

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

IN THE MATTER OF:

**INTERNATIONAL HOME PRODUCTS, INC.
HEALTH DISTILLERS INTERNATIONAL, INC.**

Debtors

CASE NO. 12-02997 ESL

CASE NO. 12-03574 ESL

CHAPTER 11

**CONSOLIDATED DEBTORS' DISCLOSURE STATEMENT AND SUMMARY OF
PROPOSED PLAN OF REORGANIZATION**

ARTICLE I. INTRODUCTION

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1.0 DEFINITIONS

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

1.1 BANKRUPTCY CODE PROVISIONS FOR POST PETITION DISCLOSURE

Section 1125 of the Bankruptcy Code requires that a debtor make post petition disclosure in

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

1.2 DISCLAIMER

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

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

1.3 VOTING REQUIREMENTS

In order for the Plan to be confirmed by the Bankruptcy Court, the Bankruptcy Code requires that the Plan be approved by all classes of creditors and interest holders or that the Court find that

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the Plan is "fair and equitable" as to any dissenting class.

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

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

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

A class has accepted the plan if such a plan has been accepted by creditors, other than those

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

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

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

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

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

1.4 DEBTORS' HISTORY

NATURE OF BUSINESS

A. International Home Products, Inc. & Health Distillers International, Inc.

International Home Products, Inc. (IHP) and Health Distillers International,

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Inc.(HDI) are local corporations created under the laws of the Commonwealth of Puerto Rico. Both are directed by their president Mr. Andrew Bert Foti.

International Home Products was created in 1959 and incorporated in 1974 doing business as the exclusive distributor of “Lifetime” cookware products. Then, by 1986 Health Distillers International Inc. is created and incorporated upon the island’s need for good quality drinking water.

International Home Products operates with a sales force of approx. 300 independent sellers and 65 employees, and provide self financing approved and credited by the Financial Institutions Commissioner of Puerto Rico. The financing policies are flexible due to the nature of the business, nevertheless, the flexibility on approval of credit has an impact on the seller’s commissions.

HDI provides water purification systems with the highest technology available. It sells water distillers , softeners, air purification equipment under certain brands such as Durastill (exclusive since 1988), West Bend Distillers, Hague, etc. It sells its products through independent contractors which are paid on a commission basis. It employs seven people for administration purposes and a task force of 25 contractors which other than sales they provide installation and service to customers.

Prior to the bankruptcy filing between 2003 and 2009 IHP was selling an average of \$33,000,000 a year and was listed within the 400 most valuable business in Puerto Rico for seven consecutive years. It operates from four different locations, i.e., Ponce, Hatillo, Mayaguez and San Juan; its main operating center. IHP also maintained its own inventory and warehouse with a value of approx. \$3,500,000 and an excellent system of delivery. Some warehousing facilities are rented

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to provide more space and access. The average employee works for the business for a tenure of approx. 8 years. In 2002 IHP decided to venture in the USA. It opened an office in Orlando Florida directed to the Hispanic market. In Orlando Florida, IHP also has the exclusive distribution of the Lifetime products.

The independent sales force receives training in-house and in the field from our sales managers. More than 20 sellers have earn more than \$100,000 a year in commissions and benefits, having sales and recruited new sales people. The are also provided with incentive traveling to Disney World Orlando and the factory premises and other destinations, on a yearly basis. As stated above, the sales are done on credit basis. The vast majority of the sales contract agreement are sold to a secondary market at a discount, usually from 80% to 95% of total contract.

1.5 EVENTS LEADING TO BANKRUPTCY

After more than one year trying to negotiate with First Bank-Puerto Rico (the Bank or First Bank) a restructuring of the loans including but not limited those loans related to the real estate (the term loan) and those loans related to the lines of credit, First Bank informed the Debtors its intention to liquidate the company. Debtors' president considering the history of both companies, including their performance on previous recession periods, and the companies' ability to overcome the impact of global economic downfall, decided to reorganize the business through a formal process without the obstacles placed by the Bank's actions. First Bank's actions included the swapping of debtors' accounts on daily basis, leaving the debtor without enough funds to operate. These actions took place despite the Debtors' position before the Bank that it did not possess a valid lien over Debtors' income or inventory due to the expiration of the prior lien without proper renovation. First Bank

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ignored Debtors' position, continued the swapping of their bank's accounts and direct all efforts to the liquidation of the company. It unilaterally filed a UCC to activate the expired of the security over Debtors' accounts receivable and inventory behind the Debtors' back and without authorization. Finally and the most outrageous action of the Bank was the foreclosure of the accounts receivables and notification to all clients, ignoring Debtors' position as to the validity of the bank's lien. The Debtors decided to seek the protection of the Bankruptcy Code after exhausting all possible means of a settlement.

