

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF PUERTO RICO

IN RE:

BMF, INC.

DEBTOR

CASE NO. 12-00658 (ESL)

CHAPTER 11

DEBTOR'S DISCLOSURE STATEMENT

ARTICLE I. INTRODUCTION

- 1.0 DEFINITIONS
- 1.1. BANKRUPTCY CODE PROVISIONS FOR POST PETITION DISCLOSURE
- 1.2 DISCLAIMER
- 1.3 VOTING REQUIREMENTS
- 1.4 DEBTOR'S HISTORY
- 1.5 EVENTS LEADING TO BANKRUPTCY
- 1.6 DATE THE PETITION WAS FILED
- 1.7 BANKRUPTCY PROCEEDINGS
- 1.8 FINANCIAL INFORMATION

1.0 DEFINITIONS

For purposes of this disclosure statement, and to the extent not otherwise provided herein, all capitalized terms below shall have the meanings set forth in the Plan of Reorganization proposed by the Debtor of even date herewith and, unless otherwise indicated, the singular shall include the plural, and any term used in this disclosure statement which is not defined in the Plan of Reorganization, but which is defined in the Bankruptcy Code (11 U.S.C. 101 *et seq.*), shall have the meaning designated in the Bankruptcy Code.

1.1 BANKRUPTCY CODE PROVISIONS FOR POST PETITION DISCLOSURE

Section 1125 of the Bankruptcy Code requires that a debtor make post petition disclosure in the form of a disclosure statement which provides "adequate information" to its creditors before a debtor or a party acting on its behalf may solicit acceptances of a Chapter 11 plan . Creditors are urged to consult with their own attorney, or with each other, and to review all of the pleadings and other documents on file with the Bankruptcy Court in order to fully understand the disclosures made herein, regarding the Debtor's proposed plan of reorganization (hereafter referred to as the "Plan") and any other pertinent matters in this case. A copy of the Plan is attached to this Disclosure Statement.

1.2 DISCLAIMER

Creditors are advised that the financial information contained in this Disclosure Statement has not been the object of an audit and is not certified by independent public accountants, except where expressly stated otherwise. The Debtor does not warrant or represent that the information contained herein is without inaccuracy notwithstanding its efforts to disclose all matters with careful attention to accuracy and completeness.

Any representation concerning the Debtor, and/or any other statement relative to it, different from, or not included in this Disclosure Statement, is not authorized by the Debtor. Any representation or inducement not contained in this Disclosure Statement, which might be made to secure acceptance of the Plan, should not be relied upon by a creditor in deciding how to vote on the Plan.

1.3 VOTING REQUIREMENTS

In order for the Plan to be confirmed by the Bankruptcy Court, the Bankruptcy Code requires that the Plan be approved by all classes of creditors and interest holders or that the Court find that the Plan is "fair and equitable" as to any dissenting class.

As provided by 11 U.S.C. §1124, a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such a class, the plan -

- (1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or
- (2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default -
 - (A) cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in section 365(b)(2) of this title;
 - (B) reinstates the maturity of such claim or interest as such maturity existed before such default;
 - (C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and
 - (D) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

Ordinarily, but not in all circumstances, a plan may not be confirmed unless at least one impaired class, assuming there is at least one impaired class, accepts the plan.

A class has accepted the plan if such a plan has been accepted by creditors, other than those under 11 U.S.C. 1126 (e), that hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the allowed claims of such class held by creditors, that have accepted or rejected such plan, i.e., those actually voting on the plan.

Creditors may vote for the acceptance or rejection of the plan.

Each creditor is urged to consult with its own attorney and obtain advice on the proposals and dispositions of this Disclosure Statement and the Plan. The statements contained herein are only a brief summary of the confirmation process and should not be relied upon in making your determination as to whether to vote in favor of or against the Plan. Creditors should consult their attorneys before making a determination to vote for or against the Plan.

Creditors are expressly referred to the Debtor's Schedules of Assets and Liabilities, the Statement of Financial Affairs and all other documents duly filed in this case with the Bankruptcy Court. This Disclosure Statement is predicated upon certain assumptions which may not materialize, and you are urged to give consideration to such assumptions.

No representation concerning the Debtor or as to the actual or realizable value of its property, are authorized by the Debtor other than as set forth in this Disclosure Statement. Any amendments or clarifications to this Disclosure Statement or the Plan shall be in writing and filed with the Court.

1.4 DEBTOR'S HISTORY

The Debtor operates a high quality water distillation operation to produce bottled drinking water. The Debtor markets the water it distills to various retail chains and restaurants throughout Puerto Rico and the Caribbean region. The Debtor markets its water under its own brand, Pure H2O, and under the labels of various stores and restaurants.

