

UNITED STATES BANKRUPTCY COURT  
DISTRICT OF PUERTO RICO

IN RE:

LAUSELL, INC.  
a/k/a Aluminio Del Caribe  
d/b/a ALCA

Debtor

CASE NO. 12-02918 (MCF)

CHAPTER 11

FIRST AMENDED  
DISCLOSURE STATEMENT

OF

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## I. INTRODUCTION

Pursuant to Section 1125 of the United States Bankruptcy Code, 11 U.S.C. § 101, et seq. (the "Bankruptcy Code"), Lausell, Inc., debtor and debtor-in-possession in the above captioned case ("Debtor"), submits this First Amended Disclosure Statement (the "Disclosure Statement") to all of its known creditors. The purpose of the Disclosure Statement is to provide such information as Debtor believes may be deemed necessary for Debtor's creditors to make an informed decision in exercising their rights to vote on Debtor's First Amended Plan of Reorganization (the "Plan"), dated as of this date of the Disclosure Statement. The Plan is being filed with the United States Bankruptcy Court for the District of Puerto Rico ("Bankruptcy Court") simultaneously herewith.

Debtor recommends that you vote to accept the Plan. Each creditor must, however, review the Plan and the Disclosure Statement carefully, including all exhibits in their entirety, and determine whether or not to accept or reject the Plan based upon that creditor's independent judgment and evaluation. The description of the Plan in the Disclosure Statement is in summary form and is qualified by reference to the actual terms and conditions of the Plan, which should be reviewed carefully before making a decision to accept or reject the Plan. Capitalized terms not otherwise defined herein have the same meaning as set forth in the Plan, other terms shall have the meaning ascribed to them in the Bankruptcy Code.

The information contained in the Disclosure Statement has been provided by Debtor based upon Debtor's knowledge of its records, business and affairs. Except as otherwise expressly indicated, the information provided by Debtor in the Disclosure Statement has not been subject to an audit or independent review. Although great efforts have been made to be accurate, Debtor, its counsel and other professional

advisors do not warrant the accuracy of the information contained herein.

The Disclosure Statement has not yet been approved by the Bankruptcy Court as providing information deemed adequate to permit Debtor's creditors to make an informed judgment in exercising their right to vote for or against the Plan.

No representations concerning Debtor, including the value of its assets, or the aggregate dollar amount of claims which may be allowed are authorized other than as set forth in the Disclosure Statement. Any representations, warranties or agreements made to secure acceptance or rejection of the Plan by Debtor's creditors that differ from those contained in the Disclosure Statement should not be relied upon in voting on the Plan.

Debtor believes that the Plan provides the quickest recovery and will maximize the return to creditors on their Claims. ACCORDINGLY, DEBTOR URGES ALL CREDITORS TO VOTE IN FAVOR OF THE PLAN.

## II. SUMMARY OF THE PLAN

The Plan specifies the manner in which the Claims and Interest in the Debtor are to be treated. Allowed Administrative Expense Claims and Allowed Priority Tax Claims are not classified for purposes of voting under the Plan, but the Plan does provide for the treatment of such Claims. The table below provides a summary of the treatment of those claims and of the various Classes of Claims against Debtor, as well as that of Debtor's shareholders' interest in Debtor. To the extent that the terms of the Disclosure Statement vary from those of the Plan, the terms of the Plan will control.

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT UNDER THE PLAN/ ESTIMATED RECOVERY UNDER THE PLAN
<p> Holders of Allowed Administrative Expense Claims <u>(Estimated)</u></p>	<p>N/A</p>	<p>\$563,586.00</p>	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Except as otherwise agreed to by Debtor and the holder of an Allowed Administrative Expense Claim (including Debtor's post-petition accounts payable in the amount of \$467,186.00), each such holder shall be paid in full, in cash, in the regular course of business or as authorized by the Court, on or before the Effective Date, from the proceeds of the sale of substantially all of Debtor's assets, as set forth below.</p>
<p> Holders of Allowed Priority Tax Claims, <u>Secured and Unsecured, including CRIM</u></p>	<p>N/A</p>	<p>\$461,124.02</p>	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Holders of Allowed Priority Tax Claims of \$10,000.00 or less shall be paid on the Effective Date, from the proceeds of the sale of substantially all of Debtor's assets, as set forth below. These payments amount to \$15,878.19.</p> <p>The remaining Allowed Priority Tax Claims, consisting of the unsecured priority tax claim of the State Insurance Fund for \$445,245.83, shall be assumed by the Purchaser of substantially all of Debtor's assets, as set forth below, as part of the consideration paid therefor.</p>
<p> The Secured Claim of First Bank Puerto Rico <u>and Citibank, N.A. ("Firstbank and Citibank")</u></p>	<p>Class 1</p>	<p>\$12,592,103.44</p>	<p>Impaired.</p> <p>Estimated Recovery: 44%</p> <p>The Secured Claim of Firstbank and Citibank for a bank loan and a line of credit, secured by Debtor's real property, consisting of three parcels of land totaling 12,830 square meters, and their buildings, at the North Side of the Second Street, Kilometer 14.2, Hato Tejas Ward, Bayamón, Puerto Rico, and Debtor's furniture, machinery and equipment, accounts receivable, cash, and inventories, reduced to \$5,600,000.00 pursuant to an agreement by and between Debtor, Firstbank and Citibank, shall be paid on the Effective Date from the proceeds of the sale of substantially all of Debtor's assets, as set</p>

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT UNDER THE PLAN/ ESTIMATED RECOVERY UNDER THE PLAN
			<p>forth below.</p> <p>The Plan contemplates the sale of substantially all of Debtor's assets, including Debtor's real estate, accounts receivable, cash accounts, deposits, furniture, equipment, inventories, trademarks, and intangibles, as listed in Exhibit A hereto, to La-Re 2, Group LLC ("La-Re" or the "Purchaser"), Debtor's affiliate, under the provisions of 11 U.S.C. § 363 (b), for \$9,380,489.00, and the additional consideration indicated below, free and clear of all liens and encumbrances.</p> <p>The \$9,380,489.00 is composed of \$6,300,000.00 in cash, to originate from a loan to be obtained from the Economic Development Bank for Puerto Rico ("EDB"), and the assumption by La-Re of Debtor's debts for \$3,080,489.00, as detailed in the Exhibit B hereto.</p> <p>From the proceeds of the sale of Debtor's assets, Debtor will pay in cash 100% of Allowed Administrative Expense Claims, 100% of Allowed Priority Tax Claims for \$10,000.00 or less (secured and unsecured), the Secured Claim of Firstbank and Citibank, as indicated above, and will reserve a carve out for \$50,000.00, to pay Class 6 Allowed General Unsecured Claims on a pro-rata basis.</p> <p>The remaining balance of Firstbank's and Citibank's claim, estimated in \$6,992,103.00, will be dealt with under Class 6 below, Firstbank and Citibank being entitled to vote as members of Class 6, but will not receive any payments thereunder.</p>
<p><u>The Claim of Puerto Rico Industrial Development Co. ("PRIDCO")</u></p>	<p>Class 2</p>	<p>\$952,362.26</p>	<p>Impaired.</p> <p>Estimated Recovery: 100%</p> <p>Pursuant to an agreement by and between PRIDCO, Debtor, and La-Re, PRIDCO's claim, arising from unpaid pre-petition rent for \$952,362.26, as well as any post-petition</p>

