

**THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION**

IN RE:)	CASE NO. 05-85627
)	
RELIABLE AIR, INC. d/b/a)	Chapter 11
RELIABLE HEATING AND AIR,)	
)	JUDGE MASSEY
Debtor.)	

**DISCLOSURE STATEMENT TO ACCOMPANY DEBTOR'S
PLAN OF REORGANIZATION**

SCROGGINS & WILLIAMSON

**J. Robert Williamson
Georgia Bar No. 765214
Ashley Reynolds Ray
Georgia Bar No. 601559
1500 Candler Building
127 Peachtree Street, N.E.
Atlanta, GA 30303-1736
404.893.3880**

**ATTORNEYS FOR RELIABLE AIR, INC.
DEBTOR AND DEBTOR-IN-POSSESSION**

Dated: February 12, 2007

ARTICLE I INTRODUCTION

This disclosure statement (“Disclosure Statement”) is submitted by Reliable Air, Inc., d/b/a Reliable Heating and Air, Debtor and Debtor-in-Possession in the above-styled Chapter 11 case (the “Debtor” or “Reliable”), to provide information to all its known creditors and equity interest holders about the Chapter 11 Plan of Reorganization (the “Plan”) filed by the Debtor. The purpose of the Disclosure Statement is to provide information of a kind and in detail sufficient to enable Creditors and Interest Holders in certain impaired Classes to make an informed judgement regarding whether to accept or reject the Plan and to inform Holders of Claims and Interests in the unimpaired Classes of their treatment under the Plan.

Debtor believes that the Plan provides Creditors with the greatest possible value that can be realized on their respective claims and that the Plan is in the best interests of all Creditors. If the Plan is not confirmed by the Bankruptcy Court, the Debtor may be forced to convert this Chapter 11 case to a case under Chapter 7 of the Bankruptcy Code. The Debtor believes that, in the event the case were converted to Chapter 7 of the Bankruptcy Code, Creditors would receive substantially smaller distributions than are provided for in the Plan. Consequently, Debtor seeks confirmation of the Plan and urges all Creditors and Interest Holders to vote to accept the Plan.

Unless otherwise defined herein, capitalized terms used herein shall have the same meaning ascribed to them in the Plan.

1.1 Disclaimer

ALL CREDITORS AND INTEREST HOLDERS ARE ADVISED AND ENCOURAGED TO READ THIS DISCLOSURE STATEMENT AND THE PLAN IN THEIR ENTIRETY. PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, THE EXHIBITS AND THE DISCLOSURE STATEMENT AS A WHOLE.

THIS DISCLOSURE STATEMENT CONTAINS SUMMARIES OF CERTAIN PROVISIONS OF THE PLAN, STATUTORY PROVISIONS, DOCUMENTS RELATED TO THE PLAN, EVENTS IN THE DEBTOR’S CHAPTER 11 CASE, AND FINANCIAL INFORMATION. ALTHOUGH THE DEBTOR BELIEVES THAT THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR’S MANAGEMENT, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. FOR THE FOREGOING REASONS, AS WELL AS THE COMPLEXITY OF THE DEBTOR’S FINANCIAL MATTERS, THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION CONTAINED

HEREIN, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT ANY INACCURACY OR OMISSION. THE FINANCIAL DATA SET FORTH HEREIN, EXCEPT AS OTHERWISE SPECIFICALLY NOTED, HAS NOT BEEN SUBJECTED TO AN INDEPENDENT AUDIT.

NEITHER THE DEBTOR NOR THE BANKRUPTCY COURT HAS AUTHORIZED THE COMMUNICATION OR REPRESENTATION BY ANY PERSON OR ENTITY (INCLUDING ANY OF THE DEBTOR'S AGENTS, OFFICERS, DIRECTORS, EMPLOYEES, ACCOUNTANTS, FINANCIAL ADVISORS, ATTORNEYS OR AFFILIATES) CONCERNING THE DEBTOR, ITS OPERATION, FUTURE REVENUE, PROFITABILITY, VALUE OR OTHERWISE, OTHER THAN AS SET FORTH IN THE DISCLOSURE STATEMENT. THE DEBTOR MAKES NO SUCH REPRESENTATIONS OTHER THAN THAT THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT IS BELIEVED TO BE CORRECT AT THE TIME OF THE FILING OF THE DISCLOSURE STATEMENT. ANY INFORMATION, REPRESENTATION OR INDUCEMENT MADE TO SECURE OR OBTAIN ACCEPTANCES OR REJECTIONS OF THE PLAN THAT ARE OTHER THAN, OR ARE INCONSISTENT WITH, THE INFORMATION CONTAINED IN THE DISCLOSURE STATEMENT SHOULD NOT BE RELIED UPON BY ANY PERSON IN ARRIVING AT A DECISION TO VOTE FOR OR AGAINST THE PLAN. ANY SUCH ADDITIONAL INFORMATION, REPRESENTATIONS AND INDUCEMENTS SHOULD BE IMMEDIATELY BROUGHT TO THE ATTENTION OF THE PLAN PROPONENT.

EXCEPT FOR HISTORICAL INFORMATION, ALL THE STATEMENTS, EXPECTATIONS, AND ASSUMPTIONS, INCLUDING EXPECTATIONS AND ASSUMPTIONS CONTAINED IN THIS DISCLOSURE STATEMENT, ARE FORWARD LOOKING STATEMENTS THAT INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. ALTHOUGH THE DEBTOR HAS USED ITS BEST EFFORTS TO BE ACCURATE IN MAKING THESE FORWARD LOOKING STATEMENTS, IT IS POSSIBLE THAT THE ASSUMPTIONS MADE BY THE DEBTOR MAY NOT MATERIALIZE. IN ADDITION, OTHER IMPORTANT FACTORS COULD AFFECT THE PROSPECT OF RECOVERY TO CREDITORS, INCLUDING, BUT NOT LIMITED TO, THE INHERENT RISKS OF LITIGATION AND THE AMOUNT OF ALLOWED CLAIMS.

1.2 Disclosure Statement

This Disclosure Statement sets forth certain information regarding the Debtor's pre-petition history and significant events that have occurred during the Debtor's Chapter 11 case. This Disclosure Statement also describes the Plan, alternatives to the Plan, effects of confirmation of the Plan, and the manner in which distributions will be made under the Plan. In addition, the Disclosure Statement discusses the confirmation process and voting procedures that Holders of Claims in impaired Classes must follow for their votes to be counted.

When and if confirmed by the Bankruptcy Court, the Plan will bind the Debtor and all

Holders of Claims against and Interests in the Debtor, whether or not they are entitled to vote or did vote on the Plan and whether or not they receive or retain any Distributions or Property under the Plan. Thus, all Claimants are encouraged to read this Disclosure Statement carefully. In particular, Holders of Impaired Claims who are entitled to vote on the Plan are encouraged to read this Disclosure Statement, the Plan, and any exhibits to the Plan or Disclosure Statement carefully and in their entirety before voting to accept or reject the Plan.

1.3 Background

On November 22, 2005, Debtor filed for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Georgia, Atlanta Division (the "Bankruptcy Court").

The case was assigned to Judge James E. Massey. Upon filing for Chapter 11 protection, the Debtor became "Debtor -in-Possession" under the Bankruptcy Code and has acted in that capacity since that time.

Debtor has filed simultaneously with this Disclosure Statement a Plan of Reorganization. The Debtor, as a proponent of the Plan, distributes this Disclosure Statement together with the Plan in order to solicit acceptances of the Plan. This introductory section is qualified in its entirety by the detailed explanations which follow and the provisions of the Plan. In the event of conflict between anything stated in this Disclosure Statement and the Plan, the terms of the Plan will control.

1.4 Solicitation of Acceptances

Pursuant to a Court Order dated _____, creditors and interest holders may accept or reject the Plan no later than _____ (the "Voting Deadline"). A ballot with which to indicate and file an acceptance or rejection of the Plan has been provided to you. You must complete and file your ballot on or before the Voting Deadline in order for your vote to count. Any ballot which is executed by the holder of any Allowed Claim or Allowed Interest but does not indicate acceptance or rejection of the Plan shall be deemed to have accepted the Plan. Any other ballot not filed in accordance with the filing instructions on the ballot pertaining to the Plan shall not be counted for voting purposes.

THE DEBTOR HEREBY SOLICITS APPROVAL OF THE PLAN BY ITS CREDITORS AND INTEREST HOLDERS. DEBTOR BELIEVES THE PLAN PROVIDES THE OPTIMUM RETURN TO CREDITORS AND THAT LIQUIDATION UNDER CHAPTER 7 OF THE BANKRUPTCY CODE WOULD RESULT IN MINIMAL OR NO RETURN TO UNSECURED CREDITORS. THE DEBTOR URGES EACH CREDITOR AND INTEREST HOLDER TO VOTE IN FAVOR OF THE PLAN BY MARKING THE "ACCEPTS" BOX ON THE ENCLOSED BALLOT AND FILING IT WITH THE COURT ON OR BEFORE THE VOTING DEADLINE.