The Debtor was founded in 1998 by three individuals, A. Bert Foti, Julio Blanco, and Orlando Mayendia. While Mr. Blanco left the company during the course of its operations, Mr. Foti and Mr. Blanco remain the sole owners of the Debtor. At the time that Debtor began its operations, Puerto Rico did not have a facility that produced high-quality distilled water for consumer consumption. Given the shift in consumer preferences for purified drinking water near the time of its founding, the Debtor was able to establish a strong distribution network for its product. Over time, the Debtor was able to gain competitive advantages in the skills used to distill and produce distilled water for consumer tastes. Among Debtor's clients includes manufacturing the Kirkland brand of water for Costco and making the house brand of water for numerous high-quality restaurants in Puerto Rico.

1.5 EVENTS LEADING TO BANKRUPTCY

In order to distill water at the purity levels that Debtor requires for its product, the Debtor required a high investment in equipment. During the first part of the last decade, the bottled water industry enjoyed high-growth rates. Accordingly, the Debtor took on investment to increase its production capacity. At the time that Debtor took on most of its debt obligation, the bottled water industry was growing. Unfortunately, however, like all other industries, the severe economic

contraction that began in 2008 affected the bottled water industry as well. The Debtor began to see sales decline due to lower levels of disposable income had by consumers. The Debtor therefore encountered diminished demand shortly after it had augmented its production capability.

The diminished demand for bottled water was irregular and difficult to predict. Accordingly, the Debtor's production schedule became irregular as it had to adjust to the lower levels of demand. Due to this inconsistent demand and accordingly uneven production schedule, the Debtor had to stop production for certain periods and then re-start production when demand warranted. These stops and re-starts increased the costs of production and caused Debtor to lose some of its competitive advantage. Additionally, the Debtor had to maintain its labor force even during the idle production periods. As a consequence of all of these events, the Debtor could not keep current in its obligations to creditors and faced multiple suits from creditors.

While the Debtor is starting to enjoy increased sales once again and still retains its competitive advantages in brand recognition and distribution, the Debtor could not overcome its period of slow sales and eventually lost the ability to pay its obligations as they came due. Accordingly, the Debtor submitted its petition for Bankruptcy under Chapter 11 of the Bankruptcy Code on January 31, 2012.

1.6 DATE THE PETITION WAS FILED

The Debtor submitted its Bankruptcy Petition on January 31, 2012. During the course of the Bankruptcy proceedings, the Debtor has complied with all its duties as a Debtor in Possession under a Chapter 11, such as, filing of monthly operating report, payment of fees to the U.S. Trustee, payment of post petition expenses and preservation of the property of the estate.

1.7 BANKRUPTCY PROCEEDINGS

I. Schedules, Statement of Financial Affairs and Creditors' Meeting:

The Debtor initially submitted its Schedules and Statement of Financial Affairs along with its Petition on January 31, 2012. On March 22, 2012 the Debtor Amended its schedules to reflect more accurately its amount of obligation to secured and priority creditors. (See Dkt. Nos. 32 and 33). The 341 meeting of creditors was held on March 9, 2012 and closed on March 12, 2012 (See Dkt. No. 25).

II. Employment of Professionals:

Debtor submitted its application to employ attorney Carmen D. Conde Torres on February 7, 2012 (Dkt. No. 4). This Court approved Debtor's application to employ its attorney on March 6, 2012 (Dkt. No. 21). On March 8, 2012 the Debtor submitted its application to employ the accountant Jose Jimenez (Dkt. No. 22). On March 29, 2012 this Court approved the application of Debtor's accountant. (Dkt. No. 37). As of this writing, none of Debtor's professionals have submitted any application for payment.

III. Duties of the Debtor in Possession

The Debtor has complied with its duties as a Debtor in Possession, including but not limited to the appearance at the meeting of creditors, the filing of all Monthly Operating Reports and payments of fees to the U.S. Trustee. With the submission of the instant document, the Debtor is now fulfilling another one of its responsibilities as Debtor in Possession.

IV. Other Matters

- A. **Objection to Claims:** The bar date for claims in this matter is June 7,

2012 and for governmental entities the bar date is August 6, 2012. As of this writing, the Debtor has not submitted any objections to claims. As various proofs of claim are filed, the Debtor shall review each claim and will, during the course of the instant proceedings, submit any objections to claims that are warranted.

- B. **Fee Applications:** As of this writing none of Debtor's professionals have submitted an application for payment.
- C. **Executory Contracts:** The Debtor has various executory contracts with entities to whom the Debtor supplies water and other contracts including a lease of some of Debtor's premises to a commercial party. Please see Schedule G of Debtor's Schedules and Section IX below for additional information on Debtor's contracts. As of this writing, the Debtor has not assumed or rejected any of its contracts but it shall make these determinations prior to confirmation.

