

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

IN RE:

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

Debtors

Case No.: 12-02997 (ESL)

Chapter 11

**OBJECTIONS TO DEBTORS' CONSOLIDATED
AMENDED DISCLOSURE STATEMENT**

TO THE HONORABLE BANKRUPTCY COURT:

COMES NOW FirstBank-Puerto Rico (the "Bank"), as secured creditor of debtors International Home Products, Inc. ("IHP") and Health Distillers International, Inc. ("HDI") (collectively, "Debtors"), through the undersigned counsel, and respectfully states and prays as follows:

I. Preliminary Statement.

The Bank is Debtors' main creditor with a claim in the amount of approximately \$22M, excluding interests and other amounts payable, for certain credit facilities that were granted to Debtors under a loan agreement. See Second Amended Proof of Claim No. 29 ("Amended Proof of Claim"). The Bank has a priority security interest in substantially all of Debtors' tangible and intangible property, including rents, equipment and proceeds from the sale of inventory, merchandise and other property. See Dkts. 18 and 22. The Bank's security also extends to various mortgages over various properties owned by IHP (the "Properties").

On September 28, 2012, Debtors filed their Consolidated Disclosure Statement and Summary of Proposed Plan of Reorganization (the "Disclosure Statement") and their

Consolidated Plan of Reorganization. See Dkts. 283 and 284. On December 4, 2012, the Bank filed its Objections to Debtors' Consolidated Disclosure Statement based on lack of adequate information as required under 11 U.S.C. § 1125(a)(1) ("Section 1125(a)(1)"), among other grounds. See Dkt. 341. Thereafter, on December 11, 2012, the Court held a hearing for the approval of Debtors' Disclosure Statement. During the hearing, and as a result of the objections raised by the Bank, Debtors' Disclosure Statement was not approved and, accordingly, Debtors were ordered to file an amended disclosure statement. See Dkt. 350. Debtors were also ordered to provide the following information in their amendment:

- i. Disclose the source of the funds that will be used by Debtors to make payments to creditors, including the amount of payment and to whom it will be made.
- ii. Include the Porsche Turbo 2008 in Debtors' liquidation analysis.
- iii. Provide details as to the payments that will be made to the Bank.
- iv. Clarify whether Debtors' post-petition sale of inventory is subject to the Bank's lien.
- v. Incorporate audited financial statements
- vi. Include the Examiner's report

Minute Entry of hearing held on December 11, 2012, Dkt. 350.

On March 20, 2013, Debtors filed their Consolidated Amended Disclosure Statement and Summary of Proposed Plan of Reorganization (the "Amended Disclosure Statement") and their Consolidated Amended Proposed Plan of Reorganization (the "Amended Plan").¹ See Dkts. 416 and 417. Creditors were provided 21 days to file their objections to the

¹ Debtors were ordered to file their Amended Disclosure Statement within 60 days of December 11, 2012. Thus, Debtors' Amended Disclosure Statement was due on February 11, 2013. However, Debtors requested an extension of time, until March 20, 2013, to file the amended document. See Dkt. 376.

Amended Disclosure Statement, due on April 11, 2013. However, the Bank requested the Court a 14 day extension of time to file its objections to Debtors' Amended Disclosure Statement. See Dkt. 426. The Court granted the Bank's request. See Dkt. 429. Therefore, the objections to Debtors' Amended Disclosure Statement are due today, April 25, 2013.

For the reasons discussed below, the Bank objects to Debtors' Amended Disclosure Statement, as Debtors continue to include inaccurate, incomplete and misleading statements and do not provide adequate information as required under Section 1125(a)(1) and the Court's order, for the Bank or any other creditors to make an informed judgment on Debtors' Amended Plan.

II. The Disclosure Statement does not provide "adequate information."

1. Section 1125 (a)(1) defines "adequate information" as:

[I]nformation of a kind, and in sufficient detail, as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor's books and records, including a discussion of the potential material Federal tax consequences of the plan to the debtor, any successor to the debtor, and a hypothetical investor typical of the holders of claims or interests in the case, **that would enable such a hypothetical investor of the relevant class to make an informed judgment about the plan** [...].

11 U.S.C. § 1125(a)(1)(Emphasis added); see also In re El Comandante Management Co., LLC, 2006 WL 3903592 at *4 (Bankr. D. P.R. 2006).

2. The primary purpose of a disclosure statement is to give the creditors the information they need to enable them to make an informed decision when voting on a plan. See 6 Norton Bankr. L. & Prac. 3d § 110:12. Accordingly, the disclosure statement must contain sufficient information of a kind and in sufficient detail in order to receive the court's approval.

3. Furthermore, since creditors rely on the disclosure statement to evaluate

what sort of distribution or assets they will receive and what risks they will face, the importance of a full and honest disclosure is also critical. See In re Radco Properties, Inc., 402 B.R. 666, 682 (Bankr. E.D. N.C. 2009). Hence, the cumulative effect of inaccurate and misleading statements can lead the court to reject the disclosure statement for being inadequate since creditors' ability to make an informed decision on whether to accept or reject the plan is impaired. See 6 Norton Bankr. L. & Prac. 3d § 110:5.

4. Although Debtors make an attempt to provide "adequate information" through their Amended Disclosure Statement, once again they fail to do so. The financial information and projections of future income and expenses fall short of providing creditors with adequate information demonstrating that Debtors' operations will generate sufficient funds to make the payments required under the Amended Plan. Thus, the insufficiency of information affects creditors' judgment as to the feasibility of the plan.

5. Further, the analysis provided by Debtors as to the liquidation value of the estate and Properties includes inaccurate and incomplete information.

6. Finally, in their proposed payments to creditors under the Amended Plan, Debtors fail to provide justification for impairing the Bank's claims for more than \$16M although the Bank has a lien on substantially all of Debtors' property.

III. The Bank's Objections to Debtors' Amended Disclosure Statement

A. Insufficiency and unreliability of financial information provided by Debtors

7. With the Amended Disclosure Statement, Debtors finally produced the Audited Financial statements for the year ended December 31, 2010 (the "2010 Financial Statements"). The 2010 Financial Statements are dated January 31, 2013. Nonetheless, Debtors waited until March 20 to provide them to all the creditors, including the Bank.

8. The 2010 Financial Statements should have been provided to the Bank at the beginning of 2011, more than two years ago. Debtors' reasons for not providing the 2010 Financial Statements before, was the existence of some controversy as to the treatment to be given to Debtors' purchase of shares of stock of the late Andrew Anthony Foti (the "Treasury Stock"). See Transcript of IHP 341 Meeting of Creditors, Dkt. 255, pp. 113-114, lines 1271-1282. However, in the 2010 Financial Statements, Debtors' auditors Aquino, De Córdova, Alfaro & Co., LLP ("Aquino"), did not express an opinion as to the financial statements. See 2010 Financial Statements, Dkt. 416-1, p. 104 and 121. If Aquino was not going to express an opinion due to the Treasury Stock and other issues, there was no reasonable justification to delay for two years the issuance of the 2010 Financial Statements.

9. In the 2010 Financial Statements, Aquino stated the following as to IHP:

... These conditions create an uncertainty and it is not possible to form an opinion on the financial statements referred in the first paragraph because we were not able to determine the possible effects of these uncertainties.

Because of the significance of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

2010 Financial Statements, Dkt. 416-1, p. 104 (underlining added).

10. As with IHP, Aquino did not issue an opinion as to the 2010 Financial Statements for HDI. See 2010 Financial Statements, Dkt. 416-1, p. 121.

11. Debtors have a duty to provide creditors with accurate financial information:

Accurate disclosure of a debtor's financial situation is perhaps the primary duty of debtors seeking relief under the Bankruptcy Code. See 11 U.S.C. § 521 (disclosure of debtors' creditors, assets, liabilities, income and expenditures is the first on the list of debtor's duties). The bankruptcy discharge is reserved for the "honest but unfortunate debtor." Grogan v. Garner, 498 U.S.

279, 287, 111 S.Ct. 654, 112 L.Ed.2d 755 (1991). “Inaccurate or incomplete information deprives the court, the United States Trustee, the private trustee, and creditors of adequate information to decide whether to conduct further investigation, recover assets, or seek or impose relief against the debtor.”

In re Kelton, 389 B.R. 812, 818 (Bankr. S.D. Ga. 2008)(underlining added).

12. Creditors cannot rely on this disclaimer of opinion by Aquino. The financial information contained in the 2010 Financial Statements, as well as all the other financial information provided by Debtors through the proceedings in this case, is unreliable and the creditors cannot depend on it to accurately evaluate the financial position of Debtors.

a) Accounts Receivable of IHP

13. The draft of financial statements for 2010 provided by IHP on September 28, 2012, state the accounts receivable of IHP at \$38,818,340, or approximately \$38.8M. See Dkt. 283-2, p. 10.

14. Previously, on December 19, 2011, Aquino had issued an “Independent Auditor’s Report” with a “Schedule of Accounts Receivable as of November, 30, 2011” (the “2011 Accounts Receivable Report”). See Dkt. 255-1, p. 4. Debtors provided that report to the Bank. In that report, Aquino stated that IHP had accounts receivable for \$36,855,359, or approximately, \$36.9M. See Dkt. 255-1, p. 5. Aquino also stated that:

In our opinion, the schedule of accounts receivable referred to above presents fairly, in all material respects, the accounts receivable of International Home Products, Inc., as of November 30, 2011 in conformity with accounting principles generally accepted in the United States of America.

2011 Accounts Receivable Report, Dkt. 255-1, p. 4.

15. That was the information provided by Debtors to the Bank for years. That was also the information that the Bank relied on to reach a settlement with Debtors as to the use of cash collateral on June 22, 2012 (the “Settlement”). See Dkt. 160. In that

agreement, and relying on the financial information provided by Debtors, the Bank agreed to value Debtors' accounts receivables at \$16,000,000. See Dkt. 160, p. 3, ¶ 8. After the Settlement, the value of the accounts receivable transferred to the Bank turned out to be less than \$4M. This caused a loss of over \$12M to the Bank due to the unreliable financial information provided by Debtors.