ARTICLE II

HISTORY OF THE DEBTOR AND EVENTS LEADING UP TO CHAPTER 11

2.1 History of the Debtor

Reliable Heating & Air was formed in 1978 as a sole proprietorship. At that time, the company was basically a 2-3 man operation with an emphasis on servicing existing heating and air conditioning systems. The majority of the work was done for property management companies. From 1978 to 1985, Reliable was a small company with less than 20 employees. With the introduction of the Carrier line in 1985, the company began to grow in size and volume. In 1987, the company incorporated under the name Jape Air, Inc., and continued to operate under the trade name Reliable Heating & Air. Over the next decade, the company went from a small “mom and pop” business to a company employing over 50 employees. As the company grew, the operations expanded to include new construction, replacement and upgrade of existing systems, as well as service. Reliable Heating & Air became one of the more recognized heating and air conditioning dealers in the Atlanta market. During this time period, Reliable’s revenues went from the \$1-2 million dollar range to the \$3-4 million dollar range. In 1990, Jape Air, Inc., dissolved and the business continued to operate under the trade name Reliable Heating & Air. In the early 1990’s, the company realized that new construction was not profitable and dropped this from the area of service provided. The company began to specialize in high efficiency sales to existing customers in the replacement/add-on market. Over the next 10 years, Reliable Heating & Air underwent significant and unchecked growth, generating sales in the \$6-8 million dollar range with as many as 75 employees.

In 1998, Reliable Heating & Air incorporated under the name of Reliable Air, Inc. and began to seek funding for the purpose of purchasing property and building a facility to house the business. The original estimated cost to purchase this land and construct a suitable facility was approximately \$700,000.00. Due to cost overruns during construction, the Debtor was required to borrow approximately \$1.2 million. In addition to this loan, Reliable used approximately \$350,000.00 of its working capital/revenue to fund this project, effectively depleting the company’s working capital. The project took over 2 years to complete. In addition to the cost overruns, additional expense was incurred in the form of purchases necessary for the move to the new location. A new phone system was needed, new computers, new office furniture, and additional work vehicles were leased in anticipation of the expansion of the company. Reliable took possession of the building in January 2001. The slowdown of the economy, coupled with very mild summers and winters over the next several years, severely reduced revenue to the company. Reliable began to struggle to pay its vendors in a timely fashion. In December of 2000, a second SBA loan in the amount of \$157,000.00 was obtained in an attempt to infuse capital back into the company. From 2002 through the summer of 2003, Reliable continued to struggle under the burden of debt from the loans associated with the new facility, increased overhead and unchecked spending.

2.2 Events Leading Up To Chapter 11

In the fall of 2003, the principals of the corporation, Dan and Barbara Jape, became

embroiled in a marital dispute that ultimately led to their separation. Beginning in 2004, Mr. Jape stopped coming to work and was not involved in the day-to-day operations of the company. However, he continued to receive his salary, retained his company leased vehicle and all insurances. Ms. Jape took over all responsibilities in the management of the company. The company, already overburdened by its debts, began to fall farther behind in its payments to vendors. Reliable struggled through 2004, slipping further into debt.

In 2005, realizing its dire financial condition, Reliable sought and obtained refinancing of the original loan on the building, as well as a working capital loan. This refinancing brought \$ 175,000.00 in revenue to Reliable. By this time, Reliable was on a COD basis with virtually all of its vendors. Attempting to service the old debt as well as fund the on-going operations of the company quickly depleted the revenue generated from the refinance.

Mr. Jape was not present during most of 2004-2005. In early November 2005, a special meeting of the board of directors was held, and Mr. Jape was removed as president of the corporation. Ms. Jape became the sole officer of the corporation. Realizing that the debt was overwhelming, faced with repossession of all leased vehicles and foreclosure on the property, the board of directors voted to seek relief under Chapter 11 in order to reorganize the business.

ARTICLE III OPERATIONS DURING CHAPTER 11

Since the Petition Date, the Debtor has conducted its business as a debtor-in-possession under Sections 1107 and 1108 of the Bankruptcy Code. The following is a description of significant events that have taken place during the case.

3.1 Retention of Professionals

The Debtor has retained the law firm of Scroggins & Williamson to act as its Chapter 11 counsel in connection with the Case. Scroggins & Williamson has extensive experience representing debtors in complex Chapter 11 bankruptcy cases. The Debtor has also retained Jeffrey K. Kerr & Company, LLC as accountants to review and assist in preparation of necessary financial statements and reports, help with tax issues and other accounting or financial consulting services necessary to the administration of this case, such as assistance with tax issues, accounting and financial projections.

3.2 Payment of Pre-Petition Wages and Salaries

Shortly after the Petition Date, the Debtor filed a motion (the "Wage Motion") for authority to pay pre-petition wages, salaries, commissions and other benefits that had accrued but were unpaid as of the Petition Date. Most of these items were unpaid only because the Debtor's bankruptcy filing occurred during a normal pay period and the Debtor's employees are paid in arrears. Following a hearing on December 1, 2005, the Bankruptcy Court entered an order approving the Wage Motion and granting the relief requested.

3.3 Schedules and Statement of Financial Affairs

On December 30, 2005, the Debtor filed with the Court the schedules and statements required by Bankruptcy Rule 1007. These schedules and statements provide a detailed analysis of the Debtor's financial condition on or about the Petition Date. These documents are available for inspection at the office of the Clerk of the United States Bankruptcy Court.

3.4 Bar Date

The Bankruptcy Court entered an Order on May 15, 2006, establishing July 19, 2006, as the date by which all creditors and interest holders were required to file proofs of claim or interest or be barred from (i) asserting any claim or interest against the Debtor, and (ii) voting on, or receiving distributions under, the Plan. Certain creditors whose claims were listed in the schedules and not identified as "contingent," "disputed" or "unliquidated" may not have been required to file proofs of claim.

3.5 Sale of Commercial Property

After a review of its financial condition and as part of its effort to reorganize the company, the Debtor determined that the sale of its improved commercial property located at 15021 Highway 92, Woodstock, Cherokee County, Georgia 30188 (the "Commercial Property") was in the best interest of the estate and its creditors. The Debtor retained a broker to market and sell the Commercial Property. On July 10, 2006, after locating a buyer, the Debtor filed a motion with the court seeking authority to sell the Commercial Property, free and clear of all liens, claims and encumbrances, for a total purchase price of \$2,075,000.00. The sale was approved by the Court on August 10, 2006, and the sale closed by the end of the month. Three creditors asserted claims against the Debtor secured by the Commercial Property. The Debtor paid Zions First National Bank and Flag Bank in full on their secured claims from the proceeds of the sale. Additionally, the Debtor reached a settlement with Mingledorff's, Inc. regarding the amount of its asserted secured claim. The settlement provided Mingledorff's with an allowed secured claim in the amount of \$100,000.00, and a general unsecured claim in the reduced amount of \$400,000.00. The secured portion of Mingledorff's claim was paid from the proceeds of sale. The remainder of the sale proceeds were paid to the Debtor and are one of the sources for the proposed payments to creditors under the Debtor's Plan.

3.6 Lease of Commercial Property

Following the sale of its Commercial Property, the Debtor entered into a sub-lease agreement with KB Home Atlanta, LLC ("KB Home") to sublease a portion of KB Home's facility located at 110 Londonderry Court, Woodstock, Cherokee County, Georgia 30188, from which the Debtor now operates its business. The sublease commenced on October 1, 2006, and expires on the earlier of (i) the expiration or termination of the master lease between KB Home and Maybrook Realty, Inc., or (ii) November 30, 2008. The facility is ideally suited for the Debtor's business purposes and has resulted in a substantial cost savings to the Debtor on a monthly basis. The Debtor intends to occupy

this space through the termination of the sublease.

3.7 Adversary Proceeding Against Daniel Jape and Kimberly Ruse

On December 7, 2005, the Debtor initiated Adversary Proceeding No. 05-6561 (the "Adversary Proceeding") against Daniel L. Jape and Kimberly E. Ruse, seeking turnover of estate property, enforcement of the automatic stay, damages for misappropriation of trade secrets and injunctive relief. On December 12, 2005, the Debtor entered into a Consent Temporary Restraining Order with Mr. Jape preventing him from appearing on the Debtor's business premises, contacting the Debtor's employees or customers or destroying estate property. During the pendency of the Adversary Proceeding, the Debtor recovered from Mr. Jape and/or Ms. Ruse the estate property sought in the complaint.

The issue of misappropriation of trade secrets expanded during the pendency of the Adversary Proceeding. At the time the complaint was filed, the Debtor was concerned that Mr. Jape and Ms. Ruse were planning to use the Debtor's customer list and other business sensitive information for improper purposes. As the Debtor predicted, Mr. Jape and Ms. Ruse are now operating a competing business in the same market and are using the Debtor's trade name "Reliable Heating & Air" or one which is deceptively similar. Mr. Jape and Ms. Ruse are also infringing on the Debtor's registered trademark. With the expansion of the issues and additional factual background relevant to the trade name and trademark infringement counts, the Bankruptcy Court indicated that these claims should be brought by separate action.