1.8. FINANCIAL INFORMATION

Debtor's financial information prior to its bankruptcy petition is herein provided in **Exhibit 1**. Additionally, the information provided in the Schedules and Statement of Financial Affairs, filed with the Court, reflect the Debtor's financial situation on the date of the petition. Monthly Operating Reports available on the Bankruptcy Court's file reflect the Debtor's post petition finances. Attached herein as **Exhibit 2** is a summary of the Debtor's Monthly Operating Reports. Debtor urges creditors and parties in interest to also review the documents available on

file at the Bankruptcy Court, in order to make a conscious decision when voting for or against the proposed Plan herein provided by the Debtor.

ARTICLE II ASSETS AND LIABILITIES

2.1. ASSETS AS OF PETITION DATE

Debtor's only assets as of the petition date are listed on Amended Schedules A and B filed with the Court. Further detail relating to debtor's assets and the liquidation value thereof is provided in Debtor's Liquidation analysis, Art. IV hereof.

2.1.1 REAL PROPERTY

As of the Petition date, the Debtor's real property assets consist of a parcel of real property on which Debtor's primary business is based. The Debtor hereby provides an appraisal of its real property assets as **Exhibit 3**.

2.1.2 PERSONAL PROPERTY

Personal property for the Debtor is detailed in the Amended Schedules B filed with the Court. The Debtor's primary personal property assets are its equipment to make and distill water, accounts receivable, delivery vehicles and other equipment. A detail of all of the Debtor's personal assets and value as of the petition date is provided in the Liquidation Analysis section below.

2.2. LIABILITIES AS OF PETITION DATE

Debtor's creditors as of the time of the petition were listed as follows:

2.2.1 SECURED CREDITORS:

Banco Popular de Puerto Rico - The Debtor as of the Petition date listed an obligation to

Banco Popular de Puerto Rico of \$4,891,278. This obligation is secured by the Debtor's real property assets. As of this writing, Banco Popular has yet to submit a proof of claim.

First Bank of Puerto Rico - The Debtor as of the Petition date listed a secured obligation to First Bank in the amount of \$1,939,493 secured by Debtor's equipment. First Bank has filed a proof of claim against the Debtor in the amount of \$2,128,613 alleging that this amount is secured by Debtor's accounts, equipment, and other personal property. (See Claim No. 18). The Debtor is in the process of verifying this claim.

CRIM - The Debtor also listed a secured obligation to CRIM of \$181,968. This amount is secured by Debtor's real property. CRIM has filed a proof of claim against the Debtor asserting a secured obligation of \$169,113. (See Claim No. 10).

IRS - The IRS has filed a secured claim against the Debtor for \$148,412 secured by a lien against the Debtor's real property. (See Claim No. 1). As of this writing, the Debtor is in the process of obtaining a title study for the property and of verifying the IRS' claim.

2.2.2. GENERAL UNSECURED CREDITORS

General unsecured creditors were listed in Debtor's Schedules in the total amount of \$1,270,085. Subsequent to the filing of Debtor's schedules, proofs of claims have been filed by several other unsecured creditors. After review of the proof of claims filed to date, those listed by the Debtor, and the agreements reached with several creditors, the liability to unsecured creditors, including disputed, contingent and unliquidated claims is estimated in the amount of \$1,344,321. This amount has been divided into two (2) separate classes; one for unsecured creditors whose claims are \$5,000 or less than \$5,000, and are thus placed in the "convenience class," (Class 8),

whose claims amount to \$60,292. The remaining unsecured creditors, whose claims are more than \$5,000, and are thus in the “general unsecured class” (Class 9), the liability is estimated in the amount of \$1,284,029.

2.2.3. PRIORITIES

The Debtor listed priority obligations in its Schedules under 11 USC § 507(a)(8) to the following entities: CRIM, \$75,000 (CRIM asserts a priority obligation of \$75,904, *See* Claim No. 11); Puerto Rico Department of Natural Resources, \$26,576 (the Department of Natural Resources does *not* assert any priority obligations in its Proof of Claim, *See* Claim No. 14); the State Insurance Fund, \$45,746 (the State Insurance Fund asserts a priority obligation of \$27,860 in its Proof of Claim, *see* Claim No. 6); and, the Puerto Rico Department of Treasury, \$156,874 (no proof of claim as of this writing has been filed by the Puerto Rico Department of Treasury). Additionally, the Municipality of Caguas has asserted a priority obligation of \$18,633 (*See* Claim No. 13). Should any other priority claims be filed, a detail of treatment for such claims is provided in Article VII below: “Payments to Priorities Under Section 507(a)(8) of the Code.”

ARTICLE III PENDING LITIGATION

At the time of the filing of the bankruptcy petition the Debtor had four (4) pending cases: *PAC International v. BMF, Inc.*, First Instance Court of San Juan, Case No. KCD 2011-2950; *CWP Corp. v. BMF, Inc.*, First Instance Court of Caguas, Case No. ECD2011-1036; *Borinquen Container Corp. v. BMF, Inc.* First Instance Court of Caguas, Case No. ECD2010-1776; and *Banco Popular de Puerto Rico v. BMF, Inc. et al.*, First Instance Court of Caguas, Case No. ECD2011-1593. All of the above cases relate to pre-petition efforts by creditors to collect various

asserted obligations against the Debtor. With the exception of the action brought by Banco Popular, all of the other claims relate to unsecured obligations. All of this litigation has been stayed due to the submission of the Bankruptcy Petition and the Automatic Stay.

