

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

IN RE: *
*
COSTA DORADA APARTMENTS CORP. * CASE NO. 11-03960 (ESL)
d/b/a VILLAS DE COSTA DORADA *
*
DEBTOR * CHAPTER 11

AMENDED
DISCLOSURE STATEMENT
DATED: March 19, 2012

TO THE HONORABLE COURT
TO CREDITORS
TO OTHER PARTIES IN INTEREST

The debtor herein, as debtor in possession, through the undersigned attorney, submits its Amended Disclosure Statement as of March 19, 2012, together with the proposed plan of reorganization.

Respectfully submitted, in San Juan, P.R. this 19th day of March of 2012.

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1. INTRODUCTION AND BANKRUPTCY PROVISIONS

1.1 BANKRUPTCY CODE PROVISIONS FOR POST PETITION DISCLOSURE:

Section 1125 of the Bankruptcy Code requires that debtor make post petition disclosure in the form of a disclosure statement which provides "adequate information" to its creditors before debtor or a party acting on its behalf may solicit acceptances of a Chapter 11 plan of reorganization. Creditors are urged to consult with their own attorneys, or with each other, and to review all of the pleadings and other documents on file with the U.S. Bankruptcy Court in order to fully understand the disclosures made herein, regarding 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. Debtor does not warrant or represent that the information contained herein is without inaccuracy notwithstanding the efforts to disclose all matters with careful attention to accuracy and completeness.

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.

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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.

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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.

Creditors may vote for the acceptance or rejection of the plan. Only impaired classes are entitled to vote for the plan.

As detailed in Article V of the Plan of Reorganization the claims in Classes no. 1; 3 and 6 are deemed unimpaired in accordance with Section 1124 of the Bankruptcy Code. By virtue of such status, such classes either are deemed to have accepted the plan in accordance with Section 1126(f) of the bankruptcy Code or are not otherwise required to have their votes to accept or reject the Plan solicited. Although the claim in Class 7 may be considered impaired, this will not vote because this class not be receiving any dividend through the Plan. Accordingly, debtor is not required to solicit the votes of such classes with respect to the acceptance or rejection of the Plan.

For voting purposes, Classes 4 and 5 are impaired and debtor will solicit the votes of such classes with respect to the acceptance or rejection of the Plan pursuant to the provisions of 11 U.S.C. Section 1126. In addition the Class 2 is impaired, it has accepted the terms of the plan by means of the approval of the stipulation filed and approved by the Honorable Court.

Each creditor is urged to consult with its own attorney and obtain advice on the proposals and dispositions of this Disclosure Statement and Plan of Reorganization. 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.

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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 and the statement of financial affairs and all other documents duly filed with the Bankruptcy Court. This Plan is predicated upon certain assumptions that may not materialize, and you are urged to give consideration to such assumptions.

No representation concerning Debtor, or as to the actual or realizable value of its property is 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.

2. DEBTOR'S HISTORY, OPERATIONS AND STRUCTURE

2.1 THE DEBTOR AND ITS OPERATIONS:

General Background:

Costa Dorada Apartments d/b/a Villas de Costa Dorada, (hereinafter referred to as "Costa Dorada" or "Debtor") is a domestic corporation organized under the laws of the Commonwealth of Puerto Rico on March 20, 1997. The corporation was organized to develop a residential complex project (walk-ups) named Villas de Costa Dorada. This project is adjacent to Hotel Costa Dorada, a separate but related business venture owned by a sister corporation. The residential apartments were intended to complement a hotel operation both located at Bajuras Ward, Isabela PR (the "Project").

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Debtor is the owner in fee simple of a beach front complex consisting of 34 units (apartments) located at State Road 466 Bajuras Ward in Isabela PR (Finca #24057). In addition Debtor is the owner of the following properties: (a) Apartment 104B of the Project (Finca #24060); and (b) Remnant land consisting of 3.5 cdas located at State Road 466 Bajuras Ward in Isabela PR (Finca #5567) and adjacent to the Project. In total, Debtor is owner of 35 apartments if we are to include the one reacquired after being sold to a third party.

In relation with the remnant land of 3.5 cdas above-mentioned, Debtor considered the estimated market value of \$2,500,000 as detailed in schedule A.