The Debtor intends to pursue its claims against Mr. Jape and Ms. Ruse for misappropriation of trade secrets, trade name infringement, and trademark infringement, among other causes of action. These causes of action are specifically preserved by the Debtor and shall survive Confirmation of the Plan.

3.8 Motion to Dismiss Case

On October 12, 2006, nearly one full year after the Debtor sought relief under Chapter 11, and after the Debtor engaged in numerous actions to negotiate with creditors, sell real property and enter into new leases, Mr. Jape filed a Motion to Dismiss the Chapter 11 Case. In his motion, Mr. Jape alleged that the Debtor's bankruptcy filing was improper and unauthorized because the Debtor failed to follow the necessary corporate formalities to authorize such filing. The Debtor vigorously denied such allegations and filed papers with the Court demonstrating that the Debtor had complied with all of the corporate formalities necessary to authorize the filing. Additionally, the Debtor raised legal arguments that Mr. Jape had waived his right to object to the Bankruptcy Case on the basis of an unauthorized filing as a result of his knowledge of the filing and his silence for approximately a year and that Mr. Jape had ratified the prior acts of the Debtor's officers and board of directors by his participation in the Bankruptcy Case. The Debtor was supported in its objection to Mr. Jape's motion by Mingledorff's, Inc., one of the Debtor's largest unsecured creditors, who agreed with the Debtor that dismissal of the Case was not in the best interest of the Debtor's creditors.

The Court considered Mr. Jape's motion to dismiss along with the Debtor's objection and the objection of Mingledorff's, Inc., at a hearing on January 29, 2007. At the conclusion of the hearing, the Court announced its decision to deny the motion.

3.9 Business Operations

After the filing of the Chapter 11 case, the Debtor immediately began to identify ways to reduce its expenses while increasing its revenues. Those efforts have yielded positive results. The Debtor has been able to stabilize its business operations and its cash flow, despite the fact that it has experienced increased professional and other administrative expenses and has had to pay many suppliers and vendors "C.O.D." as a result of the Chapter 11 filing.

ARTICLE IV CLASSIFICATION OF CLAIMS AND INTERESTS

4.1 Introduction

The following is a summary of the Plan. This overview is qualified in its entirety by reference to the provisions of the Plan. All Claims and Interests in the Case are classified in the Classes below. The Plan provides that holders of Allowed Claims in certain classes will be entitled to a distribution of cash. Notwithstanding any provision of the Plan, a Claim in a particular Class is entitled to receive Distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that Class, and only to the extent such Claim has not been paid, released, or otherwise satisfied prior to the Effective Date.

4.2 Classifications

The Plan divides all Claims and Interests into the following Classes, which shall be mutually exclusive.

Classes of Claims and Interests

- Class 1 - All Allowed Administrative Claims
- Class 2 - All Allowed Priority Tax Claims
- Class 3 - All Allowed Priority Claims
- Class 4 - All Allowed Secured Claims
- Class 5 - All Allowed Unsecured Claims
- Class 6 - All Allowed Convenience Class Unsecured Claims
- Class 7 - All Allowed Equity Interests in the Debtor

ARTICLE V DESCRIPTION OF CLAIMS AND TREATMENT UNDER THE PLAN

The Classes of Claims and Interests, as well as their treatment and an analysis of whether

they are impaired or unimpaired, are described as follows:

5.1 Unimpaired Classes of Claims and Interests

The following classes of Claims and Interests are unimpaired; therefore, under 11 U.S.C. § 1126(f), they will be conclusively presumed to have accepted the Plan.

(a) Class 1 - Administrative Claims

Administrative Claims consist primarily of professional expenses incurred during the administration of the Chapter 11 case, amounts required to cure executory contracts to be assumed, and trade debt incurred in the ordinary course of the Debtor's business post-petition. The Debtor estimates that total unpaid professional fees and expenses incurred by attorneys for the Debtor, accountants for the Debtor, and any other professionals approved by the Court, net of retainers and reserves established in the Case, will not exceed \$125,000 on the Effective Date. Post-Petition Trade Claims will be paid in the ordinary course of business following the Confirmation Date. Other Administrative Claims shall be paid in full on or before the later of the Effective Date of the Plan or entry of a Final Order allowing the Claim, unless otherwise agreed between the Debtor and the claimant, or such earlier date as the Court may direct. The Debtor intends to pay all Administrative Claims from the proceeds of its ongoing operations.

(b) Class 2 - Priority Tax Claims

The Plan provides for payment of Priority Tax Claims from its operating revenues, over a period ending no later than six years from the date of assessment of the tax which forms the basis of each claim.

(c) Class 3 - Priority Claims

The Plan provides that all Priority Claims are to be paid on or before the Effective Date, or upon such other terms as may be agreed to between the Debtor and each such priority claimant. The Debtor does not believe it has any Priority Claims.

5.2 Impaired Classes of Claims

(a) Class 4 - Secured Claims

Any Allowed Secured Claim in Class 4 shall be satisfied in full, by payment of cash to the holder of such Secured Claim in an amount equal to the value of such holder's interest in the collateral securing the Secured Claim, with such payment to be made on or before the later of (a) the Effective Date, or (b) if the Secured Claim is a Disputed Claim, entry of a Final Order allowing the Secured Claim. The Debtor does not believe there will be any Allowed Claims in Class 4.

(b) Class 5 - Unsecured Claims

Unsecured Creditors in Class 5 shall receive distributions from the Distribution Fund to be established under the Plan. Payments shall be made from the Distribution Fund to Unsecured Creditors holding Allowed Claims in Class 5 on or before the following distribution dates: (a) the later of (i) thirty (30) days after the Effective Date, or (ii) July 1, 2007; (b) June 30, 2008; (c) June 30, 2009; and (d) June 30, 2010. In the event the Debtor's net revenues are ten percent (10%) or more below the Debtor's projections set forth in Exhibit B attached hereto, the Debtor may elect to defer a distribution for a period of up to six (6) months. On each of the foregoing distribution dates, each holder of an Allowed Unsecured Claim in Class 5 shall receive payment of a Pro Rata share of the funds then available in the Distribution Fund on such distribution date. Distributions with respect to each Disputed Claim in Class 5 shall be held in reserve until such time as the Claim becomes an Allowed Claim or Disallowed Claim. Distributions held in reserve with respect to Disputed Claims in Class 5 that become Allowed after the Effective Date shall be paid as soon as reasonably practicable after the dates such Claims are Allowed. The total aggregate amount of all distributions with respect to Allowed Unsecured Claims in Class 5 (other than Allowed Claims under Section 502(h) of the Bankruptcy Code) shall not exceed the total aggregate amount of funds paid into the Distribution Fund by the Debtor.

All payments made to Unsecured Creditors holding Class 5 Claims arising under Section 502(h) of the Bankruptcy Code shall be paid out of the Section 502(h) Fund. Such payment shall be in an amount equal to the amount of such creditor's Allowed Claim multiplied by the percentage received by Unsecured Creditors holding Class 5 Claims which were paid from the Distribution Fund.

(c) Class 6 - Convenience Class Unsecured Claims

Class 6 consists of all creditors holding Allowed Unsecured Claims of \$5,000 or less and all creditors who hold Allowed Unsecured Claims that exceed \$5,000 and who elect to voluntarily reduce their Claims to \$5,000, waive and release any remaining Claims against the Estate and participate in Class 6. In the event Class 6 votes to reject the Plan, Class 6 will be eliminated and holders of Claims that would otherwise be included in Class 6 will be treated as holders of Class 5 Claims. On or before sixty days following the Effective Date or as soon thereafter as is reasonably practicable, and after the payment of Distributions to the holders of Claims in Classes 1 through 3, the Reorganized Debtor shall make a one-time Distribution to each holder of an Allowed Claim in Class 6 in an amount equal to fifteen percent (15%) of such holder's Allowed Claim in Class 6 in full and final satisfaction of such Claim.

(d) Class 7 - Equity Interests

Upon Confirmation, all Equity Interests in the Debtor are cancelled pursuant to the Plan.

**ARTICLE VI
MEANS FOR EXECUTION OF THE PLAN**

6.1 Corporate Existence

The Reorganized Debtor shall continue to exist after the Effective Date as a corporate entity, with all the powers of a corporation under applicable law and without prejudice to any right to alter or terminate such existence (whether by merger or otherwise) under applicable state law.

6.2 Issuance of New Stock and Pledge to Collateral Agent

The Plan provides for a twenty-five thousand dollar (\$25,000) infusion of capital in the Reorganized Debtor by the Debtor's senior management and the issuance of new stock in the Reorganized Debtor following Confirmation. The new stock in the Reorganized Debtor shall be pledged for the benefit of the Beneficial Holders as collateral for the Debtor's obligations under the Plan, pursuant to the terms of a Collateral Trust Agreement. As the Debtor satisfies certain benchmark obligations under the Plan, a portion of the new stock will be released from the Collateral Trust. The first twenty-five percent (25%) will be transferred to the Debtor's senior management who participated in the equity infusion. The remainder of the stock in the Reorganized Debtor will be transferred to Ms. Jape as part of her annual compensation as discussed in Section 6.3 below.

