

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.)	

THIRD 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 Third Modified Disclosure Statement” (“The Disclosure”), the Debtor has filed a Third 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

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. Gary Phillips has been involved in the construction industry since 1980. The Phillips have been involved in the building industry (residential and commercial) and management of rental properties in the upper East Tennessee area for ten (10) plus years. The Phillips have continued their formal education toward Masters Degrees in Business Administration.

Shortly after the 9/11 attack on New York City, Gary Phillips lost his position at Siemens Automotive. The Phillips took their personal saving at that time and purchased the property now known as Swadley Park Apartments which included one (1) single family residence and five (5) older apartments. The Phillips’ developed a long range business management plan to purchase

real estate property and design/build high quality, well managed rental properties around the East Tennessee area. In doing so, the Phillips' created the entity Phillips Rental Properties LLC, and built that business model around the motto of "*Phillips Rental Properties – Good Grades Good Rates*", providing rebate checks back to students after each semester based on their grade point average. Today, most of the Debtor's tenants are Master Degree Students enrolled in the Medical or Pharmacy School at ETSU and/or young working professionals. The Debtor further expanded in the last two years with new complexes, The Retreat at Indian Ridge and The Gables at South Roan. The Retreat at Indian Ridge apartments is indirectly linked to the Johnson City Medical Center by way of granting a membership to the Wellness Center to its tenants has a large tenant base of medical professionals.. The Debtor also focused its single family home rentals with its relationship to the medical related centers and related businesses in the area.

The General Contractor constructing these new apartment complexes for the Debtor was Gary Phillips Construction, LLC, with Gary Phillips being the sole shareholder. The business activities of these two entities was complimentary to each company until the banking industry in general stopped making construction type loans which had the end result of both companies filing for reorganization under the United States Bankruptcy Code. Gary Phillips Construction, LLC filed Chapter 11 in the United States Bankruptcy Court for the Eastern District of Tennessee on December 3, 2010 and the Debtor filed its Chapter 11 on December 7, 2010 (the "Petition Date"). These two entities maintain separate books and accounting and there has been no co-mingling of funds since the filing both Debtor's bankruptcies.

II.
EVENTS LEADING TO CHAPTER 11 FILING AND SIGNIFICANT EVENTS
DURING REORGANIZATION

The Debtor's Chapter 11 filing was in part due to the nationwide economic recession and the related real estate market collapse which began in the later part of 2007 and continued through the present date. There were three other major reasons for the Debtor filing its Chapter 11 Petition including the major changes in the local and national banking environment and regulations which posed severe obstacles for developers and investors globally:

- 1) As a partial result of the above, the Debtor began to receive demand letters and letters declaring the Debtor's loans in default as well as threats of immediate foreclosure from Regions Bank;
- 2) The Debtor had ongoing construction projects that had significant unbudgeted cost overruns due to newly mandated Federal and State regulations which required an immediate injection of capital;
- 3) The Debtor had reached a point of insolvency and was unable to pay bills as they became due as shown by its past due priority Tax obligations of \$213,403.39 for property taxes, \$50,635.27 in past due unsecured creditor obligations and approximately \$747,750.00 which

had been declared in default by Regions Bank on a Line of Credit (“Regions LOC”) by letter of April 8, 2010 and demanding payment in full within fifteen (15) days from the date of the letter.

This April 8, 2010 letter threatened foreclosure which resulted in attempted negotiations on this matter for several months which were unsuccessful. Regions LOC was secured by six (6) parcels of real property, and the promissory note was originally executed on May 19, 2009 for the original amount of \$747,750.00. The Regions LOC was to be used to support on-going projects and additional purchases for real estate property when needed. Shortly after the start of the new year, the senior lending officer had left Regions Bank. A short history of Regions LOC is as follows:

On March 11, 2010 the Debtor received an email from a local appraisal service that it was contacted by Regions Bank to perform appraisals on all properties pertaining to the secured real estate. On April 8, 2010, which was the date the Debtor received demand letter for Regions LOC, there was an existing balance was \$402,913.03. On April 8, 2010 the remaining balance of funds available of Regions LOC was approximately \$344,836.97 which in Debtor’s opinion had more than sufficient equity still available due to value of the equity remaining in the properties securing this loan.

As a result of Regions Bank’s demand letter and declaration that Debtor was in default, the Phillips’ felt they should hire legal counsel and did so by hiring Rick Bearfield, Esquire of Johnson City, Tennessee who notified Regions Bank that Regions LOC would be moved prior to the end of April 2010. The maturity date of the LOC loan at that time was 5/19/2010. Mr. Bearfield had several conversations with counsel for Regions Bank including the itemization of their bill as well the question of whether there was some cross collateralization between the Debtor’s sister corporation Gary Phillips Construction, LLC (hereinafter “GPC”) and possibly the equity holders. The Phillips, individually and through their counsel and on behalf of their Debtor corporation and themselves still do take the position that there is no cross-collateralization between the two corporations and the individuals or any combination thereof. Further, Regions Bank had taken the position that they had to approve all house sales and receive net proceeds from each sale.