The Project originally consisted of four (4) buildings containing 96 apartments, with all amenities and services. However, Debtor was only able to develop two (2) buildings of 48 apartments. These 48 apartments were divided among the two buildings as follows: 12 units in the building identified in the Project's appraisal report as Building A; and 36 units in the building identified in such report as Building B. From these 48 apartments, Debtor sold 13 apartments prior to petition date, all located in Building B of the Project.

The project is chartered by the Puerto Rico Tourism Department as a condo hotel facility. On or around the year 2000, Debtor and Costa Dorada Beach Resort Corp. executed a management service contract, under which the latter was entitled to lease Debtor's apartments, as needed in its ordinary course of business, and performed management functions for Debtor's Project such as the supply of food, beverage, maintenance, repairs and personnel for the Project. Unsold apartments are

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used by debtor as additional room facilities for Hotel Costa Dorada and to operate a Time Sharing facility managed directly by the debtor.

Prior to filing bankruptcy, the Project was mainly used by Debtor as a Condo-Hotel and Time Sharing facility. However, in the regular course of its business, Debtor sold around 13 apartments to interested parties, all located in Building B of the Project.

The Time Sharing Agreements Project:

*As detailed in Amended Schedule G filed on July 11, 2011, before petition date Debtor have sold 175 time sharing (vacation club) agreements. The updated list of time sharing participants, with its current status, is enclosed as **Exhibit 6** to the Disclosure Statement.*

In general, and in exchange of a lump sum payment paid at inception, as detailed in the terms and conditions of said master agreement, time sharing participants are entitled and have the right and privileges of using the facilities of Villas de Costa Dorada for a week once a year during the period of the agreement which is 30 years. The time sharing program requires that 15 units be always available for participants' upon demand for use in any given date. Debtor has always complied with this requisite having available sufficient rooms for time sharing participants use.

In order to maintain time sharing privileges the participants are required to pay monthly maintenance fees for the up keeping of the property. Failure to pay the required maintenance fees usually results in the termination of the contract releasing the debtor of any further obligation under the contract.

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Qualified Time Sharing participants shall not be affected by the confirmation of the plan inasmuch they should retain unaltered their rights granted by the contract. Refer to Class 7 for the treatment of the time sharing (vaction club) agreements of Debtor.

Agreement for Sale of Apartments:

At the time of filing of the instant petition, the remaining inventory of units available for sale is 35 apartments, each with an estimated sales value ranging from \$200,000 to \$250,000. The minimum sales price agreed with Scotiabank de Puerto Rico and used for purposes of formulating this plan is \$150,000 per unit.

Reasons for Filing de Bankruptcy Petition:

In general, the immediate reason that triggered the filing of this bankruptcy petition was the imminent execution of a judgment against Debtor's commercial properties which was obtained through a collection of money and foreclosure proceeding brought by the principal creditor in the above-captioned case, Scotiabank de Puerto Rico (hereinafter "Scotiabank"), on February 26, 2009 at the Puerto Rico First Instance Court, Subsection of Aguadilla and concluded on September 27, 2009.

This litigation relates to Debtor's default in certain credit facility provided by Scotiabank in the year 2003.

Pursuant to the above in 2003, Debtor obtained from Scotiabank a credit facility in the amount of \$1,500,000 to: (1) refinance certain debt it held with Scotiabank; (2) cancel certain credit facility held with Banco BilbaoVizcaya; (3) cancel certain debt facility held with Banco Popular; (4) complete the construction of a swimming pool in the Project; and (5) purchase certain equipment and

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furniture to be placed at the apartments of the Project. The credit facility provided by Scotiabank was intended to be repaid mainly from the income generated by the rent and income generated from the Condo-Hotel and Time Sharing concept of the Project.

Notwithstanding the above, due to circumstances out of Debtor's control, such as the economic recession and the downturn of the real property market in Puerto Rico, Debtor's income in the Project, mainly rental income, was significantly reduced, thus, limiting Debtor's resources to cover its operating expenses such as utilities, telephone, repairs, maintenance and others.

In addition to the above, the cash flow shortages in Debtor's operation due to the circumstances above mentioned, significantly contributed to the arrears in the monthly payments to Scotiabank.

During April of 2011, Debtor through third party or private investor and in an effort to resolve the imminent foreclosure of its properties by Scotiabank, offered Scotiabank \$950,000 in total payment of the debt. Scotiabank rejected such offered and continued with the foreclosure of Debtor's property. Consequently, Debtor was forced to file protection under Chapter 11 of the Bankruptcy Court.

