UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA

Case No. 17-31929

In re: Chapter 11

Empire Rentals, LLC

Debtor.

THE DEBTOR'S DISCLOSURE STATEMENT (1ST AMENDED)

I. INTRODUCTION

II. NATURE AND HISTORY OF THE DEBTOR'S BUSINESS AND EVENTS LEADING TO THE FILING OF CHAPTER 11
A. Organization and Operations
B. Financial History and Events Leading to Filing of Petition
C. Operations During Chapter 11

III. CLAIMS AGAINST OTHERS
A. Preferences
B. Claims Against Insiders
C. Compensation of Officers
D. Objections to Claims Against the Debtor

IV. DESCRIPTION OF THE DEBTOR'S PLAN OF REORGANIZATION
A. Description and Treatment of Classes of Claims
B. Classes of Claims Impaired Under the Plan
C. Executory Contracts and Unexpired Leases
D. Summary of Plan and Means for Execution of the Plan
E. Future Management of the Debtor

V. CONFIRMATION STANDARDS
A. Who May Vote or Object
B. Votes Necessary to Confirm the Plan
C. Liquidation Analysis
D. Feasibility
E. Discharge of Debtor
F. Modification of Plan
G. Final Decree
H. Certain Risks to Mortgage Holders

VI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

VII. CONCLUSION

I. INTRODUCTION

Empire Rentals, LLC (the "Debtor") filed this case pursuant to Chapter 11 of the United States Bankruptcy Code on June 9, 2017. The Debtor is filing this Disclosure Statement (hereinafter "Disclosure Statement") which has been prepared for the Bankruptcy Court's approval for submission to the holders of the claims and interests with respect to the Debtor and its assets. Capitalized terms used in this Disclosure Statement shall have the meanings given to them in the Plan or by the Bankruptcy Code unless the context otherwise requires.

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. The Debtor is protected by the automatic stay provisions of Section 362 of the Bankruptcy Code while it attempts to present a plan of reorganization to its creditors.

The Debtor's Disclosure Statement is furnished pursuant to Section 1125 of the Bankruptcy Code and is intended to provide all persons known to have claims against the Debtor with sufficient information to permit them to make an informed judgment as to their votes to accept or reject the Plan. No representations concerning the Debtor, particularly as to its future business operations, the value of its property, other than those set forth in this Disclosure Statement, are authorized by the Debtor.

ANY REPRESENTATIONS OR INDUCEMENTS MADE TO SECURE YOUR ACCEPTANCE WHICH ARE OTHER THAN THOSE IN THIS DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY YOU IN ARRIVING AT YOUR DECISION, AND ANY SUCH ADDITIONAL REPRESENTATIONS OR INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR OR TO THE UNITED STATES TRUSTEE, WHO, IN TURN, SHALL DELIVER THIS INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTIONS AS MAY BE DEEMED APPROPRIATE.

THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR BUT HAS NOT BEEN INDEPENDENTLY AUDITED. ALL STATEMENTS CONCERNING FINANCIAL DATA ARE MADE IN GOOD FAITH AND ARE INTENDED TO BE AS COMPLETE AND AS ACCURATE AS POSSIBLE WITHIN THESE LIMITATIONS. BANKRUPTCY COUNSEL FOR THE DEBTOR HAS NOT VERIFIED ANY OF THE INFORMATION SET FORTH IN THIS DISCLOSURE STATEMENT.

II. NATURE AND HISTORY OF THE DEBTOR'S BUSINESS AND EVENTS LEADING TO THE FILING OF THE CHAPTER 11 CASE

A. Organization and Operation.

Empire Rentals, LLC owns and operates real estate located at 4526-4532 East 200th Street, Vermillion Township, Minnesota 55033, in Dakota County, Minnesota (the "Property"). There are five (5) parcels to the Property, as shown on Exhibit A attached hereto. The Property consists of forty-one (41) studio rentals that are fully furnished and equipped with equipment that allows the tenant to cook meals. The Property also has a duplex that is rented on a month-to-month basis. The principals of the Debtor, Vernon Napper and Roxanne Napper are the owner / operators of the Debtor, and have been since approximately 1986.