ARTICLE IV

LIQUIDATION ANALYSIS

One requirement for the confirmation of a plan under Chapter 11 of the Code is that with respect to each impaired class of claims, each claim holder of such class has accepted the plan or will receive or retain under the plan on account of such allowed claim, a value as of the effective date of the plan, that is not less than the amount such claim holder would receive or retain if the debtor were liquidated under Chapter 7 of the Code, on such date. The Debtor is proposing a Plan of Reorganization to be executed by the Debtor in Possession. In order to provide the value of Debtor's assets, the Debtor provides an analysis of the assets and the expected income from the disposition of those assets under Debtor's control. This Liquidation Analysis is attached as **Exhibit 4**. For the purpose of determining a liquidation value for the scheduled value of the property, the Debtor has determined market value of the property using its business knowledge and experience. The percentage applied has been obtained by the experience of Chapter 7 Trustee's sales and the time upon which they must liquidate the assets.

The Liquidation Analysis prepared for this case shows that the estimated dividend for the unsecured creditors less than what is proposed under Debtor's Plan of Reorganization (-39%). Therefore the Plan proposal is higher than under a Chapter 7 liquidation. *See Exhibit 4*.

Debtor's Plan of Reorganization considers the full (100%) payment of all administrative,

secured creditors and priority claims and a 20% dividend to the general unsecured creditors within 7 (seven) years from effective date. The Debtor will also pay entities who have filed proof of claims asserting an unsecured obligation of \$5,000 or less as a “convenience class,” to be paid within thirty (30) days of the Effective Date at a rate of 20% of the allowed claim. The proposed Plan is thus in the best interests of the creditors.

**ARTICLE V
SUMMARY OF THE PLAN
CLASSIFICATION AND TREATMENT OF CLAIMS**

A. DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS

The Plan has been drafted designating ten (10) classes. All classes are designed in accordance with the requirements of 11 U.S.C. §§ 1122 and 1123. Creditors are identified by Debtor under each class. All creditors and other parties in interest are urged to read and consider the Plan in full inasmuch as it represents a proposed legally binding agreement with the Debtor and any other party involved. The classes of creditors are as follows:

CLASS 1 ADMINISTRATIVE CLAIMS

Shall consist of **ALLOWED ADMINISTRATIVE EXPENSE PRIORITY CLAIMS**, as provided under Section 503 of the Code, including, but not limited to, fees to the United States Trustee, fees and expenses of the Debtor’s counsel, accountant and any other professionals retained by the Debtor, as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing in accordance with the Bankruptcy Code and Rules, and court costs accrued since the petition date. Debt under this class is estimated in the amount of \$75,000.

CLASS 2 SECURED CLAIM - Banco Popular de Puerto Rico

The Debtor as of the Petition date listed an obligation to Banco Popular de Puerto Rico of \$4,891,278. This obligation is secured by the Debtor's real property. As of this writing, Banco Popular has yet to submit a proof of claim.

CLASS 3 SECURED CLAIM - First Bank of Puerto Rico

The Debtor as of the Petition date listed a secured obligation to First Bank in the amount of \$1,939,493 secured by Debtor's equipment. First Bank has filed a proof of claim against the Debtor in the amount of \$2,128,613 alleging that this amount is secured by Debtor's accounts, equipment, and other personal property. (See Claim No. 18).

CLASS 4 SECURED CLAIM - CRIM

The Debtor also listed a secured obligation to CRIM of \$181,968. This amount is secured by Debtor's real property. CRIM has filed a proof of claim against the Debtor asserting a secured obligation of \$169,113. (See Claim No. 10).

CLASS 5 SECURED CLAIM - IRS

The IRS has filed a secured claim against the Debtor for \$148,412 secured by a lien against the Debtor's real property. (See Claim No. 1).

CLASS 6 UNSECURED PRIORITY CLAIM - ALPHA CARIBE, INC.

Alpha Caribe, Inc. has claimed a priority payment for goods shipped to Debtor within 20 days before the date of filing of the case in the amount of \$122,429.47. (See Claim No. 15).

CLASS 7 DISPUTED UNSECURED PRIORITY CLAIM SUBJECT TO LITIGATION - MARIBEL DELGADO

Maribel Delgado has asserted a priority claim against the Debtor for \$10,000 (See Claim

No. 16). The claim is based on an alleged legal action for wrongful dismissal. The Debtor is investigating this claim and its basis. The Debtor disputes the basis of this claim, including any basis for Ms. Delgado to have standing to assert such a claim.