1.6 DATE THE PETITION WAS FILED

The Debtor International Home Products, Inc. submitted its petition for Bankruptcy under Chapter 11 of the Bankruptcy Code on April 19, 2012. Since then, the Debtor has performed all of its obligations as Debtor in Possession. Thereafter on May 7, 2012, Health Distillers International Inc. filed its petition. Both companies share common ownership and certain common operational facilities and personnel. They are both guarantors of the Bank's loans and they both faced the same economic obstacles before the filing of the bankruptcy petition. On June 16, 2012, the Debtors requested the Court for the substantive consolidation of its estates. On July 2, 2012, the Order was entered granting the consolidation of Health Distillers International, Inc., with lead case of International Home Products, Inc. Since then both entities have been operating as one single entity.

1.7 BANKRUPTCY PROCEEDINGS

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

A. International Home Products, Inc.

- The schedules and statement of financial affairs were submitted on the same

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filing date, i.e., April 19, 2012..

- On May 8, 2012, a request for an administrative consolidation with its affiliate Health Distillers International and on June 1st, 2012, the cases were consolidated.
- The meeting of creditors was held and closed on May 29th, 2012.

B. Health Distillers International, Inc.

- The schedules and statement of financial affairs were submitted on the same filing date, i.e., May 7, 2012.
- On May 8, 2012, a request for an administrative consolidation with main case of International Home Products, Inc. was filed. The administrative consolidation was granted on June 1st, 2012. Dkt. 26.
- The meeting of creditors was held and closed on June 11, 2012.

II. Employment of Professionals

A. International Home Products, Inc.

- The application for Debtors' attorney, Carmen D. Conde Torres, from the law firm of C. Conde & Assoc. was filed on April 24, 2012 (Dkt. 5), still pending approval.
- The application for Debtors' accountant Wigberto Lugo Mender was filed on May 1, 2012 (Dkt. 34) and granted on May 2, 2012, Dkt. No. 41.
- On May 25 the Debtor requested the appointment of external auditors Jorge Aquino Barreto from Aquino de Cordova. It was granted on June 21, 2012, Dkt. 148.

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B. Health Distillers International, Inc.

- The Debtor filed its application to employ its counsel, Carmen Conde and Associates on May 10, 2012. Dkt. 8. ; Approved by Order of the Court on May 30th, 2012. Dkt 24.
- On May 25, 2012 the Debtor requested the appointment of external auditors Aquino de Cordova. Dkt. 25. Approved on June 21, 2012. Dkt. 48.
- On June 1, 2012 this case was administratively consolidated with the main case of IHP. On July 2, both cases were substantially consolidated under lead case of IHP. See Dkt. No. 185.

III. Duties of the Debtor in Possession

The Debtors have complied with all of its duties as a Debtors in Possession, including but not limited to the appearance at the meeting of creditors, the status conference, the filing of all Monthly Operating Reports and payments of fees to the U.S. Trustee.

IV. Other Matters

A. International Home Products, Inc.

- Immediately after the filing of the bankruptcy petition the Debtor filed on April 19, 2012, various first day motions including the request to maintain current cash management system and some pre-petition bank accounts, authorization to pay employees payroll, benefits and priority wages, assumption of certain executory contracts, specifically the agreement with second financing market, motion for use of cash collateral, and adequate assurance to utilities pursuant to §366.

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- These requests were granted by order of April 26, 2012. On same date, the Bank filed its objection to the motion alleging a security status. The hearing was continued to May 3, 2012. The Debtor opposed FB's claim for security status on the grounds that its alleged security interest had elapsed and that the Debtors had filed a termination agreement before the bankruptcy petitions were filed.
- The Debtors have obtained post petition financing from their president up to the amount of \$250,000 as an unsecured loan and up to \$500,000 secured with a superpriority. See Dkts. 77 and 141.
- Since the commencement of the case the Debtors have faced continued litigation with creditor First Bank-Puerto Rico. The disputes with First Bank are mainly circumvented to the validity of FB's alleged secured interest over Debtors' accounts receivables and inventories. This dispute arose when the court considered Debtors' motion for the payment of certain administrative expenses and First Bank's opposition. The Court concluded that FB's secure status limited to the cash collateral was to be considered prospectively (not the lease payments) from May 3, 2012 and upon request of reconsideration of the order, the court denied the request without prejudice to filing an adversary proceeding to challenge the liens. (Dkt. 53 and 75). The Debtor so did and on June 26, 2012 filed the adversary proceeding contesting among other things FB's security interest. (Discussed below at pending litigation). At the same time the Debtor filed an appeal of the Court's order in order to avoid a final order which may convert the adversary proceeding claims moot.

