ARTICLE 6
POST-BANKRUPTCY OPERATIONS AND SIGNIFICANT EVENTS

A. Post-Bankruptcy Operations

Note: John and Jeff Wooley and the other defendants in Adversary no. 05-5055 dispute most of the factual characterizations in this section and maintain that they undertook all actions

[2] The Debtors assume that John and Jeff Wooley do not dispute this statement which is included in a Securities and Exchange Commission filing signed by each of them.

on behalf of NAMF in fulfillment of their duties as directors. The Debtors respond that most of the following facts were presented to the Bankruptcy Court at hearings in these cases.

Before the bankruptcy filing and thereafter, the Debtors and their professionals focused their efforts on (i) preserving the value of the franchise system and (ii) identifying third parties interested in pursuing plan or sale transactions as quickly as possible. The Debtors' financial advisors, BWK Trinity Capital Securities, LLC ("Trinity"), assisted the Debtors in preparing financial projections and other data, developing a confidential offering memorandum, and contacting approximately 59 parties that might be interested in a transaction. Approximately 45 parties expressed sufficient interest in the Debtors' business to execute confidentiality agreements and perform some level of due diligence. Ultimately, the Debtors received 11 serious proposals from interested parties regarding possible sale and/or plan transactions. At least 10 parties conducted further due diligence. The Debtors initially believed that negotiating and presenting a "stalking horse" contract to the creditors and the Court would maximize the sales process. After failing to reach a satisfactory agreement with the party identified as the potential stalking horse and in light of the stresses to the franchise system caused by delay, the Debtors asked the Court to authorize an auction of the Debtors' chief assets. That auction occurred on December 7, 2004 and Bobby Cox Companies, Inc. ("BCC") became the successful purchaser with a bid of $28.5 million for all the franchise system assets and eight Company Restaurants. However, the sale to BCC could not close until the Debtors were able to meet the "NAMF Condition" in the Purchase and Sale Agreement.

The NAMF Condition required the Debtors to secure the "release of any obligation of franchisees who are parties to assumed Franchise Agreements [those to be sold to BCC] to permit any part of their remittances pursuant to their Franchise Agreements to be used to pay any indebtedness of Schlotzsky's N.A.M.F., Inc. or Schlotzsky's NAMF Funding, LLC for obligations arising before the commencement of the Cases." Fulfilling this condition was very difficult and caused the estate to incur significant professional fees.

Each of the Franchise Agreements requires the franchisee to pay a percentage of its gross sales for advertising to the franchisor or its designee. As a result of the efforts to complete a securitization in 2003, the right to collect the advertising contributions was purportedly assigned to NAMF Funding, LLC. Thereafter, the advertising contributions were pledged to Commerce National Bank ("CNB") to secure funds borrowed from CNB. The loan proceeds were used, in part, to refinance existing debt related to an advertising plan instituted in the late 1990s. Franchisees did not want their advertising contributions used to pay old debt, even if that debt related to advertising they had received. They wanted the money used to fund new advertising. A number of franchisees exercised self-help and refused to pay NAMF Funding.

On the Petition Date, NAMF Funding, LLC, was controlled by John and Jeff Wooley. John Wooley was President and CEO of SI and Jeff Wooley was Senior Vice President of SI until they were removed from the SI management in mid-June of 2004. SI did not have the legal ability to remove John or Jeff Wooley from the NAMF Funding Board and they refused to resign. The Debtors' lack of control over NAMF Funding and its affiliate, NAMF, Inc., made meeting the NAMF Condition very difficult. However, the Debtors understood from their discussions with prospective purchasers that no party would buy the franchise agreements and

the franchise system unless they could be sure that they, not NAMF Funding, would control the use of future advertising contributions made by franchisees and that franchisees would have no remaining liability to NAMF Funding. Although the Wooleys allowed Franchise Operations to control the NAMF accounts for several months after the bankruptcy filing, Franchise Operations lost control of the funds after the Wooleys demanded that CNB give them control of the accounts. Since two parties were claiming the right to control of a bank account, CNB had little choice but to interplead the funds in the account. As a result, only the Court could order disbursements from the advertising contributions.

Based on a default under the NAMF note to CNB, CNB exercised its rights as a secured creditor to control the account. At that point, none of the creditors of NAMF, Inc. could get paid. Thereafter, CNB asked a state court to appoint a receiver for NAMF Funding to facilitate CNB's collection of its secured debt. Ultimately, after numerous hearings in both state court and the Bankruptcy Court, SI was allowed to purchase the CNB collateral, the right to collect advertising contributions, from the receiver for $1,753,000. In this way, SI met the NAMF Condition and the sale of the franchise system to BCC closed on February 7, 2005.

BCC, through an affiliate, purchased additional Company Restaurants later in the case for assumption or payment of the debt on those restaurants.

Virtually all of the consideration paid by BCC was necessary to satisfy the claims of secured creditors with liens on the assets that had been sold. However, as a result of the settlement with NSA (see Article 4, C, 2), $4.9 million of the proceeds became property of the estate available to pay administrative and unsecured claims. A later settlement of disputes with GE Capital Franchise Finance Corporation ("GE Capital") over the value of its collateral that was sold to BCC resulted in a release of $1 million of sale proceeds for the benefit of unsecured creditors and the elimination of over $10 million in potential unsecured claims.

Moreover, Debtors attempted to secure additional funds for the estate by seeking to surcharge certain secured creditors for the benefit they received through the Debtors' efforts to sell their collateral. The Debtors' right to surcharge such creditors was strongly disputed by the majority of these creditors. However, settlements were reached with a number of secured creditors that reduced their claims. The settlement with NSA resolved the surcharge claims against it and CNB.

During the cases, the Debtors also sold certain developed and undeveloped real estate. These sales yielded approximately $281,000 in excess of the secured debt encumbering that property. The one remaining parcel of undeveloped property is hoped to generate $400,000 of funds for distribution by the Estates.

As a result of the sales to BCC, the real estate sales and certain settlements, the following secured creditors of the Debtors no longer have claims against the Estates: Commerce National Bank; NS Associates I, LLP; Franklin Bank; ABC Bank; F and M Bank; First Volunteer Bank of Tennessee; Regions Bank; CIT; and GE Capital.

Prior to the closing of the sale to BCC, the Debtors had generally been paying all of their postpetition obligations other than professional fees as they became due. However, the professional fees are a significant expense of these Chapter 11 Debtors and the Court-approved professional fees are entitled to payment in full before the payment of general unsecured creditors. A significant amount of the proceeds of the NSA settlement was used to pay professional fees as well as other postpetition expenses.

As indicated above, the Debtors devoted significant post filing time and effort to preserving the franchise system. Many franchisees were very upset by SI policies that they viewed as harmful to franchisees. Under the leadership of Sam Coats who was named CEO in late June, SI tried to address the franchisee concerns. Unfortunately, because of SI's liquidity issues, there were not easy solutions to many problems. When certain franchisees insisted that SI approve a new distribution system, the existing distributor became concerned that it would be left holding millions of dollars of proprietary product without purchasers for the product or any way to recover from SI. As a result of numerous factors, problems developed in the distribution system. The Company worked hard to find solutions to these problems.

B. Rejection of Executory Contracts

The Debtors assumed and assigned to BCC all contracts that BCC found useful to the future operation of the Schlotzsky's franchise system and Company Restaurants. Because BCC did not wish to have the Area Development Agreements assigned to it, the Debtors rejected these agreements. In addition, even before the sale to BCC, the Debtors rejected certain unexpired leases of real property that they were no longer using and certain leases of equipment that was not necessary to operations. After the sale to BCC, Debtors rejected additional contracts and unexpired leases that were not assumed and assigned to BCC. The Debtors have previously asked the Court to establish a bar date for the filing claims for damages arising out of contract rejections. On January 21, 2005, the Debtors filed a Motion with the Court to reject various franchise, consulting, lease, indemnification, severance, master license and other agreements, detailed in Exhibit A to the motion, and to request that the Court establish a bar date for the filing of rejection damage claims with respect to the rejected contracts and leases. The Court granted the Debtors' Motion on February 10, 2005 and set the bar date for filing rejection damage claims with respect to the rejected contracts and leases as March 31, 2005. The Debtors filed and served notice of the bar date on February 11, 2005.

On April 4, 2005, the Debtors requested that the Court establish a bar date for the filing of rejection damage claims with respect to numerous area developer agreements, brand license agreements, computer equipment leases, franchise agreements, non-residential real property leases, and other contracts and agreements that had been rejected as part of the bankruptcy proceedings. The Court granted the motion on April 5, 2005, and ordered that all damage claims arising as a result of rejection were to be filed within thirty-five (35) days of the Court's Order granting the Debtors' Motion which was May 13, 2005.

Area Developers have filed rejection damage claims totaling approximately $80 million. The Debtors have objected to these claims on many grounds including, most importantly, the failure of the Area Developers to reduce their claims to present value. Settlement discussions

with the Area Developers are ongoing. However, although the Debtors believe that the Area Developers' claims will be reduced significantly, there is no guaranty that the allowed amount of the Area Developer claims will not impair the likelihood of a material recovery for all unsecured creditors.

The Plan provides that any remaining executory contracts and unexpired leases are rejected as of the Petition Date. The bar date for filing claims for damages related to the rejection of all remaining executory contracts and unexpired leases will be forty-five (45) days after the Effective Date.

C. Official Committee of Unsecured Creditors

On August 11, 2004, the United States Trustee appointed an Official Committee of Unsecured Creditors (the "Committee") in this chapter 11 case. The Committee is composed of the following parties:

(a) Capital of Texas Public Telecommunications Council, Inc.
dba KLRU
2504-B Whitis
Austin, TX 78712
(512) 475-9032
(512) 475-9090 Fax
Contact: Bill Stotesbery
e-mail: bill@KLRU.org

(b) The Coca-Cola Company
One Coca-Cola Plaza
Atlanta, GA 3031
(404) 676-4016
(404) 598-4016 Fax
Contact: John Lewis II, Esq.
e-mail: johnlewis@na.ko.com

(c) Commercial Net Lease Realty, Inc.
450 S. Orange Avenue
Orlando, FL 32801
(407) 540-2230
(407) 540-2211 Fax
Contact: Clint Beaty
e-mail: cbeaty@cnlonline.com

31 Rose Lane
East Rockaway
NY 11518
(516) 374-3705
(516) 569-6531 Fax
Contact: William Kaye
e-ail:billkaye@optonline.net

(d) The Deli Developer, Inc,
1504 Brightwater Ct.
Raleigh, NC 27614
(919) 676-7566
(919) 767-6333 Fax
Contact: Lee S. Goldstein
e-mail: lee@delideveloper.com

(e) New Florida Markets, Ltd.
4806 Heatherbrook
Dallas, TX 75244
972) 788-4806
(972) 788-4818 Fax
Contact: Frank Cole
e-mail: cccidallas@yaoo.com

(f) Swiss Re Financial Services Corp.
55 Eat 52nd Street
New York, NY 10055
(212) 317-5193
(212) 317-5053 Fax
Contact: Robert D. Ellis
e-mail: robert_ellis@swissre.com

(g) Douglas Thomas
3922-A Woodbury Dr.
Austin, TX 78704
(512) 442-3186
(512) 422-3217 Fax
e-mail: dgt2316@Austin.rr.com

(h) U.S. Restaurant Properties OLP
12240 Inwood Rd., # 300
Dallas, TX 75244
(972) 387-1487 ext. 185
(972) 490-9119 Fax
Contact: Harry O. Davis
e-mail: hdavis@USRP.com

(i) Vistar Corporation
12650 E. Arapahoe Rd., Bldg. D
Centennial, CO 80112
(303) 662-7121
(303) 662-7540 Fax
Contact: Bradley Boe
e-mail: bradboe@vistarvsa.com

D. Professional Fees and Expenses

1. Professionals employed by the Debtors

Pursuant to orders entered by the Bankruptcy Court, the Debtors have retained certain professionals to represent their interests in these chapter 11 cases. In particular, the Debtors retained Haynes and Boone LLP ("Haynes and Boone") to serve as general bankruptcy counsel.

The Debtors also retained (i) BWK Trinity Capital Securities LLC as financial advisors in connection with the anticipated sale of their business operations, which is discussed more fully in Section A of this Article; (ii) Hilco Real Estate, LLC as real estate consultants; (iii) Grant Thornton LLP as auditors and accountants; (iv) Lain, Faulkner & Co., PC to prepare its schedules and statements of financial affairs; (v) Wiggins & Dana as special franchise counsel; and (vi) the Franchise Consulting Group as franchising consultants to the Debtors. In addition, the Debtors have employed certain ordinary course professionals.