The encumbrances against this real estate are explained in the attached balance sheets.

B. Events Leading to Filing of Petition

On August 28, 2008, MidCountry Bank ("MidCountry") made a loan to the Debtor in the principal amount of $1,410,574.00. The Debtor signed customary loan documents evidencing this transaction. On March 16, 2010, MidCountry made a second loan to the Debtor in the principal amount of $165,000.00. The Debtor signed customary loan documents evidencing this transaction.

The Debtor defaulted under the obligations to MidCountry around April 2012. At the time of default, the Debtor owed MidCountry $1,644,977.26. On this same day, the Debtor and the guarantors, Vernon and Roxanne Napper, entered into a forbearance agreement. The Debtor faithfully made payments under the forbearance agreement for approximately sixty-six (66) months. Rather than continue to work with the Debtor on another forbearance agreement, MidCountry chose to file a "foreclosure by action" in Dakota County District Court. ("Dakota County Foreclosure Action").

The payments by the Debtor pursuant to the forbearance agreement decreased the balance owed to MidCountry to $1,477,295.07 as of February 22, 2017. On March 29, 2017, the Debtor did receive an offer to purchase the Property for $2,825,000.00, but decided not to move forward with the sale due to signification tax liabilities that would result from a sale. *See attached* Exhibit B (copy of offer on Property).

The Debtor did hire counsel to assist it with the Dakota County Foreclosure Action. The Debtor was incurring attorney fees in what it viewed was a losing battle against MidCountry, so on June 1, 2017, the Debtor and Napper reluctantly stipulated to a money judgment is the amount of $1,515,435.10 (balance as of June 14, 2017), to allow MidCountry to proceed with a foreclosure by action, and for the appointment of a receiver. The Debtor, having second thoughts about what it signed on June 1, 2017, decided that it would like to control its own destiny and continue to operate the business as a debtor-in-possession. To effectuate this desire, the Debtor filed a chapter 11 petition on June 9, 2017, and that case is now pending before this Court.

C. Operations During Chapter 11

1. Monthly Operating Results.

The operating reports filed by the Debtor can be viewed on the court website, or counsel for the Debtor can provide these reports upon request. These reports are not being attached as an exhibit to this Disclosure Statement due to the voluminous pages in each report.

2. Retention of Professionals:

The Debtor has retained the Lamey Law Firm as the Debtor's bankruptcy counsel. There is no Committee of Unsecured Creditors.

3. Liquidation Analysis:

Attached as Exhibit C is a liquidation analysis.

4. Financial Reports and Recent Bank Statements:

Balance sheet for the Debtor, as of 10/31/2017 is attached as Exhibit D. Financial projections for the Debtor is attached as Exhibit F.

III. CLAIMS AGAINST OTHERS

A. Preferences

The Debtor does not believe that there are preferential transfers which have been made to third parties. The Debtor was slightly behind with its payables at the time the Chapter 11 case was commenced. The Debtor believes that it will not be economically beneficial to pursue any potential preferential transfers. Based upon an analysis conducted by the Debtor, the Debtor does not believe that there are preferential transfers that can be pursued

B. Claims Against Insiders

The Debtor believes that there are no claims against Insiders. The compensation taken by Vernon and Roxanne Napper during the applicable lookback period was reasonable and customary considering the value that was provided to the Debtor.

C. Compensation of Officers

The current Owner of the Debtor is and will be Vernon and Roxanne Napper. The future compensation of each will be $60,000 per year each, which is over a 20% reduction from the pre-petition salary. They will continue to manage and operate the Debtor as consideration for this compensation.

D. Objections to Claims Against the Debtor

The claim filing bar date for creditors other than governmental units was October 11, 2017. The claim filing bar date for governmental units was October 11, 2017. The Debtor has reviewed all the filed claims, and does not anticipate asserting claim objections. However, MidCountry has not yet filed a claim, so the Debtor can not determine if it agrees with the

amount owed to MidCountry.