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT UNDER THE PLAN/ ESTIMATED RECOVERY UNDER THE PLAN
			unpaid rent, will be assumed by La-Re, as part of the consideration for the purchase of Debtor's assets. PRIDCO and La-Re are negotiating a payment plan for said unpaid rents, to be in place on or before the Effective Date of the Plan.
<u>Holder of Claims Arising from the Assumption of Executory Contracts</u>	Class 3	\$25,458.14	Unimpaired.  Estimated recovery: 100%  Holders of Claims, arising from the Assumption of Debtor's Executory Contracts with Allied Waste Services, ATT Mobility, Consolidated Waste Services, Interboro, PRTC Larga Distancia, Work-in-Progress and De Lage Landen, shall be paid the existing arrears, in full, in the regular course of Debtor's business or as authorized by the Court, or on before the Effective Date, from the proceeds of the sale of Debtor's assets as set forth above. These contracts will be assumed by Debtor and assigned to La-Re on the Effective Date.
<u>The Claim of La-Re Group, LLC</u>	Class 4	\$80,368.00	Impaired.  Estimated Recovery: 0%  The Claim of La-Re Group, LLC, arising from the pre-petition amount due thereto on Debtor's lease therewith for Debtor's Barceloneta, Puerto Rico's facilities, will not receive any payment under the Plan, as La-Re Group, LLC will condone such claim.
The Claim of La-Re 2 Group, LLC	Class 5	\$38,055.00	Impaired.  Estimated Recovery: 0%  La-Re's Claim arising from amounts due thereto on Debtor's lease contract therewith for Debtor's Río Piedras, Puerto Rico's facilities, will not receive any dividends under the Plan as La-Re will be purchasing substantially all of Debtor's assets and will condone such Claim, as part of the consideration for the purchase.
Holder of Allowed General Unsecured Claims	Class 6	\$3,647,746.35	Impaired.  Estimated Recovery: 2%

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT UNDER THE PLAN/ ESTIMATED RECOVERY UNDER THE PLAN
			<p>Holders of Allowed General Unsecured Claims, including those arising from rejected executory contracts, but excluding Firstbank's and Citibank's deficiency claim, and any claims of Debtor's Insiders, will be paid in full satisfaction thereof 2% of such claims, from the \$50,000.00 carve out to be reserved from the proceeds of the sale of Debtor's assets, as set forth above.</p>
Interests in Debtor	Class 7	N/A	<p>Impaired.</p> <p>Estimated Recovery: N/A</p> <p>The shares of the Equity Interest Holders in Debtor will be cancelled on the Effective Date of the Plan.</p>

For a more detailed description of the treatment of the foregoing classes of Claims and Interests, see "Treatment of Claims and Interests Under the Plan" and Exhibit C hereto.

The Disclosure Statement has been prepared by Debtor to provide creditors with adequate information so that they can make an informed judgment about the Plan. Each creditor should read the Disclosure Statement and the Plan in their entirety before voting on the Plan. No solicitation of votes on the Plan may be made except pursuant to the Disclosure Statement and no person has been authorized to utilize any information concerning Debtor's assets other than the information contained herein for purposes of solicitation.

### III. INFORMATION ABOUT THE REORGANIZATION PROCESS

#### 3.1 Purpose of a Disclosure Statement

The Disclosure Statement includes background information about Debtor and

identifies the classes into which creditors and equity holders have been placed by the Plan. It describes the proposed treatment of each of those Classes if the Plan is confirmed and contains information concerning the prospects in the event of confirmation or, in the alternative, the prospects if confirmation is denied or the proposed Plan does not become effective.

Upon its approval by the Bankruptcy Court, the Disclosure Statement and the Exhibits thereto will have been found to contain, in accordance with the provisions of the Bankruptcy Code, adequate information of a kind and in sufficient detail to enable a reasonable, hypothetical investor, typical of a holder of an impaired claim or an interest to make an informed judgment about the Plan. Approval of the Disclosure Statement, however, does not constitute a recommendation by the Bankruptcy Court either for or against the Plan.

### 3.2 Voting Procedure

All creditors entitled to vote on the Plan may cast their votes for or against the Plan by completing, dating, signing and causing the Ballot Forms accompanying this Disclosure Statement as Exhibits D1, D2 and D3, to be returned to the following address:

LAUSELL, INC.  
c/o CHARLES A. CUPRILL, P.S.C., LAW OFFICES  
356 Fortaleza Street – Second Floor  
San Juan, PR 00901

The Ballots must be received on or before 4:00 P.M. (Eastern Standard Time) on \_\_\_\_\_, 2013, to be counted in the voting. Ballots received after this time will not be counted in the voting unless the Bankruptcy Court so orders.

Debtor recommends a vote for "ACCEPTANCE" of the Plan.

### 3.3 Ballots

Pursuant to the provisions of the Bankruptcy Code, only classes of claims or interests which are "impaired" under the terms and provisions of a plan are entitled to vote to accept or reject such plan. A Class is deemed not to have accepted a plan if such plan provides that the claims or interests of such Class don't entitle the holders of such claims or interests to receive or retain any property under the Plan on account of such claims or interests.

Class 3 is unimpaired under the Plan, is deemed to have accepted the Plan and not entitled to vote to accept or reject the Plan. Members of Classes 1, 2, 4, 5, 6 and 7 are impaired under the Plan. Classes 4, 5 and 7 are not to receive any dividends or retain any interest in Debtor and thus are deemed to have rejected the Plan and not entitled to vote to accept or reject the Plan. Classes 1, 2 and 6 are impaired under the Plan and entitled to vote for acceptance or rejection of the Plan. A party who holds claims in more than one impaired Class should complete a Ballot for each Class with respect to the applicable portion of the claim included in each Class.

### 3.4 The Confirmation Hearing

Pursuant to Section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing on confirmation of the Plan to commence on \_\_\_\_\_ 2013 at \_\_\_\_\_ .M., or as soon thereafter as the parties can be heard. The Confirmation Hearing will be held before the Honorable Mildred Caban Flores, United States Bankruptcy Judge, 300 Recinto Sur Street, San Juan, Puerto Rico 00901, or before such other Bankruptcy Judge and at such other place

as may be indicated in the future. At the Confirmation Hearing, the Bankruptcy Court will consider whether the Plan satisfies the various requirements of the Bankruptcy Code, including whether it is feasible and in the best interests of holders of claims and interests. The Bankruptcy Court will also receive and consider a Report of Plan Voting prepared by Debtor, summarizing the votes for acceptance or rejection of the Plan by parties entitled to vote.

The Confirmation Hearing may be adjourned from time to time without further notice except for the announcement of the adjourned date made at the Confirmation Hearing or at any subsequent adjourned Confirmation Hearing.

At the Confirmation Hearing with respect to the Plan, the Bankruptcy Court will (i) determine whether the requisite votes have been obtained for each Class, (ii) hear and determine objections, if any, to the Plan and to the confirmation of the Plan, that have not been previously disposed of, (iii) determine whether the Plan meets the confirmation requirements of the Bankruptcy Code, and (iv) determine whether to confirm the Plan.

Any objection to confirmation of the Plan must be in writing, filed and served as required by the Bankruptcy Court pursuant to the order approving the Disclosure Statement, a copy of which is attached as Exhibit E hereto.

### 3.5 Acceptances Necessary to Confirm the Plan

The vote of each holder of an impaired claim entitled to vote is important since at the Confirmation Hearing and as condition to the confirmation of the Plan on a consensual basis, the Bankruptcy Court must determine, among other things, whether each impaired Class of creditors and interests holders entitled to vote has

accepted a plan. Under Section 1126 of the Bankruptcy Code, an impaired Class of creditors is deemed to have accepted a plan if at least 2/3 in amount and more than 1/2 in number of the Allowed Claims of the Class members who actually cast ballots to accept or reject the plan, accept the plan. A class of interest holders is deemed to have accepted a plan if at least 2/3 in amount of the allowed interests of such Class held by holders of such interests who actually cast ballots to accept or reject the plan. Further, unless there is acceptance of the Plan by all members of an impaired Class, the Bankruptcy Court must also determine that under the Plan, Class members will receive property of a value, as of the Effective Date, that is not less than the amount that such Class members would receive or retain if the debtor were to be liquidated under Chapter 7 of the Bankruptcy Code on the Effective Date of the plan.