2.2 *CORPORATE OFFICERS AND MANAGEMENT TEAM:*

The company's Board of Directors is composed as follows:

President & Treasurer: Mr. Carlos R. Fernández-Rodríguez

Secretary: Mrs. Iris M. Cancel-Lugo

Vice-President: Mr. Carlos R. Fernández-Cancel

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The development and operating success of this business derives from experience and the years of hard work in this industry and the excellent location of this property. Mr. and Mrs. Fernández Rodríguez, created and develop the business on around March 1997 and has been leading top management and business administration of the properties since then

Mr. Carlos R. Fernández-Rodríguez - Holds a Bachelor's Degree in Hotel Administration from the Cornell University in New York and over 30 years of experience in the hotel field.

Mrs. Iris Cancel-Lugo graduated from Cornell University with specialty in Library. In addition have over 20 years of experience in hotel field.

The sole stockholders of the Debtor is Mr. and Mrs. Carlos R. Fernández Rodríguez. However, his son, Carlos R. Fernández Cancel, works as assistant in Debtor's Project.

Additionally, Mr. and Mrs. Carlos R. Fernández Rodríguez, are the sole stockholder of two additional corporations, namely Parador Vista Mar Corp. and Costa Dorada Beach Resort Corp. These two entities operate the hotels named Parador Vista Mar and Costa Dorada Beach Resort, which are located in Quebradilla and Isabela, respectively.

Mr. Carlos R. Fernández-Cancel graduated from the Interamerican University of Puerto Rico, with a Bachelor's Degree in Management & Marketing with over 10 years experience in the hotel field. Mr. Fernández-Cancel works with the administration and marketing of the Hotel Costa Dorada.

Day to day management of the company is headed by Mr. Carlos R. Fernández Rodríguez and Mrs. Iris M. Cancel Lugo, wife of Mr. Fernández-Rodríguez. Actually, Mr. and Mrs. Fernández

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receive the benefits of Social Security and do not receive any salary from Debtor..

2.3 *DATE THE PETITION WAS FILED*

The bankruptcy petition of Costa Dorada was filed on May 10, 2011, under the provisions of Chapter 11 of the Bankruptcy Code. Since that date, debtors remain operating as Debtor in Possession.

2.4 *BANKRUPTCY PROCEEDINGS*

Compliance with Operating Guidelines and DIP Requirements:

Upon the filing of this bankruptcy petition, Costa Dorada has taken all possible measures necessary to reorganize the enterprise. Debtor is in compliance with the Operating Guidelines as follows:

- a) Monthly Operating Reports have been completed and filed with the Court up to January 2012.
- b) Property and public liability insurance has been maintained
- c) Quarterly fees required by the U.S. Trustee are up to date.
- d) Tax returns and declarations have been filed as these become due.

Employment of Professionals:

On May 13, 2011, Debtor filed their applications to employ attorney Wigberto Lugo Mender and the firm of Lugo Mender & Co., who will serve as attorney for the debtor in possession. On July 15, 2011, 2010, the Court entered an Order approving this employment.

During the process of the Bankruptcy, Debtor is working with its internal accountant for

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the preparation of the Monthly Operating Reports filed in this case and in general matters related to the reorganization proceeding. Due to the current operations, there is no need for the appointment of an external auditor (CPA) to comply with the filing of corporate income tax returns and year-end reports for the year ended on January 31, 2012.

Operational Adjustments Implemented:

Debtor anticipates that the best feasible alternative for funding the plan of reorganization would be initially through the sale of some apartments and, simultaneously, continue with the operation of the property in order to maximize the value of the remaining property. Actually, Debtor's inventory of units available for sale is thirty-five (35) apartments. Upon agreement with the bank, the minimum selling price for these apartments is \$150,000. Given the amount of the debt while compared to the value of the collateral, debtor should be able to liquidate all secured debt with the bank and provide operating resources to continue the business just by selling fifteen (15) units at this discounted price. Debtor has commenced marketing efforts to try to sell fifteen (15) apartments for the available units to pay the amount due to Scotiabank and other creditors. In addition, Debtor will commence marketing effort to try to sell the adjacent parcel of land of 3.5 cdas located in Bajuras Ward in Isabela, to obtain more resources to funding the plan.

Evenafter the sale of these apartments debtor intends to continue the operations of the business including the operation of the Condo Hotel and the Time Sharing Program.