CLASS 8 GENERAL UNSECURED - CONVENIENCE CLASS

This class shall consist of **GENERAL UNSECURED CREDITORS** listed by the Debtor and those entities who have filed proof of claims asserting an unsecured obligation whose claim is \$5,000 or less. General unsecured creditors whose claims amounted to \$5,000 or less were listed in Debtor's Schedules in the total amount of \$58,143. After review of the proof of claims filed to date, those listed by the Debtor, and the agreements reached with several creditors, the liability to unsecured creditors, including disputed, contingent and unliquidated claims whose claim is \$5,000 or less is estimated in the amount of \$60,292.

CLASS 9 GENERAL UNSECURED CREDITORS

This class shall consist of **GENERAL UNSECURED CREDITORS AND GOVERNMENTAL ENTITIES** listed by the Debtor and those entities who have filed proof of claims asserting an unsecured obligation over \$5,000. General unsecured creditors whose claims amounted to over \$5,000 were listed in Debtor's Schedules in the total amount of \$1,211,943. After review of the proof of claims filed to date, those listed by the Debtor, and the agreements reached with several creditors, the liability to unsecured creditors, including disputed, contingent and unliquidated claims is estimated in the amount of \$1,284,029.

CLASS 10 EQUITY SECURITY AND/OR OTHER INTEREST HOLDERS

This class includes all equity security and interest holders who are the owners of the stock

of the Debtor.

B. TREATMENT OF CLASSES OF CLAIMS AND INTERESTS

CLASS 1 ADMINISTRATIVE CLAIMS

Shall consist of **ALLOWED ADMINISTRATIVE EXPENSE PRIORITY CLAIMS**, as provided under Section 503 of the Code, including, but not limited to, fees to the United States Trustee, fees and expenses of the Debtor's counsel, accountant and any other professionals retained by the Debtor, as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing in accordance with the Bankruptcy Code and Rules, and court costs accrued since the petition date. Debt under this class is estimated at \$75,000. Claimants under this class will be paid in full as soon as practicable or as agreed with the creditor on the later of (a) effective date or (b) the date any of such claim becomes an allowed administrative claim. This class is not impaired.

CLASS 2 SECURED CLAIM - Banco Popular de Puerto Rico

The Debtor as of the Petition date listed an obligation to Banco Popular de Puerto Rico of \$4,891,278. This obligation is secured by the Debtor's real property. As of this writing, Banco Popular has yet to submit a proof of claim. The Debtor shall repay this obligation in full in monthly installments on a thirty (30) year amortization period at an interest rate of the Prime Rate in effect on the Effective Date of the Plan of Reorganization, and any pre-petition arrears shall be capitalized onto the existing mortgage. This treatment is subject to negotiations with Banco Popular. This Class is impaired.

CLASS 3 SECURED CLAIM - First Bank of Puerto Rico

The Debtor as of the Petition date listed a secured obligation to First Bank in the amount of \$1,939,493 secured by Debtor's equipment. First Bank has filed a proof of claim against the Debtor in the amount of \$2,128,613 alleging that this amount is secured by Debtor's accounts, equipment, and other personal property. (*See* Claim No. 18). The Debtor shall repay this obligation in the full allowed amount in monthly installments on a thirty (30) year amortization schedule with interest accumulating at the Prime Rate in effect on the Effective Date. This treatment is subject to negotiations with First Bank. This Class is impaired.

CLASS 4 SECURED CLAIM - CRIM

The Debtor also listed a secured obligation to CRIM of \$181,968. This amount is secured by Debtor's real property. CRIM has filed a proof of claim against the Debtor asserting a secured obligation of \$169,113. (*See* Claim No. 10). The Debtor shall repay this obligation in the full allowed amount in monthly installments within sixty (60) months of the date of the instant Bankruptcy Petition plus interest or shall pay this obligation in full at the time of any sale of the real property. This class is not impaired.

CLASS 5 SECURED CLAIM - IRS

The IRS has filed a secured claim against the Debtor for \$148,412 secured by a lien against the Debtor's real property. (*See* Claim No. 1). The Debtor shall pay any allowed secured claim by the IRS in monthly installments over the course of sixty (60) months from the date of the instant Bankruptcy Petition or, if the subject property is sold, at the time of the sale. This class is not impaired.

CLASS 6 UNSECURED PRIORITY CLAIM – ALPHA CARIBE, INC.

Alpha Caribe, Inc. has filed a priority claim for goods shipped to Debtor within 20 days before the date of filing of the case in the amount of \$122,429.47. (See Claim No. 15). This claim is entitled to priority under § 503(b)(9). Debtor shall repay this obligation in the full allowed amount in monthly installments within seven (7) years of the effective date plus interest at the prime rate in effect on the effective date. This class is impaired.