2. Professionals employed by the Creditors Committee

The Committee, pursuant to orders entered by the Bankruptcy Court, has also retained certain professionals to represent its interests in this chapter 11 case. The Committee retained the law firm of Winstead Sechrest & Minick P.C. as its general bankruptcy counsel, and it retained Mesirow Financial Consulting, LLC as financial advisors to the Committee.

3. Payments to Professionals

Claimant	Time Period	Fees Requested	Fees Approved	Fees Paid	Expenses Requested	Expenses Approved	Expenses Paid
Haynes and Boone, LLP	08/03/04 – 03/31/05	$1,541,130.00	$1,490,749.00	$1,490,749.00	$130,085.53	$130,085.53	$130,085.53
	04/01/05 – 07/31/05	$157,180.50	$152,180.50	$11,076.00	$15,144.28	$15,144.28	$0.00
	08/01/05 – 08/31/05	$16,337.00	Pending		$0.00	Pending	
	09/01/05 – 09/30/05	$32,875.00	Pending		$0.00	Pending	
	10/01/05 – 10/31/05	$33,035.50	Pending		$0.00	Pending	
Total Requested:		**$1,780,558.00**			**$145,229.81**		
Wiggin and Dana, LLP	10/01/04 – 03/31/05	$121,190.98	$121,190.98	$121,190.98	$13,150.75	$13,150.75	$13,150.75
	04/01/05 – 07/31/05	$1,103.85	$1,103.85	$0.00	$0.00	$0.00	$0.00
Total Requested:		**$122,294.83**			**$13,150.75**		
Lain Faulkner & Co.	09/01/04 – 11/30/04	$116,727.00	$116,727.00	$116,727.00	$2,514.11	$2,514.11	$2,514.11
Total Requested:		**$116,727.00**			**$2,514.11**		
BWK Trinity Capital Securities LLC	08/03/04 – 03/31/05	$444,193.55	$444,193.55	$444,193.55	$26,570.18	$26,570.18	$24,789.76
* Third & Final App *	08/03/04 – 08/31/05	$935,666.18	$635,666.18	$0.00	$0.00	$0.00	$0.00
Total Requested:		**$1,379,859.73**			**$26,570.18**		
Winstead Sechrest & Minick, PC	08/03/04 – 03/31/05	$938,745.50	$938,745.50	$938,745.50	$55,846.95	$55,846.95	$55,846.95
	04/01/05 – 07/31/05	$296,954.00	$291,529.00	$0.00	$26,430.44	$26,430.44	$0.00
	08/01/05 – 08/31/05	$119,926.50	Pending		$11,645.34	Pending	
	09/01/05 – 09/30/05	$128,371.00	Pending		$6,348.02	Pending	
Total Requested:		**$1,483,997.00**			**$100,270.75**		
Mesirow Financial Consulting, LLC	09/16/04 – 03/31/05	$262,831.20	$262,831.20	$253,831.11	$2,338.89	$2,338.89	$2,338.89
	04/01/05 – 07/31/05	$39,050.40	Pending		$482.30	Pending	
	08/01/05 – 08/31/05	$3,944.46	Pending		$0.00	Pending	
	09/01/05 – 09/30/05	$3,745.92	Pending		$0.00	Pending	
Total Requested:		**$309,571.89**			**$2,821.19**		

Hilco Real Estate has been paid commissions of $320,310 from the proceeds of sales of real property for which it acted as broker and is owed expense reimbursements of $21,999.37.

E. Substantive Consolidation

On April 6, 2005, the Debtors filed a motion to substantively consolidate the Debtors for all purposes including for the purpose of voting on the Plan and for purposes of distributions under the Plan. The motion was served on all known creditors and only John and Jeffrey Wooley objected to the motion. Their objection was later resolved by a stipulation filed with the Court.

On September 28, 2005, the Court entered the order granting the request for substantive consolidation. As a result, all of the Debtors' assets have been consolidated and unsecured creditors of each of the Debtors will have a claim against the pooled assets of all the Debtors. Intercompany claims between the Debtors are extinguished. Creditors will vote on the plan as if they are creditors of the consolidated Debtors.

ARTICLE 7
DESCRIPTION OF THE PLAN

A. Introduction

A summary of the principal provisions of the Plan and the treatment of Classes of Allowed Claims and Interests is set out below. This Disclosure Statement is only a summary of the terms of the Plan and is entirely qualified by the Plan; it is the Plan and not the Disclosure Statement that governs the rights and obligations of the parties.

The Plan seeks to distribute all value in the Debtors' estates to creditors according to the priority scheme established by the Bankruptcy Code.

B. Designation of Claims and Interests

The following is a designation of the classes of Allowed Claims and Interests under this Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims, Professional Fee Claims, and Priority Unsecured Tax Claims described in this Article 7, have not been classified and are excluded from the following classes. An Allowed Claim or Interest is classified in a particular class only to the extent that the Claim or Interest qualifies within the description of that class, and is classified in another class or classes to the extent that any remainder of the Allowed Claim or Interest qualifies within the description of such other class or classes. An Allowed Claim or Interest is classified in a particular class only to the extent that the Allowed Claim or Interest in that class has not been paid, released, or otherwise satisfied before the Effective Date; a Claim or Interest which is not an Allowed Claim or Interest is not in any Class. Notwithstanding anything to the contrary contained in this Plan, no distribution shall be made on account of any Claim or Interest which is not an Allowed Claim or Interest.

Class	Status
A. Secured Claims	Impaired – entitled to vote
All remaining Secured Claims are Disputed	
B. Unsecured Claims	
Class 2: Priority Claims	Unimpaired - not entitled to vote
Class 3: General Unsecured Claims	Impaired - entitled to vote
C. Interests	
Class 4: Equity Interests	Impaired – deemed to have voted against the Plan

C. Treatment of Unclassified Claims

1. Administrative Expense Claims.

a. **General**. Subject to the bar date provisions herein, unless otherwise agreed to by the parties, each holder of an Allowed Administrative Claim shall receive Cash equal to the unpaid portion of such Allowed Administrative Expense Claim on the later of (a) the Effective Date or as soon as practicable thereafter, (b) the Allowance Date, (c) such date as is mutually agreed upon by the Plan Administrator and the holder of such Claim, and (d) the Distribution Date.

b. **Payment of Statutory Fees**. All fees payable pursuant to 28 U.S.C. §1930 shall be paid in Cash equal to the amount of such Administrative Expense Claim when due.

c. **Bar Date for Administrative Expense Claims**.

(1) *General Provisions*. Except as provided below in Sections 3.1(c)(iii) of the Plan, requests for payment of Administrative Expense Claims must be filed no later than **forty-five (45) days after the Effective Date**. Holders of Administrative Expense Claims (including, without limitation, professionals requesting compensation or reimbursement of expenses and the holders of any Claims for federal, state or local taxes) that are required to File a request for payment of such Claims and that do not File such requests by the applicable bar date shall be forever barred from asserting such Claims against the Debtors or any of their respective property.

(2) *Professionals*. All professionals or other entities requesting compensation or reimbursement of expenses pursuant to sections 327, 328, 330, 331, 503(b) and 1103 of the Bankruptcy Code for services rendered before the Effective Date (including, without limitation, any compensation requested by any professional or any other entity for making a substantial contribution in the Reorganization Case) shall File and serve on the Plan Administrator and Post-Confirmation Service List an application for final allowance of compensation and reimbursement of expenses no later than forty-five (45) days after the Effective Date. **Objections to applications of professionals for compensation or reimbursement of expenses must be Filed and served on the Plan Administrator and the professionals to whose application the objections are addressed no later than seventy (70) days after the Effective Date.** Any professional fees and reimbursements or expenses incurred by the Reorganized Debtor subsequent to the Effective Date may be paid without application to the Bankruptcy Court.

(3) *Tax Claims*. All requests for payment of Administrative Expense Claims and other Claims by a governmental unit for taxes (and for interest and/or penalties related to such taxes) for any tax year or period, all or any portion of which occurs or falls within the period from and including the Petition Date through and including the Effective Date ("Post-Petition Tax Claims") and for which no bar date has otherwise been previously established, must be Filed on or before the later of (i) 45 days following the Effective Date; and (ii) 90 days following the filing with the applicable governmental unit of the tax return for such taxes for such tax year or period. Any holder of any Post-Petition Tax Claim that is required to File a request for payment of such taxes and does not File such a Claim by the applicable bar date shall be forever barred from asserting any such Post-Petition Tax Claim against the Debtor or its property, whether any such Post-Petition Tax Claim is deemed to arise prior to, on, or subsequent to the Effective Date. To the extent that the holder of a Post-Petition Tax Claim holds a lien to secure its Claim under applicable state law, the holder of such Claim shall retain its lien until its Allowed Claim has been paid in full.

(4) *Allowed Priority Tax Claims*. On, or as soon as reasonably practicable after, the later of (a) the Distribution Date, or (b) the Allowance Date, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive in full satisfaction, settlement, release and discharge of, and in exchange for, such Allowed Priority Tax Claim, (i) Cash equal to the amount of such Allowed Priority Tax Claim, or (ii) such other less favorable treatment to the Holders of an Allowed Priority Tax Claim as to which the Debtors or the Plan Administrator or the Reorganized Debtor and the Holder of such Allowed Priority Tax Claims shall have agreed upon in writing; provided, however, that any Claim or demand for payment of a penalty (other than a penalty of the type specified in section 507(a)(8)(G)of the Bankruptcy Code) shall be disallowed pursuant to the Plan, and the Holder of an Allowed Priority Tax Claim shall not be allowed to assess or attempt to collect such penalty from the Debtors or their Estates, the Reorganized Debtor or its property. To the extent that there is insufficient Available Cash to pay all Allowed Class 2 Claims in full or the Distribution Reserve as to Disputed Class 2 Claims is insufficient to pay Disputed Class 2 Claims, no distributions will be made on account of Allowed Priority Tax Claims until the Reorganized Debtor holds sufficient Available Cash to pay all Allowed Class 2 Claims in full and the Distribution Reserve as to Disputed Claims in Class 2 is fully funded.

D. Treatment of Classified Claims and Interests

1. Class 1 Secured Claims Against the Debtors.

a. **Classification**: Class 1 consists of all Allowed Secured Claims. Each Secured Claim shall be treated as a separate Sub-Class of Class 1.

b. **Treatment**: Class 1 is impaired, and the holders of Allowed Claims in Class 1 are entitled to vote on the Plan. At the Debtors' option, on the Effective Date (a) the Plan may leave unaltered the legal, equitable, and contractual rights of the holder of an Allowed Secured Claim, or (b) the Debtors may pay the Allowed Secured Claim in full, in cash, on the later of the Allowance Date or the Distribution Date, or (c) the Debtors may deliver to the holder of an Allowed Secured claim the property securing such Claim, or (d) the Debtors may pay an Allowed Secured Claim in such manner as may be agreed to by the holder of such Claim. Unless the parties agree to the amount, the Court will decide the amount of the reserve for the Wooleys' Secured Claims.

The final allowance or disallowance of the Wooleys' Claims and the validity, extent and priority of the liens securing the Wooleys' Claims shall be determined by the Bankruptcy Court in Adversary Proceeding 05-5055, as provided in the Stipulation Resolving Objections by Creditors John C. Wooley and Jeffrey J. Wooley to Motion for Substantive Consolidation of Debtors' Estates filed September 19, 2005 and accepted by the Court on September 22, 2005.

2. Class 2 – Allowed Non-tax Priority Claims

a. **Classification**: Class 2 Consists of the Allowed Non-tax Priority Classes.

b. **Treatment**: Class 2 is unimpaired and holders of Allowed Claims in Class 2 are not entitled to vote on the Plan. Each Allowed Priority Non-Tax Claim shall be paid by the Reorganized Debtor in full from Available Cash or upon such other terms as may be agreed upon in writing by and between the holder of such Claim and the Plan Administrator. In the event that there is insufficient Available Cash to pay all Allowed Class 2 Claims in full, holders of Allowed Claims entitled to priority under section 507(a)(3) of the Bankruptcy Code shall be paid in full in Cash before distributions are made to holders of Allowed Claims entitled to priority under section 507(a)(4). In the event that there is insufficient Available Cash to pay all Class 2 Claims entitled to priority under a section of the Code in full, the Claimholders of that priority will receive Pro Rata distributions.