16. Now the numbers for those accounts receivable have changed dramatically. According to the 2010 Financial Statements, as of December 31, 2010, IHP only had \$17,909,930, or approximately \$17.9M, in accounts receivable on that date. See 2010 Financial Statements, Dkt. 416-1, p. 105. This is the result of a "Bad Debt Expense" charge of more than \$24.2M for the year 2010. See 2010 Financial Statements, Dkt. 416-1, p. 107.

17. On December 19, 2011, Aquino stated that as of November 30, 2011, IHP had accounts receivable of \$36.9M. See Dkt. 255-1, p. 5. Now, on January 31, 2013, Aquino states that, as of December 31, 2010, a year before the issuance of the 2011 Accounts Receivable Report, IHP only had \$17.9M in accounts receivable. That is a difference of 65.6% in the same number issued by the same people, Debtors and Aquino. The Bad Debt Expense for 2010 confirms that the valuation used by Debtors for the accounts receivable up until December 2011 was totally unreliable. This unreliable information is useless for the creditors to accurately evaluate the current financial position of Debtors. See In re Kelton, supra.

b) Related transactions for IHP

18. The 2010 Financial Statements include \$715,893 "Due to related company," \$1,146,668 "Due to stockholder," and \$660,000 "Due to officer." See 2010 Financial Statements, Dkt. 416-1, p. 106. There is no detail as to the identity of the "related

company,” the “stockholder,” nor the “officer.” See *Id.* Also, the amounts due bear no interest and have no repayment terms. See 2010 Financial Statements, Dkt. 416-1, p. 113. Creditors cannot evaluate accurately the financial position of the Debtors without this missing information. See *In re Kelton, supra.*

c) Accounts receivable of HDI

19. On December 31, 2009, HDI had a total of accounts receivable of \$2,641,565. See 2009 Financial Statements, Dkt. 340, p. 46. That was the information that the Bank relied on to reach the Settlement. See Dkt. 160. Now, according to the 2010 Financial Statements, HDI’s accounts receivable had decreased to \$1,277,821 by December 31, 2010. See 2010 Financial Statements Dkt. 416-1, p. 122. That represents a difference of \$1,363,744, for a decrease of 52%. This is the result of a “Bad Debt Expense” of \$1.5M for the year 2010. See 2010 Financial Statements, Dkt. 416-1, p. 124.

20. However, Debtors have provided no explanation for the substantial decrease in only one year. The Bad Debt Expense confirms that the valuation used by HDI until 2009 was totally unreliable. This unreliable information is useless for the creditors to accurately evaluate the current financial position of Debtors. See *In re Kelton, supra.*

d) Related transactions for HDI

21. The 2010 Financial Statements for HDI include accounts receivable from “related companies” for \$1,694,272. See 2010 Financial Statements Dkt. 416-1, p. 122. However, Debtors do not identify the “related companies” that owe money to HDI. See *Id.* Also, the amounts due bear no interest and have no repayment terms. See 2010 Financial Statements, Dkt. 416-1, p. 124. Creditors cannot evaluate accurately the current financial position of the Debtors without the missing information. See *In re Kelton, supra.*

e) Other expenses for HDI

22. The 2010 income statement for HDI includes a charge for "Other expenses" for a total of \$1,049,531. See 2010 Financial Statements Dkt. 416-1, p. 124. Considering that the total "Net sales" for that year were \$1,679,145, and that the "Net Loss" was for \$1,727,376, this "Other expense" of \$1,049,531 turns out to be material and significant. See 2010 Financial Statements Dkt. 416-1, p. 124. However, Debtors do not provide any information as to this "Other expense." Creditors cannot evaluate accurately the financial position of the Debtors without the missing information. See In re Kelton, supra.

f) Missing audited financial statements for 2011 and 2012

23. As of today, Debtors have not provided the audited financial statements for the years ended December 31, 2011 and 2012. Since Aquino did not issue any opinion as to the 2010 Financial Statements due to the Treasury Stock transaction, there is no reasonable justification for the delay in issuing the financial statements for 2011 and 2012.

24. The creditors in this case cannot evaluate the Amended Plan with old, outdated and unreliable financial information. Creditors cannot evaluate accurately the current financial position of Debtors without the missing information. See In re Kelton, supra. Therefore, the Amended Disclosure Statement should be rejected.

B. The Amended Plan is not Feasible

a) Lack of support for the projections

25. In this case, the adequacy of the information disclosed hinges on how creditors will be paid and the source of the funds to make such payments.

26. In one section of the Amended Disclosure Statement, Debtors claim that "[f]unding of the plan will be from the operations of the business; collection of accounts

receivables, sales proceeds in general, proceeds from litigation and specifically Debtors' President contribution." See Amended Disclosure Statement, Dkt. 416, pp. 33-34. However, on Exhibit 5 of the Amended Disclosure Statement, Debtors claim that "[t]he reorganization plan has been proposed considering debtor's [sic] business operations as the principal source for funding the plan." See Amended Disclosure Statement, Dkt. 416-2, p. 85.

27. Debtors also claim that "[t]he combined base level for net receipts for the first year was fixed in \$9,017,741." See Amended Disclosure Statement, Dkt. 416-2, p. 85. However, nowhere in the Amended Disclosure Statement did Debtors provide any support or grounds to justify the net receipts of \$9,017,741 for the first year, as claimed. This number comes from the addition of two items: "Net Receipts" and "Other Receipts: Service Income & Other." See Id. The Honorable Court should note that "Other Receipts: Service Income & Other," constitute 52% of the total receipts projected for the first year. See Id. Being more than half of the total receipts projected for the first year, Debtors should have detailed the sources of those "Other Receipts: Service Income & Other." However, they did not.

28. The Monthly Operating Report ("MOR") for the month ending on February 28, 2013, reveals that the total cumulative "Other Receipts" from the date of the petition to February 28, 2013, is \$7,027,780.74. See MOR for February 2013, Dkt. 421, p. 2. This amount composes 64% of the total receipts for that period. In other words, Debtors income from "other" sources is substantial. They should detail and explain its sources.

29. An analysis of the MOR for February 2013 reveals some details as to the "Other Receipts." See MOR for February 2013, Dkt. 421, p. 3. Some of the items that compose "Other Receipts" should not be included in the computations and projections of

income for Debtors. "American Express," which constitutes 1% of "Other Receipts" is not even explained. See Id. Since it doesn't look like a recurrent or certain source of income for Debtors, it should be excluded. The "Advance A. Bert Foti," which constitutes 7% of "Other Receipts" and 4% of "Total Receipts" should also be excluded, since it won't be a source of income for Debtors. All of the rent income items, which constitute 1% of the "Other Receipts" and "Total Receipts," should also be excluded because those amounts were foreclosed by the Bank before the bankruptcy.

30. Finally, the items identified as transfers from other banks, which account for 36% of "Other Receipts" and 23% of "Total Receipts," should also be excluded because they are not sources of income for Debtors. See Id.

31. In summary, Debtors should provide more information as to the sources of income that they used to reach the "combined base level for net receipts for the first year" of \$9,017,741. See Amended Disclosure Statement, Dkt. 416-2, p. 85.

32. Debtors also list "proceeds from litigation" as another source of funds for the plan. See Amended Disclosure Statement, Dkt. 416, pp. 33-34. However, besides mentioning it, Debtors fail to provide information as to what are those proceeds, from which cases they will come from, and how much will they provide. Debtors should provide more information regarding this item. In any case, proceeds from litigation are neither recurrent nor certain. Debtors cannot rely on them for their projections of income.

33. Finally, Debtors project that their income will increase at an annual rate of 3%, while the "costs of goods sold" and "operating and general expenses" will increase only at an annual rate of 2%, providing Debtors with an annual increase of 1% in their profit margin. See Amended Disclosure Statement, Dkt. 416-2, p. 86. However, Debtors do not

provide any grounds, explanations or basis to sustain these projections of annual increases.

34. The lack of support for Debtors' projections of income and expenses cast a shadow of doubt over the prospects for reorganization.

b) Declining sales

35. As stated above, Debtors claim that the funds for the execution of the Amended Plan will come "from the operations of the business; collection of accounts receivables, sales proceeds in general" among others. See Amended Disclosure Statement, Dkt. 416, pp. 33-34. One of the components of the operating income is what Debtors identify as "Cash Sales & Collections" in their MORs. See Amended Disclosure Statement, Dkt. 416-2, p. 2.

36. However, this amount has been consistently declining on a monthly basis since the filing of the petition for bankruptcy.² On May 2012, total "Cash Sales & Collections" were \$665,384. See *Id.* This same amount shows a consistent declining trend up until the month of January 2013, which totals \$126,749. See *Id.* That constitutes a decline of 81% in just eight months.

37. Although this item may look better when it is averaged for all the months of the bankruptcy, it is clear that the trend is to the downside. The declining "Cash Sales & Collections" cast a shadow of doubt over Debtors' projections of income for the future.

c) Other expenses

38. In their projections, Debtors claim that the item identified as "Other Operating Expenses" will be only \$1,355,135 for the first year. See Amended Disclosure Statement, Dkt. 416-2, p. 84. That is totally inconsistent with Debtors' past history. For the

² We are excluding from this analysis the month of April 2012, since IHP filed for bankruptcy on April 19, 2012, and HDI filed on May 8, 2012.

10-month period from the filing of the bankruptcy until February 28, 2013, Debtors' "Other Operating Expenses" totaled \$5,231,268. See MOR for February 2013, Dkt. 421, p. 2. That constitutes the largest expense for Debtors and is equal to 49% of the total expenses for the same period. The annualized total for that expense equals \$6,277,522.

