

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF TENNESSEE

In re:)	
)	Case No. <u>10-53129</u>
PHILLIPS RENTAL PROPERTIES , LLC)	Chapter 11
Debtor.)	

FIRST MODIFIED DISCLOSURE

PHILLIPS RENTAL PROPERTIES, LLC, filed a Chapter 11 Petition in the United States Bankruptcy Court for the Eastern District of Tennessee on the 7th day of December, 2010.

An Unsecured Creditors Committee has not been appointed by the U.S. Trustee.

With the approval of the Court, the Debtor employed Fred M. Leonard to represent it as Debtor-in-Possession on the terms stated in the Motion and Order to Approve Employment of Attorneys filed in this matter.

Simultaneous with the filing of this First Modified Disclosure Statement” (“The Disclosure”), the Debtor has filed a First Modified Plan of Reorganization (“The Plan”) which will be described in this Disclosure Statement. Terms defined in this Plan and not otherwise specifically defined in this Disclosure Statement will have the same meaning set forth in The Plan when used in this Disclosure Statement.

The Plan proposes to reorganize the Debtor’s business affairs in such a way to maximize the return to all creditors.

I.
DEBTOR HISTORY AND OPERATIONS TO DATE

The primary reason for the Debtor filing this Chapter 11 Reorganization Petition was the nationwide “credit crunch” which evolved into the worst economic climate since the Great Depression. Changes in the banking environment and banking regulations have posed many obstacles for developers and investors globally. The United States government lending ability has been altered for the first time in history. This being the case the Debtor has had to deal with these changes in federal banking regulations and the lending policies first hand. During these difficult time the Debtor had various lines of credit called and ultimately closed which resulted in an extreme strain on its finances causing its business activities to be slowed to the point that

projects could not be completed or paid and it was forced to default on its obligations including property taxes which resulted in the Debtor filing its Chapter 11 under the United States Bankruptcy Code on December 7, 2010 (the "Petition Date").

The Debtor's primary source of revenue is from its business of real estate development for resale and rental or leasing of properties.

Gary Phillips and his wife, Karla Phillips (hereinafter "The Phillips") are jointly the sole shareholders of the Debtor with Gary Phillips having a Bachelor of Science Degree in Nuclear Engineering and Karla Phillips having a Bachelor of Science degree in Chemical Engineering. The Phillips have been involved in building and management of apartments in the upper East Tennessee area for ten plus years. The Phillips have continued their formal education toward a Masters Degree in Business Administration. With this educational background, The Phillips moved to the Johnson City, Tennessee area and began building and leasing various properties in the area where they worked in developing a model for computerizing the management, maintenance, collection of rents from a central location which eliminated the need for a more extensive management at each location.

The General Contractor constructing the new apartment complexes was Gary Phillips Construction, LLC, which also filed a Chapter 11 reorganization petition. The relationship between these two entities is a business relationship where Gary Phillips Construction, LLC serves as the general contractor for the construction projects for Phillips Rental Properties, LLC.

After filing this Bankruptcy, the Debtor has been working toward developing a Plan of Reorganization to attempt to pay all its debts. As a part of its developing a business model, Debtor has conducted an on-going review of costs including terms and conditions of contracts, salaries and other overhead reductions while at the same time making efforts for additional financing options to continue and expand its profitable operations and reducing or disposing of unprofitable operations. Further, the Debtor has eliminated all direct employees and instead uses subcontractors (20 companies) for its business operations with The Phillips handling the balance through computerized management and hands on efforts. Since the filing the Debtor has further completed an investigation of each of its creditor accounts and has reconciled said accounts which are listed in this Disclosure and the Exhibits hereto.

Prior to its filing the Debtor had been operating under loan and security agreements with Bank of Tennessee, Carter County Bank, Citizens Bank, Eastman Credit Union, First Tennessee Bank, Regions Bank and TriSummit Bank which claim liens on the Debtor's properties as described herein. In order to minimize disruption of Debtor's business and operations and permit it to meet operating expenses, the Debtor currently is operating under an Order Authorizing Use Of Cash Collateral which itemizes its administrative expenses. It is Debtor's intent to continue operations under the terms of the Court's Orders until the Debtor completes the purposes and intents of such Orders.

Except as otherwise expressly indicated, the information contained in this Disclosure Statement has been obtained from the Debtor, the Debtor's Schedules and Statement of Affairs, the Debtor's books and records, and certain pleadings, reports, papers and other documents filed in this case. Historical financial data since Petition filing is attached hereto as collective Exhibit I and represents OPR 1, 2 and 5 as filed for the period ending May 31, 2011 under the U.S. Trustee guidelines.