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- FB also alleged that it had foreclosed on Debtors' accounts and inventory prior to the bankruptcy filing. The Debtors' position was that since FB did not have a valid lien, any attempt to foreclose was invalid. The court did not ruled on FB's alleged foreclosure, since its order confirming a secured status was prospectively, from May 3, 2012.
- On May 8, 2012, the Debtor requested the use for cash collateral on interim and permanent basis. (Dkt. 50). On same date it requested the administrative consolidation with the case of HDI. (Granted on Dkt. 123).
- First Bank opposed to the use of cash collateral on May 10, 2012 (Dkt. 61). On May 14, 2012 an interim order was entered authorizing the use of cash collateral (Dkt. 74). The final hearing was scheduled for May 24, 2012.
- On May 10 the debtor filed an authorization for post petition financing to be provided by Debtors' president, Mr. AB Foti. (Dkt. 58). Approved on May 14, 2012 (Dkt. 77).
- On May 22 (Dkt. 98) the debtor provided the court with copy of an official opinion of the Department of State declaring the security interests of FB null and void.
- On May 25, 2012 the Debtor filed a motion for the sale of a property at Orlando Florida (Dkt. 107, 128). This request was granted on June 7, 2012. (Dkt. 132). First Bank received all net proceeds from the sale.
- On May 25, 2012 the Debtor filed its appeal to the District Court of the Order issued determining the secured status of FB over the cash collateral. Case No. 12-1515 (FAB). The parties have submitted the corresponding briefs.

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- On May 30th the Debtor filed its Adversary Proceeding No. 12-00282 against FB.
- On May 30th, the parties proffered to the court an agreement for the use of cash collateral due to the prospective order considering FB a secured creditor. Thereafter the Bank backed off the agreement and a new hearing was scheduled upon Debtors' filing of an urgent motion with the Court. See Dkt. 126 and 127. See also Dkt. 142.
- On June 14, 2012, the substantive consolidation of IHP and HDI was requested.
- On June 15, 2012 a second request for post petition secured financing was filed, with a request of superpriority status for repayments on the obligation, in favor of Mr. A. Bert Foti. Dkt. 141. The motion was granted unopposed on June 26, 2012 (Dkt. 169).
- On June 21, 2012 (Dkt. No. 151) the debtor filed its amended schedules and statement of financial affairs.
- On June 22 , 2012 the Debtors and First Bank filed a joint motion informing and restating the settlement approved on July 2, 2012. (Dkt. 160 and 186). The settlement basically provided for the surrendering of the account receivables to FB for a fixed amount of \$16 million dollars to be applied to the credit facilities debt related to the credit lines. The inventory was surrendered for the listed amount as of petition date, for both companies. **See Exhibit 1 for Settlement Agreement and Order.**
- Thereafter an order for surcharge in favor of Debtor was entered in the maximum monthly amount of \$48,817.63 plus the commissions to the collection agencies. Dkt.

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- A transition process began to transfer the accounts receivables to FB and commenced performing under the settlement. See Dkt.247.
- On August 10, 2012 the Debtor requested an extension of the exclusivity period to file a Disclosure Statement and propose a plan. Dkt. 222.
- On September 6, 2012, FB filed a motion requesting the appointment of an examiner based on contradictory and unsupported facts. Dkt. 255. The Debtor is in the process to respond. Dkt. 258.

V. FINANCIAL INFORMATION

Debtors' financial information previous to their bankruptcy petition is herein provided on **Exhibit 2**. Additionally, the information provided in the Schedules and Statement of Financial Affairs filed with the Court, reflect the Debtors' financial situation on the date of the petition. The Debtors are also providing detail information on each debtor.

Monthly Operating Reports available on the Bankruptcy Court's file, reflect the Debtors' post petition finances. Attached herein as **Exhibit 3** is a summary of the Debtors' Monthly Operating Reports.