IV. DESCRIPTION OF THE DEBTORS PLAN OF REORGANIZATION

A. Description and Treatment of Classes of Claims.

1. Class 1 - Secured Claim of MidCountry Bank ("MidCountry")

The Debtor has a loan with MidCountry secured by the Property. The balance of the claim is in the approximate amount of $1,600,000.00 (subject to verification and objection if necessary. The actual claim of MidCountry will be paid according to the following terms below). The fair market value of the Property was determined to be $2,825,000.00 based on a recent offer in March 2017. *See* Exhibit B. Accordingly the Class 2 Creditor will have a secured claim in the approximate amount of $1,600,000.00, which the Debtor will issue a promissory note that will require monthly "interest only" installments of $9,000.00 (using a 30 year amortization schedule). The Debtor will pay MidCountry their allowed claim amount with simple interest accruing on the unpaid balance at the non-default contract rate of 6.75% simple interest per annum, commencing 10 days after the Effective Date of the Plan, and continuing for the period of repayment under this Plan. The promissory note to be issued by the Debtor will mature on December 31, 2028, and any balance left owing at that time will "balloon" and become immediately due. The promissory note to issue will have no prepayment penalty. Additionally, the promissory note to issue will only require, as financial reporting requirement, an annual disclosure of the Debtor's federal income tax return. MidCountry's existing mortgages will remain valid. This is an Impaired Class.

2. Class 2 - Secured Claim of Wells Fargo Bank, N.A. ("Wells Fargo")

The Debtor has a loan with the Wells Fargo secured by real estate. The balance of the claim is in the approximate amount of $137,392.00 as of December 11, 2017. This loan was taken out in August 15, 2005 in the original principal amount of $166,600.00. The interest rate

is 7.75% and the monthly payment (principle and interest) is $1,193.55. The maturity date of this mortgage is September 1, 2035. The fair market value of the Property securing this creditor is greater than the amount owed to Wells Fargo. Accordingly, the Class 2 Creditor will have a secured claim in the approximate amount of $137,392.00, which the Debtor will repay according to all of the pre-petition contractual terms. Payment are current with Wells Fargo. This class is not impaired.

3. Class 3 - Secured Claim of Dakota County

The Debtor owes delinquent real estate taxes to Dakota County on the Property. The balance of the Claim is in the approximate amount of $45,170.81. The Class 3 Creditor will have a fully Secured Claim in the amount of $45,170.81, which the Debtor will pay in sixty monthly (60) installments of $960.75. Interest will accrue on the unpaid balance at the rate of ten percent (10.0%) per annum. This is an Impaired Class.

4. Class 4 - Class of General Unsecured Creditors

The Debtor owes approximately $42,500.00 to Unsecured Creditors in this class. The Debtor’s proposal with respect to Unsecured Creditors in Class 4 is to pay them 90% of their allowed Unsecured Claims ($38,250.00), at an interest rate of zero percent (0.0%), payable as follows: $1593.75 paid monthly for twenty-four (24) months, with the first payment being due 10 days after the Effective Date, for a total amount paid of $38,250.00. This is an Impaired Class.

5. Class 5 – Equity Security Holders of the Debtor

The Equity Security Holders (Vernon and Roxanne Napper) will retain their membership interests in the Debtor subsequent to confirmation of the Plan for cash contribution of $2,500.00 each (total of $5,000.00). This cash payment to the Debtor is due 10 days after the Effective Date. This is an Unimpaired Class.

B. Classes Of Claims And Interests Impaired Under Plan

1. Impaired Classes: Classes 1, 3, and 4 are Impaired under this Plan and are entitled to vote for or reject the Plan.

2. Unimpaired Classes: Classes 2 and 5 are Unimpaired under this Plan.

3. Administrative Expense Claims. Each holder of an administrative expense claim allowed under §503 of the Code will be paid in full on the Effective Date of this Plan (as defined in Article IX of the Plan), in cash, or upon such other terms as may be agreed upon by the holder of the claim and the Debtor. These claims are estimated to be $10,000.00.