II. **ACCEPTANCE OR REJECTION OF THE PLAN**

At the Confirmation Hearing, the Court will determine whether the Plan has been accepted by each and every class of Creditors whose Claims are impaired under the Plan. The Court can confirm the Plan if it is accepted by the holders of two-thirds in amount and more than one-half in number of Claims in each impaired Class voting to accept or reject the Plan. In the event the requisite acceptances are not obtained, the Court may nevertheless confirm the Plan if the Court holds that The Plan accords fair and equitable treatment to the Class or Classes rejecting it. A class that is not impaired under The Plan, and each holder of a Claim or Equity Interest of such class are pursuant to §1126(f) of the Code, conclusively presumed to have accepted The Plan and solicitation of acceptances with respect to such class from the holders of Claims or Interests of such class is not required.

III.
PURPOSE OF DISCLOSURE STATEMENT

The Bankruptcy Code states that no acceptances or rejections of plans can be solicited after the commencement of a bankruptcy case unless there is transmitted a summary of a plan and a written disclosure statement approved as containing adequate information. Adequate information defined as of a kind and in sufficient detail to enable creditors and interest holders to make an informed judgment about The Plan and the acceptance or rejection thereof.

The Bankruptcy Court will conduct a hearing as required by 11 U.S.C. §1125 on the question of whether this Disclosure Statement contains such adequate information. Based upon proceedings at this hearing, the Bankruptcy Court may enter an Order approving this Disclosure Statement as containing adequate information and authorizing the transmission of same along with The Plan to holders of claims and holders of interest. Attention is directed to the fact that the Bankruptcy Court's approval of this Disclosure Statement does not constitute an endorsement of recommendation by the Bankruptcy Court of the substantive provisions of the Plan.

NO REPRESENTATIONS CONCERNING THE DEBTOR, PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATION, VALUE OF THE PROPERTY, OR THE VALUE OF ANY NOTES OR OTHER CONSIDERATION TO BE ISSUED UNDER THIS PLAN, HAVE BEEN AUTHORIZED BY THE DEBTOR-IN-POSSESSION OR THE BANKRUPTCY COURT AND ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN AS CONTAINED IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION. THE INFORMATION CONTAINED HEREIN IS NOT WARRANTED BY THE DEBTOR OR IT'S COUNSEL TO BE WITHOUT INACCURACY BECAUSE OF THE COMPLEXITY OF THE DEBTOR'S AFFAIRS, ALTHOUGH GREAT EFFORTS HAVE BEEN MADE TO BE ACCURATE.

IV.
ASSETS

The assets of the Debtor consisted of the following on the date the petition was filed:

ASSET TYPE AND VALUE

.

Real Property:

Description	Market Value as of Petition Date	¹ Current Market Value	Additional Notes
514D Pilgrim Court	\$115,900.00	\$115,900.00	
514A Pilgrim Court	134,900.00	134,900.00	
415 Lake Approach	387,100.00	387,100.00	
219 Alta Tree Blvd	292,600.00	292,600.00	
6 York Circle	112,000.00	112,000.00	
702 Swadley	126,000.00	126,000.00	
154 Pecanwood	148,000.00	148,000.00	
39 Embassy	404,300.00	404,300.00	
419 Cottonwood	124,000.00	124,000.00	
2020 Indian Ridge Rd	3,275,000.00	3,275,000.00	
113 Shady Lane	146,300.00	146,300.00	
51 Embassy Row	330,800.00	330,800.00	
47 Embassy Row	360,000.00	360,000.00	
45 Embassy Row	360,000.00	360,000.00	
606 Swadley Rd, 608 Swadley Rd, 704 Swadley (One Loan)	5,000,000.00	5,000,000.00	
2823 South Roan St	1,500,000.00	1,500,000.00	
437 Grovemont Place	133,100.00	133,100.00	
² 2018 Indian Ridge Road	126,100.00	126,100.00	
220 Lovers Lane, Elizabethton, TN	85,000.00	85,000.00	
433 Grovemont Place	60,000.00	60,000.00	
441 Grovemont Place – building lot	60,000.00	60,000.00	
Indian Ridge Road-garage	22,600.00	22,600.00	
518D Pilgrim Court, JC, TN –condo	115,000.00	0	Inadvertently listed as a Phillips Rental Properties, LLC asset
217 State Street, Pitkin Colorado 81241	0	235,000.00	Inadvertently not included in petition
Total	\$13,419,600.00	\$13,538,700.00	

¹ The current market value is based on current appraisal, tax appraisal, comparable sales, or income approach analysis. Since the date of filing there has been no deterioration in property value due to age of properties, level of construction, location, and maintenance conducted.