At this point in time, Regions Bank submitted documents to the Phillips’ counsel with appraisal values as follows: –i) Swadley Park Apartments – 606 and 608 Swadley Road and Creekside Village Apartments – 704 Swadey Road was valued at \$4,450,000.00 with an outstanding loan balance of \$3,898,611.09 and, ii) The six (6) real estate parcels securing the Regions LOC had a value of \$950,00.00 with an outstanding loan balance of \$429,344.39.

From April 2010 through July 2010, negotiations continued with Regions Bank regarding ongoing issues with draw requests. The Debtor continued to be current with payments. On July 13, 2010, the Debtor received a proposal from Regions Bank demanding the Debtor sign a forbearance agreement to cross-collateralize and cross-default all loans across all entities. The Debtor on advice of counsel refused to sign the forbearance agreement.

On October 11, 2010, the Debtor received a letter addressing the obligations of the Debtor owing to Regions Bank, more specifically, the Promissory Note in the original amount of \$3,995,000.00 dated March 31, 2008 (hereinafter "Regions Note") as being in default by reason of the failure of the Debtor to pay the property taxes due and owing to Washington County and to Johnson City on the real estate securing Regions Note. The letter stated that if the Regions Note was not paid in full within ten (10) days of the date of the letter, then Regions Bank would commence foreclosure on the collateral securing the loans. The Debtor had previously notified Regions Bank that these unpaid taxes were due and payable and Regions Bank refused to use the Regions LOC to service the tax debt. The threats and demands were made by Regions Bank with knowledge that no other secured creditors had declared the Debtor in default and accelerated loan payments.

Following the October 11, 2010, demand letter, the Debtor worked with its counsel and sent a proposal to Regions Bank on November 2, 2010 to address all debt owed by the Debtor and other entities associated with the Phillips'.

On November 4, 2010, the Debtor received a letter from Regions Bank's legal counsel. The letter addressed that Regions Bank would exercise its rights under the Deed of Trust and Assignments of Rents to collect the rents from their property within the next 10 days. The letter also addressed that Regions Bank would commence foreclosure on all of its collateral on the following day. In order to stop potential foreclosure proceedings and the execution on the assignment of rents on the real estate known as Swadley Park and Creekside Village Apartments, the Debtor had no other option but to protect its properties and it became necessary to file for bankruptcy Chapter 11 protection.

In addition to the demands from Regions Bank, the Debtor was faced with unbudgeted cost overages on two new apartment complexes under construction namely The Gables at South Roan which was funded by Tri-Summit Bank and The Retreat at Indian Ridge which was funded by Eastman Credit Union.

The Retreat at Indian Ridge encompasses approximately 10 acres. The initial construction project for Phase I included six buildings totaling 48 units. Once the project was funded and underway, several Federal, State, and City requirements were added which were unbudgeted including adding a sprinkler systems for all units for fire protection, a complete water master meter system for the entire project including future development, a complete drainage and detention pond system for the entire project including future development, power pedestals for future phases and an extensive retaining wall system. This site has a potential for 144 units and at the completion of Phase I, 75% of the infrastructure was completed for the entire project. As the cost overruns became known, the Debtor requested additional funding from Eastman Credit Union. The original loan balance was \$1,932,000.00. The revised appraisal from Eastman Credit Union valued the project at \$3,275,000.00 even though no credit was given for the additional land value and infrastructure credit. The revised Eastman Credit Union loan

amount is \$2,400,000.00 representing 75% of appraisal value. Phase I of The Retreat at Indian Ridge is now complete and fully rented.

The Gables at South Roan also faced unbudgeted cost overruns due to site costs and sprinkler system requirements. The Debtor requested additional funding from Tri-Summit. The bank would only provide additional funding with additional collateral and the Debtor was able to obtain additional funds of \$80,000.00. The Debtor has received recent appraisals valuing the project at \$1,425,000.00. The Tri-Summit loan amount is \$960,000.00. The Gables at South Roan is now complete and fully rented.

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 on-going development of a business model, Debtor has conducted a 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 setting forth each respective creditor and has compiled an accounting including principal, contract interest and fees which are listed in this Disclosure

The Debtor has used these balances to calculate payments for its Plan of Reorganization. The Debtor has attached hereto as Exhibit I a Projected Income and Expense which shows cash flows sufficient to fund the Plan. As a part of its business plan, the Debtor intends to market and sell the home and condo properties in a controlled fashion. As tenant leases mature and market conditions permit, the home and condo properties will be sold. In the Plan, the Debtor will treat each mortgage holder as a separate class with the terms of each class to vary. These terms will preserve equity in the properties, but will also ensure that the Debtor will have sufficient cash flows to fund the Plan.

The Debtor was insolvent on the Petition Date and unable to pay creditors as payment came due and in addition the Debtor may have been in default on certain of its notes and security obligations as of the Petition Date although it is Debtor's position that no creditor is entitled to a default interest rate under the terms of Bankruptcy Code and/or State law. To the extent that the amount claimed by a creditor does not reconcile with the amount reflected by the books and records of the Debtor, the Debtor reserves the right to object to any claim provided by the Proof of Claim.