Debtor urges creditors and parties in interest to review the documents available on file at the Bankruptcy Court, in order to make a conscious decision when voting for or against the proposed Plan herein provided by the Debtors.

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ARTICLE II

ASSETS AND LIABILITIES

2.1 REAL ESTATE

A. International Home Products, Inc.

Debtor has interest in the following real property: Commercial building at Hato Rey Puerto Rico composed of various lots, commercial building at Ponce Puerto Rico, commercial building at Hatillo and Mayaguez. Values provided within the liquidation analysis, below and **Exhibit 4, title studies and appraisals.**¹

B. Health Distillers International, Inc. : No real estate.

2.2 PERSONAL PROPERTY

Debtors' personal property has been listed mainly as accounts receivable and inventory. A complete detail of the personal assets and values are provided in the liquidation analysis, below.

2.3 SECURED CREDITORS

Debtors main secured creditor has been listed as First Bank Puerto Rico, with a disputed, contingent and unliquidated claim. CRIM also has secured claims for taxes over real property. One of the secondary financing institutions (Preferred Credit Inc.) has also filed a secured claim.

2.4 PRIORITIES

The Debtors' priority claims are deposits on sales and the unsecured portion of

¹ The Debtors will use these values for purposes of disclosure.

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CRIM claims on personal property. Detail of the priority claims and treatment thereto is provided in **Art. VIII** below; “Payment to Priorities under Section 507 (a)(8) of the Code”.

2.5 GENERAL UNSECURED CREDITORS

Debtors’ largest unsecured creditors are mainly unsecured portions of FB’s allege security interest over cash collateral.

ARTICLE III

PENDING LITIGATION

As of the petition date, the only pending litigation to which the debtor was related was:

- Marian E. Foti (KAC -2010-0894) for division of the Estate of A. Foti and Damages
- Aurea Hernandez (KPE 2011-2474) wrongful termination
- Priscilla Hernandez (KPE 2011-002) wrongful termination
- Pablo J. Eli Torres (KPE 2011-1153) wrongful termination
- Ivan de Leon Rivera (Dpt. Trabajo) claim under Law 80.

These claimants were notified of the bankruptcy petition and the allowed claim, if any, will be included in the payment plan, below. The Plan of Reorganization considers the impact of the allowance of these claims and provides them a treatment.

After the petition was filed, on May 25, 2012 the Debtor filed its appeal to the District Court of the Order issued determining the secured status of FB over the cash collateral. Case No. 12-1515 (FAB). The parties have submitted the corresponding briefs. The result of the appeal will have an impact on Debtors’ Plan of Reorganization if the Debtors succeed, since for the purpose of the

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proposed Plan, the Debtors are considering FB as a secured creditor up to the value of the collateral

At the same time the appeal was filed, the Debtors commenced an adversary proceeding against First Bank for various causes of action, including but not limited to the stripping of any and all liens, avoidance actions and damages, under the provisions of the federal Bankruptcy Code and the laws of the Commonwealth of Puerto Rico. For full detail refer to **Exhibit 5, Amended Complaint**. Recently FB filed a motion to dismiss which the Debtor considers without merit and is in the process of filing its response. If the Debtors succeed in this litigation against FB, FB's claims may be considerably reduced, if not eliminated in its totality. If the Debtors do not succeed, the plan is considering FB as a secured creditor pursuant to the prospective order of the Bankruptcy Court and in any event, the Plan has been drafted considering the worst scenario for the Debtors.

ARTICLE IV

LIQUIDATION ANALYSIS

One requirement for the confirmation of a plan under Chapter 11 of the Code is that with respect to each impaired class of claims, each claim holder of such class has accepted the plan or will receive or retain under the plan on account of such allowed claim, a value as of the effective date of the plan, that is not less than the amount such claim holder would receive or retain if the debtor were liquidated under Chapter 7 of the Code, on such date. These Debtors are proposing 25% payment to all allowed general unsecured claims. Debtor contends that this amount is substantially more than liquidation, where these creditors will receive NO dividend at all (NONE). Nevertheless, in order to provide sufficient assurance to the creditors in these cases, the Debtors provides the Liquidation Analysis attached as **Exhibit 6 (and notes), for full details and analysis.**

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For the purpose of determining a liquidation value, the scheduled value of Debtors' property, has been determined at market value and adjusted using the experience of liquidation of assets under bankruptcy cases. In addition, during Debtors' post-petition operations, Debtor has demonstrated the ability to generate revenue and augment its operational accounts despite the very difficult current market conditions. Accordingly, the proposed payment plan is in the benefit of the creditors.