3. DEBTOR'S FINANCIAL INFORMATION

3.1 GENERAL FINANCIAL INFORMATION:

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For purposes of filing this petition, on June 2, 2011, Debtor filed the required schedules and statement of financial affairs. In addition, on July 11, 2011, Debtor filed the Amended Schedule G to include over 150 parties participating in a time sharing agreement conducted in the facilities.

The information provided in the schedules filed and the statements of financial affairs show Debtor's financial position as of the date of the filing of the petition. Business income and expenses are detailed in the accompanying income tax returns. Also, monthly operating reports available in the Bankruptcy Court file show debtor's finances and results of operations for the period after the date of the filing of the petition.

A summary of all monthly operating reports has been prepared and enclosed herein as **Exhibit 1**.

Furthermore, the corporate debtor includes as **Exhibit 2** to the Disclosure Statement copy of the last available audited financial statement ended December 31, 2008; unaudited financial statement ended December 31, 2009 and the Corporate Tax Returns for the years 2009 and 2010.

3.2 *ASSETS AND LIABILITIES AS OF PETITION DATE:*

Schedules and Statement of Financial Affairs

The Debtor filed its Schedule of Assets and Liabilities and Statement of Financial Affairs (collectively, the "Schedules and Statements") with the Bankruptcy Court on June 2, 2011 (Docket # 14). Also, on June 2, 2011 and July 11, 2011, debtor filed the Amended Schedule D & G (Dockets #15 & 27). Among other things, the Schedules and Statements set forth the Claims of

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known creditors against the Debtor as of the Petition Date, based upon the Debtor's books and records.

Moreover, Debtor enclosed the last appraisal report and the title search of the real properties detailed in Schedule A (**Exhibit 3**) and a detail of all assets is provided in the liquidation analysis section, with updated values as detailed herein as **Exhibit 4**.

Claims Bar date and Proof of Claims

On May 12, 2011, the Bankruptcy Court entered an order setting a bar date for general unsecured claims on September 15, 2011 and for governmental units (as defined by section 101 (27) of the Bankruptcy Code) as November 8, 2011 (the "Bar Dates"). To date, the Debtor has received 5 proofs of claims forms asserting approximately \$1.62 millions in claims. The Debtor has begun the process of reviewing the asserted Claims and objection to those Claims it believes should be disallowed in whole or in a part.

The Debtor's estimates of Allowed Claims are identified herein. See Schedule of Payments under the Plan of Reorganization enclosed as **Exhibit 5**.

3.3 PENDING LITIGATION:

Scotiabank de PR vs Costa Dorada Apartments Corp. et al – Civil Case No. ACD2009-0062, at the Commonwealth of Puerto Rico, First Instance Court, Subsection of Aguadilla. This proceeding concerns a collection of money and foreclosure filed by Scotiabank de PR before the date of the filing of the instant bankruptcy petition. A final judgment was entered on September 27, 2009.

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The amount claimed will be considered as secured claim and a settlement for adequate protection and debt restructuring has been reached with this creditor.

Cooperativa de A/C San Rafael Quebradillas vs Costa Dorada Apartments Corp. et al – Civil Case No. ACD2006-0005, at the Commonwealth of Puerto Rico, First Instance Court, Subsection of Aguadilla. This proceeding concerns a collection of money action filed by Cooperativa de A/C San Rafael before the date of the filing of the instant bankruptcy petition. A final judgment by stipulation was entered on September 22, 2010. The amount claimed will be considered as an unsecured claim.

Banco Popular de PR vs Carlos R. Fernández; Costa Dorada Beach Resort Corp.; Costa Dorada Apartments Corp, et al – Civil Case No. ACD2009-0107, at the Commonwealth of Puerto Rico, First Instance Court, Subsection Aguadilla. This proceeding concerns a collection of money and foreclosure action filed by Banco Popular before the date of the filing of the instant bankruptcy petition. A final judgment was entered on February 25, 2010. *Any deficiency arising upon payment by the principal debtor will be considered as an unsecured claim, sharing in the distribution with other allowed claimants under the Class 4 of the Plan.*

3.4 LIQUIDATION ANALYSIS:

One requirement for the confirmation of a plan under Chapter 11 of the U.S. 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

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effective date of the plan, that is not less than the amount such claim holders would receive or retain if the debtors were liquidated under Chapter 7 of the Code on such date. In order to provide the value as of the effective date of the plan under a Chapter 7 scenario, debtor provides a detailed liquidation analysis.