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 II and represents OPR 1, 2 and 5 as filed for the period ending September 30, 2011 under the U.S. Trustee guidelines. Prior to circulation, Debtor will substitute the above OPRs for the most recently filed reports.

III. **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 pursuant to §1126(f) of the Code, are 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.

IV. **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.

V.
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
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

¹ The current market value is based on an analysis composed of current appraisal, tax appraisal, comparable sales, or income approach. Documentation of market value basis is provided in Section VII under the Secured Claims Classifications. Since the date of filing for the purpose of this chart, the Debtor has determined that there has been no deterioration in property value due to age of properties, level of construction, location, and maintenance conducted.

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	

OTHER ASSETS

	Balance at Petition	Balance as of September 30, 2011 (Exhibit II)
Eastman Credit Union #90001 (Security Deposit Account)	\$63,695.27	\$55,941.17
Eastman Credit Union #2046	\$927.85	\$928.75
Elizabethton Federal #0936	\$10,080.45	\$0
Peoples Community Bank #3849	\$500.00	\$0

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 rendered and 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.

Regions #7652	\$233.81	\$108.81
Regions \$7360	\$166.75	\$166.86
TriSummit Bank #3654	\$87.53	\$87.53
Bank of Tennessee – DIP account #4126	\$0	\$157,789.86
Accounts receivable	\$4,390.45	\$4,390.45
Total	\$80,082.11	\$215,022.98

VI.
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: Exhibit III attached hereto is a detailed itemization of property taxes owed to each government entity.

Taxes to Governmental Unit	Amount as of Petition Date	Claim #	Claim Amount (For time period 2008-2010 as filed in below numbered Proof of Claim as filed by Creditor)	Debtor’s Reconciled Amount
Carter County Trustee, Randal Lewis	\$2,238.00	5	615.00	\$615.00
City of Johnson City,	\$67,504.04	7	95,236.18	\$95,236.18
Washington County Trustee	\$39,377.00	8	\$117,552.21	\$117,552.21
Total	\$109,119.04		\$213,403.39	\$213,403.39

Secured Debt:

Bank Name	Description of Property	Amount Owed as shown on Debtor's Schedule D at Petition Date	Claim #	Amount of Claim
Bank of Tennessee	514D Pilgrim Court	\$83,141.00	17	\$83,559.75
Bank of Tennessee	514A Pilgrim Court	\$83,141.00	18	\$83,559.75
Bank of Tennessee	415 Lake Approach	\$265,325.00	19	\$267,513.69
Carter County Bank	219 Alta	\$204,419.00	4	\$204,419.00
Citizens Bank Line of Credit	6 York Circle	\$565,947.00	6	\$602,223.94
Citizens Bank Line of Credit	702 Swadley		See #6 above	
Citizens Bank Line of Credit	154 Pecanwood		See #6 above	
Citizens Bank Line of Credit	419 Cottonwood		See #6 above	
Citizens Bank Line of Credit	39 Embassy Row		See #6 above	
Eastman Credit Union	2020 Indian Ridge Rd	\$2,383,489.00	16	\$2,393,957.28
First Tennessee Bank	113 Shady Lane	\$86,010.00	29	\$116,716.55 (includes \$29,493.14 of default interest, legal fees, late fees, and taxes)
First Tennessee Bank	51 Embassy Row	\$239,251.00	32	\$301,592.01 (includes \$68,502.58 of default interest, legal fees, late fees, and taxes)
First Tennessee Bank	45 Embassy Row	\$235,266.00	31	\$299,286.55 (includes \$70,798.38 of default interest, legal fees, late fees, and taxes)
First Tennessee Bank	47 Embassy Row	\$235,266.00	30	\$299,286.55 (includes \$70,798.38 of

				default interest, legal fees, late fees, and taxes)
Regions Bank	606 Swadley Rd, 608 Swadley Rd, 704 Swadley (One Loan)	\$3,770,512.00	3	\$4,284,571.59 (includes SWAP Agreement penalty and other cost in the approximate amount of \$430,885.31 which does not appear in Regions' Deed of Trust filed with Proof of Claim)
Regions Bank	217 State Street			
TriSummit Bank	2823 South Roan St	\$956,460.10	1	\$964,140.09
TriSummit Bank Totals	437 Grovemont Place	\$80,000.00	2	\$80,843.73
		\$9,188,227.10		

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. Please refer to collective Exhibit IV for a summary of rental income, vacancy rate, and rental defaults per property and per secured creditor.

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
*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 -
**McClain's Pest Control	0			300.00
**Pop-a-Lock	0			1,436.00
**Regions Bank		3	430,885.31	0
**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
Total- undisputed				\$50,635.27

* *contingent/unliquidated/disputed creditor claims.*

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

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.

VII. 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

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. 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 \$213,403.59 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 \$3,556.72 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. Payments will be made referencing receipt numbers noted in Exhibit III to ensure proper application. This subclass is not impaired.