² Debtor's attorney holds a secured Line of Credit, Deed of Trust up to the amount of \$225,000.00 dated December 3, 2010 and recorded in the Washington County Registers Office in Book Roll/Img: 705/689-692 for professional services to be rendered and expenses to be charged in connection with Debtor's bankruptcy. Said fees are required to be approved under 11 U.S.C. §330 or §503(b)(2)-(6) of the Bankruptcy Code.

OTHER ASSETS

	Balance at Petition	Balance end of May 2011 (Exhibit I)
Eastman Credit Union #90001 (Security Deposit Account)	\$63,695.27	\$55,866.43
Eastman Credit Union #2046	\$927.85	\$928.43
Elizabethton Federal #0936	\$10,080.45	\$0
Peoples Community Bank #3849	\$500.00	\$0
Regions #7652	\$233.81	\$148.81
Regions \$7360	\$166.75	\$166.81
TriSummit Bank #3654	\$87.53	\$87.53
Bank of Tennessee – DIP account #4126	\$0	\$114,782.76
Accounts receivable	\$4390.45	\$4,390.45
Total	\$80,082.11	\$171,980.77

V. LIABILITIES

As of the date of the filing of the bankruptcy petition, the Debtor's schedules reflect the following liabilities:

Priority Obligations.

The Debtor has the following Priority Obligations:

Security Deposits: As of the petition date, the debtor listed security deposits held by the Debtor in the amount of \$91,555.00. The Debtor's current security deposits are \$90,205.00. Security deposits will be handled according to the terms of each individual Rental Agreement including any tenant default.

Taxes to Governmental Unit:

	Amount as of Petition Date	Amount entitled to Priority	Claim #	Claim Amount (For time period 2008-2010 as filed in below numbered Proof of Claim as filed by Creditor)	Debtor's Reconciled Amount (does not include penalty and interest which will be paid as an unsecured claim under Class VI)
Taxes to Governmental Unit					
Carter County Trustee, Randal Lewis	\$2,238.00	\$2,238.00	5	615.00	\$615.00

City of Johnson City,	\$67,504.04	\$67,504.04	7	95,236.18 (includes penalty and interest which will be paid under Class VI)	\$76,981.00
Washington County Trustee	\$39,377.00	\$39,377.00	8	\$117,552.21	\$117,552.21
Total	\$109,119.04	\$109,119.04		\$213,403.39	\$195,148.21

Secured Debt

Bank Name	Description of Property	Market Value as shown on Petition Date	Approximate Value of Claim on Debtor's Petition Date	Claim #	Amount of Claim	³ Debtor's Reconciled Amount As of June 10, 2011 (See collective Exhibit II attached hereto)
Bank of Tennessee	514D Pilgrim Court	\$115,900.00	\$83,141.00	17	\$83,559.75	\$82,089.72
Bank of Tennessee	514A Pilgrim Court	134,900.00	\$83,141.00	18	\$83,559.75	\$82,089.72
Bank of Tennessee	415 Lake Approach	387,100.00	\$265,325.00	19	\$267,513.69	\$262,019.60
Carter County Bank	219 Alta	292,600.00	\$204,419.00	4	\$204,419.00	\$201,463.50
Citizens Bank Line of Credit	6 York Circle	112,000.00	\$565,947.00	6	\$602,223.94	\$588,391.24
Citizens Bank Line of Credit	702 Swadley	126,000.00		See #6 above		
Citizens Bank Line of Credit	154 Pecanwood	148,000.00		See \$6 above		
Citizens Bank Line of Credit	419 Cottonwood	124,000.00		See #6 above		
Eastman Credit Union	2020 Indian Ridge Rd	\$3,275,000.00	\$2,383,489.00	16	\$2,393,957.28	\$2,348,753.26
First Tennessee Bank	113 Shady Lane	\$146,300.00	\$86,010.00			\$84,246.36
First Tennessee Bank	51 Embassy Row	\$330,800.00	\$239,251.00			\$235,073.06

³ The Debtor reconciled these amounts by taking the principal balance due at the time of filing and applying half of all payments made post petition to principal and half to interest as shown in Exhibit II.