For purposes of determining a liquidation value, debtor has estimated as realizable in a chapter 7 scenario from 50% to 100 % of the actual or scheduled value for existing personal property. The estimated realizable values have been deducted for purposes of the liquidation analysis using the experience of liquidation of assets under Chapter 7 bankruptcy cases. The estimated value of the real property, even considering a distressed sale environment, is sufficient to cover all allowed unsecured claimants, excluding Banco Popular de Puerto Rico contingent and unliquidated claim. A detailed liquidation analysis, with the bases for preparation thereof is enclosed herein as **Exhibit 4**.

The liquidation analysis prepared for this case shows that, upon realization of estate assets and payment of liens and expenses, net available assets in a liquidation proceeding, excluding Banco Popular de Puerto Rico claim under Class 4, should receive 100% on their claims.

4. SUMMARY OF THE PLAN OF REORGANIZATION

4.1 DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS

The Plan divides the creditors into SEVEN (7) classes. The classes of creditors are as follows: **CLASS 1 – ADMINISTRATIVE EXPENSES**

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Class 1 – General Administrative Expenses: Shall consist of Allowed Administrative Expense Claims, as provided under sections 507 (a)(1) and 507(b) of the Bankruptcy Code including, without limitation, costs and expenses allowed under section 503 (b) of the Bankruptcy Code, the actual and necessary costs and expenses of preserving the Debtor’s Estate and Professional Fee Claims and any fees or charges assessed against the Debtor’s Estate under 28 U.S.C. § 1930. This class including, but not limited to, the United States Trustee’s quarterly fees; and fees and expenses of Debtor’s counsel as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing according to the Bankruptcy Code and Rules and; any unpaid taxes or fees accrued since petition date as well as court costs accrued since the petition date.

In addition, debtor includes within this class the estimated amount needed for the notarial fees and selling expenses to be incurred in the sale of fifteen (15) apartments. Debtor estimates that the amount of corporate income taxes and real property taxes to be paid upon sale of property should be minimal considering: 1) that the company is exempt from corporate income taxes and a substantial portion of real property taxes under a Tourism Decree granted prior to the filing of the petition and 2) the company enjoy substantial amounts of Net Operating Losses which should be sufficient to offset any future corporate income taxes. Nonetheless, debtor estimated all selling cost, including taxes, in around of 5% of the total sales, in the approximately amount of \$112,500.

Debtor estimates the liability in this Class 1 not to be over the amount of \$118,150.

CLASS 2 - SECURED CREDITORS – Scotiabank de PR

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Scotiabank de Puerto Rico, filed the proof of claims number 1-3 in the total amount of \$1,661,796. This amount is in consideration of certain commercial loans granted to Costa Dorada Apartments Corp. The amount due under this loan is secured with a first rank mortgage note and pledge agreement encumbering debtor's beach front complex consisting of 34 units (apartments) located at State Road 466 Bajuras Ward in Isabela PR (Fincas # 5567 & 24057).

CLASS 3 – SECURED CREDITOR- Banco Popular de PR

Debtor scheduled the amount of \$120,000 in favor of Banco Popular de Puerto Rico. This amount is in consideration of mortgage loan secured by Apartment 104B of the Project “Villas de Costa Dorada” located at State Road 466 Bajuras Ward in Isabela Puerto Rico.

CLASS 4 – GENERAL UNSECURED CREDITORS

General unsecured creditors considering those listed by the Debtor, those who filed a proof of claim and those secured creditors, who after Debtor’s efforts have agreed to be considered part of their claim as unsecured, are included in this class.

Banco Popular de PR filed claim number 7 in the amount of \$3,689,208. This amount is in consideration of for (4) commercial loan secured by another entity named “Costa Dorada Brach Resort Corp”. The amounts under this claim should be paid by the principal debtor “Costa Dorada Beach Resort Corp.” Nonetheless, any deficiency that arise in this debtor after either payment of foreclosure of collateral serving this loan will share in distribution with other allowed creditors in this class.

The debt under this class has been estimated at this time by debtor in the amount of

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\$340,530.

CLASS 5 - UNSECURED - INSIDERS CLAIMS

This class shall consist of the unsecured scheduled claims of Costa Dorada Beach Resort in the amount of \$2,758,811 and Parador Vista Mar Corp. in the amount of \$498,910, representing the related companies advances or loans used for the construction of Debtor's facilities. These claims are classified by debtor as an amount due to insiders or related companies.