Class III MODIFIED SECURED CLAIMS OF BANK OF TENNESSEE

Bank of Tennessee has secured claims as further described in collective Exhibit IV attached hereto for the following properties:

(i) 415 Lake Approach – This property is a single family home located in Johnson City, Tennessee. This home is in Park Place Subdivision which is a lake front community. The valuation of this home is based on 2011 property tax appraisal of \$387,100.00. The home is approximately 2500 square feet and was built in 2006. The property was marketed for sale and remained on the market for approximately one year. As the global housing market declined, Bank of Tennessee agreed to provide long term financing to the Debtor due to its established rental business and to preserve equity in the property. The property has been rented since May 2008. The property has long term rental history with the initial tenant being three year contract with Eastman Chemical Company. The current rent rate is \$2,250.00 per month. The home is

in excellent condition with construction being of brick and hardy plank. No extra ordinary expenses are expected for this property due to its condition and age. There are past due property taxes of \$8,896.38 as noted in Exhibit III. The Debtor has made post-petition payments in the amount of \$11,568.90 since the Petition Date.

(ii) 514A Pilgrim Court – This property is a condo located in Plymouth Rock Condominiums in Johnson City, Tennessee. The valuation of the condo is based on 2011 appraisal of \$124,000.00 prepared by Ralph Edward Cornell. The condo is approximately 2100 square feet with a finished basement and one-car garage. The condo was built in 2007. The property has been rented since June 2007 and is in excellent condition. The current rent rate is \$625.00 per month. The condominium complex has amenities including a pool and tennis courts. The condo is currently under contract to sell for \$115,000.00. The Debtor has received approval to sell by the bankruptcy court and the condo is scheduled to close by October 20, 2011. The Debtor has made post-petition payments in the amount of \$3,679.48 since the Petition Date.

(iii) 514D Pilgrim Court - This property is a condo located in Plymouth Rock Condominiums in Johnson City, Tennessee. The valuation of the condo is based on an average of the 2011 tax appraisal of \$128,400 and a like-kind sale in the same complex on January 31, 2011 of \$105,200. The condo is approximately 1500 square feet with a one-car garage. The condo was built in 2008. The property has been rented since September 2008 and is in excellent condition. The current rent rate is \$625 per month. The condominium complex has amenities including a pool and tennis courts. As the global housing market declined, Bank of Tennessee agreed to provide long term financing to the Debtor due to its established renal business and to preserve equity in the property. No extra ordinary expenses are expected for this property due to its age and condition. The Debtor has made post-petition payments in the amount of \$3,679.45 since the Petition Date.

The above secured claims of Bank of Tennessee 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 on the Effective Date of the Plan the Bank loans will be paid at the interest rate of 5.25% fixed for a period of five (5) years. On the five (5) year anniversary of the Effective Date of the Plan, the loan will adjust based on an indexing factor of Prime rate as set forth in the Wall Street Journal plus 1.5% for this year and each year thereafter on the anniversary date of the Effective Date of the Plan. During the total term 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 and the payment rate will be amortized over 30 years. New monthly payments are listed in the schedule below. Regular interest per current loan will be added to the reconciled balance for post petition time through the Effective Date of the Plan.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit IV attached hereto (as of 10/11/11/)	New Estimated Monthly Payment Plan Amount
Bank of TN	PC 514A	\$ 83,141.00	6.125%, 30 yrs amort	3/26/2011 all principal/interest due	\$ 87,576.94	\$483.60
Bank of TN	PC 514D	\$ 83,141.00	6.125%, 30 yrs amort	3/26/2011 all principal/interest due	\$ 87,576.94	\$ 483.60
Bank of TN	415 Lake Approach	\$ 265,325.00	6.125%, 30 yrs amort	3/26/2011 all principal/interest due	\$ 274,892.50	\$ 1517.97

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.

Class IV MODIFIED SECURED CLAIMS – CARTER COUNTY BANK

Carter County Bank has a secured claim as further described in Exhibit V attached hereto for the following property:

(i) 219 Alta Tree Blvd – This property is a single family home located in Johnson City, Tennessee. The valuation of the home is based on 2011 property tax appraisal of \$292,600.00. The home is approximately 2400 square feet with two-car garage and fenced back yard. The home was built in 2007. As the global housing market declined, Carter County Bank agreed to provide long term financing to the Debtor due to its established renal business and to preserve equity in the property. The property has been rented since August 2008 and is in excellent condition. The current rent rate is \$1400 per month. No extra ordinary expenses are expected for this property due to its condition and age. The Debtor has made post-petition payments in the amount of \$10,344.25 since the Petition Date.