4. Priority Tax Claims. The Debtor has priority tax claims in the amount of $732.87. These tax claims will be treated as unsecured priority tax claims and will be paid in full 10 days after the Effective Date.

5. United States Trustee Fees. All fees required to be paid by 28 U.S.C. §1930(a)(6) (U.S. Trustee Fees) will accrue and be timely paid until the case is closed, dismissed, or converted to another chapter of the Code. Any U.S. Trustee Fees owed on or before the effective date of this Plan will be paid on the effective date. All US Trustee Reports will be prepared and filed by the Debtor while the case is pending in the Bankruptcy Court.

C. Executory Contracts and Unexpired Leases

1. Assumed Executory Contracts and Unexpired Leases.

a. The Debtor assumed the following executory contracts and/or unexpired leases effective upon the Effective Date of this Plan as provided in Article VIII: all lease agreement with tenants.

b. The Debtor will be conclusively deemed to have rejected all executory contracts and/or unexpired lease not expressly assumed under the above section or before the date of the order confirming this Plan, upon the Effective Date of this Plan.

D. Summary of Plan and Means For Execution Of the Plan

The Debtor is pursuing this Plan to continue its business operations subsequent to approval of this Plan of Reorganization. The Debtor will make payments due under the Plan from business operations. The Debtor does not require any capital infusion or additional loans. The Debtor anticipates no adverse tax consequences to it as a result of the Court confirming the Debtor's Plan of Reorganization. Creditors or Equity Security Holders that are concerned with the Plan may effect their tax liability should consult with their own accountants, attorneys and/or business advisors.

F. Future Management of the Debtor

The Debtor will continue to be managed by Vernon Napper and Roxanne Napper. The Nappers are the owners of the Debtor. Mr. Napper has lead the Debtor since the inception of the business. Mr. and Mrs. Napper have agreed to take a salary of about 20% less based on the pre-petition salary. The Nappers work extensive hours and are committed to the success of the Debtor. The Nappers' compensation may be increased from time to time, provided that such increases do not deviate materially from increases that would result from tying raises directly to changes in the consumer price index.

V. CONFIRMATION STANDARDS

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

confirmation.

A. Who May Vote or Object

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

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

In this case, the Plan Proponent believes that Classes 1, 3, and 4 are impaired and that holders of claims in these Classes are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that all other Classes are unimpaired and that holders of claims in each of these classes, therefore, do not have the right to vote to accept or reject the Plan.

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

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

members of that class.

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

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

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

B. Votes Necessary to Confirm the Plan

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

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (½) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

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

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

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

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as Exhibit C. The liquidation analysis shows that unsecured creditors and equity holders would likely receive payment in full once the Property is sold and the administration of the liquidation case is over. However, it would likely take a chapter 7 trustee over two years to liquidate the Property, hire an accountant to file an estate tax return, pay the capital gains taxes, and then seek approval of the final report. The Debtor believe the discount to the unsecured creditors, and the start of immediate payments, is more favorable than waiting for a lump sum payment under a liquidation. The date of liquidation was chosen as October 31, 2017.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to

the Debtor, unless such liquidation or reorganization is proposed in the Plan. The Plan Proponent believes that the Debtor will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date. The Plan Proponent has provided Balance Sheets as of October 31, 2017 as Exhibit D.

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments. The Plan Proponent has provided projected financial information. Those projections are listed in Exhibit E. The projections are based on the Debtor's books and records. The monthly revenue have been very consistent in recent years. The projections hold the revenue at a constant figure, which is conservative.

The Debtor's financial projections show that the Debtor will have an aggregate annual positive cash flow, after paying operating expenses. The projections show that the Debtor will be able to fund future payments due under the Plan. Like any projections, the Debtor has made a good faith projection of the revenue and expenses. Various factors outside of the control of the Debtor may cause the revenue or the expenses to be higher, or lower than these estimates.

You Should Consult with Your Accountant or other Financial Advisor If You Have Any Questions Pertaining to These Projections. These Projections were made in good faith using the Debtor's books and records, and management's input as to student retention and new business.