Under Debtors' Plan of Reorganization, creditors receive payment on the terms noted in Debtors' Plan of Reorganization and Payment Plan.

ARTICLE V

SUMMARY OF THE PLAN

CLASSIFICATION AND TREATMENT OF CLAIMS

A. DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS

The Plan has been drafted designating eleven (11) classes (Class 5 has a two subclasses) in accordance with the dispositions of 11 U.S.C. 1122 and 1123. All creditors and other parties in interest are urged to read and consider the Plan in full inasmuch as it represents a proposed legally binding agreement with the Debtors and any other party involved. The classes of creditors are as follows:

CLASS 1 ADMINISTRATIVE CLAIMS

Shall consist of **all allowed administrative expense priority claims**, as provided under Section 503 of the Code, including, but not limited to, fees to the United States Trustee, fees and expenses of the Debtors' counsel, accountant and any other

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professionals retained by the Debtor, as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing in accordance with the Bankruptcy Code and Rules, and court costs accrued since the petition date. Under this class it is also included the post petition loan made to the company by its president up to the amount of \$250,000. Total debt under this class is estimated to be by confirmation date in the approx. amount of \$300,000.

CLASS 2 SECURED CREDITOR A. BERT FOTI WITH SUPERPRIORITY RANK

This class includes all post petition, secured loans with a superpriority rank made by Debtors' president up to the amount of \$500,000. Post petition financing provided by Mr. A. Bert Foti was allowed by the court up to the amount of \$500,000.

CLASS 3 SECURED CREDITOR /DISPUTED /FIRST BANK

This class will include all allowed secured amounts owed to First Bank, including:

- A. Secured Liens/Real Estate: Term loan with an approx. balance of approx. \$11.5 millions secured by liens over the following property:
 - 1. Hato Rey Property
 - 2. Ponce Property
 - 3. Hatillo Property
 - 4. Mayaguez Property
- B. Secured Account Receivables and Inventory: Credit facilities with an approx. principal balance of \$25,950,507 millions were partially paid as follow:

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1. Per settlement approved by the Court accounts receivable for a value of \$16 million were surrendered in partial payment of the debt.
2. Per settlement approved by the Court inventory of IHP, IHP Orlando and HDI for a total value of approx. \$4.5 millions was surrendered in partial payment of the debt
3. The remaining balance under these credit facilities is considered an unsecured debt below.

CLASS 4: SECURED CREDITOR CRIM

This class includes all secured debt to CRIM related to the real/personal property claims. As per proof of claim filed by CRIM these are in the amount of \$30,539.

CLASS 5 5.1 EXECUTORY CONTRACT/SECURED CREDITOR PREFERRED CREDIT INC.

This class include all secured portion pursuant to claim filed by Preferred Credit Inc..

As per proof of claims filed the amount claimed is \$3,471,964.

5.2 EXECUTORY CONTRACT/AMERICAN ENTERPRISES INTERNATIONAL INC.

This class include all secured portion pursuant to claim filed by American . As per proof of claims filed the amount claimed is \$46,000.

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***CLASS 6: GENERAL UNSECURED PRIORITY CLAIMS RELATED TO CLIENTS
DEPOSITS UNDER 11 U.S.C. 507 (A)(7)***

This class includes all claims for deposits on purchases which are listed on Debtors' books. The amount of claims in this class is approx. \$10,397.

CLASS 7 GENERAL UNSECURED CLAIMS RELATED TO FIRST BANK

This class includes any and all unsecured liabilities allowed to First Bank, estimated in the amount of \$5,447,113.

***CLASS 8 ALL OTHER GENERAL UNSECURED CLAIMS WITH A CLAIM OF \$5,000 OR
LESS***

This class includes all unsecured claimants with a claim of \$5,000 or less and all those claimants who elect to reduce their claims to \$5,000 to classify under this class.

***CLASS 9 ALL OTHER GENERAL UNSECURED CLAIMS WITH A CLAIM OF \$5,001
AND OVER***

This class includes all unsecured claims for \$5001 or more.

CLASS 10 CLAIMS FROM INSIDERS

This class includes arm length debts to insiders, including but not limited to loans, services owed, fees, etc. .