39. Therefore, the amount now projected by Debtors for "Other Operating Expenses" is equal to only 22% of the annualized amount spent during the previous year. Debtors have not provided any basis or explanation to sustain their claim that they are going to lower their biggest expense to only 22% of the current amount, taking it from being 49% of their total expenses to being only 18% of the projected total expenses.

d) Travel and Entertainment Expenses

40. Debtors' projections do not include any amount for "Travel and Entertainment" expenses. See Amended Disclosure Statement, Exhibit 5, Dkt. 416-2, p. 84. Based on Debtors' operations and history, this seems unusual. As of February 28, 2013, Debtors had paid at least \$259,610 for travel and entertainment since the filing of the petitions for bankruptcy. See MOR for February 2013, Dkt. 421, p. 2. After Debtors have spent more than a quarter of a million dollars while in bankruptcy and under the close supervision of the Court and creditors, it is unlikely that they will not spend any money for that concept during the next five years under less supervision from outside parties.

e) Valuation of Deferred Tax Assets for Net Operating Losses

41. Debtors have been generating net losses for some years now. Accordingly, they have accumulated deferred tax assets that they may use to offset any future taxes due on taxable income that they may realize in the future. However, Debtors' auditors, Aquino, determined that the realization potential for those deferred tax assets was minimal.

Therefore, Aquino recognized a “full valuation allowance” for those deferred tax assets for IHP:

As of December 31, 2010, the Company had net tax operating loss carry forward amounting to approximately \$14,118,000, available to reduce future taxable income. The net tax operating loss carry forward expires in 2014 (\$429,000), 2015 (\$1,040,000), 2016 (\$2,010,000), 2017 (\$1,150,000), 2018 (\$1,598,000), 2019 (\$2,029,000) and 2020 (\$5,862,000). However, **the Company has recognized a full valuation allowance for the full amount of the deferred tax asset due to the uncertainty of its realization.**

2010 Financial Statements, Dkt. 416-1, p. 117 (underlining and bold letters added).

42. HDI had the same situation. The 2010 Financial Statements for HDI provide:

As of December 31, 2010, the Company had net tax operating loss carry forward amounting to approximately \$1,763,398, available to reduce future taxable income. The net tax operating loss carry forward expires in 2018 (\$123,013), 2019 (\$699,309) and 2020 (\$941,076). However, **the Company has recognized a full valuation allowance for the full amount of the deferred tax asset due to the uncertainty of its realization.**

2010 Financial Statements, Dkt. 416-1, p. 132 (underlining and bold letters added).

43. Therefore, according to the 2010 Financial Statements, Aquino and the Debtors are not expecting Debtors to generate taxable net income at least until the year 2020. Even though the net income is the remainder benefit after the payment of debts and expenses, the lack of it until the year 2020 puts the viability of Debtors and the projections provided into question. According to the projections of income and expenses provided by Debtors, they are expecting to have “Cash After Operations & Plan” for the first year of the plan (i.e. 2014) of \$803,686. See Dkt. 416-2, p. 84. By the fifth year of the plan (i.e. 2018), Debtors expect that amount to increase to \$1,767,470. See Id. These projections contrast dramatically with Aquino’s expectation of zero net income until the year 2020 and with his determination of recognizing a full valuation allowance for the deferred tax assets.

C. The Liquidation and Real Property Analysis is Inadequate

44. Debtors' Liquidation Analysis set forth in Exhibit 8 of the Amended Disclosure Statement contains incomplete information. Debtors fail to disclose that the following properties included in the category of "Other Personal Property" are subject to the Bank's lien:

- a) FirstBank Accounts \$10,188
- b) Lithography-Prints \$ 25,000
- c) Automatic Pistols \$3,000
- d) Office Equipment \$467,415
- e) FirstBank Payroll and General Accounts \$19,055

45. Pursuant to the Security Agreement subscribed between Debtors and the Bank, the latter has a lien upon all:

[O]f its [Debtors'] right, title and interest in, to and under the following property whether now owned by or owing to, or hereafter acquired by or arising in favor of Grantor... (all of which being hereinafter collectively referred to as the "Collateral"):

- ...
(v) all Equipment;
- ...
(viii) all goods;
- ...
(x) all Inventory;
- (xi) all Investment Property;
- ...
(xiv) all money, cash or cash equivalents;
- (xv) to the extent not otherwise included, all Proceeds and products of the foregoing and all accessions to, substitutions and replacements for, rents and profits of, each of the foregoing.

Security Agreement, Dkt. 22, pp. 3-4 (underlining added).

46. Debtors' Real Property Analysis included in Exhibit 6 of the Amended

Disclosure Statement also includes incomplete and incorrect information. Debtors assign a value to the Properties under two columns, divided as "Debtor" and "Per First Bank", but fail to state the source of said values. See Amended Disclosure Statement, Dkt. 416-2, pp. 5-6. Debtors include as Exhibit 4 to the Amended Disclosure Statement various appraisals prepared on behalf of the Bank by the firm McCloskey, Mulet & Bonin Appraisers, P.S.C. ("McCloskey"). Nevertheless, the values assigned to the Properties in the Real Property Analysis do not correspond to any of the appraisals prepared by McCloskey, included as Exhibit 4. See Amended Disclosure Statement, Dkt. 416-2, pp. 12-27. Debtors must state the source for the values assigned to the Properties both in the Real Property and Liquidation Analysis.

47. Likewise, the aforementioned Exhibit 4 includes appraisals prepared by McCloskey in 2007 for the properties located in Hato Rey, Mayaguez and Hatillo, and appraisals prepared in 2011 for the Ponce property. Debtors do not state why different appraisals are being used for the Properties. See Id.

48. Further, Debtors allege that various mortgage notes over the Properties have expired or were not found. See Amended Disclosure Statement, Dkt. 416-2, pp. 5-6. This is not correct. Specifically, Debtors state that a Mortgage Note over property no. 31929 ("The Ponce Property") for the amount of \$698,000 expired since it has more than 20 years. However, Debtors fail to state that the Mortgage Deed as to said Mortgage Note extended its extinction period to 25 years, thus expiring on April 24, 2017. See Exhibit 1, Mortgage Note dated March 30, 1992 and Deed Number 9, executed on March 13, 1992, before notary Enrique Adsuar-Lores.

49. The Mortgage Note over property no. 35341 ("The Hato Rey Parking Lot") for

the amount of \$25,000, claimed by Debtors not to have been found and, thus, excluded from the Bank's lien, does in fact exist and has not expired. The same is attached hereto as Exhibit 2, Mortgage Note dated January 16, 2001, in the amount of \$25,000, and Deed Number 1, executed on the same date before notary Francisco M. Vazquez-Santoni.

50. Debtors also omit to include two mortgage notes over the Properties in favor of the Bank. One of the mortgage notes is over property no. 35341 ("165-167 Quisqueya Street") in the amount of \$115,000. See Exhibit 3, Mortgage Note dated February 14, 2001 and Deed Number 93, executed on the same date before notary Francisco M. Vazquez-Santoni. The other mortgage note is over property no. 24788 ("169 Quisqueya Street") in the amount of \$805,000. See Exhibit 4, Mortgage Note dated February 14, 2001 and Deed Number 91, executed on the same date before notary Francisco M. Vazquez-Santoni.

D. Objection to the proposed treatment of the Bank's secured and unsecured claims

51. Debtors' state in their Amended Disclosure Statement that the principal amount, excluding interests and other penalties payable, included in the Bank's Amended Proof of Claim, is the amount owed by Debtors to the Bank. See Amended Disclosure Statement, pp. 24-25 and pp. 87-88. Accordingly, Debtors owe the Bank the amount of \$21,331,340.³

52. As stated above, the Bank has a security interest in substantially all of Debtors' tangible and intangible property. Pursuant to said security interest, Debtors propose to surrender to the Bank certain property, obtain loans from the Bank for real and

³ This amount includes the allocation of \$16 million for the accounts receivable surrendered to the Bank under the Settlement as well as the payments received from the following sources: IHP's payment for the first release of inventory, foreclosed rents as of the filing of the Amended Proof of Claim, and foreclosed accounts receivable as of the approval of the Settlement. See Amended Proof of Claim, Exhibits 2 and 3.

personal property, and pay the Bank 10% of the resulting unsecured claim. For the reasons stated below, Debtors' proposed payment to the Bank under the Amended Plan is not acceptable.

a) Surrendering of property

53. Debtors propose surrendering to the Bank the properties located in Hatillo and Quisqueya 169, Hato Rey, and the inventory of HDI for a total amount of \$5,367,576. See Amended Disclosure Statement, Dkt. 416-2, p. 87. However, relevant information as to such properties is not provided by Debtors.

54. Debtors do not indicate the source of the values assigned to the properties located in Hatillo and Hato Rey. As stated previously, the values stated by Debtors do not correspond to the appraisals prepared by McCloskey.

55. Debtors also fail to state what factors, if any, were considered to surrender the properties in Hatillo and Hato Rey as opposed to the other properties located in Ponce, Mayaguez and Hato Rey, over which the Bank also has a security interest.

56. Furthermore, Debtors do not state the basis for assigning HDI's inventory a value in the amount of \$2,367,576. Contrary to the allegations made by Debtors in the Amended Disclosure Statement, such amount was not agreed by the parties under the Settlement. See Dkt. 160.

b) Loans for real and personal property

57. Debtors propose to pay the remaining secured portion of the Bank's claims pursuant to two loans, for a total amount of \$9,290,571. See *Id.* The first loan is in the amount of \$7,377,00 for the properties located in Ponce, Mayaguez and Quisqueya 165-167 and parking lot in Hato Rey (the "Real Property Loan"). Under the terms of the Real

Property Loan, Debtors would make 360 payments to the Bank in the amount of \$32,105.17 (30 year amortization) at an interest rate of 3.25%.

58. The second loan is in the amount of \$1,913,571 for IHP's inventory (the "Personal Property Loan"). Under the terms of the Personal Property Loan, Debtors would make 360 payments to the Bank in the amount of \$8,327.98 (30 year amortization) at an interest rate of 3.25%. Pursuant to the Amended Disclosure Statement, the Personal Property Loan will be reduced with regular payments upon sale of inventory.

59. The aforementioned loans are not acceptable to the Bank for various reasons. First, Debtors once again fail to provide the source of the values assigned to the properties located in Ponce, Mayaguez and Hato Rey.