CLASS 6 - TIME SHARING (VACATION CLUB) AGREEMENTS

*This class shall consist of all bonafide Time Sharing participants qualified to received benefits and that are in compliance with the terms and conditions set forth in the Time Sharing-Vacation Club agreement entered with the debtor prior to the filing of the petition as more fully detailed in the Amended Schedule G filed in July 11, 2011 (Docket No. 27) and in the Updated List of Participant enclosed as **Exhibit 6** to this Disclosure Statement.*

CLASS 7 – EQUITY SECURITY INTEREST HOLDERS

Equity security and interest holders are the current owners of the common stocks of the Debtor. The current stockholders of the corporation are Mr. and Mrs. Carlos R. Fernández-Rodriguez, the founders of the business, which own 100% of the voting common stock. Currently, these stockholders are the principal officers and directors of the corporation and have been actively engaged in Debtor's reorganization process.

4.2 TREATMENT FOR CLASSES OF CLAIMS AND INTEREST:

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CLASS 1 – ADMINISTRATIVE EXPENSES

Shall consist of Allowed Administrative Expense Claims, as provided under Section 503 of the Code. This class shall be paid in cash and in full as soon as practicable or agreed with the creditor on the later of (a) the Effective Date or (b) the date any such claim becomes an allowed Administrative Claim.

The notarial and selling expenses to be incurred in the sale of the apartments will be paid from the sales proceeds of the fifteen (15) apartments, as further detailed in the terms of the reorganization plan.

This class is not impaired.

CLASS 2 – SECURED CREDITOR-Scotiabank de PR

The amounts due under this class will be paid in full. Debtor will immediately commence marketing effort of the apartment units at the project and compromises to pay 90% of the proceeds of each unit to be sold at the property located at Costa Dorada Apartment complex at an estimated sales price of **\$150,000, each**. The remainder 10% will be used by the Debtor for selling; notarial expenses and other expenses that may be incurred in each sale. Debtor estimates that it will require the sale of fifteen (15) residential apartments to complete the outstanding payment to the Scotiabank.

In addition, Debtor will commence marketing efforts on the adjacent parcel of land held for future development and compromises to pay all sale proceeds after payment of selling and notarial expenses. Meanwhile and during the sale process of the apartments, the Corporation will pay post-petition monthly interests estimated in the amount of **\$6,000** until the execution of either, a final

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agreement among the parties to restructure the outstanding debt or the confirmation of a reorganization plan by the Bankruptcy Court, whichever is later.

On November 16th, Debtor and Scotiabank filed a Joint Settlement was filed in relation with this debt (Docket No. 65).

Refer to Schedule of Payments under the Plan of Reorganization enclosed herein as **Exhibit 5**.

Although this class is impaired, it has accepted the terms of the plan by means of the approval of the stipulation filed on November 16, 2011; and approved by the Honorable Court on December 14, 2012 (Dockets 65 & 73).

CLASS 3 – SECURED CREDITOR – Banco Popular de PR

This class shall retain unaltered its legal equitable and contractual rights. Debtor is in full compliance with the original terms with the creditors in this class and will continue to make regular payments as agreed to. Debtor will continue to pay this creditor under the terms and conditions of its obligation therewith.

This class is not impaired.

CLASS 4 - GENERAL UNSECURED CREDITORS

On the Consummation date, each Class 4 claimant shall receive from the Debtor a non-negotiable, interest bearing promissory note, dated as of the Effective Date, providing for a payment of 100% of their allowed claims plus yearly interest computed at 3.25%. Each Class 4 note shall be payable in a single payment which will be due on 24 months from the effective date

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of the plan Debtor, at its option and depending on the progress of the sale of the apartments may commence payment of regular installments providing for the payment of the face amount, as per the Schedule Payments under the Plan of Reorganization enclosed herein as **Exhibit 5**.

Payment of these promissory notes is subordinated to full payment of the amounts due to Scotiabank.

Notes shall be executed and delivered by the Reorganized Debtor within 15 days from the consummation date or with respect to any Class 4 claim, which is objected, within 15 days following a final and unappealable order on the objection.

This class is impaired.

CLASS 5 - UNSECURED INSIDERS CLAIMS

This class will be paid in cash and in full but only after all allowed claims under Class 1, 2, 4 and allowed priority claims as these are defined under 11 U.S.C. Section 507(a)(8) are paid in full. Payments on behalf of the claimants under this class are subordinated to full payment of the allowed claims as detailed in this plan under the named classes.