CLASS 11 EQUITY SECURITY HOLDERS AND HOLDERS OF OTHER INTERESTS

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

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B. TREATMENT TO CLASSES

CLASS 1 ADMINISTRATIVE CLAIMS

Shall consist of **all allowed administrative expense priority claims**, as provided under Section 503 of the Code, including, but not limited to, fees to the United States Trustee, fees and expenses of the Debtors' counsel, accountant and any other professionals retained by the Debtor, as may be allowed by the Bankruptcy Court upon application therefore and after notice and hearing in accordance with the Bankruptcy Code and Rules, and court costs accrued since the petition date. Under this class it is also included the post petition loan made to the company by its president in the amount of \$250,000. Outstanding debt under this class is estimated to be by confirmation date in the approx. amount of \$300,000. This class is not impaired.

CLASS 2 SECURED CREDITOR A. BERT FOTI WITH SUPERPRIORITY RANK

This class includes all post petition, secured loans with a superpriority rank made by Debtors' president up to the amount of \$500,000. Post petition financing provided by Mr. A. Bert Foti was allowed by the court up to the amount of \$500,000. Pursuant to the terms and conditions of the loan, no payments will be made to this class during the first year after the approval of the loan. This class will be paid under the terms and conditions of the loan, as approved by the court. This class is not impaired.

CLASS 3 SECURED CREDITOR /DISPUTED /FIRST BANK

This class will include all allowed secured amounts owed to First Bank, including:

A. Secured Liens/Real Estate: Term loan with an approx. balance of

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\$11.5 millions secured by different liens over the following property:

1. Hato Rey Property
2. Ponce Property
3. Hatillo Property
4. Mayaguez Property

The allowed secured portion of the term loan will be restructured as per proposed payment plan under the terms therein specified, with monthly payments of at least \$50,386. This class is impaired.

B. Secured Account Receivables and Inventory: Credit facilities with an approx. balance in principal of \$ 25,950,507 were partially paid as follow:

1. Per settlement approved by the Court accounts receivable for a value of \$16 million were surrendered in partial payment of the debt.
2. Inventory of IHP and HDI is to be surrendered for its scheduled value (\$4,503,494) in partial payment of the debt (See liquidation value for details of assets and values). The Debtor will be able to repurchase the same as needed.
3. The remaining balance under these credit facilities is considered an unsecured debt below, in Class 7 and will received a dividend for the allowed amount the debt equal to

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the dividend of all other unsecured creditors, subject to the outcome of the pending litigation.

This class is impaired.

CLASS 4: SECURED CREDITOR CRIM

This class includes all secured debt to CRIM related to the real/personal property claims. As per proof of claim filed by CRIM these are in the amount of \$30,539. This class will received payments within 36 months with interest at the prime rate prevailing on confirmation date. This class is impaired.

CLASS 5 5.1 EXECUTORY CONTRACT/SECURED CREDITOR PREFERRED CREDIT INC.

This class include all secured portion pursuant to claim filed by Preferred Credit Inc.. As per proof of claims filed the amount claimed is \$3,471,964. This class will be paid under the terms and conditions of the agreement between the parties. This class is not impaired.

5.2 EXECUTORY CONTRACT/AMERICAN ENTERPRISES INTERNATIONAL INC.

This class include any and all secured portion pursuant to claim filed by American and/or any pending amounts owed under the assumed contract. As per proof of claims filed the amount claimed is \$46,000. This class will be paid under the terms and conditions of the agreement between the parties. This class is not impaired.

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***CLASS 6: GENERAL UNSECURED PRIORITY CLAIMS RELATED TO CLIENTS
DEPOSITS UNDER 11 U.S.C. 507 (A)(7)***

This class includes all claims for deposits on purchases which are listed on Debtors' books. The amount of claims in this class is approx. \$10,397. The allowed claims will be paid in full within the first year from effective date. This class is impaired.

CLASS 7 GENERAL UNSECURED CLAIMS RELATED TO FIRST BANK

This class includes any and all unsecured liabilities allowed to First Bank, estimated in the amount of \$5,447,113. As of this date amount to be paid to this class is undetermined and subject to litigation. Any allowed amount will received the same payment as any other unsecured creditor under Class 8 or 9. This class is impaired.

***CLASS 8 ALL OTHER GENERAL UNSECURED CLAIMS WITH A CLAIM OF \$5,000 OR
LESS***

This class includes all unsecured claimants with a claim of \$5,000 or less and all those claimants who elect to reduce their claims to \$5,000 to classify under this class. The allowed claims under this class will be paid 25% of its claim within the first year from effective date. This class is impaired.