60. Second, Debtors do not state the basis for assigning IHP's inventory a value in the amount of \$1,913,571. As stated above, such amount was not agreed by the parties under the Settlement. Likewise, Debtors fail to include in the value assigned to IHP's inventory, the inventory located in Florida. Pursuant to the Liquidation Analysis, said inventory has a value of \$222,247. See Amended Disclosure Statement, Dkt. 416-2, p. 73.

61. Fourth, the Amended Disclosure Statement does not contain any information or data showing how the amount of the monthly payments was calculated or what factors were considered by Debtors to propose such payments. Debtors also fail to state how they expect their operations to generate sufficient funds to make monthly payments in the amount of \$40,433.15 or how the Personal Property Loan will be reduced through regular payments from the sale of inventory. As to the latter, such was the agreement reached by the parties under the Settlement. However, thus far, the Bank has not received any payments from Debtors for IHP's inventory other than the initial payment of \$196,570.20

made almost a year ago. Thus, Debtors proposed terms of repayment are not reliable.

62. Fifth, the Bank is not willing to loan money to Debtors at the prevailing Prime Rate of 3.25%. As the name suggests, the "Prime Rate" is reserved for borrowers with excellent credit and whose ability to pay is not in question. That is not the case of a debtor in bankruptcy. Bankruptcy law recognizes this reality. In these cases, bankruptcy courts use a formula that has been named the "prime plus" formula, in which a risk factor is added to the Prime Rate. See Till v. SCS Credit Corp., 541 U.S. 465, 478-481 (2004); In re Gray, 2008 WL 5068849, *3 (Bankr. D.P.R., 2008, Lamoutte, J.); and 7 Norton Bankr. L. & Prac. 3d § 151:14. Debtors' prior history of defaulting on their loans before the bankruptcy filing warrants a high risk factor over the Prime Rate.

63. Finally, the proposed payments are not acceptable to the Bank given their duration. A period of 30 years for the repayment of the loans is extremely long given Debtors' history of defaults under the loan agreement and the uncertainty surrounding the viability of Debtors' operations.⁴ This, in addition to the fact that under the Bank's regulations, the term for repayment of a loan cannot exceed 25 years.

c) Payment of unsecured portion

64. Class (8) of the Amended Disclosure Statement makes reference to the Bank's unsecured claim. Debtors estimate such claim in the amount of \$6,673,193. Accordingly, Debtors propose the following payment: "[t]his class will received [sic] 10% of its claim within the term of the Plan." See Amended Disclosure Statement, Dkt. 416, p. 27. That is, Debtors propose to make 60 payments to the Bank in the amount of \$11,122 for a

⁴ Although Debtors incorrectly state in the Amended Disclosure Statement that the term for repayment of the loans is 20 years, the exhibit regarding the terms of payment of the loans states a 30 year amortization. See Amended Disclosure Statement, Dkt. 416-2, pp. 78-83 and 87.

total amount of \$667,319. This is not acceptable to the Bank.

65. In providing the treatment for the Bank's unsecured portion, Debtors fail to state the reasons for impairing the Bank by 90% of its claim. Pursuant to Debtors projections for a period of five years, Debtors will have an average-yearly net income of approximately \$1.2M. See Amended Disclosure Statement, Dkt. 416-2, p. 84. If that were the case, as Debtors allege, Debtors have the financial capacity to pay a higher percentage of the Bank's unsecured portion. Likewise, if Debtors can afford "Other Operating Expenses" in the average amount of \$1.4M per year, they can also afford paying the unsecured creditors more than the proposed 10% of their unsecured claims.⁵ See Id.

66. Debtors also state that "[t]his class is the only unsecured creditor with a third party source of repayment." See Amended Disclosure Statement, Dkt. 416, p. 27. However, Debtors do not provide details as to what a "third of party source of repayment" means, the identity of the "third party", and how this source of repayment will affect the payment of the Bank's unsecured portion by Debtors.

67. Furthermore, the Bank objects to the amount identified by the Debtors as the Bank's unsecured claim. As discussed previously, Debtors have assigned values to real and personal property without providing the source. Debtors also have failed to recognize the Bank's lien over certain personal property included in the Liquidation and Real Property Analysis. Accordingly, the amount of the Bank's secured claim may increase and, thus, vary the unsecured portion stated by Debtors.

⁵ This category of "Other Operating Expenses" excludes payments in concept of payroll, rent, insurance, inventory, taxes, utilities or similar operating expenses. Debtors fail to provide what "other" expenses are included in this category.

E. Objections as to classes of creditors

68. Debtors fail to include in Class (2) of creditors with superpriority rank, the Bank's cash collateral that was used by Debtors from the date of the filing of the bankruptcy petitions until July 2, 2012.⁶ See Amended Disclosure Statement, pp. 20 and 24. Pursuant to the orders issued by this Court authorizing Debtors to use the Bank's cash collateral, the Bank was granted a lien over all property of Debtors' estates, including pre-petition and post-petition assets, to secure any decrease in the value of the Bank's pre-petition collateral. See Dkt. 74; and Dkt. 15 in Bankruptcy Case No. 12-03574. During the hearing held on October 3, 2012, Debtors stated that all the payments received from the accounts receivable and from the sale of inventory, reported in Debtors' MORs from the date of the filing of the petitions until July 2, 2012, was the Bank's cash collateral. See Dkt. 296. Accordingly, Debtors owe the Bank approximately \$1.2 million for the use of its cash collateral.⁷

F. Other objections

69. The Bank further objects to the following statements made by Debtors in the Amended Disclosure Statement since they are inaccurate, incomplete and misleading:

a) Turnover of amounts withheld by Debtors under the Foreclosed Accounts

70. Although Debtors state in the Amended Disclosure Statement that the Court granted the Bank's request for the turnover of the amounts withheld by Debtors under the foreclosed accounts receivable (the "Foreclosed Accounts"), Debtors fail to provide how the

⁶ On July 2, 2012, Debtors and the Bank subscribed an agreement for the use of the Bank's cash collateral. See Dkt. 160.

⁷ Pursuant to the Monthly Operating Reports, from the date of filing of the Debtors' petitions until June 30, 2012, Debtors reported receipts in the total amount of \$2,047,234. See Dkts. 170, 212, 213 and 257. After deducting the amount of \$853,689.36, which corresponds to the amount withheld by debtors under the foreclosed accounts receivable, Debtors owe the Bank \$1,193,545 for the use of its cash collateral.

amount owed by Debtors in such concept will be paid to the Bank. See Amended Disclosure Statement, Dkt. 416, p. 13. Debtors do not even state the amount claimed by the Bank under the Foreclosed Accounts.

71. Furthermore, Debtors fail to inform that their request to stay the order for turnover pending the appeal filed before the District Court was denied by this Court. Accordingly, the amount of \$853,689.36 from the Foreclosed Accounts is owed immediately by Debtors. Thus, Debtors must provide in the Amended Disclosure Statement the source of the funds that will be used by Debtors to make such payment and how it will be made to the Bank.

b) Post-petition sale of inventory is subject to the Bank's lien

72. Debtors do not disclose the amount owed to the Bank for inventory used under the terms of the Settlement although this was one of the items the Court ordered Debtors to provide information in their Amended Disclosure Statement. See Dkt. 350.

73. Pursuant to the MORs filed as of March 31, 2013, Debtors have sold inventory in the amount of \$1,466,107. See MORs, Dkts. 170, 212, 213, 250, 257, 317, 318 and 332. As stated above, Debtors have only made one partial payment for the release of IHP's inventory in the amount of \$196,570.20. Although the Debtors have not provided the relevant information, Debtors appear to owe the Bank \$1,269,536.80 for inventory that has been sold.

74. Accordingly, Debtors must clarify whether the post-petition sale of inventory is subject to the Bank's lien and what amount is owed to the Bank in such concept.

c) The "prospective" effects of the Bankruptcy Court's May 3 and 15, 2012, Orders

75. Debtors continue to incorrectly state that the Bank's secured status is

prospective from the orders issued on May 3 and May 15, 2012 (collectively, the “Orders”). See Amended Disclosure Statement, Dkt. 416, p. 10. Contrary to what Debtors state, the “prospective effect” of the Orders refers to the effects the Orders would have over the previous orders that had already been issued by the Court authorizing the use of the Bank’s cash collateral for the payment of Debtors’ employees’ wages and benefits.

76. Accordingly, the Court ruled that the determination of the Bank being a secured creditor would not affect the previous orders issued before the Court had ruled on the issue of the security. See Dkt. 80, p. 10. The determination as to the “prospective effect” does not mean that the Bank became a secured creditor on May 3, 2012, as incorrectly stated by Debtors.

77. Furthermore, this Court has already explained the meaning of the “prospective effect.” On November 27, 2012, Debtors moved the Court to stay the effects of the order for turnover while the appeal before the District Court was pending. See Dkt. 338. The Court denied Debtors’ motion with its order of December 26, 2012. See Dkt. 369. In that order, the Court also explained what it meant by the “prospective effect:”

The court, during the May 3, 2012 hearing held that its ruling and its effects will be prospective, because the court will not set aside its previous Order dated April 26, 2012 (Docket No. 15) authorizing use of cash collateral based upon the necessity that the employees be paid in order that Debtors’ operations continue, and particularly if the grounds for requesting reconsideration of this Order are that payment was on account of unauthorized use of cash collateral.

Order of December 26, 2012, Dkt. 369, p. 10.