The secured claims for Carter County Bank 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 on the Effective Date of the Plan the Bank loans will be paid at the interest rate of 5.25% fixed for a period of five (5) years. On the five (5) year anniversary of the Effective Date of the Plan, the loan will adjust based on an indexing factor of Prime rate as set forth in the Wall Street Journal plus 1.5% for this year and each year thereafter on the anniversary date of the Effective Date of the Plan. During the total term 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 and the payment rate will be amortized over 30 years. New monthly payments are listed in the schedule below. Regular interest per current loan will be added to the reconciled balance for post petition time through the Effective Date of the Plan.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit V attached hereto (as of 10/11/11)	New Estimated Monthly Payment Plan Amount
Carter County Bank	219 Alta Tree Blvd	\$204,419.00	6.75%, 25 yrs amort	7/29/2018, adjusts	\$ 208,157.27	\$ 1128.81

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.

Class V MODIFIED SECURED CLAIMS – CITIZENS BANK

Citizens Bank has secured claims as further described in collective Exhibit VI attached hereto on the properties listed below:

(i) 419 Cottonwood Drive – This property is a single family home located in Piney Flats, Tennessee. The valuation of the home is based on an appraisal on April 29, 2009 of \$124,000.00 prepared by Nicole Simpson. The 2011 property tax appraisal is \$114,000.00. The home is approximately 1500 square feet with a finished basement, carport, and fenced back yard. The home was built in 1973. The property has been rented since February 2003 and is in good condition. No extra ordinary expenses are expected for this property due to its condition. The current rent rate is \$900 per month.

(ii) 39 Embassy Row – This property is a single family home located in Johnson City, Tennessee. The valuation of the home is based on 2011 property tax appraisal of \$404,300.00. A recent appraisal of March 10, 2010, prepared by Esmond D. Jones valued the home at \$385,000.00. The home is approximately 2400 square feet with two-car garage. The home was built in 2007. The property has been rented since May 2008 and is in excellent condition. No

extra ordinary expenses are expected for this property due to its age and condition. The current rent rate is \$1300 per month.

(iii) 154 Pecanwood Drive– This property is a single family home located in Jonesborough, Tennessee. The valuation of the home is based on an appraisal on April 25, 2009 of \$148,000.00. Additional valuation include the 2011 property tax appraisal of \$150,600 and a recent bank appraisal of March 17, 2010 of \$142,000.00 prepared by John Chittester Jr. The home is approximately 2000 square feet with a finished basement. The home was built in 1999. The property has been rented since February 2008 and is in good condition. No extra ordinary expenses are expected for this property due to its condition. There are past due property taxes of \$720.58 as shown in Exhibit III. The current rent rate is \$1000 per month.

(iv) 702 Swadley Rd – This property is a single family home located in Johnson City, Tennessee. The valuation of the home is based on an appraisal on March 15, 2010 of \$126,000.00 prepared by Esmond D. Jones. . The 2011 property tax appraisal is \$114,800. The home is approximately 1100 square feet with a single car garage and fenced back yard. The home was built in 1960. The property has been rented since May 2004 and is in good condition. No extra ordinary expenses are expected for this property due to its condition. The current rent rate is \$800 per month.

(v) 6 York Circle– This property is a single family home located in Johnson City, Tennessee. The valuation of the home is based on an appraisal of March 30, 2009 of \$112,000.00 prepared by Nicole Simpson. The 2011 property tax appraisal of the home is \$85,700. The home is approximately 1100 square feet with a carport. The home was built in 1973. The property has been rented since August 2003 and is in good condition. No extra ordinary expenses are expected for this property due to its condition. The current rent rate is \$700 per month.

The Debtor has made post-petition payments in the amount of \$19,131.00 since the Petition Date.

The current loan with Citizens Bank is at a rate of 5.25% interest only with a maturity date of 4/26/12. The secured claims for Citizens Bank 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 on the Effective Date of the Plan the Bank loans will be paid at the interest rate of 5.25% fixed for a period of five (5) years. On the five (5) year anniversary of the Effective Date of the Plan, the loan will adjust based on an indexing factor of Prime rate as set forth in the Wall Street Journal plus 1.5% for this year and each year thereafter on the anniversary date of the Effective Date of the Plan. During the total term 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 and the payment rate will be amortized over 30 years. New monthly payments are listed in the schedule below. Regular interest per current loan will be added to the reconciled balance for post petition time through the Effective Date of the Plan.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit VI attached hereto (as of 10/11/11)	New Estimated 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	\$612,624.67	\$ 3382.94

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.

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.

Class VI MODIFIED SECURED CLAIMS – EASTMAN CREDIT UNION

Eastman Credit Union has secured claim as further described in Exhibit VII attached hereto for the following property:

(i) 2020 Indian Ridge Rd (The Retreat at Indian Ridge)– This property is an apartment complex consisting of 48 units in Johnson City, Tennessee. The valuation of the complex is based on an appraisal dated 4/16/10 of \$3,275,000.00 prepared by Andrew Easton. The development consists of 6 buildings with 8 one-bedroom units per building. Three of the buildings were completed in 2009 and the remaining three buildings were completed in 2010. The property consists of approximately 10 acres with infrastructure of paving and utilities completed for an additional 96 units. The Debtor incurred several unbudgeted project overruns as a result of changes in City, State, and Federal requirements. They included sprinkler systems for all units for fire protection, a complete water master meter system for the entire project including future development, a complete drainage and detention pond system for the entire project including future development, power pedestals for future phases and an extensive retaining wall system. The site has a potential for 144 units. At the completion of Phase I, 75% of the infrastructure is now complete for the entire project. All 48 units in Phase I are complete and rented. The Debtor plans to seek funding to build out the remaining 96 units in one or two phases. The build-out of these phases will be very cost effective since the majority of the infrastructure is complete for the additional units.