***CLASS 9 ALL OTHER GENERAL UNSECURED CLAIMS WITH A CLAIM OF \$5,001
AND OVER***

This class includes all unsecured claims for \$5001 or more. The allowed claims under this class will be paid 25% of its claim within the term of 36 months from effective date. This class is impaired.

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CLASS 10 CLAIMS FROM INSIDERS

This class includes arm length debts to insiders, including but not limited to loans, services owed, fees, etc. The allowed claims under this class will be paid 25% of its claim after senior classes received their payment and within the term of 36 months thereafter. This class is impaired.

CLASS 11 EQUITY SECURITY HOLDERS AND HOLDERS OF OTHER INTERESTS

This class includes all equity security and interest holders who are the owners of the stock of the Debtor. This class will not vote for the plan, nor receive any payments under the plan. All shares existing at petition date on both debtors will be cancelled and new shares will be issued upon post petition new value provided for the shares of the reorganized debtors. Pre- petition credits in favor of shareholders can not constitute new value.

See Exhibit 7 for Payments under the Plan.

ARTICLE VI

IMPAIRMENT OF EXISTING CLAIMS AND INTERESTS

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

- (1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or
- (2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the

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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;
- © compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and
- (D) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

ARTICLE VII

PAYMENT TO CRIM AND OTHER PRIORITIES

UNDER SECTION 507 (a)(8) OF THE CODE

All unsecured priority governmental claims pursuant to Section 507(a)(8) of the Code, as the same are allowed, and any and all unsecured portion of any debt to CRIM, as they approved and ordered to be paid by the Court, will receive in full payment of their allowed claim and/or the agreed amount plus prevailing prime rate interest as required by amended section 1129(c)(9). Payment will commence on effective date. **See Exhibit 7 payments under the Plan.**

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ARTICLE VIII

LEASES AND OTHER EXECUTORY CONTRACT

Contracts to which Debtors are a party are listed on **Exhibit 8** including those already assumed and those related to rental income, including monthly rent receive. ² Debtors as of a petition date were a party to the various executory contracts, including the Distribution Agreement with Regal Industries for the distribution of Life time products. Among these contracts the Debtor has already assumed some of them (those related to the agreements for the sale of financing agreements contracts in the second market) and other are pending assumption or rejection. On or before confirmation date the Debtor will assume and/or reject all and any of these contracts, not already assumed.

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

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

²One of Debtors' main contracts is the exclusive representations in Puerto Rico and Orlando, of Lifetime Products, i.e., Regal's distribution agreements. It is Debtors' interest to assume this contract (s). Currently the parties are in conversations to the determine the future payments.

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

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

3. Executory Contracts and Unexpired Leases Which Were Assumed or Rejected To Date.

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

4. Rejection Damage Claims. If the rejection of an executory contract or unexpired lease by the Debtor results in a claim for damages to the other party or parties to such contract or lease, any claim for such damages, if not heretofore evidenced by a filed proof of claim, shall be

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forever barred and shall not be enforceable against the Debtors' Estate, or its respective properties or agents, successors or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel for the Debtor on or before the earlier of, 30 days after entry of the Order approving the rejection of the contract or unexpired lease, if such rejection is granted before Confirmation Date, or 30 days after Confirmation Date if the Confirmation Order constitutes approval of the rejection. Unless otherwise ordered by the Court or provided in the Plan, all such Allowed Claims for which proofs of claim are timely filed will be treated as Class 5 or 6 General Unsecured Claims subject to the provisions of the Plan and to Section 502(b)(6) of the Bankruptcy Code, to the extent applicable. The Debtor shall have the right to object to any such rejection damage claims filed in accordance with this Section.

5. There are no post-petition Allowed Claim concerning rejected leases. Nevertheless any possible claim for this concept shall be treated as a Class 1 administrative claim.
6. Post-Petition Agreements Unaffected By Plan. Except as otherwise expressly provided herein, nothing contained in the Plan shall alter, amend or supercede any agreements or contracts entered into by the Debtor after the Petition Date that were otherwise valid, effective and enforceable against the Debtor as of the Confirmation Date.