### 3.6 Confirmation of the Plan Without the Necessary Acceptances

If a Class or Classes of impaired Claims do not accept the Plan, Debtor will request confirmation of the Plan under the "cram down" provisions of Section 1129(b) of the Bankruptcy Code, which permits confirmation, notwithstanding non-acceptance by one or more impaired Classes, if the Bankruptcy Court finds that the Plan does not discriminate unfairly against and is fair and equitable as to each non-accepting Class entitled to vote on the Plan, as long as at least one class of impaired creditors votes to accept the Plan. Section 1129(b) of the Bankruptcy Code requires among other things, that claimants must either receive the full value of their claims and if they receive less, that no Class with junior liquidation priority may receive anything. THESE CALCULATIONS ARE BASED ONLY ON THE CLAIMS AMOUNTS AND NUMBER OF CREDITORS WHO ACTUALLY VOTE. ANY BALLOT THAT IS VALIDLY EXECUTED

THAT DOES NOT CLEARLY INDICATE REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE A VOTE FOR ACCEPTANCE OF THE PLAN. THE VOTE OF EACH CREDITOR IS IMPORTANT.

#### IV. GENERAL INFORMATION

##### 4.1 Debtor's Description and Historical View.

Debtor is a domestic corporation established on September 27, 1951, with its main offices of 1701 Road 32, Km. 56.4, Barceloneta, Puerto Rico 00966-0938, and engaged in the manufacturing and sale of aluminum windows and doors, aluminum products, shutters, and related installation services. Debtor's activities are complemented by its division known as Aluminio del Caribe, ("ALCA"), whose main operations consist of the manufacturing of mill-finished and painted aluminum extrusions. ALCA's products are manufactured in Humacao Puerto Rico and sold to most window and door manufacturers in Puerto Rico through Debtor's network of aluminum distributors. Debtor's manufactured products are primarily sold through its network of dealers in Puerto Rico and the Caribbean Basin, its own retail stores, and directly to contractors.

Debtor has thirteen (13) shareholders, with Alberto M. Recio holding thirty two point twenty three percent (32.23%) of Debtor's common shares; Eduardo A. Recio holding eighteen point sixty five percent (18.65%) of Debtor's common shares; Michael Lausell, Paul Lausell, Steve Lausell and Susan Lausell each holding seven point ninety six percent (7.96%) of Debtor's common shares; William Alemañy holding four point fifty five percent (4.55%) of Debtor's common shares; Héctor Lazo holding three point eleven percent (3.11%) of Debtor's common

shares; Ligia Catalina Reyes and Carmen Ana Reyes each holding two point fifty four percent (2.54%) of Debtor's common shares; Ernesto Reyes Blassino holding two point fifty three percent (2.53) of Debtor's common shares; Gladys Mariani holding one point twenty four percent (1.24%) of Debtor's common shares; and Carlos Santeiro holding point seventy eight percent (.78%) of Debtor's common shares. Debtor has 287 employees.

On October 25, 2000, Debtor entered into a Credit Agreement with Firstbank and Citibank, as amended (the "Credit Agreement"). The Credit Agreement consisted of a Term Loan, Revolving Credit and Convertible Non-Revolving Credit. Debtor's original Credit Agreement was for \$42,000,000.00. The total outstanding balance of principal owed on the Credit Agreement is \$12,570,512.00.

This balance is guaranteed by substantially all of Debtor's assets, consisting, inter alia, of Debtor's three parcels of land totaling 12,830.6772 square meters at Bayamón, Puerto Rico with a value of \$4,300,000.00, Debtor's accounts receivable, equipment, furniture and fixtures, inventories, and other assets with an approximate value of \$24,252,000.00. Debtor's obligations are further collateralized with a \$700,000.00 second mortgage on the "El Cinco" property, located at State Road No. 1, Km. 13.1, Monacillos Ward, San Juan, PR, owned by Debtor's affiliate La-Re Group 2, LLC. This property was appraised at \$2,000,000.00 on June 10, 2011 and is subject to a \$1,000,000.00 first mortgage in favor of Steven Lausell, Esq. for \$110,000.00, Mrs. Susan Lausell for \$110,000.00, Mr. Michael Lausell for \$110,000, Mr. Paul Lausell for \$110,000.00, Mr. Eduardo Recio for \$280,000.00 and Mr. Alberto Recio for \$280,000.00. The due date of the Credit Agreement Loan was April 15, 2012.

As provided in the Credit Agreement, the maximum original credit facility for

\$42,000,000.00 had the following sub-limits:

- a) Term Loan Advance - \$5,000,000.00
- b) Revolving Credit Advance - \$20,000,000.00
- c) Convertible Non-Revolving Credit Advance - \$17,000,000.00

On June 14, 2005, the Credit Agreement was amended to change the Revolving Credit Commitment Termination Date to June 1, 2008.

On May 2, 2006, a Third Amendment to the Credit Agreement was entered into to restructure the same into two credit facilities as follows: Facility A, a \$20,000,000.00 three (3) years Senior Secured Revolving Asset Based Credit Facility, and Facility B, a \$11,195,000.00 ten (10) years Senior Secured Term Credit Facility.

The outstanding principal amount of Facility A was due and payable in full on the first day of May 2009 and Facility B in thirty-nine equal quarterly amortization payments of \$224,000.00.

On January 29, 2010, a Fourth Amendment to the Credit Agreement was executed to reduce Facility A – Secured Revolving Credit Facility, from \$20,000,000.00 to \$10,000,000.00.

Debtor requested a moratorium in the payment of the outstanding principal of Facility B, which was granted and a Fifth Amendment to the Credit Agreement was executed on September 29, 2010, amending the payment due date of Facility B from September 1, 2010 to June 1, 2011. The Fifth Amendment was predicated on a capital contribution of \$1,000,000.00 by Debtor's shareholders for the reduction of the outstanding principal balance of the Term Loan.

On November 30, 2010, a Sixth Amendment to the Credit Facility was executed

granting Debtor's request for an extension of the due date of Facility A until August 31, 2011. The Sixth Amendment was predicated on a loan to Debtor for \$1,000,000.00 by its shareholders for the reduction of the outstanding principal balance of Facility A.

Thereafter, Debtor requested an extension of the August 31, 2011, due date of Facility A, which was granted and on August 31, 2011, a Seventh Amendment to the Credit Agreement was executed to extend the expiration date of Facility A to February 29, 2012. The Seventh Amendment was predicated on the sale of the "El Cinco" realty to La-Re Group 2, LLC, and the corresponding reduction in the outstanding principal balance of the Term Loan. La-Re Group 2, LLC also granted Firstbank and Citibank the second mortgage for \$700,000.00 on the "El Cinco" realty.

Debtor requested another extension and an Eighth Amendment to the Credit Agreement was executed on February 29, 2012 extending the due date of Facility A from February 29, 2012 to April 15, 2012. The outstanding principal balance of Facility A, as of February 29, 2012, was \$6,836,917.46 with interest at 2.50% over the LIBOR rate. On March 16, 2012, Firstbank debited Debtor's bank account therewith for \$667,405.27, reducing the outstanding balance of Facility A to \$6,183,512.19.

The outstanding principal balance of Facility B as of March 19, 2012 was \$6,387,000.00, with interest at 2.50% over the LIBOR rate.

#### 4.2 Events Preceding Debtor's Chapter 11 Filing.

During 2006, the local government having overspent its budget and being short of funds closed down for several weeks creating fear and uncertainty in the commercial and private community.