Bank Name	Description of Property	Market Value as shown on Petition Date	Approximate Value of Claim on Debtor's Petition Date	Claim #	Amount of Claim	⁴ Debtor's Reconciled Amount As of June 10, 2011 (See collective Exhibit II attached hereto)
First Tennessee Bank	45 Embassy Row	\$360,000.00	\$235,266.00			\$230,961.78
Regions Bank	606 Swadley R, 608 Swadley Rd, 704 Swadley (One Loan)	\$5,000,000.00	\$3,770,512.00	3 (filed \$84,571.59 as unsecured)	\$4,200,000.00	\$3,807,766.90
Regions Bank	217 State Street	\$235,000.00				\$201,226.36
TriSummit Bank	2823 South Roan St	\$1,500,000.00	\$956,460.10	1	\$964,140.09	\$943,194.60
TriSummit Bank	437 Grovemont Place	\$ 133,100	\$80,000.00	2	\$80,843.73	\$78,606.22
Totals		\$13,185,000.00	\$9,188,227.10			\$9,376,844.10

Executory Contracts

The Debtor has Rental Agreements in place for all rental properties which will be assumed by the Debtor according to the terms and conditions of each Rental Agreement. The Rental Agreements vary in terms and the rent ranges are from \$425.00 to \$2,250.00 based on market analysis of the area.

⁴ The Debtor reconciled these amounts by taking the principal balance due at the time of filing and applying half of all payments made post petition to principal and half to interest as shown in Exhibit II.

Unsecured Debt.

Creditor	Amount as of Petition Date	Claim	Claim Amount	Debtor's "Reconciled Amount" to be paid under its Plan in lieu of filing an Objection
*Authur S. Roberts, Jr. d/b/a Country Air Construction	\$42,219.23	21	\$54,048.51 (claim filed as \$40,535.27 secured and \$13,513.24 as unsecured)	***0
Creditor	Amount as of Petition Date	Claim	Claim Amount	Debtor's "Reconciled Amount" to be paid under its Plan in lieu of filing an Objection
*ProBuild Company, LLC	118,918.83	20	25,502.50	***0
*Roniel E. Childress d/b/a Childress Heating, A/C & Refrigeration	17,711.86			***0 Roniel E. Childress lawsuit withdrawn without prejudice -
*Regions Bank	.00	3	84,571.59	***0
**McClain's Pest Control	0			300.00
**Pop-a-Lock	0			1,436.00
**Rothe Green Architecture	0			5,097.50
**The Sign Factory	0			7,237.95
**Transit-Mix Concrete Company, Inc	0			15,885.72
**Ferguson Enterprises, Inc	0			22,051.95
**City of Johnson City Property Tax – Penalty/Interest	0			18255.18
**Washington County Property Tax – Penalty/Interest	0			
Total- undisputed				\$70,264.30

* *contingent/unliquidated/disputed creditor claims.*

** *Debtor's originally filed Petition was amended to include this creditor.*

*** *Debtor has completed an investigation of its creditor accounts and does not intend to make any payment under its Plan to these alleged creditors. These alleged creditors are listed in this Disclosure in Section XIV, Litigation.*

Any secured claims may be challenged which could have the result of moving any successful objection to a secured claim or portion thereof into the unsecured class subject to any agreement between Debtor and said secured party.

VI.
TREATMENT OF CREDITORS

The classification of Claims is made for purpose of voting on The Plan, making distributions thereunder and for administration thereof. For purposes of The Plan, those parties holding Claims against or interest in the Debtor are grouped and shall be treated as follows:

CLASS I ADMINISTRATION CLAIMS

Class IA, IB and IC will be paid according to Exhibit III (Projected Income And Expense report) attached hereto.

1A. Professional Fees and Expenses.

All allowed Administrative Expenses, not objected to, shall be paid in full in cash by the Debtor on the later of (a) the date that such Claim is allowed or (b) on the Effective Date of Confirmation, unless otherwise agreed to by the Debtor and the holder of any such allowed Administrative Expense. Professionals are required to apply to the court for approval of the fees, costs, and disbursements in the manner prescribed under 11 U.S.C. §330 or §503(b)(2)-(6) of the Bankruptcy Code. Attorney for the Debtor will make application for approval of his fees, costs and disbursements which fees are secured by lien on unencumbered assets. Debtor estimates that the post-petition professional fees and expenses should not exceed \$75,000.00 to Debtor's Attorney. This subclass is not impaired except by express agreement and shall be paid in full on the Effective Date of the Plan.

IB. U.S. Trustee Fee and Other Allowed Chapter 11 Fees.

To the extent not already paid, the Debtor shall pay to the United States Trustee the Chapter 11 Fees required pursuant to 28 U.S.C. §1930 on or before the Effective Date of Confirmation quarterly. These fees will continue until the case is closed under Federal Bankruptcy Rule 3022. At the same time, the Debtor will provide to the United States Trustee an appropriate accounting indicating the cash disbursements for the relevant period.