78. Therefore, the Bank did not perfect its security interest as a result of the Orders, but as a result of its filing the Financing Statements on July 19, 2011. See Court Order of May 15, 2012, Dkt. 80, p. 10 (“...as ordered on May 3, 2012, this Court holds that

the Bank properly perfected its security interests with the 2011 Financing Statements...”).

d) Effect of Adversary Proceeding No. 12-282

79. The Bank objects to Debtors’ statement as to the effect of the adversary proceeding (Adv. Proc. No. 12-0279) over the Bank’s claims against Debtors. Debtors state that “[i]f Debtors succeed in this litigation against FB, FB’s claims may be considerably reduced, if not eliminated in its totality.” See Amended Disclosure Statement, Dkt. 416, p. 17. The litigation against the Bank through the adversary proceeding only involves Debtors’ questioning of the Bank’s secured status, not the amount of the Bank’s claims.

e) Bert Foti’s superpriority claim

80. In Class (2) of creditors with superpriority rank, Debtors include post-petition financing provided by Debtors’ president, Mr. Andrew Bert Foti (“Mr. Foti”), in the amount of \$509,570.20. See Amended Disclosure Statement, Dkt. 416, pp. 20 and 24. Debtors correctly state that the Court allowed post-petition financing to Debtors up to the amount of \$500,000. See Dkt. 169. Although Debtors only claim such amount as secured and subject to super priority rank, Debtors fail to disclose for what purposes Mr. Foti provided the post-petition financing.

81. Pursuant to Debtors’ request for post-petition financing, filed on June 15, 2012, Debtors would receive from Mr. Foti the amount of \$196,570.20, from the total \$500,000 requested, for the payment of the first release of IHP’s inventory under the Settlement. See Dkt. 141. Upon the Court’s authorization of the financing requested, such payment was made to the Bank. See Dkt. 160. However, thereafter, Debtors have not provided information to the Court or creditors as to any additional disbursements made by Mr. Foti to Debtors under the post-petition financing.

82. Accordingly, Debtors must inform creditors for what purpose Mr. Foti provided Debtors with post-petition financing for the remaining \$303,429.80, the date in which such disbursements were made and in what amount, in addition to any other information that evidences such financing.

f) Preferred's claim

83. In Class (6) regarding Executory Contracts, Debtors include "all secured portion pursuant to claim filed by" Preferred Credit, Inc. ("Preferred"). See Amended Disclosure Statement, Dkt. 416, pp. 22 and 26. Debtors state the amount of \$3,471,964 as per proof of claim filed by Preferred. See Id.

84. However, Debtors fail to state in what concept that amount is owed to Preferred. Pursuant to Preferred's proof of claim no. 26, filed on August 24, 2012, the amount claimed is \$3,103,112.69 on account of consumer sales contracts in possession of Preferred.

85. If the amount claimed by Preferred refers to consumer sales contracts concerning pre-petition inventory, as it appears, the Bank has a lien over the inventory sold under such consumer sales contracts, and the proceeds thereof, pursuant to the Security Agreement.

86. Furthermore, Debtors do not state how the amount claimed by Preferred will be paid by Debtors. A general reference is made to the effect that "[t]his class will retain its lien and will be paid pursuant to the terms and conditions of the agreement that rules their relation." See Amended Disclosure Statement, Dkt. 416, p. 26. This is not adequate information. Debtors must disclose what "liens" Preferred will retain, and what are the terms of payment under the contract subscribed by Debtors and Preferred.

g) Payment to Regal Ware

87. Pursuant to the exhibit regarding Payments under the Amended Plan, Debtors classify creditor Regal Ware Inc. ("Regal") in Class (1) and state that Debtors will pay Regal the amount of \$991,101 during the term of the plan (i.e. 5 years). See Amended Disclosure Statement, Dkt. 416-2, p. 83.

88. However, Debtors fail to identify Regal as creditor under Class (1) in their Amended Disclosure Statement. Debtors must clarify in what class they will designate Regal and what will be the treatment they will provide to Regal's claim.

WHEREFORE, the Bank objects to Debtors' Amended Disclosure Statement and respectfully requests that the Honorable Court does not approve it.

RESPECTFULLY SUBMITTED.

NOTICE ON TIME TO RESPOND

Within fourteen (14) days after service as evidenced by the certification, and an additional three (3) days pursuant to Fed. R. Bank. P. 9006(f) if you were served by mail, any party against whom this paper has been served, or any other party to the action who objects to the relief sought herein, shall serve and file an objection or other appropriate response to this paper with the Clerk's office of the U.S. Bankruptcy Court for the District of Puerto Rico. If no objection or other response is filed within the time allowed herein, the paper will be deemed unopposed and may be granted unless: (i) the requested relief is forbidden by law; (ii) the requested relief is against public policy; or (iii) in the opinion of the Court, the interest of justice requires otherwise.

In San Juan, Puerto Rico, today April 25, 2013.

s/MANUEL FERNÁNDEZ-BARED
MANUEL FERNÁNDEZ-BARED
USDC-PR No. 204,204
E-mail: mfb@tcmrslaw.com

s/ÁNGEL SOSA-BÁEZ
ÁNGEL SOSA-BÁEZ
USDC-PR No. 219,010
E-mail: asosa@tcmrslaw.com

s/LINETTE FIGUEROA-TORRES
LINETTE FIGUEROA-TORRES
USDC-PR No. 227,104
E-mail: lift@tcmrslaw.com

**TORO, COLÓN, MULLET, RIVERA
& SIFRE, P.S.C.**
P.O. Box 195383
San Juan, PR 00919-5383
Tel.: (787) 751-8999
Fax: (787) 763-7760
Attorneys for First Bank-Puerto Rico

CERTIFICATE OF SERVICE

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 notify all parties registered through their attorneys of record.

In San Juan, Puerto Rico, today April 25, 2013.

s/LINETTE FIGUEROA-TORRES
LINETTE FIGUEROA-TORRES
USDC-PR No. 227,104
E-mail: lift@tcmrslaw.com

Exhibit 1

119

57-57

-----MORTGAGE NOTE-----

--VALUE: \$698,000.00-----

--DUE DATE: ON DEMAND-----

--FOR VALUE RECEIVED, the undersigned promises to pay to Royal Bank of Canada, on demand, the principal sum of SIX HUNDRED NINETY EIGHT THOUSAND DOLLARS (\$698,000.00) with interest on the unpaid principal balance of this Note until paid, at the rate of ten percent (10%) per annum from the date of this Mortgage Note until full payment hereof. Interest hereunder shall be payable monthly and payments of interest and principal shall be made at the office or domicile of the bearer within the Commonwealth of Puerto Rico, or at such other place as the bearer may, from time to time, designate in writing.

--At no time shall the undersigned be obligated or required to pay interest at a rate which would subject the holder of this Note to either civil or criminal liability as a result of said interest rate being in excess of maximum interest rate which the undersigned is permitted to pay in applicable law. If such were to be the case, the interest rate payable hereunder shall be reduced to such maximum rate payable under the law and any payments received shall be applied to the payment of the principal due hereunder.

--The undersigned hereby waive presentment, protest, demand and notice of non-payment.

--Payments of both principal and interest are to be made in lawful money of the United States of America.

--This Mortgage Note is secured by a mortgage constituted pursuant to the terms of Deed Number ~~9~~ of Deed of Mortgage, executed on the date hereof before the undersigned Notary Public, and the bearer hereof is entitled to the benefit and security provided for in said Deed of Mortgage.

--In the event that the holder of this Note is required to initiate legal proceedings for collection hereof, the undersigned agrees to pay an additional liquidated sum equivalent to ten (10%) percent to cover attorney's fees, court costs, and expenses.

--The undersigned hereby submits to the venue selected by the bearer in case of legal action brought against the undersigned for the collection of this Mortgage Note.

--The undersigned hereby submits to the venue selected by the bearer in case of legal action brought against the undersigned for the collection of this Mortgage Note.

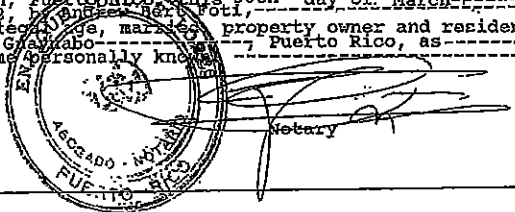
--In San Juan, Puerto Rico, this 30th day of March 1992.

FOTI INVESTMENTS, S.R.

--By: [Signature]

--Affidavit Number: 2852

--Acknowledged and subscribed to before me in San Juan, Puerto Rico, this 30th day of March 1992, [Signature] of FOTI, married, property owner and resident of [Address], Puerto Rico, as to me personally known.



DELIVER TO THE ORDER OF
First Bank 7/2/99
WITHOUT RECOURSE
ROYAL BANK OF CANADA
SAN JUAN, PR
[Signature]
AUTHORIZED SIGNATURE
[Signature]
AUTHORIZED SIGNATURE

Deliver to the order of
Scotiabank de Puerto Rico
Without Recourse
FirstBank
[Signature] 11/1/99
Authorized Signature
ERIC ROPEZ, VP.

Date: _____
Pay to the order of First Bank Puerto Rico
without recourse and without express,
implied or legal warranties.
Scotiabank de Puerto Rico
By: [Signature]

expedida la primera copia certificada a favor de Royal Bank of Canada, en la misma fecha y lugar de otorgamiento. HAY ER

[Signature]
Notary

A-38833337 \$4670.00
A-3835560 \$50.00
A-3835567 \$10.00

[Handwritten initials]

[Handwritten initials]

---NUMBER NINE (9)---

-----DEED OF MORTGAGE-----

--In the City of San Juan, Commonwealth of Puerto Rico, this thirtieth day of March, nineteen hundred and ninety two (1992).-----

-----BEFORE ME-----

--ENRIQUE ADSUAR LORES, Attorney-at-Law and Notary Public in and for the Commonwealth of Puerto Rico, with offices at the Plaza Scotiabank Building in the Hato Rey sector of San Juan, Puerto Rico and residence in Guaynabo, Puerto Rico, -----

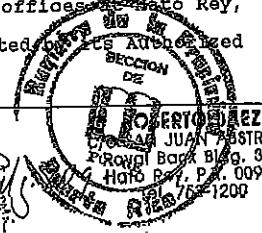
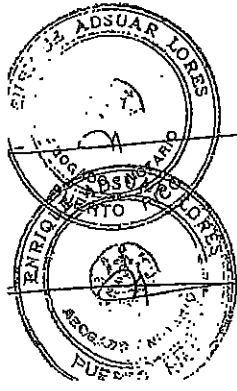
-----APPEAR-----

--AS PARTY OF THE FIRST PART: FOTI INVESTMENTS, S.E., a partnership organized and existing under the laws of Puerto Rico (Tax Identification Number: 66-0473839 -----), with offices at Hato Rey, Puerto Rico, herein represented by its Authorized Signatory, ANDREW BERT FOTI-----

-----of legal age, married, executive and resident of Guaynabo,-----

-----, Puerto Rico (hereinafter, the "Mortgagor"). -----

--AS PARTY OF THE SECOND PART: ROYAL BANK OF CANADA, a banking corporation organized and existing under the laws of Canada, duly authorized to do business in Puerto Rico (Tax Identification Number: 66-017-8435), with offices at Hato Rey, Puerto Rico, herein represented



Leah. Cull. de. King
Royal Bank of Canada
Hato Rey P.R.