6.3 Corporate Governance

In accordance with the provisions of Section 1129(a)(5) of the Bankruptcy Code, the Debtor proposes to allow Ms. Barbara Jape to continue in her capacity as President, Secretary and Treasurer of the Reorganized Debtor following confirmation of the Plan. Within the initial ninety (90) day period following Confirmation of the Plan, the Shareholder(s) will meet and elect a Board of Directors who will in turn elect additional corporate officers as needed. The Board of Directors of the Reorganized Entity shall bear responsibility for the management, control and operation of the Reorganized Entity on and after the Effective Date and will govern in accordance with the Articles of Incorporation and Corporate By-Laws existing prior to the Effective Date except to the extent these are amended by implementation of the Plan.

Salaries as of the Effective Date shall be the same as during the Chapter 11 case, and any increases post-confirmation shall not exceed normal and customary amounts. On or before the Effective Date, the Debtor will enter into an employment agreement with Ms. Jape for her continued employment as President, Secretary and Treasurer of the Debtor post-petition. As part of Ms. Jape's compensation, and as an incentive to ensure that the Debtor meets its creditor obligations under the Plan, Ms. Jape will earn twenty-five percent (25%) of the outstanding stock in the Reorganized Debtor each year for a period of three (3) years, contingent upon the Debtor satisfying its obligations under the Plan and as such stock is released from the Collateral Trust. In exchange for the issuance of stock in the Reorganized Debtor, Ms. Jape's annual salary is reduced by twenty-five thousand dollars (\$25,000) for each year in which she receives twenty-five percent of the outstanding stock of the Reorganized Debtor as compensation.

6.4 Restriction on Payments of Dividends

During the period that the Debtor is performing its obligations to Unsecured Creditors under the Plan, the Debtor has agreed that no dividends shall be paid (though they may be accrued).

6.5 Corporate Charter

On the Effective Date, the Reorganized Debtor's Articles of Incorporation shall be deemed amended to prohibit the issuance of non-voting equity securities to the extent and for any length of time required by Section 1123(a) of the Bankruptcy Code. After the Effective Date, the Debtor may amend and restate its Articles of Incorporation or By-Laws as permitted by Georgia law.

6.6 Vesting of the Debtor's Assets

Pursuant to the Plan, all property of the Debtor shall vest automatically in the Reorganized Debtor on the Effective Date (without the necessity of executing any instruments of assignment), free and clear of any and all liens, claims and encumbrances, and remain property of the Reorganized Debtor. Without limiting the foregoing, the Reorganized Debtor shall be vested with all the Avoidance Actions. As of the Effective Date, all property of the Estate shall be free and clear of all liens, Claims and Interests, except as specifically provided in the Plan or Confirmation Order.

6.7 Post-Confirmation Working Capital

It is contemplated that any working capital required will be provided to the Debtor following Confirmation from cash generated by the Debtor's operations.

6.8 Plan Negotiations and Source of Funds

During the course of the Chapter 11 case, the Debtor has explored several different options for reorganizing. The Plan proposed by the Debtor provides distributions to Classes 5 and 6 from the Distribution Fund to be funded by the Reorganized Debtor from proceeds from the sale of its commercial real property and its operating revenues. Distributions to other creditors will also be paid from the Reorganized Debtor's operating revenues as such payments become due under the Plan.

ARTICLE VII PRESERVATION OF RIGHTS OF ACTION

7.1 Causes of Action

Except as otherwise expressly provided in the Plan, any rights or causes of action accruing to or held by the Debtor or its Estate, including, without limitation, any rights or causes of action under Section 544 through 550, inclusive of the Bankruptcy Code or any other statute or legal theory shall remain assets of, and vest in, the Reorganized Debtor. The Reorganized Debtor may pursue

those rights of action, as it deems to be appropriate and in the best interest of the Reorganized Debtor. It is uncertain whether the potential preference claims listed in the Debtor's Statement of Financial Affairs will yield any material recovery to the Estate. The Debtor believes that many of the payments listed may qualify for one or more of the recognized preference defenses. Further, it is believed that there would be significant obstacles to collecting from a number of the potential preference defendants.

7.2 Preservation of Rights of Action

Except as otherwise expressly provided herein, any rights or causes of action accruing to or held by the Debtor or its Estate, including, without limitation, all Avoidance Actions, shall remain assets of, and vest in, the Reorganized Debtor. The Reorganized Debtor may pursue those rights of action, as it deems to be appropriate and in the best interest of the Reorganized Debtor. All Avoidance Actions shall survive confirmation, and the assertion of Avoidance Actions shall not be barred or limited by any estoppel, whether judicial, equitable or otherwise. The Debtor shall have the authority to compromise and settle any Avoidance Action on such terms as the Debtor deems appropriate and in the best interests of the Estate, subject to providing Designated Notice of any such proposed compromise and a reasonable opportunity to object thereto. If a party in interest files a written objection with the Court in the Case with respect to any proposed compromise of any Avoidance Action, and serves a copy of said objection upon the Debtor and its counsel within 10 days from the service of Designated Notice of the proposed compromise, then a hearing shall be scheduled with respect to said objection. If no such objection is timely filed and served, the Debtor is authorized to enter into such compromise or settlement without further authorization.

7.3 Procedures for Resolving Disputed Claims

Notwithstanding any other provisions of the Plan, no payment or distribution shall be made on account of a Disputed Claim until such Claim becomes an Allowed Claim. In lieu of distributions under the Plan to holders of Disputed Claims, a Disputed Claims reserve shall be maintained by the Debtor for payment of any Disputed Claim which becomes an Allowed Claim. Distributions on account of any Disputed Claim that has become an Allowed Claim shall be made as soon as is reasonably practicable.

Subsequent to the Effective Date, the Debtor shall have the authority to settle and resolve any Disputed Claim that was originally asserted in an amount less than \$50,000 upon such terms and conditions as the Debtor deems appropriate and in the best interests of the Estate. Any such compromise and settlement shall be deemed final and binding upon all parties in interest in the Case. The Debtor shall be released from any obligation to provide notice to or file and serve pleadings upon any such parties in interest, and shall be released from any requirement to obtain Court approval, in connection with compromising these claims.

With respect to any Disputed Claim that was originally asserted in an amount that equals or exceeds \$50,000, the Debtor shall have the authority to compromise and settle any such Claim on such terms as the Debtor deems appropriate and in the best interests of the Estate, subject to

providing Designated Notice of any such proposed compromise and a reasonable opportunity to object thereto. If a party in interest files a written objection with the Court in the Case with respect to any proposed compromise of any Disputed Claim, and serves a copy of said objection upon the Debtor and its counsel within 10 days from the service of Designated Notice of the proposed compromise, then a hearing shall be scheduled with respect to said objection. If no such objection is timely filed and served, the Debtor is authorized to compromise and resolve such Disputed Claim without further authorization. The Debtor may file motions which seek to compromise more than one Claim.

ARTICLE VIII EXECUTORY CONTRACTS

As stated above, the Debtor entered into the KB Home Sublease post-petition and it shall remain in full force and effect pursuant to its terms following Confirmation. All other executory contracts or leases not expressly assumed or rejected at or before the Confirmation Hearing (or subject to a pending motion) shall be deemed rejected upon confirmation of the Plan. Claims for damages arising from any unexpired lease or executory contract rejected hereunder shall be filed within thirty (30) days after the Effective Date and shall be treated as Class 5 Claims.

ARTICLE IX DISTRIBUTION TO HOLDERS OF CLAIMS

9.1 Duties of Reorganized Debtor

The Reorganized Debtor shall have the rights, powers and duties as set forth in the Plan and shall be responsible for administering the Estate and consummating the Plan under the terms and subject to the conditions set forth herein. On and after the Effective Date, the Reorganized Debtor may operate its business, incur debt and use, acquire and dispose of property without supervision or approval of the Bankruptcy Court, except as expressly provided in the Plan. Additionally, the Reorganized Debtor shall be authorized to take the necessary and appropriate actions to proceed with an orderly, expeditious and efficient administration of the Estate in accordance with the Plan.

Following Confirmation of the Plan, the Reorganized Debtor shall be authorized to retain or engage (or continue the retention or engagement of) such employees, professional persons and agents as are appropriate or desirable to administer the Estate and consummate the Plan. All expenses incurred after the Confirmation Date in connection with the administration of the Estate and the operation of the Debtor's business, including, without limitation, professional fees and fees and expenses of the Collateral Agent, may be paid by the Reorganized Debtor without the necessity of providing any notice or seeking or obtaining any approval of the Court with respect to such payments.