3. Class 3 – General Unsecured Claims

a. **Classification**: Class 3 consists of the Allowed General Unsecured Claims.

b. **Treatment**: Class 3 is impaired and the holders of Allowed General Unsecured Claims are entitled to vote on the Plan. On the Distribution Date and from time to

time thereafter, the holders of Allowed General Unsecured Claims shall each receive their Pro Rata Share of the Available Cash; provided however that there shall be no distributions to holders of Allowed Class 3 Claims unless all Allowed Administrative and Priority Claims have been paid in full and the Distribution Reserve is fully funded as to Disputed Administrative and Priority Claims and the projected operating expenses of the Reorganized Debtor.

Notwithstanding the foregoing, the Debtors shall reserve funds for distribution of the Wooleys' Claims that are Unsecured Claims in the Distribution Reserve to the extent that there are sufficient funds in the Estates to fund the Distribution Reserve for Unsecured Claims. The final allowance or disallowance of the Wooleys' Claims shall be determined by the Bankruptcy Court in Adversary Proceeding 05-5055, as provided in the Stipulation Resolving Objections by Creditors John C. Wooley and Jeffrey J. Wooley to Motion for Substantive Consolidation of Debtors' Estates filed September 19, 2005 and accepted by the Court on September 22, 2005

4. Class 4 –Equity Interests

a. **Classification**: Class 4 consists of all Equity Interests including Interests in Old Schlotzsky's Common Stock and Old Warrants and Stock Options.

b. **Treatment**: The holders of Equity Interests are impaired but are not entitled to vote on the Plan. All Equity Interests will be cancelled, and Equity Interests shall receive no distribution under the Plan.

E. Establishment of Reserves

The Plan provides for the creation of a Distribution Reserve to protect holders of Disputed Claims in the event that there are sufficient funds to make a distribution to creditors with claims of the same priority. **THERE IS NO GUARANTY THAT DISTRIBUTIONS WILL BE MADE TO UNSECURED CREDITORS**. As stated herein, the primary source of recovery is litigation claims. The estate must prevail and collect on these claims before there can be any distribution to unsecured creditors. However, to the extent such funds become available, a reserve will be created for Disputed Unsecured Claims so that all unsecured creditors will share ratably in any distribution. The Distribution Reserve will include, in one or more segregated accounts to be established by the Debtors or the Plan Administrator, Cash equal to the aggregate of (a) Cash that would have been distributed on the Distribution Date on account of Disputed or undetermined (i) Administrative Expense Claims had they been Allowed Claims, provided that with respect to Administrative Expense Claims for which applications for compensation of professionals or others retained or to be compensated pursuant to sections 327, 328, 330, 331 and 503(b) of the Bankruptcy Code are or will be pending but are then undetermined, the amount of Cash deposited shall be the amount sought by such persons or the maximum amount such persons indicate that they intend to apply for, (ii) Priority Claims, (iii) Secured Claims[3], (iv) General Unsecured Claims plus (b) Earned Interest on all Cash in the Distribution Reserve, plus (c) Cash in the amount of the sum of the estimated compensation and estimated out-of-pocket fees and expenses of, or to be incurred by, the Plan Administrator, plus (d) Cash in the amount of

[3] Most secured claims were paid following the sale of estate assets to BCC.

all taxes previously incurred by the Debtors (and not paid or otherwise provided for under the Plan) and all taxes and professional fees estimated to be incurred by the Reorganized Debtor, including professional fees of the Reorganized Debtor, and the Plan Administrator; plus (e) Cash in the amount of all estimated costs and expenses of effectuating the corporate actions contemplated by Article 7 of the Plan, plus (f) Cash in the amount of the estimated operating expenses of the Reorganized Debtor.

F. Treatment of Executory Contracts

All Executory Contracts of the Debtors that have not previously been assumed or rejected will be deemed rejected as of the Petition Date. The Debtors will ask the Court to set a bar date of forty-five (45) days after the Effective Date for the filing of claims for damages arising out of rejection of any remaining contracts.

G. Protection of Certain Parties in Interest

Section 7.8 of the Plan provides as follows:

> **Protection of Certain Parties in Interest**: Provided the respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents of the Debtors, the Plan Administrator, the Creditors' Committee and the PAC act in good faith, they will not be liable to any holder of a Claim or Equity Interest, or other party with respect to any action, forbearance from action, decision, or exercise of discretion taken from the Petition Date to the Effective Date in connection with (i) the operation of the Debtors; (ii) the proposal or implementation of any of the transactions provided for, or contemplated in, the Plan or the Plan Documents; or (iii) the administration of the Plan or the assets and property to be distributed pursuant to the Plan and the Plan Documents; other than for fraud, willful misconduct or gross negligence. The Debtors, the Plan Administrator, the Creditors' Committee, the PAC, and their respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents may rely upon the opinions of counsel, certified public accountants, and other experts or professionals employed by the Debtors, the Plan Administrator, PAC or the Creditors' Committee, respectively, and such reliance will conclusively establish good faith. In any action, suit or proceeding by any holder of a Claim or Equity Interest or other party in interest contesting any action by, or non-action of, the Debtors, Plan Administrator, the PAC, the Creditors' Committee, or their respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents as not being in good faith, the reasonable attorneys' fees and costs of the prevailing party will be paid by the losing party.

If the Plan is confirmed with this provision, parties in interest will lose whatever rights they may currently have to sue the identified parties for negligent acts occurring between the Petition Date and the effective date of the Plan.

ARTICLE 8
MEANS FOR EXECUTION AND IMPLEMENTATION OF THE PLAN

The Plan contemplates an orderly and efficient liquidation of the Debtors' remaining assets and distribution of the proceeds to holders of Allowed Claims in accordance with the priority scheme established by the Bankruptcy Code. The Plan provides that the Affiliate Debtors will be merged into SI on the Effective Date and SI will be the only surviving entity. A Plan Administrator will take responsibility for liquidating all remaining assets of the Estates, pursuing causes of action, and making distributions to holders of Allowed Claims. The Plan also contemplates the establishment of a three member PAC (Plan Administration Committee), two members of which shall be selected by the Committee and one member of which will be selected by the Debtors. The PAC shall provide advice and consultation, as necessary, to the Plan Administrator. The purpose of the PAC is to give the Plan Administrator a sounding board for decisions regarding the administration of the Reorganized Debtor and the post-confirmation recovery and distribution of Estate Property. It is anticipated that the existence of the PAC will eliminate the need of the Plan Administrator to seek Court approval for routine decisions on behalf of the Reorganized Debtor. The Committee has asked Harry Davis and Brad Boe, existing members of the Creditors' Committee, to serve as members of the PAC. The Debtor has asked Sam Coats, the current President of the Debtors, to fulfill this role.

Following the effective date, the Plan Administrator shall conduct an orderly liquidation of the Estate Property consistent with the term and conditions of the Plan. Except as otherwise expressly limited in the Plan, the Plan Administrator shall have control and authority over the Estate Property, including the Avoidance Actions and other causes of action that are owned by the Debtors, and over the management and disposition of the Estate Property. The Plan Administrator will supervise the filing and resolution of claim objections.

The Debtors and the Committee have not yet identified the party to serve as the Plan Administrator. That party will be identified on or before the Confirmation Hearing and the Debtors will seek the approval of that nomination at the Confirmation Hearing. The Committee anticipates that the Plan Administrator will be one of the following individuals: Bill Kaye, Steve Turroff, Robert Nagle or Dennis Faulkner.

The Plan Administrator shall be compensated on an hourly basis at the Plan Administrator's typical hourly rate. The Debtors anticipate that the Plan Administrator's compensation will be minimal until such time as it is clear that there are sufficient funds in the estate to make distributions to holders of Allowed Claims of a given priority. At that point, the Plan Administrator will pursue objections to Disputed Claims in the highest priority for payment, Administrative Claims. The cost to the Reorganized Debtor of pursuing such objections will be at a blended rate of the accounting professionals involved in analyzing and reconciling such Disputed Claims. That blended rate is anticipated to be in a range of $140 to $260 per hour. Legal fees will be in addition to this expense. Following the payment of Administrative Claims, to the extent there are sufficient funds in the Distribution Reserve, the Plan Administrator will pursue objections to Disputed Claims in the next highest priority of Claims.

Following the complete liquidation and distribution of all available cash and any reserves provided for or contemplated by the Plan, the Plan Administrator shall sign and file appropriate Articles of Dissolution or other dissolution documents for the Debtor with the State of Texas. On filing such dissolution documents, the Plan Administrator shall file with the Bankruptcy Court and serve on the PAC a final report outlining funds and assets liquidated and distributed to Creditors containing the information specified in section 7.4 of the Plan.

The Plan Administrator shall have authority to make distributions to holders of Allowed Claims from the Available Cash at such time or times the Plan Administrator believes there is sufficient Available Cash to warrant a distribution, but in no event less than once a year. The Plan Administration Agent may pay Claims from the Distribution Reserve to the extent that the Reserve includes Cash reserved for such Claims.

ARTICLE 9
RECOVERY ANALYSIS, FEASIBILITY AND RISKS

A. Recovery Analysis and Feasibility

Recoveries to holders of Unsecured Claims are subject to many variables at this point. First, recoveries to holders of Unsecured Claims are dependent on the Reorganized Debtor having sufficient funds to pay all Allowed Administrative and Priority Claims after paying the costs that the Plan Administrator incurs in administering the post-confirmation assets. For example, the Plan Administrator must pay legal fees and the costs incurred in connection with pursuing litigation claims before the net proceeds can be used to pay creditors. The Plan Administrator will also incur expense in objecting to Administrative and Priority Claims that are disputed. Important variables affecting the recovery to holders of Unsecured Claims are (i) the total amount of expenses of the Reorganized Debtor, (ii) the total amount of Allowed Claims entitled to payment before payments to holders of Unsecured Claims, (iii) the total amount of Allowed Unsecured Claims, and (iv) the outcome of the litigation instituted by the Committee. In addition, as discussed in Article 4, D, the Estates may recover some funds through Avoidance Action litigation. As of the time of this Disclosure Statement, the Debtors cannot effectively predict the recovery for unsecured creditors. **Absent success in subordinating or avoiding the liens held by John and Jeff Wooley, it is highly unlikely that there will be any distribution to unsecured creditors. The Reorganized Debtor would have to be highly successful in other litigation claims for there to be any recovery by unsecured creditors.**

Creditors have filed Claims that they assert are Priority Claims in excess of $1.6 million. The Debtors believe that Allowed Priority Claims will be less than one-half of this amount. Creditors have filed Unsecured Claims totaling approximately $235 million. Of these amounts, one disputed creditor has filed a claim in the amount of $88 million. The Area Developers have filed Unsecured Claims of approximately $80 million. The Debtors believe that the Allowed Amount of the Coshott and Area Developer claims will be less than $20 million. If the Debtors are correct, this would reduce Unsecured Claims to $87 million without any other objections. However, there is no guaranty that the Debtors' view will prevail in reducing the Unsecured Claims to this level.

B. Risks Associated with the Plan.

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

ARTICLE 10
ALTERNATIVES TO PLAN

There are two possible consequences if the Plan is rejected or if the Bankruptcy Court refuses to confirm the Plan: (a) the Bankruptcy Court could dismiss the Debtors' Chapter 11 cases, or (b) the Debtors' Chapter 11 cases could be converted to a liquidation case under Chapter 7 of the Bankruptcy Code.

A. Dismissal

If the Debtors' Chapter 11 cases were dismissed, the Debtors would no longer have the protection of the Bankruptcy Court and the applicable provisions of the Bankruptcy Code. The remaining secured creditors could immediately commence exercising their rights as secured creditors to foreclose on the property pledged to secure their debts. Dismissal would also force a race among other creditors to take over and dispose of any remaining assets, of which there are few. Because smaller creditors would not have an equal incentive to expend significant funds in pursuing the Debtors' remaining assets, they would undoubtedly receive less or nothing on their Claims. The Debtors believe that the dismissal of the Chapter 11 cases will result in far smaller distributions or distributions being realized by the Unsecured Creditors of this estate than the distributions provided for in the Plan.

B. Chapter 7 Liquidation

If the Plan is not confirmed, it is likely that the Debtors' Chapter 11 cases will be converted to a case under Chapter 7 of the Bankruptcy Code, in which case a trustee would be elected or appointed to liquidate the assets of the Debtors for distribution to creditors in accordance with the priorities established by the Bankruptcy Code. Whether a bankruptcy case is one under Chapter 7 or Chapter 11, secured creditors, Administrative Claims and Priority Claims are entitled to be paid in cash and in full before unsecured creditors receive any funds.