Officer, MIGUEL ARTAU,-----
of legal age, married, banker and resident of
Guaynabo-----, Puerto Rico (hereinafter the
"Mortgagee"). -----

--I, the Notary, hereby certify that I personally
know the appearing parties and from their
statements I also attest as to their age, civil
status, occupation and residence. The appearing
parties assure me that they have, and in my
judgment do have the legal capacity necessary for
this act, and for that purpose they freely and
voluntarily -----

-----STATE-----

--FIRST: The Mortgaged Property: The Mortgagor
is the owner of record with valid, good and
marketable fee simple title ("pleno dominio") of
the properties described in Paragraph FOURTEEN of
this Deed, hereinafter, interchangeably and
collectively referred to as the "Mortgaged
Property", "Mortgaged Properties" or the
"Property". -----

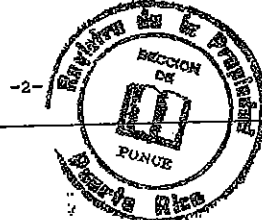
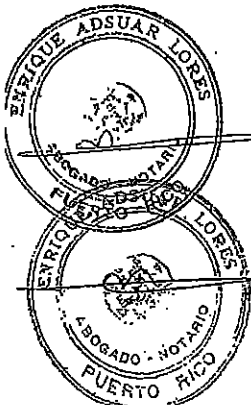
--SECOND: The Mortgage Note: Simultaneously
herewith Mortgagor has subscribed before the
undersigned Notary a Mortgage Note (hereinafter
called the "Mortgage Note"), which is copied
literally in paragraph THIRTEEN hereof. -----

--THIRD: Creation of the Mortgage: In order to
guarantee and secure: -----

-----(i) The full and complete payment of the
principal of and interest on the Mortgage Note.

---(ii) The performance and observance of the
terms therein and herein contained. -----

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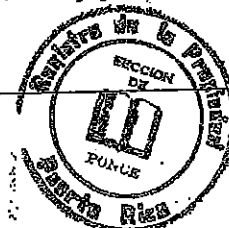
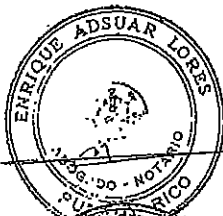
--(iii) An additional credit in the amount set forth in paragraph SIXTEENTH hereof to cover interest in addition to that secured by law (hereinafter called the "Interest Credit"). -----

---(iv) An additional credit in the amount set forth in paragraph SIXTEENTH hereof to cover any amounts that may be paid by or advanced by the Mortgagee hereunder together with interest thereon (hereinafter called the "Credit for Additional Advances"). -----

----(v) An additional credit (hereinafter called "Credit for Liquidated Damages"), in the amount set forth in paragraph SIXTEENTH hereof as liquidated and agreed amount payable without necessity for further liquidation or approval by any court, to cover costs and expenses (including reasonable attorney's fees) of the Mortgagee (as defined hereinafter) in the event that such Mortgagee shall have recourse to the courts or to any other governmental agency in order to collect all or any part of the principal thereof or any interest thereon (by foreclosure or other proceedings or actions). -----

--MORTGAGOR hereby constitutes and creates a voluntary mortgage (the "Mortgage") in favor of the Mortgagee to secure the Mortgage Note, (references herein to the Mortgagee shall be deemed to include the bearer of the Mortgage Note and any future holder thereof, and in the event the Mortgage Note is delivered in pledge to secure the Mortgagor's obligations under a pledge agreement, then the term "Mortgagee" shall also refer to the Pledgee of the Mortgage Note under

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such pledge agreement), including the present holder or any future holder, upon: -----

---(a) the Property described in Paragraph FOURTEENTH of this Deed; -----

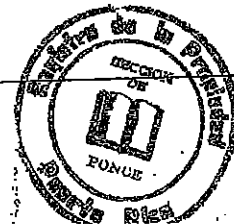
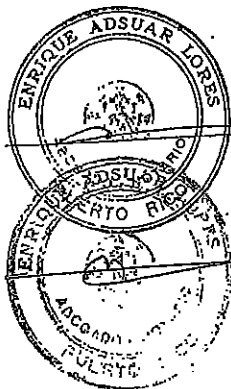
---(b) all of the buildings, structures, additions, fixtures, improvements, appurtenances and facilities now or hereafter located thereon;

---(c) all of the rights, title and interest of the Mortgagor, in and to, all and singular, the tenements, hereditaments, rights of way, easements, appendages and appurtenances and property belonging or appertaining to the Mortgaged Property, and all of the right, title and interest of the Mortgagor in and to any streets, ways, alleys, strips or gores of land adjoining the Mortgaged Property or any part thereof; -----

---(d) all of the Mortgagor's right, title and interest (but none of its obligations) as landlord (whether named as such therein or by assignment or otherwise) to receive payments of money under all leases of all or part of the Mortgaged Property or of space therein, or at any time hereafter made and any and all amendments, modifications, supplements, renewals and extensions thereof, including without limitation all rents, additional rents, revenues, earnings, profits and income, payments incident to any assignment, sublease or surrender of any lease, claims for forfeited deposits and claims for damages, now due or hereafter to become due with respect to any lease; -

---(e) all awards, compensation and payments in respect of taking by condemnation or eminent

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domain of any of the foregoing, as their interest may appear; and -----

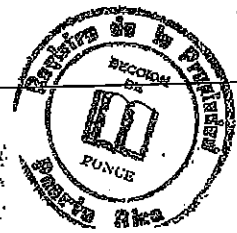
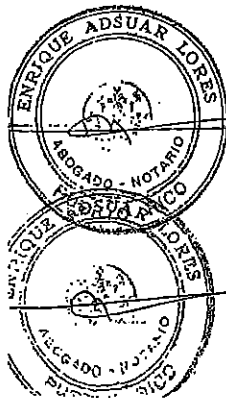
---(f) all of the Mortgagor's rights, title and interest to all furnishings, fixtures, machinery, apparatus and equipment, or other property of any kind whatsoever now or hereafter permanently located on the Mortgaged Property, or located in, or used, or procured for use, in connection with the operation, maintenance or protection of any of the buildings, structures, improvements or facilities located or to be located in the Mortgaged Property, including, without limitation, lighting, plumbing, sanitary, air conditioning equipment and fire protection systems, now owned or hereafter acquired by the Mortgagor, which under the provisions of the Civil Code of Puerto Rico may properly be characterized or classified as real or immovable property either by nature or by destination. -----

--FOURTH: Obligations of Mortgagor: For the consideration heretofore set forth the Mortgagor is obliged and undertakes: -----

---One: To satisfy the debt on the manner aforesaid. -----

---Two: To pay when due, without requiring any notice from the Mortgagee, all Impositions (as defined on paragraph ELEVENTH hereof), including all taxes, assessments of any type or nature, and other charges levied or assessed against the Mortgaged Property or any interest of the Mortgagee therein, and satisfy any claim, lien or encumbrance against the Mortgaged Property which may be or become superior to this mortgage, and to

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permit no default or delinquency on any other lien, encumbrance or charge against the Mortgaged Property. -----

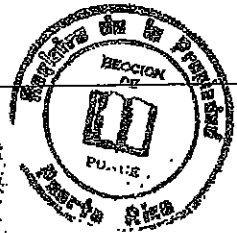
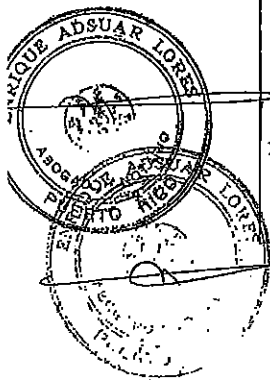
---Three: To first obtain the written consent of Mortgagee, said consent not to be unreasonably withheld, before removing or demolishing any building now or hereafter erected on the Mortgaged Property. -----

---Four: To pay all taxes, charges, water rates and any other insular and municipal taxes, fines or charges for which no provision has been made in this contract and should Mortgagor fail to do so, the Mortgagee may, at its option, pay the same, and the Mortgagor shall promptly deliver to the Mortgagee all official receipts issued to it. ---

---Five: Not to permit the Mortgaged Property to suffer damage, deterioration or loss whatsoever, and in the event the Mortgagor fails to care for and maintain in good condition the buildings existing upon or that may in the future be constructed on the property or the improvements to the same, the Mortgagee may make such repairs as in his judgement may be necessary for the preservation of the Mortgaged Property, and its appurtenances, and the total sum thus invested shall be considered as due and demandable and shall be considered as secured by the mortgage herein constituted. -----

---Six: To pay all costs, expenses and disbursements including a reasonable amount for attorney's fees, as well as all expenses incurred or satisfied by the Mortgagee at any time for perfection of title, when said costs, expenses and

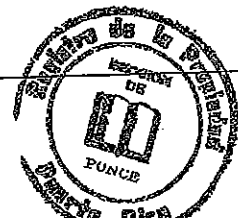
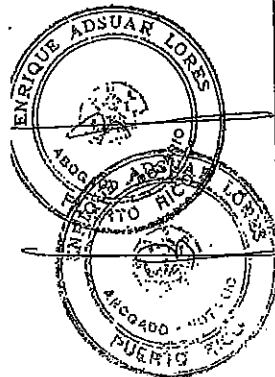
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disbursements shall be forthwith satisfied and shall be considered secured in their entirety by the Mortgage.-----