All payments made under the Plan will be made by the Reorganized Debtor, who will bear responsibility for determining Pro Rata Distributions when necessary and sending such Distributions to the Holders of Claims. At the option of the Reorganized Debtor, any Cash payment to be made

by the Reorganized Debtor pursuant to the Plan may be made by check or wire transfer. The duties of the Reorganized Debtor are limited to the ministerial functions set forth specifically in the Plan. The Reorganized Debtor, officers, directors, attorneys and other agents of the foregoing, will not incur liability for their respective actions (or failures to act) or conduct pursuant to the Plan except to the extent attributable to their reckless conduct, willful misconduct or gross negligence.

9.2 Address for Distributions

All Cash payments required to be made under the Plan will be sent to Holders of Claims at the addresses listed in the Debtor's schedules or stated in any Proof of Claim filed by a Holder of a Claim or to such other address as the Holder of a claim shall provide in writing to the Debtor. The proceeds of any payment properly sent to the Creditor but returned because of unknown or insufficient address, and the proceeds of any check not cashed within ninety (90) days of sending will be channeled into the working capital of the Reorganized Entity, and the rights of the original payee shall be extinguished. Return of mail by the United States Post Office as "undeliverable and without forward address" shall be conclusive evidence of an attempt to deliver to the address shown.

9.3 Rounding

Whenever any payment of a fraction of a cent would otherwise be called for, the actual payment shall reflect a rounding of such fraction down to the nearest whole cent.

9.4 Collateral Trust Agreement/ Collateral Agent

Upon the Effective Date, in accordance with the Collateral Trust Agreement to be executed by the Debtor and the Collateral Agent on or before the Effective Date, the Collateral Agent shall be granted a lien in the Pledged Securities, or issued stock in the Reorganized Debtor, for the benefit of the Beneficial Holders, as security for the Debtor's obligations under the Plan. All issued stock in the Reorganized Debtor will be pledged under the Collateral Trust Agreement. This will give the Collateral Agent a majority of the stock and enable him to assert control if he determines that the Debtor is not acting in substantial conformity with the Plan requirements, including, but not limited to, timely payment of distributions to Class 5. So long as the Debtor is not in material default under the Plan, Ms. Jape shall be the designated agent to vote on behalf of all stock held by the Collateral Trust.

As the Debtor makes each of the scheduled Distributions, the Collateral Agent shall release its interest in twenty-five percent (25%) of the outstanding stock held in the Collateral Trust. Upon completion of all payment obligations to Class 5 and 6, the Collateral Agent shall release its interest in all of the Pledged Securities.

The Collateral Agent shall have the following rights, powers and duties, in addition to those described in the Collateral Trust Agreement:

- (a) The Collateral Agent shall have standing to raise before the Court any issue within

the scope of his powers, rights and duties under the Collateral Trust Agreement or the Plan.

- (b) The Collateral Agent shall be entitled to recover his reasonable fees and expenses as provided in the Collateral Trust Agreement. As long as the Debtor is in substantial compliance with the Plan, the Collateral Agent's fees and expenses shall not exceed \$2,500 annually. If the Collateral Agent declares a default under the Plan and seeks to exercise the rights of the Collateral Trust in the Pledged Securities, the Collateral Agent shall be allowed his actual fees and expenses.

ARTICLE X CONDITIONS PRECEDENT TO EFFECTIVENESS OF PLAN

Each of the following conditions must occur and be satisfied on or before the Effective Date for the Plan to be effective on the Effective Date, provided that the Debtor may agree to waive any one or more of the following conditions:

10.1 Confirmation Order Must Be Entered

The Confirmation Order must have been signed by the Bankruptcy Court and duly entered on the docket for the Case by the clerk of the Bankruptcy Court in form and substance acceptable to the Debtor.

10.2 Confirmation Order Must Not Be Stayed, Reversed, Modified or Amended

There must not be any stay in effect with respect to the Confirmation Order, and the Confirmation Order must not have been reversed, modified or amended in any material respects prior to the Effective Date without the written consent of the Debtor.

10.3 Provisions of the Confirmation Order

Among other things, the Confirmation Order must:

- (i) Authorize and direct the Debtor to take, or cause to be taken, all such actions as are necessary to enable the Debtor to implement the provisions of the Plan;
- (ii) Authorize and direct the Debtor to perform its obligations under the Plan, and to take all actions and execute all documents and instruments reasonably necessary to consummate the transactions contemplated by the Plan;
- (iii) Provide that no holder of a Claim, Lien or Interest will be permitted to execute against or receive Distributions from the Debtor except in accordance with the express provisions of the Plan.

10.4 Confirmation Order Must be Final

The Confirmation Order shall have become a Final Order.

ARTICLE XI VOTING ON THE PLAN AND THE CONFIRMATION PROCESS

11.1 Classes Entitled to Vote

Only a Holder of an Allowed Claim classified in an Impaired Class is entitled to vote on the Plan. Under Section 1124 of the Bankruptcy Code, a Class of Claims or Interests is “impaired” by the Plan if the legal, equitable or contractual rights attaching to the Claims or Interests of that Class are modified. Modification for purposes of determining impairment, however, does not include the curing of defaults and the reinstating of maturity.

In order to have an Allowed Claim, a Claimant must have (1) timely filed a Proof of Claim or (2) been listed in the Schedules as having a Claim that is not contingent, unliquidated or disputed. A Claimant is not required to file a Proof of Claim if the Claim is listed by the Debtor in the Schedules and is not shown as being contingent, unliquidated or disputed. If such a Claim was scheduled as contingent, unliquidated or disputed, and if Claimant did not file proof of such Claim by the date set by the Bankruptcy Court (the “Claims Bar Date”) or after the Claims Bar Date with leave of the Bankruptcy Court, or if such Claim is the subject of an objection, Claimant does not have an allowed Claim, cannot vote, and will not participate in any Distributions under the Plan until such time as the Claim becomes an Allowed Claim.

The Claims and Interests of the Debtor are divided by the Plan into Classes 1 through 7. The Claims in each Class 1, 2 and 3 are unimpaired. Consequently, the Holders of such Claims are conclusively presumed to have accepted the Plan and will not be entitled to vote on the Plan. The Claims in each of Classes 4 through 6 are impaired and may vote on the Plan. The holders of Equity Interests in Class 7 do not receive any property under the Plan on account of such interests; therefore, they are deemed not to have accepted the Plan and are not entitled to vote on the Plan.

11.2 Voting Instructions

Each Holder of an Allowed Claim in a voting Class may cast its vote to accept or reject the Plan by completing, dating, signing and returning in the enclosed envelope the Ballot accompanying this Disclosure Statement to:

Clerk, United States Bankruptcy Court
Northern District of Georgia/Atlanta Division
1340 Richard Russell Federal Building
75 Spring Street, S.W.
Atlanta, GA 30303

With a copy to:

Ashley Reynolds Ray, Esq.
Scroggins & Williamson
1500 Candler Building
127 Peachtree Street, N.E.
Atlanta, Georgia 30303

Any Ballot received which does not indicate either an acceptance or rejection of the Plan shall be deemed to constitute an acceptance of the Plan. Ballots submitted by facsimile will not be accepted. Only originally signed Ballots will be counted. A Ballot shall not constitute a Proof of Claim or Proof of Interest or an amendment to a Proof of Claim or Proof of Interest.

If a Creditor has a Claim in more than one Class under the Plan, that Creditor should receive a separate Ballot for each such claim. If Claimant needs additional Ballots, or believes it has a Claim that is in Class 4 through 6 and did not receive a Ballot, please contact the Debtor's counsel, Ashley R. Ray, at the address set forth above, sufficiently in advance of the Voting Deadline to obtain the Ballot and return the Ballot before the Voting Deadline.

11.3 Requirements of Confirmation

The Bankruptcy Court will confirm the Plan only if it determines that all of the requirements of the Bankruptcy Code have been met. The Bankruptcy Code requires, among other things, that (i) the Plan be accepted by at least one impaired Class, (ii) the Bankruptcy Court make a determination that the Plan is in the "best interests" of all Holders of Claims and Interests (that is, dissenting Creditors and Interest Holders will receive at least as much under the Plan as they would receive in a liquidation under Chapter 7 of the Bankruptcy Code), (iii) the Bankruptcy Court make a determination that the Plan is feasible, and (iv) the Plan has classified Claims and Interests in a permissible manner. In order to confirm the Plan, the Bankruptcy Court must find that all of these and certain other requirements have been met. Thus, even if the requisite vote is achieved for each impaired Class, the Bankruptcy Court must make independent findings regarding the Plan's conformity with these requirements of the Bankruptcy Code before it may confirm the Plan. Additionally, if the requisite vote will not be achieved for each impaired Class, the Bankruptcy Court must also make independent findings regarding the Plan's conformity with the requirements of Section 1129(b) of the Bankruptcy Code. The various statutory requirements are discussed below.

(a) Acceptance by at Least One Impaired Class

In order for the Plan to be confirmed, the Plan must be accepted by at least one impaired Class that is entitled to vote on the Plan. A Class of Impaired Claims will have accepted the Plan if at least two-thirds in amount and more than one-half in number of the Claims actually voting in the Class have accepted it.