CLASS 7 DISPUTED UNSECURED CLAIM SUBJECT TO LITIGATION - MARIBEL DELGADO

Maribel Delgado has asserted a claim against the Debtor for \$10,000 (See Claim No. 16). The claim is based on an alleged legal action for wrongful dismissal. The Debtor is investigating this claim and its basis. The Debtor disputes the basis of this claim, including any basis for Ms. Delgado to have standing to assert such a claim. Nevertheless, should any liability to Ms. Delgado be found to exist, the Debtor shall pay the allowed amount of Ms. Delgado's claim at the rate of 10% of the allowed amount within seven (7) years of the effective date so long as the allowed amount does not exceed \$10,000. This class is impaired.

CLASS 8 GENERAL UNSECURED - CONVENIENCE CLASS

This class shall consist of **GENERAL UNSECURED CREDITORS** listed by the Debtor and those entities who have filed proof of claims asserting an unsecured obligation whose claim is \$5,000 or less. After review of the proof of claims filed to date, those listed by the Debtor, and the agreements reached with several creditors, the liability to unsecured creditors, including disputed, contingent and unliquidated claims whose claim is \$5,000 or less is estimated in the amount of \$60,292. The Debtor shall repay all allowed claims that are part of this class within thirty (30) days of the Effective Date at a rate of 20% of the allowed claim. This class is

impaired.

CLASS 9 GENERAL UNSECURED CREDITORS

This class shall consist of **GENERAL UNSECURED CREDITORS AND GOVERNMENTAL ENTITIES** listed by the Debtor and those entities who have filed proof of claims asserting an unsecured obligation. General unsecured creditors were listed in Debtor's Schedules in the total amount of \$1,270,086. Thereafter, proofs of claims have been filed by several of these unsecured creditors. After a review of the proofs of claims filed, the allowed liability to unsecured creditors is estimates to be \$1,284,029. The Debtor shall pay all outstanding and allowed claims in this class at 20% of the allowed claim on a monthly basis over the course of seven (7) years from the Effective Date. This Class is impaired.

CLASS 10 EQUITY SECURITY AND/OR OTHER INTEREST HOLDERS

This class includes all equity security and interest holders who are the owners of the stock of the Debtor. Members of this Class shall not receive any dividend or other payment under the Debtor's Plan of Reorganization. This Class is ineligible to vote on the Debtor's Plan. All current equity holders of the Debtor shall retain their equity interest under this Plan of Reorganization.

(All creditors are requested to review Exhibit 5, which provides for the payments under the Plan with the corresponding assumptions.)

**ARTICLE VI
IMPAIRMENT OF EXISTING CLAIMS AND INTERESTS**

As provided by 11 U.S.C. §1124, a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such a class, the Plan:

- (1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or
- (2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default.
 - (A) cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in section 365(b)(2) of this title;
 - (B) reinstates the maturity of such claim or interest as such maturity existed before such default;
 - (C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and
 - (D) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

**ARTICLE VII
PAYMENT TO CRIM AND OTHER PRIORITIES
UNDER SECTION 507 (a)(8) OF THE CODE**

The Debtor listed priority obligations in its Schedules under 11 USC § 507(a)(8) to the following entities: CRIM, \$75,000 (CRIM asserts a priority obligation of \$75,904.39, *See* Claim No. 11); Puerto Rico Department of Natural Resources, \$26,576 (the Department of Natural Resources does *not* assert any priority obligations in its Proof of Claim, *See* Claim No. 14); the State

Insurance Fund, \$45,746 (the State Insurance Fund asserts a priority obligation of \$27,860 in its Proof of Claim, *see* Claim No. 6); and, the Puerto Rico Department of Treasury, \$156,874 (no proof of claim as of this writing has been filed by the Puerto Rico Department of Treasury). Additionally, the Municipality of Caguas has asserted a priority obligation of \$18,633 (*See* Claim No. 13). The bar date for governmental entities to submit claims, August 6, 2012, has yet to lapse. Nevertheless, any and all allowed claims under section 507(a)(8) of the Bankruptcy Code will receive full payment, plus interest, within five years of the date of the petition for relief in accordance with 11 USC § 1129(a)(9). *See* Payment Plan, Unsecured Priority Claims for a full payment schedule. **Exhibit 5, supra.**

**ARTICLE IX
LEASES AND EXECUTORY CONTRACTS**

Contracts to Which Debtor is a party: Debtor as of the petition date was a party to the certain leases and executory contracts (*See* Debtor's Schedule G for a list of its executory contracts):

9.1 Assumption of Designated Executory Contracts and Unexpired leases. Pursuant to Sections 1123(b)(2) and 365(a) of the Bankruptcy Code, the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the assumption, as of the Effective Date, of each executory contract or unexpired lease to which the Debtor is a party for which a motion to assume is pending at the time of the Confirmation Date.

Unless otherwise provided in a pending motion to assume, on the Effective Date or as promptly as possible thereafter, the Debtor shall cure any defaults under such assumed executory contracts or unexpired leases to the extent required by Section 365 of the Bankruptcy Code. In

addition, to the extent the Debtor has rights of setoff against any of the parties to these leases and contracts; the Debtor reserves the right to cure any defaults under such leases and contracts by exercising this right of setoff.