E. Discharge Of Debtor

Except as otherwise provided in this Plan, confirmation of this Plan discharges, waives, and releases the Debtors from any debt that arose before the Confirmation Date and any debt of a kind specified in Sections 502(g), 502(h), or 502(i) of the Bankruptcy Code, regardless of whether or not proof of the claim based on such debt was filed or deemed filed under Section 501 of the Bankruptcy Code, such Claim is allowed under Section 502 of the Bankruptcy Code,

or the holder of such claim has accepted the Plan. The payments of, distributions on account of, or treatments of claims in this Plan are deemed to satisfy in full all claims.

F. Modification of Plan

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

G. Final Decree

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

H. Certain Risks to Mortgage Holders

The real estate taxes on the Property are delinquent in the amount of $45,170.81 as of December 14, 2017. Real Estate taxes are a priority lien on the real estate, and the real estate taxes are superior to any mortgages that encumber the property. The fact that real estate taxes are delinquent weakens the security interest of the mortgage holders. However, the Debtor have agreed to pay the past due real estate taxes as part of this Plan, and have the cash flow to meet future real estate tax obligations.

VI. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

The following is intended only as a summary of potential federal income tax consequences of the Plan. Neither this summary nor any other information provided herein should be construed to be the opinion of the Debtor or the Debtor's counsel for purposes of tax planning or reporting. Neither the IRS nor any other taxing authority has participated in the preparation of these materials, and this discussion of tax consequences is not binding on the IRS or any other taxing authority. In general, because the Plan provides for payment of all claims in

full, it is not expected to have any significant tax consequences on creditors or the Debtor. To the extent that the Plan results in certain creditors having reportable loss or gain, the appropriate treatment for purposes of federal income taxes will depend on a number of factors, including, but not limited to, the following: (i) whether the creditor's claim arises out of a transaction that was of a personal rather than a business nature; (ii) the tax basis of the creditor's claim; and (iii) the degree to which the creditor may be able to claim that the value of a particular claim is affected by the Plan. With respect to the Debtor, if the Plan were to result in the discharge of indebtedness a possible tax consequence of the Plan would be that certain tax attributes, including, but not limited to, the Debtor's basis in property, could be reduced to the extent debt is discharged. The foregoing discussion does not constitute tax advice, and is only intended to provide a summary of certain material tax issues that each creditor might consider in deciding how to vote on the Plan. The tax consequences for any particular creditor or other party in interest may involve a large number of variables, and the Debtor therefore makes no representations as to the specific tax implications for any creditor. Creditors and other parties in interest are therefore strongly urged to seek professional advice regarding the tax consequences of the Plan.

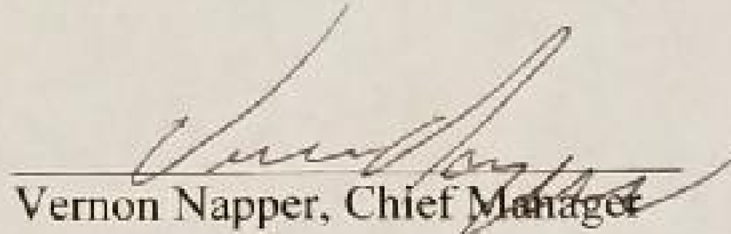
PURSUANT TO U.S. TREASURY REGULATIONS, PLEASE BE ADVISED THAT ANY U.S. FEDERAL TAX ADVICE INCLUDED IN THIS COMMUNICATION (1) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, TO AVOID ANY U.S. FEDERAL TAX PENALTIES, AND (2) IS PROVIDED TO SUPPORT THE PROMOTION OR MARKETING OF THE PLAN. ANY TAXPAYER RECEIVING THIS COMMUNICATION SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR.

VII. CONCLUSION

The Debtor believes that acceptance of the Plan is in the best interest of all parties. The Debtor urges all holders of claims and interests to vote in favor of the Plan.

Empire Rentals, LLC

Dated: January 22, 2018



Vernon Napper, Chief Manager

Dated: January 22, 2018

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