In addition, all court costs will be paid to the Court prior to and as a condition to the Court's Confirmation of the Plan. This subclass is not impaired.

1C. Post-Petition Payables.

All trade payables and other administrative expense incurred by the Debtor Post-Petition for normal, reasonable and necessary operating expenses shall be paid by the Debtor on or before the effective date of the Plan. These post-petition payables have previously been and will continue to be set out in Exhibits to approved Orders Authorizing The Use Of Cash Collateral. No applications or proofs of claims need to be filed by the holders of such claims unless the claim holder determines on its own a need to do so to protect its interest(s). This subclass is not impaired.

Class II PRIORITY PAYMENTS

(IIA) Deposits By Individuals: The Deposits by Individuals shall be handled according to the terms and conditions of the individual Rental Agreement. This subclass is not impaired.

(IIB) Taxes Owed To Governmental Units: The pre-petition priority payments not including penalty and interest approximating \$195,148.21 owed by the Debtor will be paid in accordance with 11 U.S.C. §1129(a)(9)(C) beginning on the Effective Date of the Plan. In order to pay this Class in full, the Debtor will escrow \$3,252.47 monthly plus 5 ½ percent interest in its Bankruptcy Account and will make quarterly payments pro rata to members of this Class which will be designated to be applied to the pre-petition outstanding balance and interest. The pre-petition penalty and interest shall be paid under Class VI. This subclass is not impaired.

Class III MODIFIED SECURED CLAIMS

The secured claims of the following Banks will be modified and paid according to the following new terms and conditions and by the following schedule:

The new terms of payment will be that the Bank loans will be paid at the interest rate of 5.25% fixed for a period of five (5) years. The loan will adjust based on an indexing factor of Prime rate plus 1.5% each year after the first five years. The loan will have a floor of 5.25%, a ceiling of 8.25% with a maximum change of 1% per year. The loan will mature in 10 years. The

payment will be amortized over 25 years. New monthly payments are listed in the schedule below.

In addition to the change in the terms/monthly payment amount, the Debtor will incorporate partial release requirements because several Banks have more than one piece of property financed in one loan. Upon the sale of a piece of property to a bona fide purchaser, the Bank shall execute and deliver from time to time when requested partial releases of the lien of the deed of trust as to the parcel sold. The partial release shall be according to the following terms and conditions:

1. The request for release shall be made not less than 10 days in advance of the closing date of the sale.
2. The Bank shall be provided, prior to closing, a copy of the closing statement and a copy of the proposed deed.
3. As a condition to delivery of the release, the Bank shall receive from the proceeds of sale 75% of the net proceeds of sale. The proceeds shall be applied by the Bank to the principal balance of the loan secured by the deed of trust partially released.
4. Upon request, the Bank shall place the release in escrow with the closing agent prior to the closing to be recorded at closing, conditioned upon payment to the Bank of the amount provided for in item 3, above.

Bank/Credit Union	Property Address	Petition Loan Amount	Current Loan Term	Maturity Date	Debtor's reconciled principal amount as shown by Exhibit II attached hereto	New Monthly Payment Plan Amount
1st TN Bank	51 Embassy Row	\$ 239,251.00	5.8%, 15 yrs amort	5/29/2014 all principal/interest due	\$ 235,073.06	\$ 1,408.67
1st TN Bank	45 Embassy Row	\$ 235,266.00	5.7%, 15 yrs amort	5/8/2013 all principal/interest due	\$ 230,961.78	\$ 1,384.03
1st TN Bank	47 Embassy Row	\$ 235,266.00	5.7%, 15 yrs amort	5/8/2013 all principal/interest due	\$ 230,961.78	\$ 1,384.03