If the Debtors' Chapter 11 cases are converted to Chapter 7, the present Administrative Claims may have a priority lower than priority claims generated by the Chapter 7 case, such as

the Chapter 7 trustee's fees or the fees of attorneys, accountants and other professionals engaged by the trustee. The Debtors believe that conversion to Chapter 7 is likely to result in higher costs of administration than confirmation of the Plan. First, the Chapter 7 Trustee will receive a percentage of the money distributed to holders of Allowed Claims as compensation. Like the Plan Administrator, the Chapter 7 Trustee will have to retain attorneys to pursue litigation claims of the estates as well as to pursue claim objections. The Debtors' business relationships were complicated and if new professionals are required to get up to speed on the Debtors' past operations to be able to prosecute the litigation claims and claim objections, it could result in additional expense to the Estates. The Reorganized Debtor will allow the Committee counsel to go forward on the litigation it has commenced on behalf of the Estates and take advantage of that counsel's prior investigation and experience of the Debtors' past operations. Like the Plan Administrator, the Chapter 7 Trustee will also have to retain accountants in connection with making claim reconciliations, filing necessary tax returns and otherwise closing the Estates.

ARTICLE 11
CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Introduction

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

The Debtors have not requested a ruling from the IRS or an opinion of counsel with respect to any of the tax aspects of the Plan. There can be no assurance that the IRS will agree with this discussion of material federal income tax consequences. In addition, this summary does not address state, local or foreign tax consequences of the Plan, and it does not purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign taxpayers, broker-dealers, banks, insurance companies, financial institutions, small business investment corporations, regulated investment companies, tax-exempt organizations, or investors in pass through entities).

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

B. Material Tax Consequences to the Debtors

Generally, under the terms of the Plan, all Claims will be released except to the extent that the Debtors have cash available to satisfy all or a portion of such Claims. Any income resulting from the satisfaction of any Claim at a discount will not constitute taxable income to the Debtors because the debt forgiveness arises in connection with a bankruptcy case under Title 11 of the United States Code.

C. Material Tax Consequences to Creditors

In General. The federal income tax consequences of the implementation of the Plan to a Creditor will depend, among other things, on (a) whether the Creditor receives consideration in more than one tax year, (b) whether the Creditor is a resident of the United States, (c) whether all of the consideration by the Creditor is deemed to be received by that Creditor as part of an integrated transaction, (d) whether the Creditor reports income using the accrual or cash method of accounting, and (e) whether the Creditor has previously taken a bad debt deduction or worthless security deduction with respect to the Claim.

Gain or Loss on Exchange. Generally, a Creditor will realize a gain or loss on the exchange under the Plan of its Claim for cash in an amount equal to the difference between (i) the cash received by the Creditor (other than any cash attributable to accrued but unpaid interest on the Claim), and (ii) the Creditor's adjusted basis in the Claim exchanged therefor (other than basis attributable to accrued but unpaid interest previously included in the holder's taxable income). Any gain or loss recognized will be a capital gain or loss if the Claim was a capital asset in the hand of the Creditor, and such gain or loss will be a long-term capital gain or loss if the Creditor's holding period for the Claim surrendered exceeds one (1) year at the time of the exchange.

Payments Attributable to Interest. A Creditor not previously required to include in its taxable income any accrued but unpaid interest on a Claim may be treated as receiving taxable interest, to the extent the cash it receives pursuant to the Plan is allocable to such accrued but unpaid interest. A Creditor previously required to include in its taxable income any accrued but unpaid interest on a Claim may be entitled to recognize a deductible loss, to the extent the amount of interest actually received by the Creditor is less than the amount of interest taken into income by the Creditor.

D. Information Reporting and Backup Withholding

Under the backup withholding rules of the Internal Revenue Code, Creditors may be subject to backup withholding at the rate of twenty-eight percent (28%) with respect to payments made pursuant to the Plan unless such Creditor (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact or (ii) provides a correct taxpayer identification number and certifies under penalties of perjury that the taxpayer identification number is correct and that the holder is not subject to backup withholding because of a failure to report all dividends and interest income. Any amount withheld under these rules will be credited against the Creditor's federal income tax liability. Creditors may be required to establish

exemption from backup withholding or to make arrangements with respect to the payment of backup withholding.

ARTICLE 12
CONCLUSION

This Disclosure Statement has attempted to provide information regarding the Debtors' consolidated bankruptcy estate and the potential benefits that might accrue to holders of Claims against and Interests in the Debtors under the Plan as proposed. The Plan provides for the orderly liquidation of the Debtors' remaining assets and the distribution of the proceeds in accordance with the priority scheme established by the Bankruptcy Code. The Debtors urge interested parties to vote in favor of the Plan.

DATED: December 12, 2005.

DEBTORS AND DEBTORS IN POSSESSION

SI RESTRUCTURING, INC., SR RESTRUCTURING, INC., SRE RESTRUCTURING, INC., SF RESTRUCTURING, LLC, SFOPS RESTRUCTURING, LLC, SBPROD RESTRUCTURING, LLC, DFW RESTAURANT TRANSFER CORP., 56TH AND 6TH, INC., RAD ACQUISITION CORP. AND SAN FELIPE, LLC,

By: /s/ David Samuel Coats
David Samuel Coats
Interim Chief Executive Officer

HAYNES AND BOONE, LLP
901 Main Street, Suite 3100
Dallas, Texas 75202
Tel.: 214-651-5000
Fax: 214-651-5940

By: /s/ Sarah B. Foster
Robert D. Albergotti
State Bar No. 00969800
Sarah B. Foster
State Bar No. 07297500
ATTORNEYS FOR THE DEBTORS AND DEBTORS IN POSSESSION

EXHIBIT “1”

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE WESTERN DISTRICT OF TEXAS
SAN ANTONIO DIVISION

IN RE:	§	
	§	
SI RESTRUCTURING, INC.	§	**CASE NO. 04-54504**
	§	
SR RESTRUCTURING, INC.	§	**CASE NO. 04-54506**
	§	
SRE RESTRUCTURING, INC.	§	**CASE NO. 04-54507**
	§	
SF RESTRUCTURING, LLC	§	**CASE NO. 04-54508**
	§	
SFOPS RESTRUCTURING, LLC	§	**CASE NO. 04-54509**
	§	
SBPROD RESTRUCTURING, LLC	§	**CASE NO. 04-54510**
	§	
DFW RESTAURANT TRANSFER CORP.	§	**CASE NO. 04-54511**
	§	
56TH AND 6TH, INC.	§	**CASE NO. 04-54512**
	§	
RAD ACQUISITION CORP.	§	**CASE NO. 04-54513**
	§	
SAN FELIPE, LLC,	§	**CASE NO. 04-54514**
	§	
Debtors.	§	**CHAPTER 11**
	§	(Jointly Administered under Case No. 04-54504)
	§	
	§	
	§	

AMENDED JOINT PLAN OF LIQUIDATION OF SI RESTRUCTURING, INC. AND ITS AFFILIATED DEBTORS DATED OCTOBER 11, 2005

SI Restructuring, Inc. ("SI"), SR Restructuring, Inc. ("Restaurants"), SRE Restructuring, Inc. ("Real Estate"), SF Restructuring, LLC ("Franchisor"), SFOPS Restructuring, LLC ("Franchise Operations"), SFPROD Restructuring, LLC ("Brand Products"), DFW Restaurant Transfer Corp. ("DFW"), 56th and 6th, Inc. ("56th and 6th"), RAD Acquisition Corp. ("RAD"),San Felipe, LLC ("San Felipe") (collectively, the "Debtors"), as debtors and debtors-in-possession, propose this Joint Plan of Liquidation (the "Plan") pursuant to section 1121(a) of Title 11 of the United States Code for the resolution of the Debtors' outstanding creditor claims. Reference is made to the Disclosure Statement (the "Disclosure Statement") for a discussion of the Debtors' history, business, properties and results of operations, and for a summary of this Plan and certain related matters.

All holders of Claims and Interests are encouraged to read the Plan and the Disclosure Statement in their entirety before voting to accept or reject this Plan. No materials, other than the Disclosure Statement and any exhibits and schedules attached thereto or referenced therein, have been approved by the Debtors for use in soliciting acceptances or rejections of this Plan.

ARTICLE I
SUMMARY OF THE PLAN

An overview of the Plan is set forth in the Disclosure Statement. The Debtors sold the majority of their assets during the Cases. Generally, the Plan provides for the liquidation of the Debtors' remaining assets and the distribution of the net proceeds to holders of Allowed Claims in accordance with the priority scheme established by the Bankruptcy Code.

ARTICLE II
DEFINITIONS

As used in the Plan, the following terms shall have the respective meanings specified below. Any term used in the Plan not defined below or herein shall be interpreted in accordance with the Rules of Construction and Interpretation set forth in the following Articles of this Plan.

2.1. **56th and 6th**: 56th and 6th, Inc., a Texas corporation and a Chapter 11 debtor.

2.2. **Administrative Claim**: Any cost or expense of administration of the Chapter 11 Cases incurred on or before the Effective Date entitled to priority under Section 507(a)(1) and allowed under Section 503(b) of the Bankruptcy Code, including without limitation, any actual and necessary expenses of preserving the Debtors' estates, including wages, salaries or commissions for services rendered after the commencement of the Chapter 11 Cases, certain taxes, fines and penalties, any actual and necessary postpetition expenses of operating the businesses of the Debtors, certain postpetition indebtedness or obligations incurred by or assessed against the Debtors in connection with the conduct of their businesses, or for the acquisition or lease of property, or for providing of services to the Debtors, including all allowances of compensation or reimbursement of expenses to the extent allowed by the Bankruptcy Court under the Bankruptcy Code, and any fees or charges assessed against the Debtors' estates under Chapter 123, Title 28, United States Code. With respect to quarterly U.S. Trustee fees, the Plan Administrator shall pay, from the assets of the Liquidation Trust, any accrued such fees on the Distribution Date and timely pay all post-confirmation quarterly fees as they accrue until the date of the closing of the Chapter 11 Cases.

2.3. **Administrative Claimant**: Any Person entitled to payment of an Administrative Claim.

2.4. **Affiliate Debtors**: Each of the Debtors other than SI.

2.5. **Allowance Date**: The date that a Claim becomes an Allowed Claim.

2.6. **Allowed Claim**: The portion of a Claim that is not a Disputed Claim.

2.7. **Allowed Administrative Claim**: An Administrative Claim to the extent it is or becomes an Allowed Claim.

2.8. **Allowed Priority Non-Tax Claim**: Any Claim, other than an Administrative Expense Claim or a Priority Tax Claim, to the extent Allowed and entitled to priority in payment under Section 507(a) of the Bankruptcy Code.

2.9. **Allowed Priority Tax Claim**: Any Claim, to the extent Allowed and entitled to priority in payment under Section 507(a)(8) of the Bankruptcy Code.

2.10. Allowed Secured Claim: A Secured Claim of a creditor to the extent such Claim is an Allowed Claim, and the Lien securing such Claim has not become an Avoided Lien.

2.11. Allowed Unsecured Claim: An Unsecured Claim to the extent it is or becomes an Allowed Claim.

2.12. Amended Charter and By-Law: The amended charter and by-laws of the Reorganized Debtor in substantially the form included in the Plan Supplement.

2.13. Available Cash: All of the Cash held by the Reorganized Debtor including cash deposited or held in the Distribution Reserve on account of disputed or undetermined Administrative Expense, Priority, Secured or General Unsecured Claims to the extent that those claims are disallowed in whole or in part after the Effective Date, less the Distribution Reserve.

2.14. Avoidance Actions: Any and all rights, claims and causes of action arising under any provision of Chapter 5 of the Bankruptcy Code.

2.15. Avoided Lien: A Lien to the extent it has been set aside, invalidated, or otherwise avoided pursuant to an Avoidance Action.

2.16. Bankruptcy Code: The Bankruptcy Reform Act of 1978, as amended, Title 11, United States Code, as applicable to this Chapter 11 Case.

2.17. Bankruptcy Court: The United States District Court for the Western District of Texas, San Antonio Division.

2.18. Bar Date: The deadline for filing proofs of claim established by the Bankruptcy Court as November 28, 2004, and any supplemental bar dates established by the Bankruptcy Court pursuant to any other Final Order.

2.19. Brand Products: SBPROD Restructuring, LLC, a Delaware limited liability company wholly owned by Franchisor and a Chapter 11 debtor.