---Seven: To keep the Mortgaged Property, to the extent applicable, insured against loss or damage by fire, and such other hazards in form and amounts, and for such periods, as may be required by the Mortgagee, and to pay promptly when due all premiums on such insurance. All insurance shall be carried in companies approved by the Mortgagee, and the policies shall have attached thereto loss payable clauses in favor of and in a form acceptable to the Mortgagee. In the event of loss, the Mortgagor shall give immediate notice to the Mortgagee, and the Mortgagee may make proof of loss if not promptly made by the Mortgagor. Each insurance company concerned is hereby authorized and directed to make payment for such loss directly to the Mortgagee, instead of to the Mortgagor and the Mortgagee jointly. The Mortgagee may, at its option apply the insurance proceeds, or any part thereof, either to the reduction of the indebtedness hereby secured or to the restoration or repair of the Mortgaged Property. Upon foreclosure of this mortgage, or other acquisition of the Mortgaged Property, or any part thereof by the Mortgagee, said policies shall become the absolute property of the Mortgagee. As is provided in Article One hundred sixty (160) of the Mortgage Law of Puerto Rico (Act Number One hundred ninety eight [198] of August Ten [10], Nineteen hundred seventy nine [1979] this Mortgage shall be extensive to, and

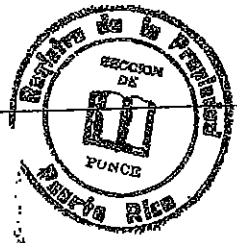
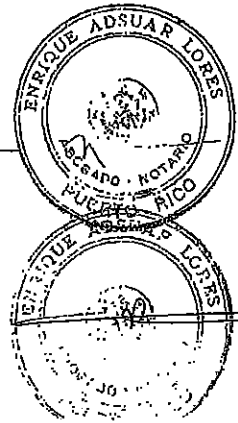
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shall cover all indemnities to which the Mortgagee may be entitled under the aforesaid insurance policies or any other policies of insurance covering the Mortgaged Property or any part thereof, and Mortgagee shall be entitled to receive directly from the underwriter(s) all payments which become due under any such policy(ies) of insurance. Such payments, after deducting therefrom all costs and expenses (including, but not without limitation, reasonable attorneys' fees and expenses) incurred in the collection thereof, shall be applied in the manner and for the purposes specified in any pledge agreement under which the Mortgage Note has been delivered in pledge, provided no event of default under such pledge agreement has occurred, and should no such pledge agreement be in effect, such payments shall, at the option of the Mortgagee, be applied (i) on account of the payment of any notes or obligations of the Mortgagor for which the Mortgage Note may have been delivered or assigned as security, or (ii) without waiver of the Mortgagee's right to any future proceeds of like nature, be paid over to the the Mortgagor in partial or total reimbursement of Mortgagor's expenses in repairing or replacing such portion(s) of the Mortgaged Property, as may have been so damaged.

---Right: To give to the Mortgagee immediate notice by mail of any proposed condemnation proceedings or damage by fire or other casualty to the Mortgaged Property as well as of any change,

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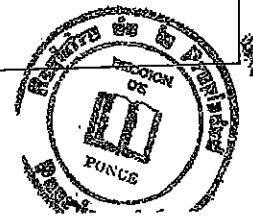
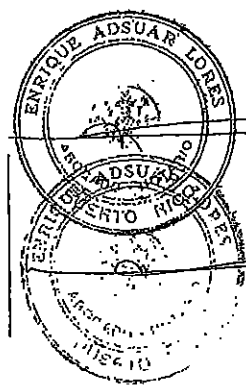
conveyance or sale occurring with respect to the title of or property in the Mortgaged Property.--

---Nine: To comply with all laws, ordinances, regulations, covenants, conditions and restrictions affecting the Mortgaged Property and not suffer or permit any violation thereof. -----

---Ten: All payments made by the Mortgagee to remedy any of Mortgagor's breach, as heretofore set forth, including reasonable attorney's fees and the total of the payment or payments owed by the Mortgagor to the Mortgagee which are delinquent, shall be added to the debt secured by this mortgage and shall be reimbursed to the Mortgagee on demand. -----

--FIFTH: Condemnation: In the event of a taking of all or any part of the Mortgaged Property as a result or in lieu of condemnation or eminent domain, or a change of grade adversely affecting the Mortgaged Property, the Mortgagee shall be entitled to receive all awards and payments on account of such taking. Mortgagor will pay all costs and expenses (including, without limitation, attorney's fees and expenses) of the Mortgagee in connection with any such taking and seeking and obtaining any award or payment in respect thereof. All awards and payments collected by the Mortgagee, after the payment of costs and expenses (including, without limitation, reasonable attorney's fees and expenses) incurred in the seeking and obtaining thereof, shall be applied by the Mortgagee to the payment of the Mortgage Note of the obligations of the Mortgagor for which the Mortgage Note is assigned or pledged as security

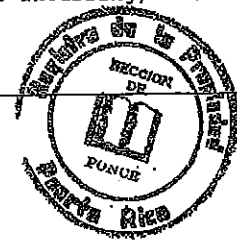
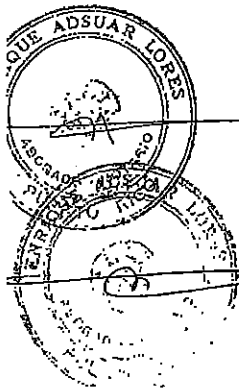
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or in such other manner as may be provided in the pledge agreement or other instrument under which the Mortgage Note is assigned or pledged. The balance of the amount collected, if any, shall then be paid to the Mortgagor.-----

--SIXTH: Additional Advances: If the Mortgagor should fail to make punctual payment of all Impositions, or should fail to maintain insurance coverage on the Mortgaged Property as required from time to time by the Mortgagee, or should fail to discharge any mortgage lien, encumbrance or charge upon the Mortgaged Property, or any part thereof, which is prohibited by the terms of a pledge agreement or other instrument under which the Mortgage Note is assigned or pledged, or should fail to maintain the Mortgaged Property in good condition, or should fail to perform any other term or covenant of a pledge agreement or other instrument, then the Mortgagee, without consent of or demand upon the Mortgagor and without waiving or releasing any obligation or default, may (but shall be under no obligation to) advance such funds as may in Mortgagee's judgement be needed for the purpose of performing such terms or covenants and the Mortgagee may, in such event, take such other and further action in the premises as it may consider necessary or appropriate for such purposes. All sums so advanced or paid by the Mortgagee and all costs and expenses (including reasonable attorney's fees and expenses) so incurred, together with interest thereon at the rate set forth in the Mortgage Note from the date of payment of incurring, shall

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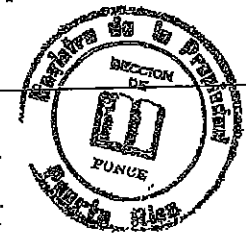
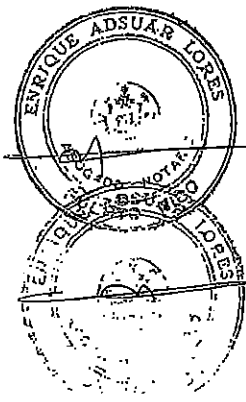
constitute additional Indebtedness secured by this Mortgage and shall be paid by the Mortgagor to the Mortgagee on demand. -----

--SEVENTH: Further Assurances; Additional Security: -----

The Mortgagor, at its expenses, will execute, acknowledge, deliver and record all such instruments and take all such action as the Mortgagee from time to time may reasonably request for better assuring to the Mortgagee the property and rights hereby mortgaged, pledged and assigned. Without notice to or consent of the Mortgagor, and without impairment of the lien of and rights under this Mortgage, Mortgagee may take (but the Mortgagor shall not be obligated to furnish) from the Mortgagor or from any other person or persons additional security for the Mortgage Note or for the obligations of the Mortgagor secured by the assignment or pledge of the Mortgage Note; and neither the giving of this Mortgage nor the acceptance of any such additional security shall prevent the Mortgagee from resorting first to such additional security, or to the security created by this Mortgage, in either case without affecting, the Mortgagee's lien and rights under this Mortgage. -----

--EIGHTH: Foreclosure Valuation: In compliance with Article One hundred seventy nine (179) of the Mortgage Law of Puerto Rico (Act Number One hundred ninety eight [198] of August Ten [10], Nineteen hundred seventy nine [1979]), the Mortgagor hereby declares and agrees that the value of the Mortgaged Property is as set forth in

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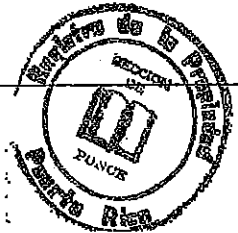
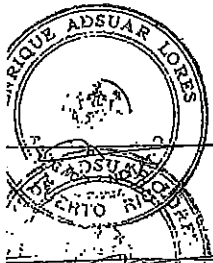
Paragraph Sixteenth hereof under the title "Foreclosure Valuation". -----

---NINTH: Foreclosure: In the event that the Mortgage Note is assigned or pledged or otherwise encumbered as collateral security for the payment of any other note or debt of the Mortgagor or of any other person, the Mortgagor agrees: -----

---(a) That Mortgagee may foreclose this Mortgage and may exercise all other rights, remedies, powers and privileges provided herein or now or hereafter existing at law, in equity, by statute, or otherwise, without first foreclosing the pledge or other lien so constituted upon the Mortgage Note, to the same extent and with the same force and effect as if the Mortgage Note had been assigned or transferred directly to the Mortgagee rather than assigned or pledged as collateral security, provided nothing contained in this Paragraph Ninth shall relieve the Mortgagee from the obligation to comply with the terms of the pledge agreement or other instrument under which the Mortgage Note is assigned or pledged.