Bank/Credit Union	Property Address	Petition Loan Amount	Current Loan Term	Maturity Date	Debtor's reconciled principal amount as shown by Exhibit II attached hereto	New Monthly Payment Plan Amount
Citizens Bank	39 Embassy Row, 702 Swadley Road, 6 York Circle, 154 Pecanwood, 419 Cottonwood	\$ 565,947.00	5.25% Interest only/LOC	4/26/2012 all principal/interest due	\$ 588,391.24	\$ 3,525.92
Bank of TN	PC 514A	\$ 83,141.00	6.125%, 30 yrs amort	3/26/2011 all principal/interest due	\$ 82,089.72	\$ 491.92
Bank of TN	PC 514D	\$ 83,141.00	6.125%, 30 yrs amort	3/26/2011 all principal/interest due	\$ 82,089.72	\$ 491.92
Regions Bank	606, 608, and 704 Swadley Road	\$ 3,770,512.00	5.61%, 30 yrs amort	3/31/2015 all principal/interest due	\$ 3,853,686.28	\$23,093.13
Eastman Credit Union	2020 Indian Ridge	\$ 2,383,489.00	6.125%, 20 yrs amort	7/1/2030 all principal/interest due	\$ 2,348,753.26	\$14,074.85
TriSummit Bank	2823 South Roan Street	\$ 956,460.10	6.75%, 25 yrs amort	8/20/2013 all principal/interest due	\$ 943,194.60	\$ 5,652.07
TriSummit Bank	437 Grovemont Place	\$ 80,000.00	6.5% interest only	4/12/11 all principal/interest due	\$ 78,606.22	\$ 471.05
TOTALS		\$ 9,188,227.10			\$ 9,221,537.12	\$ 55,277.56

The lien or encumbrance will continue to be held by creditors under 11 U.S.C. §1124(2) and 11 U.S.C. §1129(b)(2)(A) to the extent of the value of the collateral. This class is impaired. In the event no specific arrangement is reached regarding the new terms of the loan, an action may be filed with the court for a determination of new payment. Debtor will continue payments under the terms of the approved Agreed Interim Cash Collateral Orders until the Effective Date of the Plan.

The Debtor reserves the right to refinance any or all of the secured debt within the first twenty-four (24) months of the Plan. Upon such refinancing, the Debtor will receive a Fifteen Percent (15%) discount on the amount paid of principle and interest.

CLASS (IV) UNMODIFIED SECURED CLAIM OF REGIONS BANK

The secured claim of the Regions Bank will be paid according to the following schedule:

Bank/Credit Union	Property Address	Petition Loan Amount	Current Loan Term	Maturity Date	Debtor's reconciled principal payment amount as shown by Exhibit II attached hereto		Payment Plan amount
Regions Bank	217 State Street	0	4.125%, 30 yr amort	4/1/2037 all principal/interest due	\$ 201,226.36	Keep current terms	\$1,043.24

The lien or encumbrance will continue to be held by this creditor under 11 U.S.C. §1124(2) and 11 U.S.C. §1129(b)(2)(A) to the extent of the value of the collateral. This class is unimpaired.

Class V EXECUTORY CONTRACTS

The Debtor has approximately 150 Rental Agreements. Each of the Rental Agreements in place on the Effective Date of the Plan will be assumed by the Debtor according to the terms and conditions of each individual Rental Agreement or in accordance with any Court Order or confirmation of Debtor's Plan. This Class is unimpaired.

Class VI UNSECURED NON-PRIORITY CLAIMS

This class consists of all unsecured, undisputed non-priority claims as listed in Section V. Debtor will pay \$1,171.07 per month into this Debtor's Bankruptcy Account, which will be used to make a pro rata quarterly distribution to all creditors in this Class. This payment shall be made for a period of sixty (60) months with the first payment beginning on the Effective Date of the Plan which represents a 100% (per-cent) payoff of the principal balance of claims. \$70,264.30. This Class is impaired.

Class VII INSIDER CLAIMS

This class of claims consists of any unsecured non-priority claims owed to certain stockholders and officers (The Phillips) of the Debtor and related companies. The Debtor, in its Bankruptcy filing did not list any insider claims. If there were insider claims, this Class would receive no payment until all other payments are paid in full according to the terms of the Plan.

The ratio of equity ownership in the Debtor will remain with the present owners. This class is impaired.

VII
COMPENSATION OF MANAGEMENT (EQUITY HOLDERS)

The compensation for the management of the Debtor to The Phillips will remain at the current level until the Plan is completed which is 16.1% of rental incomes. This 16.1 is reflective of the market rate for compensation for persons in East Tennessee performing similar services and this rate is taken from Bank appraisals of Debtor's properties. The stockholders of the Debtor will continue to hold the equity reflected by their stock ownership at the date of the Petition filing. Since taxable income is passed to the equity holders any actual tax liability will be reimbursed by the corporation.

VIII
ABSOLUTE PRIORITY RULE

The absolute priority rule involves the application of the requirement that a Plan of reorganization's treatment of a particular class of creditor is "fair and equitable" 11 U.S.C. §1129(b)(1). Generally, the absolute priority rule prevents a junior class of creditors from receiving a payment or value in excess of a class of creditors senior to it. A Plan which proposes to treat a junior class of creditors more favorable than a senior class of creditors violates the absolute priority rule and is, therefore, not fair and equitable. The Debtor does not contemplate the absolute priority rule to be at issue and believes the treatment of its creditors is "fair and equitable".