(b) Best Interests Test

The Plan cannot be confirmed unless the Bankruptcy Court determines that the Plan is in the “best interests” of the Debtor’s Creditors and Interest Holders. The Plan will be deemed to have satisfied the “best interests” test if the Plan provides to each dissenting or nonvoting member of each impaired Class a recovery that has a value that is at least equal to the distribution which such member would receive if the assets of the Debtor were liquidated on the Effective Date in a hypothetical case under Chapter 7 of the Bankruptcy Code by a Chapter 7 trustee. If all members of an impaired Class of Claims or Equity Interest Holders vote to accept the Plan, the “best interests” test does not apply with respect to that Class.

In applying the “best interests” test, the Bankruptcy Court would ascertain the hypothetical recoveries in a Chapter 7 liquidation to the Debtor’s Creditors and Interest Holders. These hypothetical Chapter 7 liquidation recoveries would then be compared with the distributions offered to each impaired Class of Claims or Interests under the Plan in order to determine if the Plan satisfies the “best interests” test.

In applying the “best interests” test, it is likely that Claims and Interests in the Chapter 7 case would not be classified in the same manner that such Claims and Interests are classified under the Plan. In the absence of a contrary determination by the Bankruptcy Court, all pre-bankruptcy Unsecured Claims which have the same rights upon liquidation would be treated as one Class for the purposes of determining the potential distribution of the liquidation proceeds resulting from the Debtor’s Chapter 7 case. The distributions from the liquidation proceeds would be calculated ratably according to the amount of the Claim held by each Creditor. The Debtor believes that the most likely outcome of liquidation proceedings under Chapter 7 would be the application of the rule of absolute priority of distributions. Under that rule, no junior Creditor receives any distribution until the Allowed Claims of all senior Creditors are paid in full, and no Equity Interest Holder receives any distribution until the Allowed Claims of all Creditors are paid in full.

As discussed in more detail in Article XVII of this Disclosure Statement, the Debtor’s analysis indicates that confirmation of the Plan will provide each Creditor and Interest Holder holding a Claim or Interest in an impaired Class with a recovery that is at least equal to the recovery that such Creditor or Interest Holder would receive pursuant to a liquidation and distribution of the Assets under Chapter 7 of the Bankruptcy Code.

(c) Feasibility of the Plan

In order for the Plan to be confirmed, the Bankruptcy Court must determine that the Plan is feasible; that is, as a practical matter, that the Debtor will be able to meet its obligations under the Plan on a timely basis and according to its terms. The Debtor believes that the Plan is feasible.

(d) Classification of Claims

The Debtor believes that the Plan meets the classification requirements of the Bankruptcy

Code, which require that a Plan of Reorganization place each Claim or Interest in a Class with other Claims or Interests which are “substantially similar.”

(e) Additional Requirements of Section 1129(b) of the Bankruptcy Code

In the event the Plan does not satisfy the requirements of Section 1129(a) of the Bankruptcy Code, the Debtor will seek confirmation of the Plan pursuant to the so-called “cramdown” provisions of Section 1129(b) of the Bankruptcy Code. Pursuant to Section 1129(b), the Bankruptcy Court must determine whether the Plan is fair and equitable and does not discriminate unfairly against each impaired Class of Claims or Interests that has not accepted the Plan. The Plan will not discriminate unfairly if no Class receives more than it is legally entitled to receive for its Claims. “Fair and equitable” has different meanings for Secured Claims, Unsecured Claims and Equity Interests.

With respect to a Secured Claim, “fair and equitable” means either (i) the impaired Secured Creditor retains its liens to the extent of its Allowed Secured Claim and receives deferred Cash payments at least equal to the allowed amount of its Claim with a present value as of the Effective Date of the Plan at least equal to the value of its interest in the property securing its liens, (ii) if property subject to the lien of the impaired Secured Creditor is sold free and clear of its lien, the impaired Secured Creditor receives a lien attaching to the proceeds of the sale, or (iii) the impaired Secured Creditor realizes the “indubitable equivalent” of its Claim under the Plan. Under certain circumstances, a Secured Creditor is entitled under Section 1111(b) of the Bankruptcy Code to elect to have its entire Claim, including any deficiency, treated as a Secured Claim.

With respect to an Unsecured Claim, “fair and equitable” means either (i) the impaired Unsecured Creditor receives property of a value equal to the amount of its Allowed Claim, or (ii) the Holders of Claims or Interests that are junior to the Claims of the dissenting Class will not receive any property under the Plan.

With respect to a Class of Equity Interests, “fair and equitable” means either (i) each Holder of an Interest of such Class receives or retains on account of such Interest property with a value equal to the greater of the allowed amount of any fixed liquidation preference to which such Holder is entitled, any fixed redemption price to which such Holder is entitled or the value of such Interest, or (ii) the Holder of any Interest that is junior to the Interests of such Class will not receive or retain any property on account of such junior Interest.

The Debtor believes the Plan meets the fair and equitable test with respect to each Holder of an impaired Claim or Interest.

11.4 Objections to Confirmation

As will be set forth in the Order Approving Disclosure Statement and Notice of Confirmation Hearing, any objections to confirmation of the Plan must be in writing, must set forth the objector’s standing to assert any such objection, and must be filed with the Bankruptcy Court and served on counsel for the Debtor. The Order Approving Disclosure Statement and Notice of Confirmation of

Hearing will contain all relevant procedures relating to the submission of objections to confirmation and should be reviewed in its entirety by any party who has an objection to confirmation.

11.5 Confirmation of Plan Without Acceptance of All Impaired Classes

Even if one or more impaired Classes do not vote to accept the Plan, the Bankruptcy Court may, pursuant to Section 1129(b) of the Bankruptcy Code, confirm the Plan without the acceptance of all impaired Classes. Confirmation under Section 1129(b) requires that the Plan be fair and equitable with respect to each impaired Class of Claims that has not accepted the Plan. The Plan proponents reserve their right to seek Confirmation of the Plan under Section 1129(b) if one or more Classes of Impaired Claims does not accept or is deemed not to have accepted the Plan.

11.6 Hearing on Confirmation of the Plan

Section 1128 of the Bankruptcy Code requires the Bankruptcy Court, after notice, to hold a hearing on confirmation of the Plan. At that time, the Debtor will present the results of the vote by each impaired Class of Creditors entitled to vote in favor of or in opposition to the Plan. The Bankruptcy Court will consider whether the requirements for confirmation of the Plan under the Bankruptcy Code have been satisfied, as well as any objections to the Plan that are timely filed. Any Creditor may object to the confirmation of the Plan, regardless of whether it is entitled to vote on the Plan.

ARTICLE XII MODIFICATIONS AND AMENDMENTS

The Debtor reserves the right to alter, amend or modify the Plan as contemplated by Section 1127 of the Bankruptcy Code. The Plan may be modified, before or after Confirmation, without notice or hearing, or on such notice and hearing as the Court deems appropriate, if the Court finds that the proposed modification does not materially and adversely affect the rights of any parties in interest which have not had notice and an opportunity to be heard with regard to the proposed modification. Without limiting the foregoing, the Plan otherwise may be modified after notice and hearing. In the event of any modification at or before Confirmation, any votes in favor of the Plan shall be deemed to be votes in favor of the Plan as modified, unless the Court finds that the proposed modification materially and adversely affects the rights of the parties in interest that cast said votes.

ARTICLE XIII TAX CONSEQUENCES

Tax consequences resulting from confirmation of the Plan can vary greatly among the various Classes of Creditors and Holders of Interests, or within each Class. Significant tax consequences may occur as a result of confirmation of the Plan under the United States Internal Revenue Code and pursuant to state, local, and foreign tax statutes. Because of the various tax issues involved, the differences in the nature of the Claims of various Creditors, the taxpayer status and methods of accounting and prior actions taken by Creditors with respect to their Claims as well as the possibility

that events subsequent to the date hereof could change the tax consequences, this discussion is intended to be general in nature only. No specific tax consequences to any Creditor or Holder of an Interest are represented, implied or warranted. Each Holder of a Claim or Interest should seek professional tax advice, including the evaluation of recently enacted or pending legislation, because recent changes in taxation may be complex and lack authoritative interpretation.

THE PROPONENT ASSUMES NO RESPONSIBILITY FOR THE TAX EFFECT THAT CONSUMMATION OF THE PLAN WILL HAVE ON ANY GIVEN HOLDER OF A CLAIM OR INTEREST. HOLDERS OF CLAIMS OR INTERESTS ARE STRONGLY URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PLAN TO THEIR INDIVIDUAL SITUATION.

The receipt by a Creditor or Interest Holder of cash or property in full or partial payment of its Claim or Interest may be a taxable event. To the extent that a portion of the cash or the fair market value of any property received is attributable to accrued and unpaid interest on a Claim being paid, a Creditor may recognize interest income. A Creditor or Interest Holder may also recognize gain or loss equal to the difference between the sum of the amount of cash received and the adjusted basis in the Claim or Interest for which the Holder receives amounts under the Plan. Such gain or loss may be treated as ordinary or capital depending upon whether the Claim or Interest is a capital asset.