As a result, the construction industry and housing markets, which represent 95%

of Debtor's customer base weakened noticeably with housing permits hitting a 7 year low in 2007. This situation coupled with the sub-prime banking crisis, surplus of new homes and a lack of infrastructure expansion, which created a negative impact on the construction market in Puerto Rico, caused a 60% reduction in Debtor's sales.

The global impact of oil price increases to record levels directly impacted Debtor's raw material costs, transportation expenses and energy costs. Although Debtor reduced energy kilowatt consumption by 33%, its energy cost increased by 86%.

Since 2006, Puerto Rico has been immersed in a deep economic crisis that has affected all businesses on the Island, including the manufacturing, construction and real estate development sectors of the Puerto Rico economy. The continuing deterioration of the economy during this period and the import of subsidized Chinese aluminum extrusions ("dumping") negatively affected Debtor's revenues, cash flows, and its overall financial condition.

Increased costs and reduced sales levels resulting from the decrease in construction activities caused losses to Debtor, mainly as a result of the under-absorption of costs. The significant amount paid in interest to lenders, due to the high level of leverage, also negatively impacted the results of Debtor's operations.

After two months of extensive negotiations with Firstbank, in an effort to implement a feasible debt restructuring plan, on April 15, 2012, Firstbank cancelled Debtor's Line of Credit forcing Debtor to file its Chapter 11 petition.

In addition to the macro economic impact of the economy on Debtor's business during the last six (6) years, Debtor was severely affected by the dumping of aluminum extrusions from China in the Puerto Rico market. The Chinese extrusion industry, with

the support of the Chinese government, has dominated the Puerto Rico market based on aggressive cutthroat, below market pricing or "dumping".

The extrusion market has traditionally been a regional business with most producers having very similar costs, primarily driven by the cost of aluminum as quoted on the London Metals Exchange ("LME"). LME's pricing is very transparent and all producers face the same basic cost as to aluminum, as the principal raw material and cost component, followed by the costs of electricity, and labor. Given that the principal cost components are very similar, transportation cost exacerbated by the price of oil, traditionally prevented extruders from venturing too far from their natural regional markets.

Approximately in 2006, this regional equilibrium was thrown into a tail spin by the entry of Chinese extruders into the United States, Canada, and Australia. In 2006, the Chinese imports to Puerto Rico reached 22.3 million pounds of aluminum, displacing the traditional competition from extruders in the southeastern United States and significantly impacting the local producers such as Debtor. The impact of dumping such significant levels of extrusions in a market that was already being squeezed by the local depression was devastating. Prior to 2006, the Chinese had not played a significant role in supplying aluminum extrusions to markets in Puerto Rico or the United States. From 2006 to September 2011, the volume of imports "dumped" into the Puerto Rico market reached a staggering 84 million pounds of aluminum.

The United States was the slowest affected nation to take action against the Chinese "dumping", following Canada and Australia. During September 2010, the United States imposed a pre-tariff bonding and subsequently formal Anti-Dumping / Countervailing duties in May 2011. Debtor's business immediately increased and

traditional customers returned to purchase their extrusion needs from Debtor.

However, some local importers resorted to circumventing the imposed tariffs by importing aluminum extrusions through a third country, Malaysia. Prior to 2011 Malaysia was not an exporter of aluminum profiles to Puerto Rico or the United States, but during 2011 it exported 3.8 million pounds of aluminum to Puerto Rico. During 2012, with the help of the U.S. Customs Service, the level of imports from Malaysia was reduced to 1 million pounds of aluminum. Currently, very little metal is being exported through Malaysia thanks to the diligence of the U.S. Customs Service. Notwithstanding the efforts by the U.S. Customs Service, circumvented metal has continued to flow into the Puerto Rico market through other countries, namely the Dominican Republic and Colombia, causing substantial damage to Debtor's business. Debtor continues to work closely with the U.S. Customs Service and the Aluminum Extruders Council on enforcement action to halt the circumvention.

Debtor currently employs 287 persons, a fraction of the 850 - 1100 employees it once employed. The multiplier effect that Debtor has on employment in Puerto Rico is of critical importance to the health of the local manufacturing industry. Debtor is one of the few local manufacturers that produces items consumed by the local market and exported to the entire Caribbean Basin, which results in revenues that remain in Puerto Rico unlike products purchased outside of Puerto Rico and imported thereto.

#### 4.3 Debtor's Post-Petition Endeavors.

As a result of the filing by Debtor of its Chapter 11 petition, Debtor has received the benefits of 11 U.S.C. § 362(a), which stays all collection actions and judicial proceedings against Debtor, providing Debtor the opportunity to file the Plan and

Disclosure Statement, as envisioned by the Bankruptcy Code, without the pressures that drove Debtor into Chapter 11.

The United States Trustee held the first meeting of creditors pursuant to Section 341 of the Bankruptcy Code in Debtor's case on April 18 and June 14, 2012. The first meeting of creditors was closed.

Debtor's operations, continue with Debtor as a debtor-in-possession pursuant to 11 U.S.C. §§ 1107 and 1108, Debtor managing its affairs and operating its business.

Debtor has undertaken the following efforts for the benefit of its Estate and its creditors:

Debtor sought and obtained the Bankruptcy Court's approval to retain Charles A. Cuprill, PSC Law Offices, as its bankruptcy counsel.

Debtor also sought and obtained the Bankruptcy Court's approval to retain Luis R. Carrasquillo, CPA ("Carrasquillo") as its financial consultant on all matters pertaining to Debtor's reorganization.

On April 27, 2012, Debtor filed an "Urgent Motion for Leave to Use FirstBank Puerto Rico's and Citibank, N.A.'s Cash Collateral" (the "Urgent Motion"), which was amended on May 4, 2012.

On May 14, 2012, Firstbank filed an opposition to the Urgent Motion, which led to a hearing which was held on May 16, 2012.

On May 18, 2012, Debtor, Citibank and Firstbank filed a Stipulation on the Use of Cash Collateral, Adequate Protection and Request for Approval (the "Stipulation").

On May 21, 2012, the Bankruptcy Court entered an order granting the Stipulation.

On May 15, 2012, Debtor filed an "Emergency Motion for an Order Pursuant to 11 USC §§105, 363 and Local Rule 9013 Authorizing Debtor to Pay Pre-Petition Claims of Critical Vendor" (the "Critical Vendor Motion").

On May 21, 2012, the Critical Vendor Motion was approved by the Court.

On July 21, 2012, Debtor filed an "Emergency Motion for Leave to Use Firstbank Puerto Rico's and Citibank, N.A.'s Cash Collateral, For the Extension of Designation of Alcan Primary Products Company, LLC ("Alcan"), as Critical Vendor and for a Bridge Order" (the "Emergency Motion").

On July 24, 2012, the Court entered an order granting the same.

On July 26, 2012, a "Joint Emergency Motion for the Extension of the Use of Cash Collateral of Firstbank Puerto Rico and Citibank, N.A. and for the Payment to Critical Vendor" was filed by ALCAN, which was granted by the Court on August 1, 2012. Additional extensions to the Joint Emergency Motion for the Extension of the Use of Cash Collateral of Firstbank Puerto Rico and Citibank, N.A. and for the Payment to Critical Vendor have been filed and approved by the Bankruptcy Court until April 30, 2013.

Although Debtor had implemented cost saving measures to increase productivity and profitability such as consolidation of operations, streamlining of management, and reduction of inventory levels, sales levels continued to decrease during the reorganization period.