IX
TAX CONSEQUENCES

The Debtor is not aware of the specific or definite consequences of confirmation of The Plan, nor the tax consequences if the Debtor were liquidated, and urges you to consult with your tax advisor to determine what, if any, tax consequences you may incur if the Debtor's Plan is confirmed or if the Debtor were liquidated and the factors which may impact on any such tax analysis.

X

IMPLEMENTATION OF THE PLAN

The Debtor's estate consists of the assets previous listed in this Disclosure. These assets will be used by the Debtor to continue the Debtor's business. Based upon the Debtor's best estimates of the future economy of the property building, rental and sales industry, it is anticipated that the Debtor will produce estimated monthly revenues of approximately \$110,000.00, as shown by Exhibit III, Debtor's Projected Income and Expense Report. This Debtor's Plan if accepted would result in full payment of all allowed administrative, priority, and secured claims along with 100% payments to the allowed claims of the unsecured Class of creditors of their principal balance as it existed on the date of filing.

XI. **CONFIRMATION OF THE PLAN WITHOUT CONSENT OF ALL IMPAIRED CLASSES**

The Plan may be confirmed even if not accepted by all impaired classes, if the Bankruptcy Court finds that all other requirements of Confirmation under Section 1129(a) of the Bankruptcy Code (11 U.S.C. §1129(a)) are satisfied and certain additional conditions are met. These conditions are set forth in Section 1129(b) of the Bankruptcy Code, and require, generally, a showing that the Plan does not discriminate unfairly and that the Plan is "fair and equitable" with respect to each Class of Claims and interests that is impaired under, and has not accepted, the Plan. In order to be "fair and equitable" as required by Section 1129(b) of the Bankruptcy Code, the Plan must provide that creditors and interest holders in non-consenting, impaired classes will either receive or retain on account of their claims or interest, property of a value, as of the Effective Date of the Plan, at least equal to the value of such claims or interests or, if they receive less than full value, no class with a junior priority will receive or retains anything on account of such junior claim or interest. These are complex statutory provisions and this summary is not intended to be a complete statement of law. If the Plan is not accepted by an impaired class or classes, the Debtor will rely on the "cramdown" provisions of Section 1129(b) of the Bankruptcy Code and seek confirmation of the Plan.

XII. **PREFERENCES**

The Debtor has analyzed potential preferential transfer or fraudulent transfer claims available to it and does not believe any payment within the preference period was outside the

ordinary course of business of the Debtor and, therefore, not subject to avoidance given the ordinary course of business defense under 11 U.S.C. §547(c)(2).

XIII. **LIQUIDATION ANALYSIS**

Under 11 U.S.C. §1129(a)(7) of the Bankruptcy Code (commonly called the “Best Interest Test”) requires that, as of the Effective Date, each Holder of an impaired claim either (a) accepts the Plan or (b) receives or retains under the Plan property of a value that the holder would receive or retain if the Debtor were to be liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date. The first step in meeting this test is to determine the proceeds that the hypothetical liquidation of the Debtor’s assets and properties would generate in the context of a Chapter 7 liquidation case. The amount of cash held by the Debtor as of the Petition Date together with the proceeds generated from the liquidation of the Debtor’s assets would constitute the gross amount of proceeds available to the Debtor. The amount of any claims secured by those proceeds, the cost and expenses of the liquidation, and any additional administrative expenses and priority claims that may result from the termination of the Debtor’s business and the use of the Chapter 7 for the purposes of a hypothetical liquidation would reduce the amounts of the proceeds. Any monies remaining would be allocated to creditors in strict priority in accordance with 11 U.S.C. §726.

The Debtor believes that the Plan will produce a greater recovery for holders of claims than would be achieved in a Chapter 7 liquidation. Debtor has placed a value on its real properties of \$13,538,700.00. It is the Debtor’s belief that the properties would bring less than that amount at a foreclosure sale. This is due to a number of factors such as the uncertainty of continued occupancy and the status of the economy and the competition. Moreover, the Banks could bid at any foreclosure sale and may bid an amount that would be less than what Debtor owes which would leave a deficiency. Even in the best of times which these are not, there is no practical way to make up this deficiency. In any event, in a liquidation of the Debtor, no creditors other than the Banks would be paid or have any portion of their debt satisfied.

The assets of the Debtor consists of Real Property, as listed in “**IV ASSETS**”, in the approximate amount of \$13,710,680.77 and liabilities, as listed in “**V LIABILITIES**”, in the approximate amount of \$9,732,461.61 which does not include administrative expenses.