This class is impaired .

CLASS 6 – TIME SHARING (VACATION CLUB) AGREEMENTS

This class shall retain unaltered its legal equitable and contractual rights. Debtor is in full compliance with the original terms with the creditors in this class and will continue to provide the agreed services to qualified participants pursuant each vacation club agreement signed before date of filing.

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This class is not impaired.

CLASS 7 - EQUITY SECURITY INTEREST HOLDERS

Equity Security Interest Holders may receive a residual dividend throughout this plan consisting of all excess value in property after payment of all allowed claims. Any payment on their behalf is subordinated to full payment of the allowed claims as detailed in this plan.

Additionally the equity security holders will retain their interest in the Reorganized Debtor by receiving a distribution of common stock from the Reorganized Company equivalent to their current participation in the corporate debtor. Furthermore, they will also assist the debtor in its reorganization with their experience, knowledge and personal work.

Even though this class is impaired, they will not vote for the plan.

4.3 PAYMENT OF UNSECURED PRIORITY GOVERNMENT CLAIMS UNDER 11 U.S.C.

SECTION 507(a)(8):

All allowed unsecured priority claims pursuant to 11 U.S.C. § 507(a)(8) of the Code, as the same are allowed, approved and ordered to be paid by the Court, will be paid as stated below.

Debtor estimates the debt as follows:

- a. CRIM: This creditor claimed the amount of \$70,424 as unsecured priority portion on the Claim #2. Notwithstanding, Debtor estimated the unsecured priority portion is \$3,521. Debtor is completing the compilation of supporting information to file an objection to this claim.
- b. PR Department of Labor: This creditor claimed the amount of \$14,658 as unsecured

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- priority portion on the Claim #6. Notwithstanding, Debtor estimated the unsecured priority portion is \$0.00. Debtor is completing the compilation of supporting information to file an objection to this claim.
- c. Compañía de Turismo: \$10,747 as per Proof of Claim #10
 - d. PR Treasury Department: This creditor claimed the amount of \$32,213 as unsecured priority portion on the Claim #9. Notwithstanding, Debtor estimated the unsecured priority portion is \$1,611. Debtor is completing the compilation of supporting information to file an objection to this claim.

All allowed unsecured priority claims, pursuant to 11 U.S.C. § 507(a)(8) of the Code, as the same are allowed, approved and ordered to be paid by the Court, shall be paid through monthly installments commencing on the effective date and during a period not exceeding five years after the date of the assessment of each such claim. Each claim is to be evidenced by a promissory note for the full amount thereof, bearing interest at the statutory rate, dated as of the Effective Date, the value of the future payments to be equal to its allowed amount.

In relation with the claim of IRS, if Debtors fail to make any deposits of any currently employment tax liability, fails to make any payment of any tax to IRS within 10 days of the due date of such deposits or payment, if Debtors fails to file required federal tax return by the due date, or if the Debtors fails to make any payments due to the IRS under this plan, the IRS may declare that the Debtors is in default, provided that a notice is given in writing to the Debtor to the address of record. If the IRS declares the Debtors in default, the Debtors must cure that default within 30 days. If the

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total amount in default is not cure, then the entire imposed liability to be paid under the plan, together with any unpaid current liability, shall become due and payable immediately upon written demand.

The IRS, notwithstanding any stay which may be in effect, may then collect any unpaid liabilities through the administrative collection provision of the IRS.

See Schedule Payments under the Plan of Reorganization, **Exhibit 5**.

4.4 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

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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.

4.5 DISCHARGE OF CLAIMS:

Except as otherwise provided for in this Plan or in the Order of Confirmation, the rights granted by the Plan and the payments and distributions to be made there under, shall be in complete exchange for, and in full satisfaction, discharge and release of, all existing debts and claims of any kind, nature or description whatsoever against the Debtor. On the Consummation Date, all existing claims shall be deemed to be exchanged, satisfied, discharged and released in full; and all holders of claims shall be precluded from asserting any other or future claim based upon any act or omission, transaction or other activity of any kind or nature that occurred prior to the Consummation Date, whether or not such holder filed a proof of claim.

The confirmation order of this Plan shall constitute an injunction against the pursuit of any claim or Equity Interest, whether or not a proof of claim or proof of interest based on any such debt, liability, or interest, is filed or deemed filed under 11 U.S.C. 501, such claim is allowed under 11 U.S.C. 502, or the holder of such claim has accepted this Plan in the manner set forth herein.