2.20. Cash: Cash, wire transfer, certified check, cash equivalents and other readily marketable securities or instruments, including, without limitation, readily marketable direct obligations of the United States of America, certificates of deposit issues by banks, and commercial paper of any Person, including interest accrued or earned thereon, or a check from Reorganized SI.

2.21. Causes of Action: Any and all claims, causes of action or rights to legal or equitable remedies, whether known or unknown, reduced to judgment or not, liquidated or unliquidated, fixed or contingent, matured or unmatured, disputed or undisputed, secured or unsecured, and whether asserted or assertable directly or derivatively, in law, equity or otherwise, including Avoidance Actions.

2.22. Claim: Any right to payment from the Debtors whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured; or any right to any equitable remedy for future performance if such breach gives rise to a right of payment from the Debtors, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, disputed, undisputed, secured or unsecured.

2.23. Claimant or Claimholder: A person asserting a Claim against the Debtors, property of the Debtors, or the Debtors' Estates.

2.24. Class: One of the classes of Claims or Interests defined in Article IV hereof.

2.25. Collateral: Any property of the Debtors or interest in property of the Debtors which serves as security for the repayment of a debt or the performance of an obligation owed by the Debtors to the holder of an Allowed Secured Claim.

2.26. Confirmation Date: The date upon which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court.

2.27. Confirmation Hearing: The hearing held by the Bankruptcy Court pursuant to section 1128 of the Bankruptcy Code to consider confirmation of this Plan, as such hearing may be adjourned or continued from time to time.

2.28. Confirmation Order: The Order of the Bankruptcy Court approving and confirming the Plan in accordance with the provisions of Chapter 11 of the Bankruptcy Code.

2.29. Creditor: Any person that holds a Claim against the Debtors that arose on or before the Petition Date, or a Claim against the Debtors of any kind specified in Sections 502(f), 502(g), 502(h) or 502(i) of the Bankruptcy Code.

2.30. Creditors' Committee: The Official Committee of Unsecured Creditors duly constituted in the Chapter 11 Cases pursuant to Section 1102 of the Bankruptcy Code.

2.31. Debtors: SI, Real Estate, Restaurants, Franchisor, Franchise Operations, Brand Products, DFW, 56th and 6th, and San Felipe.

2.32. Debtors-in-Possession: The Debtors in their capacity as debtors in possession pursuant to Sections 1107 and 1108 of the Bankruptcy Code.

2.33. Deficiency Claim: The amount by which an Allowed Claim exceeds the value of any Collateral securing such Claim as may be determined by the Bankruptcy Court in accordance with Section 506(a) of the Bankruptcy Code. A Deficiency Claim is a General Unsecured Claim, but only if the holder of the Claim had recourse against the Debtor prior to any foreclosure on Collateral.

2.34. DFW: DFW Restaurant Transfer Corp., a Texas corporation wholly-owned by SI and a Chapter 11 debtor.

2.35. Disallowed Claim: A Claim, or any portion thereof, that (a) has been disallowed by either a Final Order or pursuant to a settlement, or (b)(i) is Scheduled at zero or as contingent, disputed or unliquidated and (ii) as to which a Bar Date has been established but no proof of claim has been filed or deemed timely filed with the Bankruptcy court pursuant to either the Bankruptcy Code or any Final Order of the Bankruptcy Court or otherwise deemed timely filed under applicable law.

2.36. Disclosure Statement: The Disclosure Statement with respect to the Chapter 11 Joint Plan of Liquidation filed by the Debtors with the Bankruptcy Court pursuant to Section 1125 of the Bankruptcy Code, as may be amended or supplemented.

2.37. Disputed Claim: A Claim as to which a proof of claim has been Filed or deemed Filed under applicable law, as to which an objection has been or may be timely Filed and which objection, if timely Filed, has not been withdrawn on or before any date fixed for Filing such objections by the Plan or Order of the Bankruptcy Court and has not been overruled or denied by a Final Order. Prior to the time that an objection has been or may be timely Filed, for the purposes of the Plan, a Claim shall be considered a Disputed Claim to the extent that: (i) the amount of the Claim specified in the proof of claim exceeds the amount of any corresponding Claim Scheduled by the Debtor in its Schedules of Assets and Liabilities to the extent of such excess; or (ii) no corresponding Claim has been Scheduled by the Debtor in its Schedules of Assets and Liabilities, or (iii) the Claim has been Scheduled as contingent, disputed or unliquidated.

2.38. Distribution: The property required by the Plan to be distributed to the holders of Allowed Claims.

2.39. Distribution Date: As to all Claims, the date that is within 90 days after the date upon which the Plan Administrator determines, in his sole discretion, that the Reorganized Debtor has sufficient funds to (i) pay Allowed Claims of the highest priority of previously unpaid Claims and (ii) deposit sufficient funds in the Distribution Reserve for Disputed Claims of Claims entitled to that same priority of payment without exhausting the Distribution Reserve of funds necessary to meet the continuing operating expenses of the Reorganized Debtor.

2.40. Distribution Reserve: A reserve established to hold, in one or more segregated accounts to be established by the Debtors or the Plan Administrator, Cash equal to the aggregate of (a) Cash that would have been distributed on the Distribution Date on account of Disputed or undetermined (i) Administrative Expense Claims had they been Allowed Claims, provided that with respect to Administrative Expense Claims for which applications for compensation of professionals or other periods retained or to be compensated pursuant to sections 327, 328, 330, 331 and 503(b) of the Bankruptcy Code are or will be pending but are then undetermined, the amount of Cash deposited shall be the amount sought by such persons or the maximum amount such persons indicate that they intend to apply for, (ii) Priority Claims, (iii) Secured Claims, (iv) General Unsecured Claims plus (b) Earned Interest on all Cash in the Distribution Reserve, plus (c) Cash in the amount of the sum of the estimated compensation and estimated out-of-pocket fees and expenses of, or to be incurred by, the Plan Administrator, plus (d) Cash in the amount of all taxes previously incurred by the Debtors (and not paid or otherwise provided for under the Plan) and all taxes and professional fees estimated to be incurred by the Reorganized Debtor, including professional fees of the Reorganized Debtor, and the Plan Administrator; plus (e) Cash in the amount of all estimated costs and expenses of effectuating the corporate actions contemplated by Article 7 of the Plan, plus (f) Cash in the amount of the estimated operating expenses of the Reorganized Debtor.

2.41. Earned Interest: Interest, for purposes of Cash Distribution under the Plan, for each day during any calendar month, at an assumed rate per annum for each calendar month (or portion thereof) after the Effective Date, equal to the 30 Day Treasury Rate in effect on the first Business Day of such month.

2.42. Effective Date: A date which shall be on or before the tenth (10th) day after the Confirmation Order becomes a Final Order.

2.43. Estates: The estates created upon the filing of the Chapter 11 cases pursuant to Section 541 of the Bankruptcy Code, together with all rights, claims and interests appertaining thereto.

2.44. Final Distribution: A Distribution made under the Plan which represents the only or last Distribution to be made to a particular Class of Creditors.

2.45. Final Distribution Date: The date upon which the Plan Administrator makes a Final Distribution.

2.46. Final Order: An order or judgment which has not been reversed, stayed, modified, or amended and as to which (a) any appeal, other review or stay that has been filed has been finally determined or dismissed, or (b) the time for appeal has expired and no notice of appeal has been filed.

2.47. Franchise Operations: SFOPS's Restructuring, LLC, a Delaware limited liability company wholly owned by SI and a Chapter 11 debtor.

2.48. Franchisor: SF Restructuring, LLC, a Delaware limited liability company wholly owned by SI, the parent company of Brand Products and a Chapter 11 debtor.

2.49. General Unsecured Claim: A Claim other than a Secured Claim, an Administrative Claim, a Priority Non-Tax Claim, or a Priority Tax Claim.

2.50. Interest or Equity Interest: Any interest in the Debtors represented by ownership of common or preferred stock including, to the extent provided by applicable law, any warrant, option or other security to acquire any of the foregoing.

2.51. Interest Holder: Any holder or owner of an Interest.

2.52. Lien: A charge against or interest in property to secure payment of a debt or performance of an obligation which has not been avoided or invalidated under any provision of the Bankruptcy Code or other applicable law.

2.53. Old SI Common Stock: The issued and outstanding common stock of SI Restructuring, Inc. on the Petition Date.

2.54. Old Warrants and Stock Options: All warrants and stock options issued by Schlotzsky's, Inc. and still exercisable prior to the Effective Date.

2.55. PAC: The Committee of three individuals, two of whom will be selected by the Creditors' Committee and one of which will be selected by the Debtors to perform the oversight function elaborated in Section 7.5 of this Plan.

2.56. Person: An individual, a corporation, a partnership, an association, a joint stock company, a joint venture, an estate, a trust, an unincorporated association or organization, a governmental unit or any agency or subdivision thereof or any other entity.

2.57. Petition Date: August 3, 2004, the date on which the Debtors filed their voluntary Chapter 11 petitions commencing the Chapter 11 Cases.

2.58. Plan: This Joint Plan of Liquidation of the Debtors, as it may be amended or modified.

2.59. Plan Administrator: The person to be designated and retained, as of the Effective Date, by the Reorganized Debtor with approval of the Bankruptcy Court, as the fiduciary responsible for, among other things, the sale or other disposition of the remaining property of the Estates, prosecution of causes of action of the Estates, holding and distributing the consideration to be distributed to holders of Allowed Claims pursuant to this Plan, the Plan Administration Agreement, the Confirmation Order, or such other order as may be entered by the Bankruptcy Court, the completion of the process of prosecution and settlement of objections to Disputed Claims and the completion of all other obligations of the Reorganized Debtor.

2.60. Plan Ballot: The form of ballot which the Debtors will transmit to Creditors who are, or may be, entitled to vote on the Plan.

2.61. Plan Supplement: The documents including the forms of the Amended Bylaws, Amended Certificate of Incorporation, the Plan Administration Agreement and a list of the executory contracts and unexpired leases, if any, to be assumed pursuant to the Plan, that shall be contained in a separate Plan Supplement filed with the Clerk of the Bankruptcy Court at least fifteen (15) days prior to the date on which the Confirmation Hearing shall commence or such shorter period as ordered by the Bankruptcy Court. The Plan Supplement may be reviewed at www.haynesboone.com/schlotzskys or requested in writing from the Debtors' counsel.

2.62. Post-Confirmation Service List: The list of those parties who have notified the Reorganized Debtor in writing, at or following the Confirmation Hearing, of their desire to receive electronic notice of all pleadings filed by the Reorganized Debtor and have provided the e-mail address to which such notices shall be sent.

2.63. Priority Non-Tax Claim: Any Claim (other than an Administrative Expense Claim or a Priority Tax Claim) to the extent entitled to priority in payment under Section 507(a) of the Bankruptcy Code including, but not limited to, a Claim of an employee of the Debtors for wages, salaries, or commissions, including vacation, severance or sick leave pay, earned within ninety (90) days prior to the Petition Date (to the extent of $4,925 per employee).

2.64. Priority Tax Claim: Any Claim entitled to priority in payment under Section 507(a)(8) of the Bankruptcy Code.

2.65. Pro Rata: The proportion that the dollar amount of an Allowed Claim in a Class bears to the aggregate amount of all Allowed Claims in such Class.

2.66. RAD: RAD Acquisition Corp., a Texas corporation wholly-owned by SI and a Chapter 11 debtor.

2.67. Real Estate: SRE Restructuring, Inc., a Texas corporation wholly-owned by SI and a Chapter 11 debtor.

2.68. Restaurants: SR Restructuring, Inc., a Texas corporation wholly-owned by SI, the parent of 56th and 6th, and a Chapter 11 debtor.

2.69. San Felipe: San Felipe, LLC, a Texas limited liability company, and a Chapter 11 debtor.

2.70. Schedules: The Debtors' Schedules of Assets and Liabilities, as may be amended or supplemented, and filed with the Bankruptcy Court in accordance with Section 521(1) of the Bankruptcy Code.

2.71. Secured Claim: A Claim to the extent of the value, as may be determined by the Bankruptcy Court pursuant to Section 506(a) of the Bankruptcy Code, of any interest in property of the Debtors' estates securing such Claim, or any Claim to the extent that it is subject to setoff under Section 553 of the Bankruptcy Code. To the extent that the value of such interest is less than the amount of the Claim which has the benefit of such security, such Claim is a Deficiency Claim unless, in any such case, the class of which such Claim is part makes a valid and timely election under Section 1111(b) of the Bankruptcy Code to have such Claim treated as a Secured Claim to the extent Allowed.