ARTICLE XIV RETENTION OF JURISDICTION

The Bankruptcy Court shall retain jurisdiction, notwithstanding entry of the Confirmation Order and notwithstanding the occurrence of the Effective Date of the Plan, for the following purposes:

- (a) to enforce all causes of action which exist on behalf of the Debtor pursuant to the provisions of this Plan or applicable law;
- (b) to enter orders and injunctions and restraints to enforce the provisions of the Plan;
- (c) to determine claims asserted under Section 507(a)(2) of the Bankruptcy Code, including claims for compensation and reimbursement of expenses accruing prior to the Confirmation Date;
- (d) to determine any Disputed Claims or disputes concerning the validity of or the market value of any collateral underlying any Secured Claim;
- (e) to enter orders regarding interpretation of the Plan, or any document created in connection with the Plan, or any disputes with respect thereto;

- (f) to conduct hearings and to enter orders modifying the Plan as provided herein or in the Bankruptcy Code;
- (g) to determine any and all applications, claims, adversary proceedings, and contested or litigated matters pending on the Confirmation Date;
- (h) to determine any applications for rejection or assumption of executory contracts or leases, and to determine Claims resulting from rejection of executory contracts and leases;
- (i) to allow or disallow, and estimate, liquidate, or determine any Claims against the Debtor, including tax claims, but excluding any Claims deemed Allowed by this Plan, and to enter or enforce any order requiring the filing of any such Claim before a particular date; and
- (j) to enter orders required for the administration of the Plan, including, but not limited to:
 - i. resolution of disputes pertaining to the amounts of payments under the Plan to Claimants;
 - ii. conducting post-confirmation valuation hearings as required by the Plan or authorized by the Bankruptcy Code; and
 - iii. exercising jurisdiction over any other matter provided for or consistent with the provisions of Chapter 11 of the Bankruptcy Code.

ARTICLE XV INJUNCTION

The Confirmation Order shall, on the Effective Date, operate as an injunction against any act against the Estate or the assets of the Estate to initiate, prosecute, enforce, liquidate, collect or otherwise assert any Claim against the Estate or the assets of the Estate, except as provided in the Plan. Any act taken in violation of this injunction shall be null and void. On and after the Confirmation Date, the provisions of the Plan shall be binding upon the Debtor, the Estate, all holders of Claims, all holders of Interests and all other parties in interest in the Debtor's case, in each case whether or not such entities are impaired and whether or not such entities have accepted the Plan.

ARTICLE XVI LIMITATION OF LIABILITY

Neither the Debtor nor any of its respective shareholders, members, employees, agents, advisors, attorneys or financial advisers shall have or incur any liability to any holder of a Claim or

Interest or any other party in interest for any act or omission in connection with, relating to, or arising out of, the Debtor's Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Estate and the distribution of property under the Plan, except for their gross negligence or willful misconduct, and in all respects they shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Nothing herein shall be construed, however, to relieve the Debtor or any party from performing their respective obligations under the Plan.

ARTICLE XVII LIQUIDATION ALTERNATIVE

17.1 Distributions Under Chapter 7 Liquidation

If the Plan is not confirmed and a Chapter 7 case ensues, the prospect of any payment to Unsecured Creditors is unlikely. The Debtor's principal assets are its remaining furniture, fixtures and equipment, inventory and its outstanding accounts receivable. The inventory consists primarily of parts and would likely not bring more than a fraction of its book value in a forced liquidation. The pending accounts receivable are comprised of numerous small receivables which are unlikely to realize any significant value for the estate or for projects which are partially complete and for which payment would only be due upon completion.

The Debtor believes that Chapter 11 Priority Claims, Priority Tax Claims and Administrative Claims (including unpaid professional fees) which are ultimately Allowed by the Court will total approximately \$125,000.00. Scheduled Claims and filed Claim, including Disputed Claims, total approximately \$1,100,000.00. The Debtor estimates that Unsecured Claims ultimately allowed for distribution will be in a total aggregate amount of approximately \$950,000.00. That number could be higher or lower, depending on the outcome of Claims objections.

Alternatively, liquidation of the Debtor's assets under Chapter 7 would likely leave little or nothing available for unsecured creditors. A Chapter 7 would likely give rise to other Administrative and Priority Claims which would come ahead of Unsecured Claims. Conversion to Chapter 7 would necessitate appointment of a Chapter 7 Trustee and professionals to assist the Trustee. Fees of a Chapter 7 Trustee and professionals would be entitled to priority ahead of Unsecured Creditors. Attached hereto as Exhibit "D" is a liquidation analysis comparing Unsecured Creditors' treatment under this Plan to a Chapter 7 liquidation alternative.

17.2 Distributions under the Debtor's Chapter 11 Plan

In contrast, under the Plan, Unsecured Creditors would receive all amounts paid by the Debtor into the Distribution Fund, which the Debtor estimates should provide approximately a twenty-five percent (25%) return on Allowed Unsecured Claims. That return could be lower, however, in the event the aggregate amount of all Allowed Unsecured Claims exceeds the Debtor's estimate of \$950,000.00.

**ARTICLE XVIII
EXHIBITS ATTACHED**

The following are attached hereto as exhibits:

Exhibit "A"	Historical Financial Statements
Exhibit "B"	Projected Statements of Operations for Fiscal Years 2008, 2009 and 2010
Exhibit "C"	Sources and Uses of Cash to Fund Distribution Fund
Exhibit "D"	Liquidation Analysis

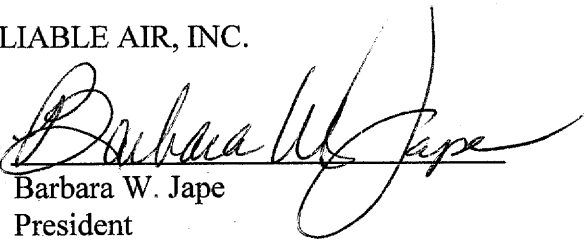
**ARTICLE XIX
CONCLUSION**

The Debtor urges all Holders of Claims to accept the Plan because the Debtor believes the Plan will provide each such Holder more than it would receive pursuant to any alternative plan of reorganization or in a liquidation under Chapter 7 of the Bankruptcy Code. Accordingly, Debtor urges all eligible members of Voting Classes to submit Ballots in favor of the Plan in accordance with the balloting procedures described herein.

This 12th day of February, 2007.

RELIABLE AIR, INC.

By:


Barbara W. Jape
President



J. ROBERT WILLIAMSON
Georgia Bar No. 765214
ASHLEY REYNOLDS RAY
Georgia Bar No. 601559
SCROGGINS & WILLIAMSON
1500 Candler Building
127 Peachtree Street, NE
Atlanta, GA 30303
Counsel for the Debtor

EXHIBIT "A"

Reliable Air, Inc.

Historical Income Statement for the year ended:

	UNAUDITED		UNAUDITED	
	<u>6/30/05</u>		<u>6/30/06</u>	
Revenues				
Total Revenues	5,328,813	100.00%	4,786,066	100.0%
Cost of Sales				
Cost of Sales - Materials	2,529,006	47.46%	2,135,990	44.63%
Cost of Sales - Labor	1,468,395	27.56%	1,278,443	26.71%
Permit Expense	2,334	0.04%	(340)	-0.01%
Merchant Services Fees (CC)	41,268	0.77%	46,494	0.97%
Total Cost of Sales	4,041,003	75.83%	3,460,588	72.31%
Gross Profit	1,287,810	24.17%	1,325,478	27.69%
Expenses				
Cost of Sales - Financing	1,447	0.03%	115	0.00%
Answering Service	-	0.00%	1,796	0.04%
Amortization Expense	-	0.00%	2,024	0.04%
Advertising Expense	211,366	3.97%	198,166	4.14%
Auto Expense	206,805	3.88%	159,451	3.33%
Bad Debt Expense	654	0.01%	58,585	1.22%
Bank Charges	6,249	0.12%	204	0.00%
Charitable Contributions Expense	2,754	0.05%	660	0.01%
Depreciation Expense	13,752	0.26%	-	0.00%
Dues & Subscription Expense	(1,098)	-0.02%	800	0.02%
Insurance Expense	140,378	2.63%	215,437	4.50%
Interest Expense	-	0.00%	753	0.02%
Legal & Professional Expense	10,287	0.19%	63,557	1.33%
Consultant - IT	-	0.00%	4,820	0.10%
Medical Expense	5,532	0.10%	1,278	0.03%
Miscellaneous Expense	25,216	0.47%	9,575	0.20%
Office Expense	34,662	0.65%	28,576	0.60%
Pager Expense	701	0.01%	-	0.00%
Mobile Telephone Expense	-	0.00%	2,900	0.06%
Payroll Benefits - Office	15,238	0.29%	-	0.00%
Payroll Benefits Sales	9,917	0.19%	-	0.00%
Payroll Taxes - Office	35,829	0.67%	35,752	0.75%
Payroll Taxes - Sales	28,434	0.53%	14,041	0.29%
Payroll Wages - Office	312,014	5.86%	420,151	8.78%
Salaries Officers	147,589	2.77%	-	0.00%
Postage Expense	8,109	0.15%	3,691	0.08%
Rent Expense	107,568	2.02%	38,235	0.80%
Tax Expense	26,045	0.49%	19,183	0.40%
Technician Expense	6,720	0.13%	107	0.00%
Telephone Expense	62,809	1.18%	60,586	1.27%
Travel-Entertainment Expense	870	0.02%	41	0.00%