4.6 OBJECTIONS TO CLAIMS:

The Debtor, at its option or upon order of the Bankruptcy Court, if requested may file an

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objection to any claim as to its validity or amount within 30 days before the confirmation date and may substitute for the Debtor as the objecting party to any pending claim objections.

Objections not filed by the date of confirmation shall be deemed waived. 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.

The claim of any creditor whose claim has been scheduled as disputed but who has not filed a proof of claim shall be disallowed by confirmation of the Plan.

5. OTHER PROVISIONS

5.1 EXECUTORY CONTRACTS:

Debtor assumes all unexpired leases and executory contracts to which it is a party and which have not been expressly rejected pursuant to 11 U.S.C. Section 365(a). Specifically, Debtor assumed the management agreement between Debtor and Costa Dorada Beach Resort and the time sharing (Vacation Club) agreements.

5.2 MEANS OF EXECUTION OF THE PLAN AND FUTURE MANAGEMENT OF DEBTOR:

Upon confirmation of the plan, the Debtor shall have sufficient funds to make all payments then due under this Plan. The funds will be obtained from the following sources:

- 1) Sale of fifteen (15) apartments units in the project;*

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- 2) *Rent and regular operation of the other apartments as part of the hotel facilities;*
- 3) *Sale of the remnant land of 3.5 cdas located at State Road 466 Bajuras Ward in Isabela PR.*
- 4) *Rent and regular operation of the other apartments as part of the Time Sharing (Vacation Plan) project*

On the Consummation Date of the Plan, the operation of the named business and other estate assets shall be and become the general responsibility of the reorganized Debtor (“Reorganized Debtor”), which shall thereafter have the responsibility for the management, control and administration thereof.

As to future management of the Debtor, will remain acting in the same capacity she has acted prior and during the reorganization process. Mr. Carlos R. Fernández Rodríguez will not receive compensation for actual work and services provided in the corporation.

5.3 PROVISIONS FOR THE MODIFICATION OF THE PLAN:

The Debtor may propose amendments or modifications of this Plan at any time prior to its confirmation pursuant to 11 U.S.C. 1127. After confirmation of the Plan, the Reorganized 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 manner as may be necessary to carry out the purposes and effects of the same.

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5.4 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, 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 may conduct a hearing upon application thereof and after notice to all creditors and parties in interests. Thereafter, an order approving the Debtor's report and closing the case shall be entered.

5.5 RETENTION OF JURISDICTION:

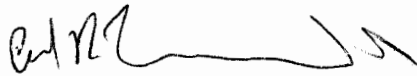
The Bankruptcy Court shall retain jurisdiction over this case as is conferred upon it by law, rule or statute, or by this Plan, to enable the Debtors to consummate any and all proceedings which they may bring before or after the entry of the order of confirmation, in order to carry out the provisions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

This is the Disclosure Statement and Plan of Reorganization hereby proposed to creditors and parties in interest, filed with the Honorable Bankruptcy Court on this same date. Parties are encouraged to review these documents in order to formulate an informed decision on debtor's whereabouts and conditions. A hearing to consider the approval of this Disclosure Statement will be scheduled by the Honorable Court, with Notice of said hearing served to all parties as per the master address list.

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RESPECTFULLY SUBMITTED,

In San Juan, Puerto Rico, this 19th day of March of 2012.



Carlos R. Fernández Rodríguez
President of Costa Dorada Apartments Corp.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY: That on this same 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 participants appearing in said record.

I HEREBY CERTIFY: That on this same date, a true and correct copy of the foregoing Disclosure Statement and Plan of Reorganization, has been hand delivered to the United States Trustee, and mailed by first class service to those parties that, in writing, have requested copy of said document, as ordered by the Court.

/S/ WIGBERTO LUGO-MENDER
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INDEX TO EXHIBITS

Exhibit Number	Description
1.	Summary of Monthly Operating
2.	Audited Financial Statement – Year ended December 31, 2008; Unaudited Financial Statement – Year ended December 31, 2009 & Corporate Tax Returns for the years ended on December 31, 2009 and 2010.
3.	Summary of Appraisal Report & Title Search – All Properties
4.	Detailed Liquidation Analysis
5.	Schedule of Payments Under The Plan of Reorganization
6.	Time Sharing List.