Notwithstanding, Debtor obtained the approval of a post-petition loan from the EDB for \$6,500,000.00, to fund the Plan. Additionally, Debtor was able to negotiate a significant reduction of Firstbank's and Citibank' secured

claim of approximately 55% to \$5,600,000.00. The loan granted by EDB included the implementation of a repayment schedule of Alcan's pre-petition claim from Debtor's Excess Cash Flow or through a long term payment plan. Debtor's attempts to negotiate with Alcan such a payment plan, were fruitless and instead Alcan insisted in Firstbank and Citibank reducing their claim further, to allow for a lump sum payment to Alcan from the proceeds of the EDB loan.

Debtor's inability to negotiate a payment plan with Alcan did not allow closing on the EDB loan. After many months of searching for an alternate aluminum supplier, Debtor identified two (2) suppliers willing to sell aluminum to the Puerto Rico market, to entities not in bankruptcy.

Consequently, Debtor explored the alternative of maximizing its assets through a sale under 11 U.S.C. § 363 (b), finally reaching an agreement to sell the same to La-Re for \$9,380,489.00, upon La-Re obtaining the required financing from the EDB, as indicated in pages 7-10 above.

Debtor has concluded that it is in the best interest of its estate and all of its creditors to sell substantially all of its assets to La-Re under 11 U.S.C. §363 (b) free and clear of all liens and encumbrances, which in turn will enable La Re to close the loan with EDB, and purchase the required aluminum for its operations from suppliers other than Alcan, and be able to maintain the employment of 287 Debtor's current employees. Alcan's claim, as may be finally allowed by the Court, will be dealt with under Class 6 of the Plan.

## V. CLAIMS AGAINST DEBTOR

## 5.1 Claims Against Debtor

Claims against Debtor that are Allowed Claims, as defined in the Plan, will be entitled to distribution pursuant thereto, as indicated in pages 6-8 hereof.

The Plan provides that only the holders of Allowed Claims, that is, holders of Claims not in dispute, not contingent, liquidated in amount and not subject to objection or estimation are entitled to receive distribution thereunder. Until a claim becomes an Allowed Claim, distribution will not be made to the holder of such claim.

## 5.2 Objections to Claims

The amounts set forth as due to holders of unclassified and classified claims are estimates only, based upon Debtor's Schedules or Debtor's belief as to amounts due thereto. Debtor is including as Exhibit C hereto a Summary of Claims and Plan Payments, including reconciliation of claims against Debtor, indicating those objected or to be objected to and those pending.

Any objections to Claims must be filed and served on the holders thereof by the Claims Objection Bar Date, which as set forth in the Plan is the later of the date that such claims become due and payable in accordance with their terms, or thirty (30) days before the first date fixed by the Bankruptcy Court for the hearing on the confirmation of Debtor's Plan. If an objection has not been filed to a Claim by the Claims Objection Bar Date, the Claim will be treated as an Allowed Claim.

Objections to Claims filed in Debtor's Chapter 11 case are to be prosecuted by Debtor, including any application to estimate or disallow Claims for voting purposes. Debtor has objected the following Claims:

POC NO.	CLAIMANT	TOTAL AMOUNT CLAIMED	CLASSIFICATION OF CLAIM	AMOUNT EXPECTED TO BE ALLOWED	REASON FOR OBJECTION	ACTION
22	Total Petroleum Puerto Rico Corp. ("Total")	\$24,210.93	General Unsecured	\$9,879.19	<p>On May 29, 2012, Total filed Proof of Claim ("POC") No. 22 for \$24,210.93.</p> <p>Debtor made a payment to Total for \$14,331.74 on April 13, 2012, not accounted for by Total.</p> <p>After this payment, the amount due to Total was \$9,879.19 as a general unsecured claim.</p>	Objection Granted Docket No. 120
13	Internal Revenue Services ("IRS")	\$33,837.38	Priority Claim	\$0.00	<p>On June 11, 2012, IRS filed its proof of claim related to income tax withheld on salaries for the quarter ended June 30, 2012 and federal unemployment tax ("FUTA") for the period ending on December 31, 2012.</p> <p>Debtor determined that the Income tax withheld return was timely filed on July 20, 2012, with a payment for \$183,371.02, and that therefore IRS' proof of claim had to be disallowed.</p> <p>The FUTA claim was not due at the time of filing of the proof of claim.</p> <p>Therefore, IRS' proof of claim was to be disallowed.</p>	Moot, as per IRS, Amended Proof of Claim
31	Julio Cesar Cruz Escribano	\$69,336.00	General Unsecured	\$0.00	<p>On June 18, 2012, Julio César Cruz Escribano ("Claimant") filed Proof of Claim ("POC") No. 31 for \$69,336.00 related to a lawsuit, for alleged wrongful termination of employment.</p> <p>Claimant was not wrongfully terminated from his employment by Debtor.</p> <p>Therefore, the amount claimed should be disallowed.</p>	Objection Denied- Docket No. 120
7	Premesco, Inc.	\$4,658.00	General Unsecured	\$4,658.00	<p>On April 25, 2012, Premesco, Inc. filed Proof of Claim No. 7 for \$4,658.00 related to alleged services, as a priority claim, when it should have been filed as a general unsecured claim.</p>	Objection Granted Docket No. 275

## VI. DESCRIPTION OF THE PLAN

The following is a summary of the significant provisions of the Plan and is qualified in its entirety by said provisions. A copy of the Plan is being filed simultaneously herewith. In the event and to the extent that the description of the Plan contained in the Disclosure Statement is inconsistent with any provisions of the Plan, the provisions of the Plan shall control and take precedence. All creditors are urged to carefully read the Plan.

### 6.1 Unclassified Claims

In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims are not classified in the Plan. A description of the unclassified claims and the Claims and Interests in each class, as well as the estimated principal amount thereof as of the Effective Date and their treatment, are set forth in the Plan. Administrative Expense Claims are generally the ordinary and necessary costs of administering and operating during a Chapter 11 case.

### 6.2 Administrative Expense Claims

Except as otherwise agreed to by Debtor and the holder of an Allowed Administrative Expense Claim (including Debtor's post-petition accounts payable), each such holder shall be paid in full in Cash in the regular course of business or as authorized by the Court on or before the Effective Date, from the proceeds of the sale of substantially all of Debtor's assets as set forth herein.

If Debtor disputes any portion of an Administrative Expense Claim, Debtor shall pay such Claim within thirty (30) days after the entry of a Final Order with respect to the allowance of such disputed Administrative Expense Claim. Debtor will reserve the

necessary funds to meet these payments.

### 6.3 Professional Fee Claims

The professionals retained by Debtor in Debtor's Chapter 11 case have and will incur fees and expenses from the date of their retention through the Effective Date of the Plan. It is impossible to predict the amount of professional administrative expense fees that will be incurred through the confirmation of the Plan. As of the filing of this Disclosure Statement, Debtor has paid to its Chapter 11 counsel and financial consultant respectively \$141,000.00 and \$71,000.00. Debtor estimates that additional Allowed Professionals Fee Claims, to all professionals, retained by Debtor will add to approximately \$65,000.00 for unpaid services rendered and expenses incurred up to the Confirmation of the Plan. All amounts paid and to be paid to professionals through the Confirmation Date, including interim fees and expenses already paid are subject to final Bankruptcy Court approval. Debtor reserves the right to contest the allowance of any professional fees.

### 6.4 Priority Tax Claims

Priority Tax Claims are Claims entitled to priority pursuant to Section 507(a)(8) of the Bankruptcy Code. Such Priority Tax Claims consist of taxes accrued prior to the Petition Date.

The estimated potential Priority Tax Claims are listed in Exhibit F hereto in the amount of \$461,124.02.