2.72. SI: SI Restructuring, Inc., a Texas corporation and a Chapter 11 debtor.

2.73. Subordinated Claim: A Claim that the Bankruptcy Court has entered a Final Order subordinating the Claim of such holder to the claims of General Unsecured Creditors.

2.74. Substantive Consolidation Order: The order of the Bankruptcy Court dated September 28, 2005, consolidating the Debtors for all purposes, including for purposes of distributions on Allowed Claims and for purposes of voting on the Plan.

2.75. Unsecured Claim: A Claim not secured by a charge, mortgage or lien against or interest in property in which the Debtors' estates have an interest, including but not limited to any Deficiency Claim and any claim for damages resulting from the rejection of an executory contract or lease.

2.76. Wooleys' Claims: The Wooleys' Claims, which are disputed, include (i) the two jointly filed Secured Claims in the amounts of $398,903.84 and $2,364,201.63, respectively, based on promissory notes executed by Schlotzsky's, Inc. (Claim No. 481) and Schlotzsky's Franchisor LLC (Claim No. 20) which have been preliminarily satisfied by the distribution of $2,867,600 pursuant to the Order Granting Motion for Relief From Automatic Stay, or for Adequate Protection Regarding Secured Claims, and Issuing Preliminary Injunction Pursuant to U.S.C. 5105, entered June 23, 2005; (2) an Unsecured Claim in the amount of $1,806,895.29 (Claim No. 582, amending Claim No. 485) filed by John C. Wooley; (3)and Unsecured Claims in the aggregate amount of $1,643,094.97 (Claim Nos. 479, 480, and 527, amending Claim No. 484) filed by Jeffrey J. Wooley.

ARTICLE III
RULES OF CONSTRUCTION AND INTERPRETATION

3.1. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Plan as a whole and not to any particular section, subsection or clause contained in this Plan, unless the context requires otherwise. Whenever from the context it appears appropriate, each term stated in either the singular or the plural includes the singular and the plural, and pronouns stated in the masculine, feminine or neuter gender include the masculine, feminine and the neuter. The section headings contained in the Plan are for reference purposes only and shall not affect in any way the meaning or interpretation of the Plan.

3.2. A term used in this Plan and not defined herein but that is defined in the Bankruptcy Code has the meaning assigned to the term in the Bankruptcy Code. A term used in this Plan and not defined

herein or in the Bankruptcy Code, but which is defined in the Bankruptcy Rules, has the meaning assigned to the term in the Bankruptcy Rules.

ARTICLE IV
DESIGNATION OF CLAIMS AND INTERESTS

4.1. Summary: The following is a designation of the classes of Claims and Interests under the Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Tax Claims described in Article V of the Plan have not been classified and are excluded from the following classes. A Claim or Interest is classified in a particular class only to the extent that the Claim or Interest qualifies within the description of that class, and is classified in another class or classes to the extent that any remainder of the Claim or Interest qualifies within the description of such other class or classes. A Claim or Interest is classified in a particular class only to the extent that the Claim or Interest is an Allowed Claim or Allowed Interest in that class and has not been paid, released or otherwise satisfied before the Effective Date; a Claim or Interest which is not an Allowed Claim or Interest is not in any Class. Notwithstanding anything to the contrary contained in the Plan, no distribution shall be made on account of any Claim or Interest which is not an Allowed Claim or Allowed Interest.

Class		Status
A.	**Secured Claims**	Impaired – entitled to vote
B.	**Unsecured Claims**	
	Class 2: Priority Claims	Unimpaired - not entitled to vote
	Class 3: General Unsecured Claims	Impaired - entitled to vote
C.	**Interests**	
	Class 4: Equity Interests	Impaired – not entitled to vote

4.2. Controversy Concerning Classification, Impairment or Voting Rights: In the event a controversy or dispute should arise involving issues related to the classification, impairment or voting rights of any Creditor or Interest Holder under the Plan, whether before or after the Confirmation Date, the Bankruptcy Court may, after notice and a hearing, determine such controversy. Without limiting the foregoing, the Bankruptcy Court may estimate for voting purposes the amount of any contingent or unliquidated Claim the fixing or liquidation of, as the case may be, would unduly delay the administration of the Chapter 11 Case. In addition, the Bankruptcy Court may in accordance with Section 506(b) of the Bankruptcy Code conduct valuation hearings to determine the Allowed Amount of any Secured Claim.

ARTICLE V
TREATMENT OF UNCLASSIFIED CLAIMS

5.1. Administrative Expense Claims.

(a) General: Subject to the bar date provisions herein, unless otherwise agreed to by the parties, each holder of an Allowed Administrative Claim shall receive Cash equal to the unpaid portion of such Allowed Administrative Expense Claim on the later of (a) the Effective Date or as soon as

practicable thereafter, (b) the Allowance Date, (c) such date as is mutually agreed upon by the Plan Administrator and the holder of such Claim, and (d) the Distribution Date.

(b) Payment of Statutory Fees: All fees payable pursuant to 28 U.S.C. §1930 shall be paid in Cash equal to the amount of such Administrative Expense Claim when due.

(c) Bar Date for Administrative Expense Claims:

(i) General Provisions: Except as provided below in Sections 3.1(c)(iii) of the Plan, requests for payment of Administrative Expense Claims must be Filed no later than **forty-five (45) days after the Effective Date**. Holders of Administrative Expense Claims (including, without limitation, professionals requesting compensation or reimbursement of expenses and the holders of any Claims for federal, state or local taxes) that are required to File a request for payment of such Claims and that do not File such requests by the applicable bar date shall be forever barred from asserting such Claims against the Debtors or any of their respective property.

(ii) Professionals: All professionals or other entities requesting compensation or reimbursement of expenses pursuant to sections 327, 328, 330, 331, 503(b) and 1103 of the Bankruptcy Code for services rendered before the Effective Date (including, without limitation, any compensation requested by any professional or any other entity for making a substantial contribution in the Reorganization Case) shall File and serve on the Plan Administrator and Post-Confirmation Service List an application for final allowance of compensation and reimbursement of expenses no later than forty-five (45) days after the Effective Date. **Objections to applications of professionals for compensation or reimbursement of expenses must be filed and served on the Plan Administrator and the professionals to whose application the objections are addressed no later than seventy (70) days after the Effective Date.** Any professional fees and reimbursements or expenses incurred by the Reorganized Debtor subsequent to the Effective Date may be paid without application to the Bankruptcy Court.

(iii) Tax Claims: All requests for payment of Administrative Expense Claims and other Claims by a governmental unit for taxes (and for interest and/or penalties related to such taxes) for any tax year or period, all or any portion of which occurs or falls within the period from and including the Petition Date through and including the Effective Date ("Post-Petition Tax Claims") and for which no bar date has otherwise been previously established, must be Filed on or before the later of (i) 45 days following the Effective Date; and (ii) 90 days following the filing with the applicable governmental unit of the tax return for such taxes for such tax year or period. Any holder of any Post-Petition Tax Claim that is required to File a request for payment of such taxes and does not File such a Claim by the applicable bar date shall be forever barred from asserting any such Post-Petition Tax Claim against the Debtor or its property, whether any such Post-Petition Tax Claim is deemed to arise prior to, on, or subsequent to the Effective Date. To the extent that the holder of a Post-Petition Tax Claim holds a lien to secure its Claim under applicable state law, the holder of such Claim shall retain its lien until its Allowed Claim has been paid in full.

5.2. Allowed Priority Tax Claims: On, or as soon as reasonably practicable after, the later of (a) the Distribution Date, or (b) the Allowance Date, each Holder of an Allowed Priority Tax Claim against a Debtor shall receive in full satisfaction, settlement, release and discharge of, and in exchange for, such Allowed Priority Tax Claim, (i) Cash equal to the amount of such Allowed Priority Tax Claim, or (ii) such other less favorable treatment to the Holders of an Allowed Priority Tax Claim as to which the Debtors or the Plan Administrator or the Reorganized Debtor and the Holder of such Allowed Priority Tax Claims shall have agreed upon in writing; provided, however, that any Claim or demand for payment of a penalty (other than a penalty of the type specified in section 507(a)(8)(G)of the Bankruptcy Code) shall be

disallowed pursuant to the Plan, and the Holder of an Allowed Priority Tax Claim shall not be allowed to assess or attempt to collect such penalty from the Debtors or their Estates, the Reorganized Debtor or its property. To the extent that there is insufficient Available Cash to pay all Allowed Class 2 Claims in full or the Distribution Reserve as to Disputed Class 2 Claims is insufficient to pay Disputed Class 2 Claims, no distributions will be made on account of Allowed Priority Tax Claims until the Reorganized Debtor holds sufficient Available Cash to pay all Allowed Class 2 Claims in full and the Distribution Reserve as to Disputed Claims in Class 2 is fully funded.

ARTICLE VI
CLASSIFICATION AND TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS

6.1. Class 1 Secured Claims Against the Debtors**.**

(a) *Classification:* Class 1 consists of all Allowed Secured Claims. Each Secured Claim shall be treated as a separate Sub-Class of Class 1.

Class 1 is impaired, and the holders of Allowed Claims in Class 1 are entitled to vote on the Plan. At the Debtors' option, on the Effective Date (a) the Plan may leave unaltered the legal, equitable, and contractual rights of the holder of an Allowed Secured Claim, or (b) the Debtors may pay the Allowed Secured Claim in full, in cash, on the later of the Allowance Date or the Distribution Date, or (c) the Debtors may deliver to the holder of an Allowed Secured Claim the property securing such Claim, or (d) the Debtors may pay an Allowed Secured Claim in such manner as may be agreed to by the holder of such Claim.

Notwithstanding the foregoing, the Debtors shall reserve funds for distribution of the Wooleys' Claims that are Secured Claims in the Distribution Reserve, including an amount sufficient to satisfy any accruing interest or fees, to the extent of available funds in the Estates, that may be allowed on the Secured Claims. The final allowance or disallowance of the Wooleys' Claims and the validity, extent and priority of the liens securing the Wooleys' Claims shall be determined by the Bankruptcy Court in Adversary Proceeding 05-5055, as provided in the Stipulation Resolving Objections by Creditors John C. Wooley and Jeffrey J. Wooley to Motion for Substantive Consolidation of Debtors' Estates filed September 19, 2005 and accepted by the Court on September 22, 2005.

6.2. Class 2 – Allowed Non-tax Priority Claims

(a) *Classification:* Class 2 Consists of the Allowed Non-tax Priority Classes.

(b) *Treatment:* Class 2 is unimpaired and holders of Allowed Claims in Class 2 are not entitled to vote on the Plan. Each Allowed Priority Non-Tax Claim shall be paid by the Reorganized Debtor in full from Available Cash or upon such other terms as may be agreed upon in writing by and between the holder of such Claim and the Plan Administrator. In the event that there is insufficient Available Cash to pay all Allowed Class 2 Claims in full, holders of Allowed Claims entitled to priority under section 507(a)(3) of the Bankruptcy Code shall be paid in full in Cash before distributions are made to holders of Allowed Claims entitled to priority under section 507(a)(4). In the event that there is insufficient Available Cash to pay all Class 2 Claims entitled to priority under a section of the Code in full, the Claimholders of that priority will receive Pro Rata distributions.

6.3. Class 3 – General Unsecured Claims

(a) *Classification:* Class 3 consists of the Allowed General Unsecured Claims.

(b) *Treatment:* Class 3 is impaired and the holders of Allowed General Unsecured Claims are entitled to vote on the Plan. On the Distribution Date and from time to time thereafter, the holders of Allowed General Unsecured Claims shall each receive their Pro Rata Share of the Available Cash; provided however that there shall be no distributions to holders of Allowed Class 3 Claims unless all Allowed Administrative and Priority Claims have been paid in full and the Distribution Reserve is fully funded as to Disputed Administrative and Priority Claims and the projected operating expenses of the Reorganized Debtor.

Notwithstanding the foregoing, the Debtors shall reserve funds for distribution of the Wooleys' Claims that are Unsecured Claims in the Distribution Reserve to the extent that there are sufficient funds in the Estates to fund the Distribution Reserve for Unsecured Claims. The final allowance or disallowance of the Wooleys' Claims shall be determined by the Bankruptcy Court in Adversary Proceeding 05-5055, as provided in the Stipulation Resolving Objections by Creditors John C. Wooley and Jeffrey J. Wooley to Motion for Substantive Consolidation of Debtors' Estates filed September 19, 2005 and accepted by the Court on September 22, 2005.