9.2 Rejection of Executory Contracts and Unexpired Leases. Pursuant to Sections 1123(b)(2) and 365(a) of the Bankruptcy Code, the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of the rejection, as of the Effective Date, of each executory contract and/or unexpired lease to which the Debtor has not filed a motion to assume.

9.3 Executory Contracts and Unexpired Leases Which Were Assumed or Rejected To Date. Any executory contract or unexpired lease (other than insurance policies) which (i) has not expired by its own terms on or prior to the Confirmation Date, (ii) has not been assumed or rejected with the approval of the Bankruptcy Court on or prior to the Confirmation Date, (iii) is not the subject of a motion to assume or reject which is pending at the time of the Confirmation Date, or (iv) is not designated in the Disclosure Statement, listing an executory contract or unexpired lease to be assumed at the time of confirmation of this Plan, shall be deemed rejected and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejection pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

9.4 Rejection Damage Claims. If the rejection of an executory contract or unexpired lease by the Debtor results in a claim for damages to the other party or parties to such contract or lease, any claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be forever barred and shall not be enforceable against the Debtor's Estate, or its respective properties or agents, successors or assigns, unless a proof of claim is filed with the Bankruptcy Court and

served upon counsel for the Debtor on or before the earlier of, 30 days after entry of the Order approving the rejection of the contract or unexpired lease, if such rejection is granted before Confirmation Date, or 30 days after Confirmation Date if the Confirmation Order constitutes approval of the rejection. Unless otherwise ordered by the Court or provided in the Plan, all such Allowed Claims for which proofs of claim are timely filed will be treated as General Unsecured Claims subject to the provisions of the Plan and to Section 502(b)(6) of the Bankruptcy Code, to the extent applicable. The Debtor shall have the right to object to any such rejection damage claims filed in accordance with this Section.

9.5 There are no post-petition Allowed Claims concerning rejected leases. Nevertheless any possible claim for this concept shall be treated as a Class 1 Administrative claim.

9.6 Post-Petition Agreements Unaffected By Plan. Except as otherwise expressly provided herein, nothing contained in the Plan shall alter, amend or supercede any agreements or contracts entered into by the Debtor after the Petition Date that were otherwise valid, effective and enforceable against the Debtor as of the Confirmation Date.

ARTICLE X PROOF OF CLAIMS NOT FILED

The Plan provides that where a proof of claim has not been filed, the Allowed Claim shall be in the amount appearing in the Schedules filed by the Debtor, provided however, that the scheduled amount is not shown as unliquidated, contingent or disputed, in which case no amount will be allowed. To the extent that no debt was listed by the debtor in its Schedules, no amount

will be provided for claimants who have not filed proof of claims.

**ARTICLE XI
OBJECTIONS TO CLAIMS**

The Debtor, at the option of the Debtor or upon order of the Bankruptcy Court, if requested, may file an objection to any claim as to its validity or amount within 30 days prior or after to the Confirmation Hearing. If an objection is made, payment to such claimants will be made only after the entry of a final order by the Court allowing such claim and in accordance with the provisions of the Plan governing such class to which such claims belongs.

**ARTICLE XII
CONDITIONS PRECEDENT TO CONSUMMATION**

Before consummation of the Plan takes place, the Confirmation Order shall have become a final order.

**ARTICLE XIII
NON ACCEPTANCE OF THE PLAN
(Cramdown)**

If all applicable requirements of 11 U.S.C. § 1129(a), other than subsection (a)(8), are met with respect of to the Plan, the Debtor hereby requests that the Court confirm this Plan notwithstanding the requirements of said section, if it does not discriminate unfairly and is fair and equitable with respect to each class of claims or interests that is impaired under and has not accepted this Plan.

**ARTICLE XIV
MEANS OF EXECUTION OF THE PLAN, RISK FACTORS
and
MANAGEMENT OF DEBTOR**

The Debtor is proposing a Plan of Reorganization, by the Debtor in Possession. This Plan of Reorganization under Debtor's own execution shall be substantially supported by Debtor's operations. The Debtor has already implemented strategies to increase sales of its most successful lines of water products while phasing out its less successful products. Additionally, on April 17, 2012 the Debtor began operating a new array of solar panels to collect and produce energy. This new solar array is already producing energy for the Debtor and will result in substantial reductions of its energy bill. The Debtor is also exploring other efficiencies such as using its fleet of delivery trucks to deliver product from other companies that is going to nearby addresses along with its water deliveries. Presently, because water is a fairly heavy item to transport, the Debtor's delivery trucks only use about half of their available space. By utilizing the full space of its delivery trucks by identifying light-weight but bulky cargo, the Debtor will diminish its transportation costs. The revenue generated by the Debtor shall be able to cover the expenses associated with its Plan of Reorganization in full.