No extra ordinary expenses are expected for this property due to its age and condition. There are past due property taxes of \$13,057.39 as shown in Exhibit III. The Debtor has made post-petition payments in the amount of \$121,575.09 since the Petition Date.

The secured claim for Eastman Credit Union will be modified and paid according to the following new terms and conditions and by the following schedule:

The new terms for payment will be that on the Effective Date of the Plan the Bank loan will be paid at the current loan terms with the arrearage of regular interest and fees, as noted in the total accounting summary exhibit, will be amortized over the 20-year term. The new monthly payment will be \$17,345.06.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit VII attached hereto (as of 10/11/11)	New Estimated Monthly Payment Plan Amount
Eastman Credit Union	2020 Indian Ridge	\$ 2,383,489.00	6.125%, 20 yrs amort	7/1/2030 all principal/interest due	\$ 2,396,848.04	\$17,345.06

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 unimpaired. 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.

Class VII MODIFIED SECURED CLAIMS – FIRST TENNESSEE BANK

First Tennessee Bank has secured claims as further described in Exhibit VIII attached hereto for the following properties:

(i) 45 Embassy Row – This property is part of a duplex located in Johnson City, Tennessee. The valuation of the home is based on an appraisal in 2008 of \$360,000.00. A recent appraisal of 8/10/11 prepared by Noel A. Gardner valued the home at \$330,000.00. The home is approximately 2500 square feet with a two-car garage and fenced back yard. The home was built in 2006. As the global housing market declined, First Tennessee Bank agreed to provide long term financing to the Debtor due to its established rental business and to preserve equity in the property. The property has been rented since July 2007 and is in excellent condition. The current rent rate is \$2,000.00 per month. No extra ordinary expenses are expected for this property due to its age and condition. There are past due property taxes of \$3,177.65 as shown in Exhibit III. The Debtor has made post-petition payments in the amount of \$15,064.77 since the Petition Date.

(ii) 47 Embassy Row – This property is part of a duplex located in Johnson City. The valuation of the home is based on an appraisal of \$360,000.00. A recent appraisal of 8/10/11 prepared by Noel A. Gardner valued the home at \$330,000.00. The home is approximately 2500 square feet with a two-car garage and fenced back yard. The home was built in 2006. As the global housing market declined, First Tennessee Bank agreed to provide long term financing to the Debtor due to its established rental business and to preserve equity in the property. The property has been rented since July 2007 and is in excellent condition. The current rent rate is \$2,000.00 per month. No extra ordinary expenses are expected for this property due to its age and condition. There are past due property taxes of \$3,177.65 as shown in Exhibit III. The Debtor has made post-petition payments in the amount of \$15,064.77 since the Petition Date.

(iii) 51 Embassy– This property is a single family home located in Johnson City. The valuation of the home is based on 2011 real estate tax appraisal of \$330,800.00. A recent appraisal of 8/10/11 prepared by Noel A. Gardner valued the home at \$330,000.00. The home is approximately 2000 square feet with a two-car garage. The home was built in 2009. As the global housing market declined, First Tennessee Bank agreed to provide long term financing to the Debtor due to its established rental business and to preserve equity in the property. The property has been rented since January 2010 and is in excellent condition. The current rent rate

is \$1800 per month. No extra ordinary expenses are expeted for this property due to its age and condition. The Debtor has made post-petition payments in the amount of \$14,622.79 since the Petition Date.

(iv) 113 Shady Lane – This property is a single family home located in Johnson City. The valuation of the home is based on 2011 real estate tax appraisal of \$146,3000.00. A recent appraisal of 8/10/11 prepared by Noel A. Gardner valued the home at \$125,000. The property includes 3 acres with a barn. The home is approximately 1100 square feet with a car port and partially finished basement. The home was built in 1963. The property has been rented since 2007 and is in good condition. The current rent rate is \$850 per month. No extra ordinary expenses are expected for this property due to its condition. The Debtor has made post-petition payments in the amount of \$6,172.74 since the Petition Date.