Holders of Allowed Priority Tax Claims under \$10,000.00 shall be paid on the Effective Date of the Plan. The remaining Allowed Priority Tax Claim, consisting of the unsecured priority tax claim of the Puerto Rico's State

Insurance Fund for \$445,245.83, will be assumed by the La-Re, the Purchaser of substantially of all of Debtor's assets, as part of the consideration to be paid therefor.

#### 6.5 Classes of Claims and Equity Interests

As of the Petition Date, Debtor had secured debt with Firstbank and Citibank, and other non-priority unsecured debt, as more particularly described below. The Plan classifies the various claims against Debtor. A description of all classes of Claims and the Equity Interests, the estimated principal amount of each Class as of the Effective Date and its treatment are set forth below. The Classes of Claims and the Interests in Debtor set forth in the Plan are as follows:

Class 1 – Secured Claim of Firstbank Puerto Rico ("Firstbank") and Citibank, N.A. ("Citibank") - Firstbank's and Citibank's claim for \$12,592,103.44, Debtor's furniture, machinery and equipment, accounts receivable and cash, reduced to \$5,600,000.00 by agreement of the parties.

Class 2 - Puerto Rico Industrial Development Company's ("PRIDCO") Unsecured Claim - PRIDCO's claim arising from unpaid pre-petition rent for \$952,362.26.

Class 3 – Holder's of Claims Arising from Debtor's Assumption of Executory Contracts - Holders of Claim, arising from the assumption of Debtor's executory contracts with Allied Waste Services, ATT Mobility, Consolidated Waste Services, Interboro, PRTC Larga Distancia, Work-in-Progress and De Lage Landen.

Class 4 – The Claim La-Re Group, LLC - The Claim of La-Re Group, LLC, arising from the pre-petition amount due thereto on Debtor's lease therewith for Debtor's Barceloneta, Puerto Rico's facilities.

Class 5 – The Claim La-Re 2 Group, LLC - The Claim of La-Re, arising from amounts due thereto on Debtor's lease contract therewith, for Debtor's Rio Piedras, Puerto Rico's facilities.

Class 6 Holders of Allowed General Unsecured Claims - Holders of Allowed General Unsecured Claims, including those arising from rejected executory contracts, but excluding Firstbank's and Citibank's deficiency claim and the claims of Debtor's Insiders.

Class 7 – The Interests of Debtor's Shareholders in Debtor.

#### 6.6 Treatment of Claims.

##### Class 1 - The Secured Claim of Firstbank and Citibank

- (a) Impairment and Voting - Class 1 is impaired under the Plan. Firstbank and Citibank will be entitled to vote to accept or reject the Plan.
- (b) Distribution - The Secured Claim of Firstbank and Citibank, for a bank loan and a line of credit, secured by Debtor's real property, consisting of three parcels of land totaling 12,830 square meters, and their buildings at the North Side of the Second Street, Kilometer 14.2, Hato Tejas Ward, Bayamón, Puerto Rico, and Debtor's furniture, machinery and equipment, accounts receivable,

cash, and inventories, shall be paid on the Effective Date, from the proceeds of the sale of substantially all of Debtor's assets, as set forth below.

The Plan contemplates the sale of substantially all of Debtor's assets, including Debtor's real estate, accounts receivable, cash accounts, deposits, furniture, equipment, inventories, trademarks, and intangibles, as listed in Exhibit A hereto, to La-Re 2, Group LLC ("La-Re" or the "Purchaser"), Debtor's affiliate, under the provisions of 11 U.S.C. § 363 (b), for \$9,380,489.00, and the additional consideration indicated below, free and clear of all liens and encumbrances.

The \$9,380,489.00 is composed of \$6,300,000.00 in cash, to originate from a loan to be obtained by La-Re, from the Economic Development Bank for Puerto Rico ("EDB"), and the assumption by La-Re of Debtor's debts for \$3,080,489.00, as detailed in Exhibit B hereto.

From the proceeds of the sale of Debtor's assets, Debtor will pay in cash 100% of Allowed Administrative Expense Claims, 100% of Allowed Priority Tax Claims for \$10,000.00 or less (secured and unsecured), the Secured Claim of Firstbank and Citibank, as indicated above, and will reserve a carve out of \$50,000.00, to pay Class 6 Allowed General Unsecured Claims on a pro-rata basis.

The remaining balance of Firstbank's and Citibank's claim, estimated in \$6,992,103.00, will be dealt with under Class 6 below, Firstbank and Citibank being entitled to vote as members of Class 6, but will not receive any dividends thereunder.

Class 2 - Puerto Rico Industrial Development Company's ("PRIDCO") Unsecured Claim

- (a) Impairment and Voting - Class 2 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Distribution - Pursuant to an agreement by and between PRIDCO, Debtor, and La-Re, PRIDCO's claim, arising from unpaid pre-petition rent for \$952,362.26, as well as any post-petition unpaid rent, will be assumed by La-Re, as part of the consideration for the purchase of Debtor's assets. PRIDCO and La-Re are negotiating a payment plan for said unpaid rents, to be in place on or before the Effective Date of the Plan.

Class 3 – Holders of Claims Arising from Debtor's Assumption of Executory Contracts

- (a) Impairment and Voting - Class 3 is unimpaired under the Plan and is deemed to have accepted the Plan and shall not be entitled to vote to accept or reject the Plan due to the treatment indicated below.
- (b) Treatment – Holders of Claims, arising from the Assumption of Debtor's Executory Contracts with Allied Waste Services, ATT Mobility, Consolidated Waste Services, Interboro, PRTC Larga

Distancia, Work-in-Progress and De Lage Landen, shall be paid the existing arrears, in full, in the regular course of Debtor's business or as authorized by the Bankruptcy Court, on or before the Effective Date of the Plan, from the proceeds of the sale of Debtor's assets as set forth above. These contracts will be assumed by Debtor and assigned to La-Re on the Effective Date.

Class 4 – The Claim La-Re Group, LLC

- (a) Impairment and Voting - Class 4 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Treatment - The Claim of La-Re Group, LLC, arising from the pre-petition amount due thereto on Debtor's lease therewith for Debtor's Barceloneta, Puerto Rico's facilities, will not receive any payment under the Plan, as La-Re Group, LLC will condone such claim.

Class 5 – The Claim La-Re 2 Group, LLC ("La-Re")

- (a) Impairment and Voting - Class 5 claim is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Treatment - La-Re's Claim arising from amounts due to La-Re on Debtor's lease contract therewith for Debtor's Río Piedras, Puerto Rico's facilities, will not receive any dividends under the Plan as La-Re will be purchasing substantially all of Debtor's assets and

will condone such Claim, as part of the consideration for the purchase.

Class 6 Holders of Allowed General Unsecured Claims

- (a) Impairment and Voting - Class 6 is impaired under the Plan and are entitled to vote to accept or reject the Plan.
- (b) Treatment – Holders of Allowed General Unsecured Claims, including those arising from rejected executory contracts, but excluding Firstbank's and Citibank's deficiency claim, and any claims of Debtor's Insiders, will be paid in full satisfaction thereof 2% of such claims, from the \$50,000.00 carve out to be reserved from the proceeds of the sale of Debtor's assets, as set forth above.

Class 7 – The Interests in Debtor

- (a) Impairment and Voting - Class 7 is impaired under the Plan, but is not entitled to vote to accept or reject the Plan due to the treatment indicated below.
- (b) Treatment - The shares of the Equity Interest Holders in Debtor will be cancelled on the Effective Date of the Plan.