Historical Income Statement for the year ended:

	UNAUDITED		UNAUDITED	
	<u>6/30/05</u>		<u>6/30/06</u>	
Travel-Meal Expense	47	0.00%	1,964	0.04%
Uniform Expense	7,263	0.14%	6,132	0.13%
Utilities Expense	35,973	0.68%	33,281	0.70%
Auto Lease Expense	8,101	0.15%	-	0.00%
Telephone Lease	3,717	0.07%	-	0.00%
Employee Training	-	0.00%	1,125	0.02%
Temporary Help	2,599	0.05%	6,447	0.13%
License Expense	300	0.01%	330	0.01%
Travel-Meals	201	0.00%	-	0.00%
Credit Card Equipment Lease	11,234	0.21%	3,006	0.06%
Late Fees/Service Charges	54,492	1.02%	39,191	0.82%
Employer 401K Contribution	4,039	0.08%	3,867	0.08%
	<hr/>		<hr/>	
Total Expenses	1,547,814	29.05%	1,435,828	30.00%
	<hr/>		<hr/>	
Net Income (loss)	(260,004)	-4.88%	(110,350)	-2.31%

EXHIBIT "B"

Reliable Air, Inc.

Projected Cash Basis Income Statement for the years ended:

	PROJECTED FY 2007		PROJECTED FY 2008		PROJECTED FY 2009	
Revenues						
Total Revenues	4,264,500	100.0%	4,456,403	100.0%	4,634,659	100.0%
Cost of Sales						
Cost of Sales - Materials	1,863,202	43.69%	1,946,281	43.67%	2,023,452	43.66%
Cost of Sales - Labor	997,226	23.38%	1,042,115	23.38%	1,089,037	23.50%
Merchant Services Fees (CC)	41,428	0.97%	43,292	0.97%	45,024	0.97%
Total Cost of Sales	2,901,856	68.05%	3,031,688	68.03%	3,157,513	68.13%
Gross Profit	1,362,644	31.95%	1,424,714	31.97%	1,477,146	31.87%
Expenses						
Answering Service	12,000	0.28%	12,420	0.28%	12,855	0.28%
Advertising Expense	231,800	5.44%	243,390	5.46%	255,560	5.51%
Auto Expense	210,000	4.92%	231,000	5.18%	254,100	5.48%
Bad Debt Expense	21,323	0.50%	22,282	0.50%	23,173	0.50%
Bank Charges	500	0.01%	500	0.01%	500	0.01%
Dues & Subscription Expense	800	0.02%	840	0.02%	882	0.02%
Insurance Expense	169,557	3.98%	161,079	3.61%	153,025	3.30%
Legal & Professional Expense	36,500	0.86%	5,000	0.11%	5,000	0.11%
Consultant - IT	17,280	0.41%	18,058	0.41%	18,870	0.41%
Medical Expense	1,500	0.04%	1,500	0.03%	1,500	0.03%
Miscellaneous Expense	10,000	0.23%	10,000	0.22%	10,000	0.22%
Office Expense	25,000	0.59%	25,000	0.56%	25,000	0.54%
Mobile Telephone Expense	10,800	0.25%	10,800	0.24%	10,800	0.23%
Payroll Taxes - Office	37,323	0.88%	39,003	0.88%	40,758	0.88%
Payroll Wages - Office - net of salary reduction	373,230	8.75%	390,025	8.75%	407,576	8.79%
Postage Expense	5,000	0.12%	5,500	0.12%	6,000	0.13%
Rent Expense	42,000	0.98%	43,470	0.98%	44,991	0.97%
Tax Expense	4,000	0.09%	4,400	0.10%	4,840	0.10%
Telephone Expense	6,745	0.16%	6,745	0.15%	6,745	0.15%
Travel-Entertainment Expense	3,000	0.07%	3,000	0.07%	3,000	0.06%
Travel-Meal Expense	1,000	0.02%	1,000	0.02%	1,000	0.02%
Uniform Expense	11,400	0.27%	11,913	0.27%	12,449	0.27%
Utilities Expense	15,000	0.35%	16,500	0.37%	18,150	0.39%
Employee Training	1,500	0.04%	1,568	0.04%	1,638	0.04%
Temporary Help	3,600	0.08%	3,600	0.08%	3,600	0.08%
License Expense	360	0.01%	376	0.01%	393	0.01%
Employer 401K Contribution	3,500	0.08%	3,658	0.08%	3,822	0.08%
Total Expenses	1,254,717	29.42%	1,272,626	28.56%	1,326,228	28.62%
Cash Flow	107,927	2.53%	152,089	3.41%	150,918	3.26%
Less:						
Capital Expenditures	33,000		60,000		60,000	
Capital Contribution	25,000		25,000		25,000	
Working Capital & Income Taxes	24,927		42,089		30,918	
Projected amount to fund POR	<u>\$ 25,000</u>		<u>\$ 25,000</u>		<u>\$ 35,000</u>	

EXHIBIT "C"

Reliable Air, Inc.

Sources and Uses of Cash

Sources of Cash

Cash on hand	\$ 50,000
Capital contribution from contributed cash and salary reduction	100,000
Operating income FY2007	25,000
Operating income FY2008	25,000
Operating income FY2009	35,000
Total Sources of Cash	<u>\$ 235,000</u>

Uses of Cash

Payment to general priority creditors at confirmation	1,000
Payments to Class 6 Creditors at confirmation	9,000
Payments to Class 5 Creditors at confirmation	65,000
Payment 1 of 3 to Class 5 Creditors	50,000
Payment 2 of 3 to Class 5 Creditors	50,000
Payment 3 of 3 to Class 5 Creditors	60,000
Total Uses of Cash	<u>\$ 235,000</u>

Calculation of Distribution to General Unsecured Creditors

Scheduled and POC - Class 5 & 6 Creditors	\$ 700,000
Add Mingledorff's unsecured amount from settlement	400,000
Total Class 5 & 6 Creditors	<u>\$ 1,100,000</u>
Less claims subject to overstatement, duplicates and disallowance	<u>(150,000)</u>
Net Claims Class 5 & 6 Creditors	\$ 950,000
Class 6 Creditors	\$ 62,800
Class 5 Creditors	887,200
Net Class 5 & 6 Creditors	<u>\$ 950,000</u>
Total distribution to Class 5 Creditors	<u>\$ 225,000</u>
Total Class 5 Creditors	<u>\$ 887,200</u>
Distribution percentage to Class 5 Creditors	25%

EXHIBIT "D"
Reliable Air, Inc.
Liquidation Analysis

	LIQUIDATION VALUE
<u>SOURCES OF CASH</u>	
Checking Bank of NGA 62208 as of 1/31/07	8,147
Saving Bank of NGA 62232 as of 1/31/07	273
Escrow Account as of 2/8/07	85,454
Accounts Receivable as of 1/31/07	11,612
Inventory-Equipment	5,000
Service Equipment	18,000
Total Sources of Cash	238,971
 <u>USES OF CASH</u>	
Administrative - Chapter 11	
Professional Fees	125,000
Other Admin Claims	30,000
 Administrative - Chapter 7	
Professional & Trustee Fees	35,000
Lease on Building - Londonderry	39,000
Priority Claims	1,000
Total Uses of Cash	230,000
 Cash Available for Unsecured Creditors	 8,971
 Net Claims Class 5 & 6 Creditors	 950,000
 Liquidation Scenario	
% Distribution to Unsecured Creditors	0.94%
 Plan Scenario	
% Distribution to Unsecured Creditors	25%

CERTIFICATE OF SERVICE

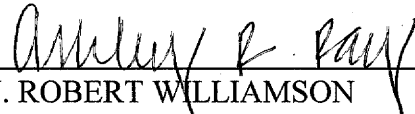
This is to certify that I have this day served a true and correct copy of the attached **Disclosure Statement To Accompany Debtor's Plan of Reorganization** by causing it to be deposited in the United States Mail in a properly addressed envelope with adequate postage affixed thereon to the following:

Office of the United States Trustee
362 Richard Russell Building
75 Spring Street, S.W.
Atlanta, GA 30303

This 12th day of February, 2007.

Respectfully submitted,

SCROGGINS & WILLIAMSON



J. ROBERT WILLIAMSON
Georgia Bar No. 765214
ASHLEY REYNOLDS RAY
Georgia Bar No. 601559
Counsel for the Debtor

1500 Candler Building
127 Peachtree Street, NE
Atlanta, GA 30303
(404) 893-3880