The secured claims for First Tennessee Bank 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 on the Effective Date of the Plan the Bank loans will be paid at the interest rate of 5.25% fixed for a period of five (5) years. On the five (5) year anniversary of the Effective Date of the Plan, the loan will adjust based on an indexing factor of Prime rate as set forth in the Wall Street Journal plus 1.5% for this year and each year thereafter on the anniversary date of the Effective Date of the Plan. During the total term 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 and the payment rate will be amortized over 30 years. New monthly payments are listed in the schedule below. Regular interest per current loan will be added to the reconciled balance for post petition time through the Effective Date of the Plan.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit VIII attached hereto (as of 10/11/11)	New Estimated 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	\$ 242,103.54	\$ 1336.90
1st TN Bank	45 Embassy Row	\$ 235,266.00	5.7%, 15 yrs amort	5/8/2013 all principal/interest due	\$ 240,043.71	\$ 1325.53
1st TN Bank	47 Embassy Row	\$ 235,266.00	5.7%, 15 yrs amort	5/8/2013 all principal/interest due	\$ 240,043.71	\$ 1325.53
1st TN Bank	113 Shady Lane	\$ 86,010.00	7.1%, 15 yrs amort	5/30/2012 all principal/interest due	\$ 91,501.49	\$ 505.27

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.

Class VIII MODIFIED SECURED CLAIMS – REGIONS BANK

Regions Bank has secured claims as further described in Exhibit IX attached hereto for the following properties:

(i) 606 Swadley Road (Swadley Park)– This property is an apartment complex consisting of 49 units in 7 buildings in Johnson City, Tennessee. The complex consists of (5)- 2-bedroom, 1-bath, (22) 1-bedroom, 1-bath, (12) 2-bedroom, 2.5-bath with garage, and (10) 2-bedroom, 2.5 bath. The property was purchased in 2001 and included only one building built in 1967. The older building is completely brick construction and has been completely remodeled. The remaining 6 buildings were built from 2002 until 2004. The property is completely rented and had an excellent rental history. The rental income for the complex is \$28,305.

(ii) 608 Swadley Road – This property is a single family home in Johnson City. The home is approximately 1100 square feet with a car port and fenced back yard. The home was built in 1967. The property has been rented since 2001 and is in good condition. The current rent rate is \$940 per month.

(iii) 704 Swadley Road (Creekside Village) – This property consists of one single family home and 22 apartments in Johnson City. The home is approximately 1100 square feet with a car port and fenced back yard. The home was built in 1955. The property has been rented since 2001 and is in good condition. The current rent rate is \$950 per month. The apartment complex consists of (17) 2-bedroom, 2.5 bath units and (6) 3-bedroom, 3.5 bath units. The apartments were built in 2005 and are in excellent condition. The rental income for this complex is \$17,390 per month.

The Debtor expects extra ordinary expenses of heat pump replacements due to history and age of units. Budget amounts are \$1,100 per unit and expected over next three years. There are past due property taxes of \$185,433.55 as shown in Exhibit III. The Debtor has made post-petition payments in the amount of \$160,717.83 since the Petition Date.

The basis for the Debtor's valuation of \$5,000,000.00 is based on an appraisal obtained by Love Funding. The Debtor has received an engagement letter from Love Funding for refinance of the properties. Regions valuation of the property has varied significantly over the past three years. During the refinance of the property in July 2008, Regions Bank obtained an appraisal for \$4,740,000. In early 2010 Regions Bank notified the Debtor that they had received an appraisal for \$3,900,000. During the course of the cross-collateralization discussion of all

Phillips' entities, Regions provided a value of \$4,405,000.00. Regions filed its initial proof of claim on 12/17/10 with a valuation of \$4,200,000.00 based on an appraisal of April 2011. Regions has since modified their proof of claim and provided a value of \$5,000,00.00 on 7/18/11.

Debtor believes that Regions Bank has included in its Proof of Claim #3 the ISDA Master Agreement dated March 31, 2009 that reflects a SWAP Agreement in the approximate amount of \$430,885.31 which is a penalty and/or other undocumented fees that is calculated by the Bank. Debtor believes that since it is continuing with the original contract terms that the SWAP agreement is not triggered and therefore not payable under the Debtors Plan of Reorganization. In recent correspondence from Regions counsel on October 5, 2011, the SWAP liability is listed at \$503,555.30. This is an increase of \$72,669.99 since the proof of claim was filed. Debtor reserves the right to contest this SWAP Agreement.

The secured claim for Regions Bank will be paid according to the following terms and conditions and by the following schedule:

The terms for payment will be that on the Effective Date of the Plan the Bank loan will be paid at the current loan terms with the arrearage of regular interest and fees, as noted in the total accounting summary exhibit, will be amortized over the 30-year term. The new monthly payment will be \$22,277.37.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit IX attached hereto (as of 10/11/11)	New Estimated Monthly Payment Plan Amount
Regions Bank	606, 608, and 704 Swadley Road	\$ 3,770,512.00	5.61%, 30 yrs amort	3/31/2015 all principal/interest due	\$ 3,876,282.72	22,277.37

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 unimpaired. 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.

Class IX MODIFIED SECURED CLAIMS – TRI-SUMMIT BANK

Tri-Summit Bank has secured claims as further described in Exhibit X attached hereto for the following properties:

(i) 2823 South Roan Street (The Gables at South Roan)– This property is an apartment complex consisting of 23 units in Johnson City. The valuation of the complex is based on a proforma calculation by the Debtor of \$1,500,000. The development consists of 3 buildings with (22) one-bedroom units and (1) two-bedroom unit. Two of the buildings were completed in 2010 and the remaining building were completed in 2011. The complex is currently complete and fully rented. Rental income for the complex is \$13,225.00. No extra ordinary expenses are expected for this property due to its age and condition. There are \$296.12 past due property taxes for this property as shown in Exhibit III. The Debtor has made post-petition payments in the amount of \$46,429.25 since the Petition Date.