6.7 Means for Implementation of the Plan

Except as otherwise provided in the Plan, Debtor will effect payment of all Allowed Administrative Expense Claims, Priority Tax Claims, Firstbank's and Citibank's reduced Secured Claim, claims arising from the assumption of executory contracts

and General Unsecured Claims, with available funds originating from the sale of substantially all of Debtor's assets to La Re. PRIDCO and PREPA's post-petition claims, as well as the Priority Tax Claims of the Puerto Rico's State Insurance Fund claims will be assumed by La Re. This Plan contemplates and is predicated upon entry of an order approving (i) the Sale pursuant to which the Purchaser will fund this Plan. This Plan shall serve as, and shall be deemed to be, a motion for entry of an order (which order shall be the Confirmation Order) under sections 363(b), 363(f), 1123(a)(5), 1123(b)(4), and 1146(a) of the Bankruptcy Code approving the Sale. If no objection to the Sale of timely filed and served on or before the Confirmation Deadline or such other date as may be established by the Bankruptcy Court the Confirmation order may be approved by the Bankruptcy Court. If any such objections are timely filed and served, and not otherwise resolved, such objections will be heard at the Confirmation Hearing. For the avoidance of doubt, the Sale shall be made pursuant to a private sale to the Purchaser, and the Sale shall not be subject to competitive bidding, public auction, or higher or otherwise better offers. In addition, for the avoidance of doubt, no act or action by any party from and after the Effective Date including, without limitation, the filing of any objection to any Claim or Interest, shall impair or otherwise modify, alter, or undermine in any respect the validity of the Sale or the Definitive Documentation.

## 6.8 The Sale

Upon entry of the Confirmation Order, the Debtor shall be authorized and directed to take any and all actions necessary to consummate the Sale.

The following transactions shall occur on the Effective Date:

- a) The Purchaser shall provide (A) a Cash payment to fund the Plan sufficient to (i) settle in full FirstBank's and Citibank's Secured Claim for \$5,600,000.00 in Cash; (ii) and will assume certain of Debtor's debts for \$3,080,489.00, as detailed in the Exhibit B hereto..
- b) The Purchaser, FirstBank and Citibank (including any officers, directors, shareholders, Insiders and/or affiliates thereof) shall execute the Releases, which shall provide for the full, total, mutual, and reciprocal release of the Released Claims.
- c) The FirstBank and Citibank Loan, and any liens, claims or guarantees that were provided in connection therewith shall be fully and finally satisfied and discharged.

#### 6.9 Cancellation of Existing Agreements

Except to the extent reinstated or unimpaired under this Plan, or for purposes of evidencing a right to distribution under this Plan or as otherwise provided hereunder, on the Effective Date, all agreements and other documents evidencing any Claim or rights of any holder of a Claim against the Debtor, including all indentures and notes evidencing such Claims, shall be cancelled.

#### 6.10 Effectuating Documents and Further Transactions

Upon entry of the Confirmation Order, the Debtor shall be authorized and is instructed to execute, deliver, file or record such contracts, instruments, releases, consents, certificates, resolutions, programs and other agreements and documents and take such actions as may be reasonably necessary or appropriate to effectuate, implement, consummate and further evidence the terms and conditions of this Plan,

including, without limitation, implementing all settlements and compromises as set forth in or contemplated by this Plan, and performing all obligations under this Plan.

#### 6.11 Authority to Act

Prior to, on or after the Effective Date (as appropriate), all matters expressly provided for under this Plan that would otherwise require approval of the stockholders, security holders, officers, directors, partners, managers, members or other owners of the Debtor shall be deemed to have occurred and shall be in effect prior to, on or after the Effective Date (as appropriate) pursuant to the applicable law of Puerto Rico, without any requirement of further vote, consent, approval, authorization or other action by such stockholders, security holders, officers, directors, partners, managers, members or other owners of such entities or notice to, order of or hearing before the Bankruptcy Court.

#### 6.12 Debtor's Post Confirmation Management

As of the Effective Date of the Plan, Debtor operations will cease, thus, no post confirmation management will be necessary.

#### 6.13 Executory Contracts and Unexpired Leases

All executory contracts and unexpired leases which have not expired by their own terms or have been assumed or rejected on or prior to the Confirmation Date, excluding those set forth above, to be assumed by Debtor and assigned to La Re, shall be deemed rejected on the Effective Date, and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejections pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

#### 6.14 Exculpation

Debtor, Firstbank, Citibank, and their respective present and former members, officers, directors, representatives, shareholders, employees, advisors, attorneys and agents acting in such capacity shall have no liability to any Holder of any Claim or Shareholder Interest or any other Person for any act taken or omission made after the Petition Date in connection with, or arising out of the captioned case, the Plan, the Disclosure Statement, the solicitation of votes for confirmation of the Plan, the administration of the Plan or property of the Debtor's estate distributed under the Plan, or any transaction contemplated by the Plan or the Disclosure Statement in furtherance thereof, except for willful misconduct or gross negligence, as determined by a Final Order of the Court and, in all respects, shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities under the Plan. Nothing in the Plan shall release, discharge or exculpate any non-Debtor party from any Claim owed to the United States Government or its agencies, including any liability arising under the Internal Revenue Code or criminal laws of the United States.

### VII. LIQUIDATION AND FINANCIAL ANALYSIS

#### 7.1 Best Interest of Creditors and Comparison with Chapter 7 Liquidation

In the event Debtor's Chapter 11 case is converted to Chapter 7 of the Bankruptcy Code, Debtor would be required to cease all activities, its 287 employees would be dismissed and a Chapter 7 trustee appointed for Debtor's Estate to liquidate the Estate's assets pursuant to the provisions of the Bankruptcy Code, after attending to the immediate issues of securing Debtor's assets, and the resolution of any issues

involving Debtor's employees. The Chapter 7 Trustee most likely would abandon Debtor's assets due to their lack of equity and creditors, other than Firstbank and Citibank, will not receive any dividends in or out of the bankruptcy proceedings. Debtor's unaudited financial statements, as of September 30, 2012 and as of February 28, 2013, are respectively attached as Exhibits G and H hereto. Debtor is including herewith, its monthly operating report as of March 31, 2013, as Exhibit I hereto. A Liquidation Analysis with respect to Debtor's assets as of March 31, 2013, is attached as EXHIBIT J hereto (the "Liquidation Analysis").

The Liquidation Analysis reveals that in the event of a liquidation of Debtor's assets, there would be a substantial loss to Debtor's Estate, taking into account Firstbank's and Citibank's Secured Claim, Chapter 7 costs of administration and the expected value of the Estate's assets in a liquidation scenario. It reflects that in a liquidation scenario, the proceeds arising therefrom, will only cover part of Firstbank's and Citibank's secured claim (in a range from 54% to 73%), leaving no funds for distribution to any other Claimants in the case. The liquidation analysis also reflects what in Chapter 11 the respective creditors are expected to receive under the Plan versus what is projected they would receive in Chapter 7, underscoring the benefits of the confirmation of the Plan and its effectiveness.

Confirmation of the Plan will assure that holders of Administrative Expense Claims, Allowed Priority Tax Claims, Firstbank and Citibank, PRIDCO, the claims arising from the assumption of executory contracts and General Unsecured Claims will receive prompt dividends on their claims, as set forth above.

The Liquidation Analysis contains estimates and assumptions that, although developed and considered reasonable by Debtor, are inherently subject to significant

economic uncertainties and contingencies beyond Debtor's control.

## 7.2 Feasibility of the Plan

### A) Financial Projections

The feasibility of the Plan rests on the sale of substantially all of Debtor's assets to La-Re under Section 363(b) of the Bankruptcy Code, including Debtor's real estate, cash, accounts receivable, deposits, furniture, intangible, equipment, as listed in Exhibit A hereto, for \$9,380,489.00, free and clear of all liens and encumbrances. From the proceeds of the sale of such assets, Debtor will pay in cash 100% of the Allowed Administrative Expense Claims, Priority Tax Claims, and other Classes of Claims, as set forth above.