ARTICLE IX

PROOF OF CLAIMS NOT FILED

The Plan provides that where a proof of claim has not been filed, the Allowed Claim shall be in the amount appearing in the Schedules filed by the Debtors, provided however, that the

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scheduled amount is not shown as unliquidated, contingent or disputed, in which case no amount will be allowed unless the Debtors have notified such creditors and such creditors has filed a timely proof of claim. To the extent no debt was listed by the debtor in its Schedules, no amount will be provided for claimants who have not filed proof of claims.

ARTICLE X

OBJECTIONS TO CLAIMS

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

ARTICLE XI

CONDITIONS PRECEDENT TO CONSUMMATION

Before consummation of the Plan takes place, the Confirmation Order shall have become a final order. In the event the conditions stated in the Plan are not satisfied, this Plan shall be null and void and the rights of all holders of claims and interests, and of the Debtors, shall be restored as of the date immediately preceding the Confirmation Date.

ARTICLE XII

NON ACCEPTANCE OF THE PLAN

(Cramdown)

If all applicable requirements of 11 U.S.C. § 1129(a), other than subsection (a)(8), are met

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with respect of to the Plan, the Debtors hereby requests that the Court confirm this Plan notwithstanding the requirements of said section, if it does not discriminate unfairly and is fair and equitable with respect to each class of claims or interests that is impaired under and has not accepted this Plan.

ARTICLE XIII

MEANS OF EXECUTION OF THE PLAN

and

MANAGEMENT OF DEBTOR

On the Effective Date of the Plan the distribution, administration and management of Debtors' affairs, collection of moneys, sale of properties not necessary for debtors' operations, pending litigation actions and distribution to creditors, unless otherwise provided herein, will be under the control and supervision of the current officers, who will assume the same roles they have assumed throughout this reorganization process. They will receive the same compensation they have received through out the bankruptcy proceedings. See Exhibit 3 and Monthly Operating Reports on file for details.

Funding of the plan will be from the operations of the business, collection of account receivables, proceeds from litigation and Debtors' president contribution, as needed.

ARTICLE XIV

PROVISIONS FOR THE MODIFICATION OF THE PLAN

The Debtors may propose amendments or modifications of the Plan at any time prior to its confirmation, upon notice to creditors and parties in interests. After confirmation of the Plan, the

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Debtors may, with the approval of the Court and as long as it does not adversely affect the interests of the creditors, remedy any defect or omission, in such manners as may be necessary to carry out the purposes and effects of the same.

ARTICLE XV

CLOSING OF THE CASE

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

ARTICLE XVI

RELEASE AND DISCHARGE OF CLAIMS

1. Discharge. Except as otherwise expressly provided in Section 1141 of the Code or the Plan, the distributions made pursuant to and in accordance with the applicable terms and conditions of the Plan are in full and final satisfaction, settlement, release and discharge as against the Debtors of any debt of the Debtors that arose before the Effective Date, and any debt of the Debtors of a kind specified in Section 502(g), 502(h), or 502(I) of the Code, and all Claims against the Debtors or its Estate of any nature, including, without limitation, any interest accrued thereon from and after the Petition Date, other than the interest proposed in Debtors' plan, whether or not (i) a proof of claim based on such debt, obligation or equity interest is filed or deemed filed under Section 501 of the Code, (ii) such Claim is Allowed under Section

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502 of the Code, or (iii) the holder of such Claim has accepted the Plan.

- 2 Injunction Relating to the Plan. As of the Effective Date, all Persons are hereby permanently enjoined from commencing or continuing, in any manner or in any place, any action or other proceeding, whether directly, indirectly, derivatively or otherwise against the Debtors and/or its Estate, on account of, or respecting any Claims, debts, rights, Causes of Action or liabilities discharged pursuant to the Plan, except to the extent expressly permitted under the Plan or under any specific order entered by the Bankruptcy Court.
- 3 Setoff. Except as otherwise provided in this Plan, nothing contained in this Plan shall constitute a waiver or release by the Estate of any rights of setoff the Estate may have against any Person.

ARTICLE XVII

OTHER PROVISIONS

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

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

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

Any holder of a claim or interest who fails to file an objection in writing to the provisions of the Plan, which is filed with the Court and served upon counsel for the Debtors, not later than the date

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set for the confirmation of the plan, shall be deemed to have accepted its classification and to be bound by the proposed Plan.

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

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

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

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

ARTICLE XVIII


RETENTION OF JURISDICTION

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

RESPECTFULLY SUBMITTED.

In San Juan, Puerto Rico, this 28th day of September 2012.

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A. Bert Foti
President

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

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