(ii) 437 Grovemont Place – This property is a single family home in Piney Flats. The valuation of the home is based on 2010 property tax appraisal of \$133,100.00. The home is approximately 1100 square feet with a car port and fenced back yard. The home was built in 1967. The property is currently vacant and one the market for sale. The most recent rate was \$500.00 per month. The Debtor has made post-petition payments in the amount of \$4,878.23 since the Petition Date.

The secured claim for TriSummit Bank will be modified and paid according to the following new terms and conditions and by the following schedule:

The new terms of payment for 437 Grovemont 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 30 years. New monthly payments are listed in the schedule below. Regular interest per current loan will be added to the reconciled balance for post petition time through Plan Effective Date.

The new terms of payment for 2823 South Roan will be that the Bank loans will be paid at the interest rate of 5.75% 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. Regular interest per current loan will be added to the reconciled balance for post petition time through Plan Effective Date.

Bank/Credit Union	Property Address	Debtor's Claim at Petition	Current Loan Term	Maturity Date	Reconciled balance as shown by Exhibit X attached hereto (as of 10/11/11)	New Estimated Monthly Payment Plan Amount
TriSummit Bank	2823 South Roan Street	\$ 956,460.10	6.75%, 25 yrs amort	8/20/2013 all principal/interest due	\$ 970,546.38	\$ 6105.77
TriSummit Bank	437 Grovemont Place	\$ 80,000.00	6.5% interest only	4/12/11 all principal/interest due	\$ 80,195.10	\$ 442.84

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.

CLASS (X) UNMODIFIED SECURED CLAIM OF REGIONS BANK

Regions Bank has secured claims for the following property:

(i) 217 State Street - This property is a single family home located in Pitkin, Colorado. The valuation of the home is based on a 2008 appraisal. This property was added to the petition after the original filing date. It was discovered that the warranty deed is in the name of Phillips Rental Properties, LLC, but the loan is in the name of Gary and Karla Phillips personally. Payments for this loan have been made by the Phillips' personally.

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		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 XI 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. Please refer to Exhibits IV thru X for each respective secured creditor for a summary of rental income, vacancy rate, and rental defaults per property and per secured creditor.

Class XII UNSECURED NON-PRIORITY CLAIMS

This class consists of all unsecured, undisputed non-priority claims as listed in Section VI. Debtor will pay \$866.82 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. This Class is impaired in that it will receive no post-confirmation interest during the course of Debtor's Plan payments.

Class XIII 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.

VIII
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 amounting to a total monthly management fee of approximately \$17,000.00. Karla and Gary Phillips estimate that they expend at least sixty hours per week each performing professional and business management related work which figures to approximately \$33.75 per hour. This 16.1% is reflective of the market rate for compensation for persons in East Tennessee performing similar services. This rate is taken from current Bank appraisals of Debtor's properties and similar properties in the area. The management fee includes the following duties: selecting tenants,

application processing and review including background checks and reference verification, collection of rents, hiring and paying repair subcontractors, completing and maintaining subcontractor agreements, review and management of insurance policies, accounting reports, vacancy rate reports, accounting and billing of all creditors, show vacant units, answer phone and email inquiries, perform tenant inspections upon move out, accept tenant complaints and repair requests, submit work-orders to subcontractors, and handle marketing and advertisement of 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.

IX **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".

X **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.

XI **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 I, 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.

XII.
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.

XIV.
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).

XV.
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. This Disclosure shows that the Debtor's properties are valued at \$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 is demanded or forced, it would detrimental to the Debtor, the creditors and equity holders as follows:

Petition Date Value of all properties \$13,538.700 less a estimated reduction in liquidation value of 25%. See Affidavit of William A. Miller attached hereto as Exhibit XI		\$10,154,025.00
Amount alleged as Secured Claims as shown in Exhibits IV through X	Bank of TN \$449,783.47 Carter County Bank \$208,035.13 Citizens Bank \$614,083.85* Eastman Credit Union \$2,694,533.76 First TN Bank \$1,016,881.66 Regions Bank \$4,379,838.02** TriSummit Bank \$1,065,657.13	\$(10,428,813.02)
Priority claims		\$(213,403.39)
Unsecured Claims		\$ (50,635.27)
Trustee Fees		\$ (162,464.00)
Commissions/Auctioneer Fees		\$(324,928.80)
Outcome if liquidated		\$ (1,026,219.48)

* does not include attorney fees

** includes SWAP Agreement of \$503,555.30-does not include attorney fees

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.

XV 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.

XVI 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 18th day of October, 2011

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

/s/ FRED M. LEONARD

FRED M. LEONARD

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