### B) Funds and Assets Sufficient for Payments Required under the Plan

As of the Petition Date, Debtor owned assets and had liabilities, as more particularly described in its Schedules and Statement of Financial Affairs, which Debtor filed with the Bankruptcy Court on April 17, 2012, as amended on May 23, 2012 and June 19, 2012. As aforesaid, Debtor has prepared and filed with the Bankruptcy Court monthly operating reports summarizing its post-petition financial performance (See Exhibit K). These monthly operating reports and Debtor's Schedules, Statement of Financial Affairs and schedules of executory contracts are available for public inspection at the office of the Clerk of the Bankruptcy Court during regular business hours. However, as set forth above, the feasibility of the Plan rests on the sale of substantially all of Debtor's assets to La-Re under Section 363(b) of the Bankruptcy Code, as set forth herein.

#### i) Real Property

Debtor is the owner in fee simple of real property consisting of

12,830 square meters and its buildings, located at the North Side of the Second Street, Kilometer 14.2, Hato Tejas Ward, Bayamón, Puerto Rico, with a \$4,300,000.00 value, as per the appraisal report of Pedro A. Pons Hernández, MAI, SRA dated May 30, 2011. (Exhibit M). Such realty will be sold to La-Re as part of the sale of substantially all of Debtor's assets.

ii) Personal Property

As of the Petition Date, Debtor's Schedules listed Debtor's personal property consisting of checking accounts, security deposits, accounts receivable, furnishings and supplies, machinery and equipment, vehicles, leasehold improvements, intangibles, prepaid insurance, computer equipment, prepaid purchases and taxes, and inventory. Since Debtor's software is customized for Debtor's needs, it does not have value for other entities. Such assets will be sold to La-Re, pursuant to the Plan.

C) Liquidation Analysis

In order to analyze realistic liquidation scenarios in the Liquidation Analysis included as Exhibit J hereto, Debtor has utilized the value of its assets as of March 31, 2013.

7.3 Pending Litigation and Other Liabilities

At the time of the filing of the Chapter 11 petition, the following cases were pending and were stayed by the provisions of Section 362 (a)<sup>1</sup> of the Bankruptcy Code:

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<sup>1</sup> Shadowed cases have filed motions for relief from the automatic stay of § 362 (a) of the Bankruptcy Code.

CAPTION OF SUIT AND CASE NUMBER	NATURE OF PROCEEDING	COURT OR AGENCY AND LOCATION	STATUS OR DISPOSITION
Luis Rivera Ruiz v. Lausell, Inc. Civil No. DPE2010-1332	Unjustified Dismissal	Court of First Instance of Puerto Rico, Bayamón Section	Stayed
José Santiago López v. Lausell, Inc. etc., al. Civil No. HIC1211-0376	Unjustified Dismissal	Court of First Instance of Puerto Rico, Humacao Section	Stayed
Lausell, Inc. v. Royal Construction II Civil No. KCD2008-0653	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Lausell, Inc. v. Comagro, SE. Civil No. KCD2009-2653(803)	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Lausell, Inc. v. ARF Construction Civil No. KCD2009-0918	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Lausell, Inc. v. Ubarri Construction Civil No. LCD2009-3236(508)	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Lausell, Inc. v. Ubarri Construction Civil No. KCD2009-3235	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Lausell, Inc. v. Luquillo Development, SE. Civil No. DC2009-3232	Collection of Monies	Court of First Instance of Puerto Rico, San Juan Section	In Progress
Francisco Rosado Colón v. Lausell, Inc. Complaint No. BA 0000835	Damages	Department of Consumer Affairs of Bayamón, Puerto Rico	Stayed

#### 7.4 Leases and Executory Contracts

As of the Petition Date, Debtor was a party to several unexpired leases and executory contracts, as listed on Exhibit L hereto.

Debtor has filed motions for the assumption and rejection of some of its executory contracts and lease agreements.

### XIII. BAR DATE AND DETERMINATION OF CLAIMS

#### 8.1 Bar Date

On April 18, 2012, in the "Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors and Deadlines" issued in Debtor's case, the Bankruptcy Court fixed August 22, 2012, as the bar date for the filing of proofs of claims and interests (except for Governmental Units), and October 15, 2012, for such filings by Governmental Units.

## 8.2 Determination of Claims

The Plan specifies procedures for objecting to claims. Debtor and any other entity authorized under the Bankruptcy Code may object to Claims within thirty (30) days before the first date fixed by the Bankruptcy Court for the hearing on the confirmation of the Plan. No payments will be made under the Plan on account of Disputed Claims until their allowance by the Bankruptcy Court. The Plan provides that Distributions on Disputed Claims will be held in reserve until the Disputed Claims are allowed (at which time the reserves will be distributed and the Claims will be treated according to the terms of the Plan), or disallowed (at which time the reserves will be distributed on account of Allowed Claims pursuant to the terms of the Plan).

Any Claims which (a) are not listed as Allowed Claims on Debtor's Schedules, as amended; (b) are not evidenced by a valid, timely filed Proof of Claim; or (c) are not listed in the Plan or exhibits to the Plan as Allowed Claims, shall not receive any distribution of cash or property under the Plan until the same become Allowed Claims, and shall be disallowed and discharged if they are not Allowed by Order of the Bankruptcy Court.

## IX. ALTERNATIVES TO THE PLAN

If the Plan is not confirmed and consummated, the alternatives include (a) Debtor's liquidation under Chapter 7 of the Bankruptcy Code, (b) dismissal of Debtor's Chapter 11 Case, or (c) the proposal of an alternative plan.

A. Liquidation Under Chapter 7

If a plan cannot be confirmed, the Case may be converted to Chapter 7 of the Bankruptcy Code, and a trustee would be elected or appointed to liquidate Debtor's assets for distribution to creditors in accordance with the priorities established by the Bankruptcy Code.

As set forth in the Liquidation Analysis attached as Exhibit J hereto, Debtor believes that conversion of the Case to Chapter 7 of the Bankruptcy Code would result in no distribution to creditors other than Firstbank, Citibank and CRIM due to additional decreased values of Debtor's assets, delay in distribution on account of such conversion, and the encumbrance of substantially all of Debtor's assets by Firstbank and Citibank, causing the Chapter 7 Trustee to abandon Debtor's assets.

Thus, Debtor believes that the interest of creditors and the goals of Chapter 11 are better served by the confirmation of the Plan.

B. Dismissal of the Case and/or Foreclosure by Firstbank

Dismissal of the Case would likely create substantial problems for all parties involved, including a run to the courthouse, and the foreclosure by Firstbank and Citibank of their liens on substantially all of Debtor's assets, which would result in an abandonment of the orderly and structured equitable payments provided by the Plan. Therefore, dismissal of the Case should not be a viable alternative for creditors.

C. Alternative Plan of Reorganization

If the Plan is not confirmed, at present, Debtor does not foresee a different plan. Debtor believes that the Plan described herein will provide the greatest and most expeditious return to creditors.

#### X. TAX EFFECTS

Based on Debtor's net operating carry loss forwards, the tax exemption granted to Debtor by the Department of Treasury of Puerto Rico as to Debtor's manufacturing operations, and other provisions of the Internal Revenue Code of Puerto Rico, Debtor expects that the implementation of the Plan will not have any significant tax effects, if any.

#### XI. CONCLUSION

Debtor submits that the Plan is fair and reasonable and in the best interests of the Estate and Creditors and offers the best possible recovery for Creditors under the circumstances. Debtor therefore, urges Creditors to vote in favor of the Plan.

San Juan, Puerto Rico this 3<sup>rd</sup> day of June, 2013.

**LAUSELL, INC.**  
  
**ALBERTO M. RECIO**  
President