6.4. Class 4 –Equity Interests

(a) *Classification:* Class 4 consists of the all Equity Interests including Interests in Old Schlotzsky's Common Stock and Old Warrants and Stock Options.

(b) *Treatment:* The holders of Equity Interests are impaired but are not entitled to vote on the Plan. All Equity Interests will be cancelled, and Equity Interests shall receive no distribution under the Plan.

ARTICLE VII
MEANS FOR IMPLEMENTATION OF THE PLAN

7.1. Substantive Consolidation: By Order dated September 28, 2005 (the "Substantive Consolidation Order"), the Debtors' Estates and Chapter 11 cases were substantively consolidated for the purposes of all actions associated with confirmation and consummation of this Plan. All Intercompany Claims by, between and among the Debtors have been eliminated, (ii) all assets and liabilities of the Affiliate Debtors have been merged or treated as if they were merged with the assets and liabilities of SI, (iii) any obligation of a Debtor and all guarantees thereof by one (1) or more of the other Debtors shall be deemed to be one (1) obligation of SI, (iv) the Affiliate Interests shall be cancelled, and (v) each Claim filed or to be filed against any Debtor shall be deemed filed only against SI and shall be deemed a single Claim against and a single obligation of SI. All Claims based upon guarantees of collection, payment or performance made by the Debtors as to the obligations of another Debtor shall be released and of no further force and effect.

7.2. Merger of Affiliate Debtors into SI: On the Effective Date or as soon thereafter as practicable, (a) the members of the board of directors of each of the Affiliate Debtors shall be deemed to have resigned, (b) each of the Affiliate Debtors shall be merged with and into SI, and (c) the Chapter 11 cases of the Affiliate Debtors shall be closed, following which any and all Causes of Action or other proceedings that were or could have been brought or otherwise commenced in the Chapter 11 case of any

Affiliate Debtor, whether or not actually brought or commenced, may be continued, brought or otherwise commenced in SI's Chapter 11 case.

7.3. Continued Corporate Existence; Amended and Restated Charter and By-laws; Dissolution of Reorganized SI.

(a) Continued Corporate Existence and Amended and Restated Charter and By-laws: SI shall continue to exist as Reorganized SI after the Effective Date in accordance with the laws of the State of Texas and pursuant to the Amended Charter and By-laws to be filed with the Plan Supplement. The charter and by-laws of SI shall be amended and restated as necessary to satisfy the provisions of this Plan and the Bankruptcy Code and shall be amended to, among other things: (i) authorize one (1) share of common stock, $0.01 par value per share, ownership of which shall be restricted to the Plan Administrator, (ii) provide, pursuant to section 1123(a)(6) of the Bankruptcy Code, for a provision prohibiting the issuance of nonvoting equity securities, and (iii) limit the activities of Reorganized SI to matters related to the implementation of this Plan. Any amendment or modification to the Amended Charter and By-laws following the Confirmation Date, to the extent such modification or amendment changes the fundamental purpose of the corporation, (x) must be approved by authority granted by order of the Bankruptcy Court and (y) no shareholder vote shall be required in accordance with Article 4.14 of the Texas Business Corporation Act, as amended (the "TBCA").

(b) Dissolution of Reorganized SI: As soon as practicable after the Plan Administrator exhausts the assets of the Debtors' Estates by making the final distribution of Available Cash under this Plan, the Plan Administrator shall (A) effectuate the dissolution of Reorganized SI without a vote of the shareholders of Reorganized SI in accordance with Article 4.14 of the TBCA and may file appropriate documentation with the State of Texas in order to carry out such dissolution, including, without limitation, a certificate of dissolution and take all such other action in order to carry out such dissolution in accordance with Part 6 of the TBCA and (B) resign as the sole officer of Reorganized SI.

7.4. The Plan Administrator: On the Effective Date, the officers and boards of directors of SI shall be deemed removed from office pursuant to the Confirmation Order and the operation of the Reorganized Debtor in accordance with the provisions of the Plan shall become the general responsibility of the Plan Administrator pursuant to and in accordance with the provisions of the Plan and the Plan Administration Agreement.

(a) Responsibilities: The responsibilities of the Plan Administrator shall include maintaining the Distribution Reserve; liquidating remaining assets; prosecuting objections to and estimations of Claims; calculating and implementing all distributions from the Distribution Reserve and Available Cash, in accordance with the Plan; filing all required tax returns and paying taxes and all other obligations on behalf of the Reorganized Debtor from funds in the Distribution Reserve and periodic reporting to the PAC of the status of the Distribution Reserve, Available Cash, and Claims resolution process until such time as (a) the Plan is substantially consummated and (b) the Claims resolution process is complete; holding a single share of SI common stock as nominee for holders of Allowed Claims against Debtors; and such other responsibilities as may be vested in the Plan Administrator pursuant to the Plan, the Plan Administration Agreement or Bankruptcy Court order, or as required or authorized by State law, or as may be necessary and proper to carry out the provisions of the Plan.

(b) Powers: The powers of the Plan Administrator shall, without Bankruptcy Court approval in each of the following cases, include the power to invest funds in, and withdraw, make distributions and pay taxes and other obligations owed by the Reorganized Debtor from the Distribution Reserve and Available Cash in accordance with the Plan; the power to engage employees and professional persons to assist the Plan Administrator with respect to its responsibilities; the power to prosecute causes of action of

the Estates; the power to dispose of, and deliver title to others of, remaining assets on behalf of the Reorganized Debtor; the power to compromise and settle claims and causes of action on behalf of or against the Reorganized Debtor (subject to the limitations set forth in the Plan Administration Agreement); and such other powers as may be vested in or assumed by the Plan Administrator pursuant to the Plan, the Plan Administration Agreement, the Amended Certificate of Incorporation, the Amended By-Laws or Bankruptcy Court order or as may be necessary and proper to carry out the provisions of the Plan. Notwithstanding the foregoing, the Plan Administrator may not compromise and settle claims and causes of action in an amount that exceeds $100,000 without either the consent of the PAC or notice and opportunity for hearing served on the Post Confirmation Service List.

(c) Compensation: In addition to reimbursement for the actual out-of-pocket expenses incurred, the Plan Administrator shall be entitled to reasonable compensation for services rendered on behalf of the Reorganized Debtor in an amount and on such terms as may be agreed to by the Debtors or the Reorganized Debtor and the Creditors' Committee as reflected in the Plan Administration Agreement. Any dispute with respect to such compensation shall be resolved by agreement among the parties or, if the parties are unable to agree, determined by the Bankruptcy Court.

(d) Information and Reporting: The Plan Administrator shall file reports with the Bankruptcy Court no less often than as soon as practicable after the end of every calendar quarter with respect to the status of the execution and implementation of the Plan, including amounts expended for administrative expenses and activity with respect to distributions and the Distribution Reserve. The Plan Administrator will provide the PAC with such information and perform such acts as the PAC may reasonably request.

(e) Termination: The duties, responsibilities and powers of the Plan Administrator shall terminate on the date of the Reorganized Debtor is dissolved under applicable state law in accordance with the Plan.

(f) Reliance by the Plan Administrator and Members of PAC: The Plan Administrator and the PAC may rely, and shall be fully protected in acting or refraining from acting, upon any resolution, statement, certificate, instrument, opinion, report, notice, request, consent, order or other instrument or document which they reasonably believe to be genuine and to have been signed or presented by the proper party or parties or, in the case of cables, telecopies and telexes, to have been sent by the proper party or parties, and the Plan Administrator and PAC may conclusively rely as to the truth of the statements and correctness of the opinions expressed therein. The Plan Administrator and PAC may consult with their counsel, and any opinion of their counsel shall be full and complete authorization and protection in respect of any action taken or suffered by him in accordance therewith.

7.5. PAC: The PAC shall be composed of two individuals selected at the Confirmation Hearing by the Creditors' Committee and one individual selected by the Debtors, and shall remain in effect until all assets of the Reorganized Debtor have been fully administered. The PAC shall consult with the Plan Administrator concerning the collection of funds, liquidation, sale or other disposition of assets, settlement of claims and causes of action, timing of distributions to holders of Allowed Claims and any other matter as may be requested by the Plan Administrator regarding the implementation of the Plan or administration of the Reorganized Debtor. Members of the PAC shall receive a set fee of $150 per calendar quarter. Additionally, the Reorganized Debtor shall reimburse members of the PAC for reasonable expenses incurred in connection with participating in any in person meetings with the Plan Administrator. In the event that a PAC member resigns, his or her replacement shall be selected jointly by the remaining members and the Plan Administrator. Upon the certification by the Plan Administrator that all assets of the Reorganized Debtor have been distributed, abandoned or otherwise disposed, the members

of the PAC shall resign their positions whereupon they shall be discharged from further duties and responsibilities.

7.6. Objections To Claims: Except as otherwise provided for with respect to applications of professionals for compensation and reimbursement of expenses under Section 5.1(c) (ii) hereof, or as other wise ordered by the Bankruptcy Court after notice and a hearing, objections to Administrative Expense Claims shall be filed and served upon the holder of such Claim or Administrative Expense Claim not later than the later of (a) one hundred twenty (120) days after the Effective Date, and (b) one hundred twenty (120) days after a proof of claim or request for payment of such Administrative Expense Claim is filed, unless this period is extended by the Court. Such extension may occur ex parte. Objections to all other Claims shall be filed only after the Plan Administrator has determined that there are sufficient funds in the estate to make a distribution to holders of Priority Claims and Unsecured Claims. There shall be no deadline for objecting to such Claims. After the Effective Date, the Plan Administrator shall have the exclusive right to object to the allowance of any Claims provided for under the Plan. The Plan Administrator may object to the allowance of Claims with respect to which the Plan Administrator disputes liability in whole or in part, for whatever reasons, even if Claims were not scheduled by the Debtors as liquidated, contingent, or disputed.

7.7. Preservation of Rights of Action: Except as otherwise provided in the Plan, or in any contract, instrument, release, or other agreement entered into in connection with the Plan, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtor shall retain and shall have the exclusive right to enforce any claims, rights and causes of action that the Debtors or the Estates may hold against any entity, including, without limitation, any claims, rights or causes of action arising under Chapter 5 of the Bankruptcy Code or any similar provisions of state law, or any other statute or legal theory; provided however, the Plan does not preclude the rights, if any, of creditors or shareholders to seek authority from the Bankruptcy Court to bring claims of the estates if not pursued by the Committee, the Debtors or the Plan Administrator by ten (10) days before the deadline for joining additional parties in Adversary Proceeding Number 05-5055 or forty-five (45) days prior to the expiration of the statute of limitations for such cause of action. To the extent that the Creditors' Committee has been granted authority to pursue certain claims of the estates by prior Court order, counsel for the Creditors' Committee, Winstead Sechrest & Minick, P.C., will represent the Reorganized Debtor in those actions and shall be paid by the Reorganized Debtor. A cost to benefit analysis will be performed on all Avoidance Actions which arise under 11 U.S.C. Section 547(b). Depending on the outcome of that analysis, the Plan Administrator may waive or may elect not to pursue all, some or none of the Avoidance Actions which arise under 11 U.S.C. Section 547(b).

7.8. Protection of Certain Parties in Interest: Provided the respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents of the Debtors, the Plan Administrator, the Creditors' Committee and the PAC act in good faith, they will not be liable to any holder of a Claim or Equity Interest, or other party with respect to any action, forbearance from action, decision, or exercise of discretion taken from the Petition Date to the Effective Date in connection with (i) the operation of the Debtors; (ii) the proposal or implementation of any of the transactions provided for, or contemplated in, the Plan or the Plan Documents; or (iii) the administration of the Plan or the assets and property to be distributed pursuant to the Plan and the Plan Documents; other than for fraud, willful misconduct or gross negligence. The Debtors, the Plan Administrator, the Creditors' Committee, the PAC, and their respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents may rely upon the opinions of counsel, certified public accountants, and other experts or professionals employed by the Debtors, the Plan Administrator, PAC or the Creditors' Committee, respectively, and such reliance will conclusively establish good faith. In any action, suit or proceeding by any holder of a Claim or Equity Interest or other party in interest contesting

any action by, or non-action of, the Debtors, Plan Administrator, the PAC, the Creditors' Committee, or their respective affiliates, officers, directors, shareholders, members, representatives, attorneys, financial advisors, and agents as not being in good faith, the reasonable attorneys' fees and costs of the prevailing party will be paid by the losing party.