With the present economic market, the current banking regulations, the limited number of buyers with cash or the ability to finance such property, current market conditions within the industry and the marketing disadvantage a liquidation sale would have a negative effect on the value of the real estate, and furthermore, would not bring market value due to the large number of similar properties flooding the market and the very nature of a liquidation sale. If this case is converted to a Chapter 7 and the estate liquidated, the estate would sustain additional costs for Trustee fees and sale cost which would likewise cause a smaller estate for distribution. The Debtor estimates that if liquidation was demanded or forced, it would detrimental to the Debtor as follows:

Debtor's analysis of liquidation is as follows:

Estimated current Value of all properties	\$ 13,538,700.00
40% of market value	\$ 5,415,480.00
Secured Claims	\$ 9,376,844.10
Unsecured Claims	\$ 70,264.30
Trustee Fees	\$ 162,464.40
Sales Commissions (10%)	\$ 1,353,870.00
Outcome	\$ (5,547,962.80)

These factors taken together with the large secured claims and priority debt would leave the secured creditors with less than 100% payout as proposed by the plan and nothing for distribution to the unsecured creditors.

In view of these circumstances it would appear to be in the best interest of the creditors to allow the Debtor the necessary time to continue forward with its Plan of Reorganization.

XIV **LITIGATION**

The following is a listing of potential litigation:

1. Ronnie E. Childress d/b/a/ Childress Heating, AC & Refrigeration: filed a suit against Phillips Rental Properties, LLC, et al C92871, in the amount of \$23,683.65 for provision of labor and materials which lawsuit has been withdrawn without prejudice. Debtor contends that it has no liability under the allegations of the law suit, therefore no payments will be made under the terms of the Plan. This lawsuit has been withdrawn by Ronnie Childress d/b/a Childress Heating, AC & Refrigeration without prejudice.
2. Arthur S. Roberts, Jr. d/b/a Country Air Construction: filed a suit against Phillips Rental Properties, LLC, et al in the Law court of Johnson City For Washington County, TN, Case No. 27592. Country Aire Construction DBA Arthur S. Roberts, Jr. filed its Claim #21 as amended in the amount of \$40,535.27 as secured and \$13,513.24 as unsecured. Debtor contends that it has no liability under the allegations of the law suit, therefore no payments will be made under the terms of the Plan.
3. Probuild Company, LLC: filed its Claim # 20 in the amount of \$25,502.50 on the basis of, "This amount is part of the amount in ProBuild Company, LLC's claim against Gary Phillips construction, LLC, Case No. 2:10-bk-53097. ProBuild is not making a duplicate claim but merely asserting that Phillips Rental Properties, LLC, as the property owner of property that ProBuilds' material was used to improve, may owe ProBuild its outstanding balance for these properties pursuant to T.C.A 66-11-101, et seq." Debtor contends that it has no liability under the allegations of the law suit, therefore no payments will be made under the terms of the Plan.

XV **RISK FACTORS**

The Debtor in filing this Chapter 11 proceeding has taken advantage of the opportunity to reorganize its business activities; reduce expenses; increase cash flow and gain an element of control over the bookkeeping and accounting aspects of its business. This restructuring plan of reorganization anticipates a conservative approach to future business practices through proper controls.

The risks faced by creditors under this Plan is that the debtor will not be able to operate profitably or will not be able to operate at a profit level such that the debtor can make the payments to claimants described in the Plan. Debtor believes that it will have sufficient income and positive cash flow to make the payments described in the Plan. However, debtor cannot guarantee that said Plan payments will be available for the years that payments are contemplated under the Plan. Should the debtor fail to comply with the terms of the plan following confirmation, there will be no immediate remedy for creditors. Creditors may do nothing; sue to enforce the provisions of the plan; or move to have the case converted to a Chapter 7 proceeding.

If the case is converted to Chapter 7 and the debtor's assets liquidated, the debtor does not believe that the assets would generate sufficient money to pay as much to unsecured creditors they would receive pursuant to the Plan. The debtor cannot guarantee what the debtor's assets would bring in liquidation. However, debtor believes that unsecured creditors will be paid more from the payments described in the Plan from debtor's continued operation than unsecured creditors would receive in liquidation.

Dated this 16th day of August, 2011

PHILLIPS RENTAL PROPERTIES, LLC
Debtor-in-Possession
- By Counsel-

/s/ FRED M. LEONARD
FRED M. LEONARD
Attorney for Debtor, TN Bar No. 001525
27 Sixth Street
Bristol, TN 37620
(423) 968-3151