During the course of its reorganization, the Debtor will still be managed by Luis Mayendia. Mr. Mayendia will maintain his current salary of \$48,000 per year during the course of the Plan of Reorganization. The Risk Factors for this Plan of Reorganization include prolonged negative growth in the consumer sector such that consumers curtail current bottled water consumption. Other risk factors are specified in **Exhibit 5A**, the Assumptions and Risks explaining the Debtor's projections.

**ARTICLE XV
PROVISIONS FOR THE MODIFICATION OF THE PLAN**

The Debtor may propose amendments or modifications of the Plan at any time prior to its confirmation, upon notice to creditors and parties in interests. After confirmation of the Plan, the Debtor may, with the approval of the Court and as long as it does not adversely affect the interests of the creditors, remedy any defect or omission, in such manners as may be necessary to carry out the purposes and effects of the same.

**ARTICLE XVI
CLOSING OF THE CASE**

At such time as the case has been substantially consummated, this case shall be closed. In order for the case to be closed, the Debtor shall file an application for final decree showing that the case has been fully administered and the Plan has been substantially consummated. The Court shall conduct a hearing upon application thereon and after notice to all creditors and parties in interests. Thereafter an order approving the Debtor' report and closing the case, shall be entered.

**ARTICLE XVII
RELEASE AND DISCHARGE OF CLAIMS**

17.1 Discharge. On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the effective date, to the extent specified in § 1141(d)(1)(A) of the Bankruptcy Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c)) of the Federal Rules of

Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(1)(B). After the effective date of the Plan all pre-petition claims against the Debtor will be limited to the debts described in clauses (I) through (iii) of the preceding sentence.

17.2 Injunction Relating to the Plan. As of the Effective Date, all Persons are hereby permanently enjoined from commencing or continuing, in any manner or in any place, any action or other proceeding, whether directly, indirectly, derivatively or otherwise against the Debtor and/or its Estate, on account of, or respecting any Claims, debts, rights, Causes of Action or liabilities discharged pursuant to the Plan, except to the extent expressly permitted under the Plan or under any specific order entered by the Bankruptcy Court.

17.3 Setoffs. Except as otherwise provided in this Plan, nothing contained in this Plan shall constitute a waiver or release by the Estate of any rights of setoff the Estate may have against any Person.

ARTICLE XVIII OTHER PROVISIONS

Confirmation of the Plan and the Confirmation Order will vest title of all property of the Estate in Debtor and will constitute final settlement of payment to all creditors.

All injunctions or stays provided for in the bankruptcy case at bar under Sections 105 or 362 of the Bankruptcy Code (11 U.S.C.), or otherwise, and in existence on the Confirmation Date, shall remain in full force and effect until the Effective Date.

All claims against Debtor of whatever nature, including any claim arising from the rejection of any executory contract, or any other action, shall be bound by the provisions of this

Plan.

Any holder of a claim or interest who fails to file an objection in writing to the provisions of the Plan, which is filed with the Court and served upon counsel for the Debtor, not later than the date set for the confirmation of the plan, shall be deemed to have accepted its classification and to be bound by the proposed Plan.

All actions taken by the Debtor with respect to any person shall not be construed to release, waive, discharge, compromise or in any other way satisfy any claim, except those subject to any agreement between the parties.

Upon completion of the requirements of the Plan and the order of confirmation, the Debtor and /or the claimant shall execute all corresponding documents and cooperate fully to reflect, release and / or reaffirm all the obligations herein provided.

The Plan shall become effective upon the Effective Date of the Plan, which is 30 days after the order confirming the plan becomes a final order and shall be the date on which there shall be made all initial cash payments under the plan.

To the extent that any term of this Disclosure statement varies from the terms of the Plan, the terms of the Plan shall govern.

ARTICLE XIX

RETENTION OF JURISDICTION

The Bankruptcy Court shall retain jurisdiction over this case as is conferred upon it by law, rule or statute, or by the Plan, to enable the Debtor to substantially consummate any and all proceedings which it may bring before or after the entry of the order of confirmation, in order to

carry out the provisions of the Plan and or any related matter.

RESPECTFULLY SUBMITTED, in San Juan, Puerto Rico, this 29th day of May, 2012.

/s/ Luis Mayendía

Luis Mayendía, General Manager
BMF, Inc.

I HEREBY CERTIFY that on this date, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF System, which will send notification of such filing to the parties appearing in said system including the US Trustee and to all those parties who has requested a copy and are not within the electronic service, by first class United States Postal Mail Service .

C. CONDE & ASSOC.

Attorney for Debtor

San Jose Street #254, 5th Floor

San Juan, PR 00901-1253

Tel: (787) 729-2900

Fax: (787) 729-2203

Email: condecarmen@microjuris.com

/s/ CARMEN D. CONDE TORRES

Carmen D. Conde Torres

USDC No.: 207312