ARTICLE VIII
PROVISIONS GOVERNING DISTRIBUTIONS OF PROPERTY UNDER THE PLAN

8.1. Delivery of Distributions: Subject to Bankruptcy Rule 9010, distributions to holders of Allowed Claims will be made by mail (1) at the address of each such holder as set forth on the proofs of claim filed by such holders, (2) at the address set forth in any written notice of address change delivered to the Reorganized Debtor or the Debtors after the date of any related proof of claim; or (3) at the address reflected in the Schedule of Assets and Liabilities Filed by the Debtors if no proof of claim is Filed and the Reorganized Debtor has not received a written notice or address change. If any Claimholder's distribution is returned as undeliverable, no further distributions to such holder will be made unless and until the Plan Administrator is notified in writing of such Claimholder's then current address.

8.2. Unclaimed Distributions and Uncashed Checks: Unclaimed Cash distributions shall be held in trust in a segregated bank account in the name of the Reorganized Debtor for the benefit of the potential claimants of such funds. All claims for undeliverable distributions must be made on or before the later of the first anniversary of the Effective Date of the Plan, or the ninetieth (90th) day following the date on which such Claim is Allowed. After such date, all unclaimed distributions will revert to the Plan Administrator for deposit into the Available Cash fund to be reallocated and distributed to the holders of Allowed Claims, and the Claim of any holder with respect to such distribution will be discharged and forever barred. Checks issued in respect of Allowed Claims will be null and void if not negotiated within ninety (90) days after the date of issuance thereof, and such Creditor will forfeit its right to such distribution. In no event shall any funds escheat to the State of Texas.

8.3. Compliance with Tax Requirements: In connection with the Plan, to the extent applicable, the Plan Administrator shall comply with all withholding and reporting requirements imposed on it by any governmental unit, and all distributions pursuant to the Plan shall be subject to such withholding and reporting requirements.

8.4. De Minimus Distributions: Ratable distributions to holders of Allowed Claims will not be made if such distribution will result in a distribution amount of less than $50.00, unless a request therefore is made in writing to the Plan Administrator.

ARTICLE IX
EXECUTORY CONTRACTS AND UNEXPIRED LEASES

9.1. Rejection of Executory Contracts and Unexpired Leases Not Assumed: All executory contracts and leases of the Debtors that were not previously assumed and assigned or rejected by the Debtors are deemed rejected, unless otherwise dealt with by the Plan or the Confirmation Order, or any other Order of the Court entered prior to the Effective Date. Contracts or leases that may have expired pursuant to their terms before the Effective Date and before any order of assumption or rejection are also deemed to have been rejected as of the Effective Date.

9.2. Claims Based on Rejection of Executory Contracts of Unexpired Leases: Damages arising from the rejection of an executory contract or unexpired lease shall be a General Unsecured Claim. Any Claim for damages arising from the rejection of an executory contract or unexpired lease must be asserted in a timely filed proof of claim. The Court has previously set bar dates for the filing of rejection damage claims for many of the Debtors' significant executory contracts and leases and such bar dates have occurred. The bar date (deadline) for filing claims arising out of the rejection of all other executory contracts and unexpired leases pursuant to this Plan shall be forty-five (45) days after the Effective Date. Any Claims not filed by the appropriate date shall be forever barred from assertion against the Debtor.

ARTICLE X
EFFECT OF REJECTION BY ONE OR MORE CLASSES OF CLAIMS

10.1. Impaired Classes to Vote: Each impaired class of Claims and Interests shall be entitled to vote separately to accept or reject the Plan. A holder of a Disputed Claim which has not been temporarily allowed for purposes of voting on the Plan may vote only such Disputed Claim in an amount equal to the portion, if any, of such Claim shown as fixed, liquidated, and undisputed in the Debtors' Schedules.

10.2. Acceptance by Class of Creditors: A class shall have accepted the Plan if the Plan is accepted by at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims of such class that have voted to accept or reject the Plan.

10.3. Reservation of Cramdown rights: In the event that any impaired class shall fail to accept this Plan in accordance with Section 1129(a) of the Bankruptcy Code, the Debtors reserve the right to request the Bankruptcy Court to confirm the Plan in accordance with the provisions of the Section 1129(b) of the Bankruptcy Code.

ARTICLE XI
EFFECT OF CONFIRMATION

11.1. Legally Binding Effect: The provisions of this Plan shall bind all Creditors and Interest holders, whether or not they accept this Plan. On and after the Effective Date, all holders of Claims shall be precluded and enjoined from asserting any Claim against the Debtors or their assets or properties based on any transaction or other activity of any kind that occurred prior to the Confirmation Date except as permitted under the Plan.

11.2. Revesting of Property of Debtors in Reorganized Debtor: Upon the Effective Date of the Plan, all property of the Debtors' Estates shall vest in and become the property of the Reorganized Debtor.

11.3. Liens, Claims and Encumbrances: Except as otherwise specifically provided in this Plan, or in the Confirmation Order, on the Effective Date of the Plan, all property vesting in and becoming property of the Reorganized Debtor shall be free of all liens, claims and encumbrances.

11.4. Injunction: Except and otherwise provided in the Plan, all Claimants of the Debtors are enjoined from threatening, commencing or continuing any lawsuit or other legal or equitable action against the Debtors or the Debtors' property to recover any Claim or Interest.

ARTICLE XII
CONDITIONS TO EFFECTIVENESS OF THE PLAN

The Plan will not be effective unless (a) the Confirmation Order becomes a Final Order; and, (b) all Plan Documents and other applicable corporate documents necessary or appropriate to the implementation of the Plan have been executed, delivered, and where applicable, filed with the appropriate governmental authorities.

ARTICLE XIII
RETENTION OF JURISDICTION

13.1. Exclusive Bankruptcy Court Jurisdiction: Notwithstanding the entry of the Confirmation Order or the occurrence of the Effective Date, the Bankruptcy Court shall retain and have such jurisdiction over the Chapter 11 Cases as is legally permissible, including, without limitation, for the following purposes:

a. To allow, disallow, determine, liquidate, classify or establish the priority or secured or unsecured status of or estimate any Claim or Interest, including , without limitation, the resolution of any request for payment of any Administrative Expense Claim and the resolution of any and all objections to the allowance or priority of Claims or Interests;

b. To ensure that distributions to holders of Allowed Claims are accomplished pursuant to the provisions of the Plan;

c. To determine any and all applications or motions pending before the Bankruptcy Court on the Effective Date of the Plan, including without limitation any motions for the rejection, assumption or assumption and assignment of any executory contract or unexpired lease;

d. To consider and approve any modification of this Plan, remedy any defect or omission, or reconcile any inconsistency in the Plan, or any order of the Bankruptcy Court, including the Confirmation Order;

e. To determine all controversies, suits and disputes that may arise in connection with the interpretation, enforcement or consummation of this Plan or any entity's obligations in connection with the Plan;

f. To consider and act on the compromise and settlement of any claim or cause of action by or against the Debtors, or the Reorganized Debtor;

g. To decide or resolve any and all applications motions, adversary proceedings, contested or litigated matters and any other matters or grant or deny any applications involving the Debtors that may be pending on the Effective Date or that may be brought by the Reorganized Debtor after the Effective Date, including claims arising under Chapter 5 of the Bankruptcy Code;

h. To issue orders in aid of execution and implementation of this Plan to the extent authorized by 11 U.S.C. §1142 or provided by the terms of this Plan;

i. To decide issues concerning the federal or state tax liability of the Debtor which may arise in connection with the confirmation or consummation of this Plan; and

j. To enter an order closing this Chapter 11 Case.

13.2. Limitation on Jurisdiction: In no event shall the provisions of this Plan be deemed to confer in the Bankruptcy Court jurisdiction greater than that established by the provisions of 28 U.S.C. §§157 and 1334.

ARTICLE XIV
MISCELLANEOUS PROVISIONS

14.1. Termination of Creditors' Committee: On the Effective Date, the Creditors' Committee in the Debtors' Chapter 11 Cases shall be terminated.

14.2. Amendment of the Plan: This Plan may be amended or modified by the Debtors before, or by the Plan Administrator after, the Effective Date as provided in Section 1127 of the Bankruptcy Code.

14.3. Withdrawal of Plan: The Debtors reserve the right to withdraw this Plan at any time prior to the Confirmation Date. If the Debtors withdraw this Plan prior to the Confirmation Date, or if the Confirmation Date or the Effective Date does not occur, then this Plan shall be deemed null and void. In such event, nothing contained herein shall be deemed to constitute an admission, waiver or release of any Claims by or against the Debtors or any other person, or to prejudice in any manner the rights of the Debtors, the Debtors' estates or any person in any further proceedings involving the Debtors.

14.4. Due Authorization By Creditors: Each and every Creditor who elects to participate in the Distributions provided for herein warrants that the Creditor is authorized to accept in consideration of its Claim against the Debtors the Distributions provided for in this Plan and that there are no outstanding commitments, agreements, or understandings, express or implied, that may or can in any way defeat or modify the rights conveyed or obligations undertaken by the Creditor under this Plan.

14.5. Filing of Additional Documentation: On or before the Effective Date, the Debtors may file with the Bankruptcy Court such agreements and other documents as may be reasonably necessary or appropriate to effectuate and further evidence the terms and conditions of this Plan.

14.6. Governing Law: Except to the extent the Bankruptcy Code or the Bankruptcy Rules are applicable, the rights and obligations arising under the Plan shall be governed by, and construed and enforced in accordance with the laws of the State of Texas, without giving effect to the principles of conflicts of law thereof.

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

14.8. Transfer of Claims: Any transfer of a claim shall be in accordance with Bankruptcy Rule 3001(e) and the terms of this Section 14.8. Notice of any such transfer shall be forwarded to the Plan Administrator by registered or certified mail, as set forth in Section 14.9 hereof. Both the transferee and transferor shall execute any notice, and the signatures of the parties shall be acknowledged before a notary public. The notice must clearly describe the interest to be transferred. No transfer of a partial interest shall be allowed. All transfers must be of one hundred percent (100%) of the transferee's interest in the Claim.

14.9. Notices: Any notice required to be given under this Plan shall be in writing. Any notice that is allowed or required hereunder except for a notice of change of address shall be considered complete on the earlier of (a) three days following the date the notice is sent by United States mail, postage prepaid, or by overnight courier service, or in the case of mailing to a non-United States address, air mail, postage prepaid, or personally delivered; (b) the date the notice is actually received by the Persons on the Post-Confirmation Service List by facsimile or computer transmission; or, (c) three days following the date the notice is sent to those Persons on the Post-Confirmation Service List as such Service List is adopted by the Bankruptcy Court at the hearing on confirmation of the Plan, as such list may be amended from time-to-time by written notice from the Persons on the Post-Confirmation Service List.

a. If to the Plan Administrator, at:

_____
_____
_____
_____

b. If to the U.S. Trustee, at:

Kevin Epstein
Office of the United States Trustee
Western District of Texas
615 E. Houston Street, Suite 533
San Antonio, TX 78205
Telephone: 210.472.4620
Facsimile: 210.472.4649
Email: kevin.m.epstein@usdoj.gov

c. If to any Creditor in his capacity as such, at his address or facsimile number as listed on the Post-Confirmation Claims Register.

14.10. US Trustee Fees: The debtor will pay pre-confirmation fees owed to the U. S. Trustee on or before the Effective Date of the Plan. After confirmation, the Liquidating Trustee will file with the court and serve on the U. S. Trustee quarterly financial reports in a format prescribed by the U. S. Trustee, and the Liquidating Trustee will pay post-confirmation quarterly fees to the U. S. Trustee until a final decree is entered or the case is converted or dismissed. 28 U.S.C. ' 1930(a)(6).

14.11. Implementation: The Debtors, the Plan Administrator, and the Reorganized Debtor shall be authorized to perform all reasonable, necessary and authorized acts to consummate the terms and conditions of the Plan.

14.12. No Admissions. Notwithstanding anything herein to the contrary, nothing contained in the Plan shall be deemed an admission by the Debtors with respect to any matter set forth herein, including, without limitation, liability on any Claim or the propriety of any Claim's classification.

Dated: December 12, 2005

Debtors and Debtors-In-Possession

/s/ David Samuel Coats
By: David Samuel Coats
Their: Chief Executive Officer

HAYNES AND BOONE, LLP
901 Main Street, Suite 3100
Dallas, Texas 75202
Tel. No. (214) 651-5000
Fax No. (214) 651-5940

/s/ Sarah B. Foster
Robert D. Albergotti
State Bar No. 00969800
Sarah B. Foster
State Bar No. 07297500

COUNSEL TO THE DEBTORS AND THE DEBTORS-IN-POSSESSION