---(b) The Mortgagor will not exercise any right which he might have to cancel the record of the Mortgage by reason of lapse of time counted from the date of the constitution of the Mortgage either under the provisions of Article One hundred forty five (145) of the Mortgage Law of Puerto Rico (Act Number One hundred ninety eight [198] of August Ten [10], Nineteen hundred seventy nine [1979] or otherwise and further agrees, whenever requested by the Mortgagee, to execute and file in the appropriate Registry, at Mortgagor's cost and

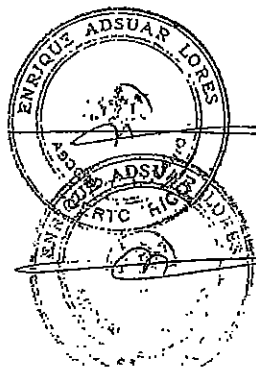
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expense, any and all supplemental instruments which may be necessary or convenient for the preservation of the lien of the Mortgage until full payment of the Mortgage Note or of the obligations secured by any pledge of the Mortgage Note or until full payment of any other note or debt secured by a lien on the Mortgage Note. Without limiting the generality of the foregoing, Mortgagor agrees that, unless the Mortgagee shall consent in writing to the cancellation of the Mortgage at an earlier date, the Mortgage shall be conclusively presumed to subsist for a period of twenty five (25) years from the date of its constitution; and the Mortgagor does hereby waive any right which he might otherwise have under said Article One hundred forty five (145) of the Mortgage Law to apply for an earlier cancella-

tion of the record of the Mortgage. -----
---(c) The Mortgagee may at any time, while any judicial proceeding is pending relating to the Mortgage or to any note or debt secured by a lien upon the Mortgage Note, including the pledge of the Mortgage Note, petition the court having jurisdiction in the premises to appoint a receiver for the Mortgaged Property, including all rents, issues and profits therefrom, and said receiver shall have the broadest powers and faculties usually granted to a receiver by the court and his appointment shall be made by the court as a matter of absolute right granted to the Mortgagee without taking into consideration the value of the Mortgaged Property or the solvency of the Mortgagor or of any other party to the action, and

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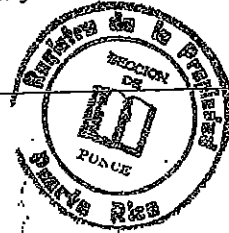
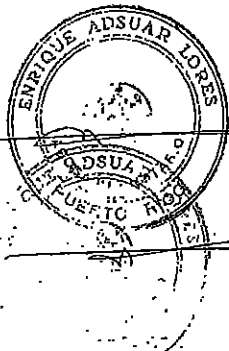
the Mortgagor hereby consents to the appointment of such a receiver and agrees not to oppose the same.

--TENTH: Expenses: All costs and expenses of this Deed, of a certified copy or copies thereof, and of the registration of this instrument in the proper public registry, all expenses or such additional documentation as may hereafter be required, including the registration thereof in a proper public registry, if such be required, and all expenses of all documents of cancellation, including the cost of registration thereof, shall be for the account of the Mortgagor.

--ELEVENTH: Definitions: As used in this Mortgage, the following terms are defined as follows:

---(a) "Impositions" shall mean all real estate and other taxes, all assessments made (including, without limitation, all assessments for public improvements, utilities, or benefits, whether or not commenced or completed prior to the date hereof or while this Mortgage is in force), water, sewer, electricity, utility and other rents, rates and charges, excises, levies, licence fees, permit fees, inspection fees and other authorization fees and other charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen of every character (including all penalties or interest thereon) which at any time are assessed, levied, confirmed or imposed on or in respect of or be a lien upon (1) the Mortgaged Property or any part thereof or any rents, issues, income, profits or earnings therefrom or any

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estate, right or interest therein or (ii) any occupancy, use or possession of or sales from the Mortgaged Property or any part thereof or (iii) this Mortgage, any interest hereon or any other payments due from the Mortgagor under the terms of this Mortgage; excepting, however, the income taxes now or hereafter imposed by the United States. -----

---(b) "Indebtedness" shall mean (i) the Impositions; (ii) principal and interest of the Mortgage Note; (iii) the credits referenced in Paragraphs Third and Sixteenth of this Deed; and (iv) any and all payments which Mortgagor is or may be obliged to make under this Deed of Mortgage. -----

---TWELFTH: Successors and Assigns: All the terms of this Mortgage shall apply to and be binding upon the successors and assigns of the Mortgagor and all persons claiming under or through the Mortgagor or any such successor or assign, and shall inure to the benefit of the Mortgagee. Neither this Mortgage nor any term hereof may be changed, waived, discharged or terminated verbally, but only by an instrument in writing signed by the Mortgagee, notice of which is to be endorsed on the Mortgage Note. -----

---THIRTEENTH: The Mortgage Note: The Mortgage Note referred to in Paragraph Second of this Deed is literally transcribed herein as follows: -----

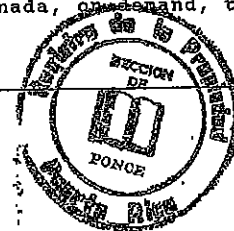
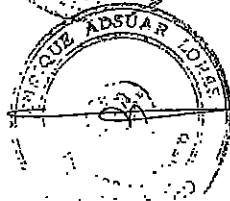
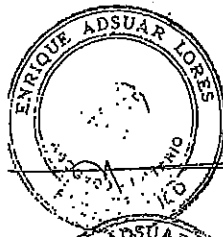
"-----MORTGAGE NOTE-----"

---VALUE: \$698,000.00-----

---DUE DATE: ON DEMAND-----

---FOR VALUE RECEIVED, the undersigned promises to pay to Royal Bank of Canada, on demand, the

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principal sum of SIX HUNDRED NINETY EIGHT THOUSAND DOLLARS (\$698,000.00) with interest on the unpaid principal balance of this Note until paid, at the rate of ten percent (10%) per annum from the date of this Mortgage Note until full payment hereof. Interest hereunder shall be payable monthly and payments of interest and principal shall be made at the office or domicile of the bearer within the Commonwealth of Puerto Rico, or at such other place as the bearer may, from time to time, designate in writing.

--At no time shall the undersigned be obligated or required to pay interest at a rate which would subject the holder of this Note to either civil or criminal liability as a result of said interest rate being in excess of maximum interest rate which the undersigned is permitted to pay in applicable law. If such were to be the case, the interest rate payable hereunder shall be reduced to such maximum rate payable under the law and any payments received shall be applied to the payment of the principal due hereunder.

--The undersigned hereby waive presentment, protest, demand and notice of non-payment.

--Payments of both principal and interest are to be made in lawful money of the United States of America.

--This Mortgage Note is secured by a mortgage constituted pursuant to the terms of Deed Number 9 of Deed of Mortgage, executed on the date hereof before the undersigned Notary Public, and the bearer hereof is entitled to the benefit and security provided for in said Deed of Mortgage.

--In the event that the holder of this Note is required to initiate legal proceedings for collection hereof, the undersigned agrees to pay an additional liquidated sum equivalent to ten (10%) percent, to cover attorney's fees, court costs and expenses.

--The undersigned hereby submits to the venue selected by the bearer in case of legal action brought against the undersigned for the collection of this Mortgage Note.

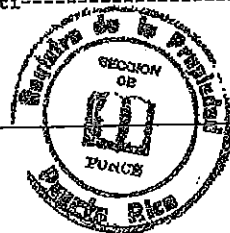
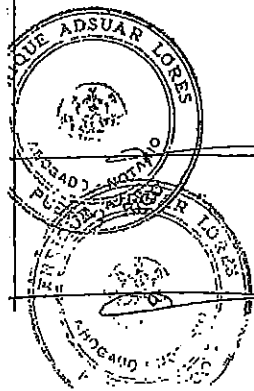
--The undersigned hereby submits to the venue selected by the bearer in case of legal action brought against the undersigned for the collection of this Mortgage Note.

--In San Juan, Puerto Rico, this 30th day of March, 1992.

FOTI INVESTMENTS, S.E.

--By: (Signed) ANDREW BERT FOTI
--By: (Signed) Andrew Bert Foti

Handwritten initials: ABE, MA



--Affidavit Number: 2852

--Acknowledged and subscribed to before me in San Juan, Puerto Rico, this 30th day of March, 1992, by Andrew Bert Poti, of legal age, married, property owner and resident of Guaynabo, Puerto Rico, as to me personally known.

--(Signed) Enrique Adsuar Lores

-----Notary Public

--(There appears stamped the seal of the Notary.)"

--FOURTEENTH: Description of the Mortgaged

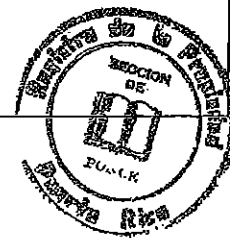
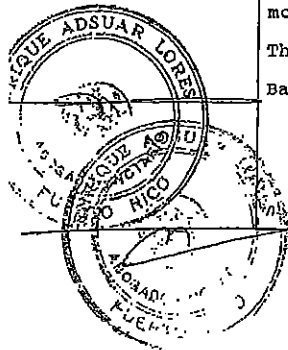
Property: The complete description of the Mortgaged Property (Properties are) is as follows:

--"URBANA: Solar número cinco (5) de la Urbanización Industrial San Rafael, situada en la Ciudad de Ponce, Puerto Rico, con una cabida superficial de dos mil seiscientos ocho punto veintiuno metros cuadrados (2,608.21 m.c.), en lindes por el Norte, en sesenta y siete punto catorce metros (67.14 m.) con solar seis (6) de la Urbanización; por el Sur, en setenta y uno punto cero cinco metros (71.05 m.) con solar cuatro de la Urbanización; por el Este, en treinta y siete punto setenta y tres metros (37.73 m.) con calle número uno (1) de la Urbanización; y por el Oeste, en treinta y siete punto noventa y seis metros (37.96 m.) con Ponce By Pass de la Carretera número dos (2)."

--The Mortgaged Property is registered at page 106 overleaf of volume 1654 of Ponce, property number 31,929, Registry of the Property of Ponce, First Section.

--FIFTEENTH: Liens and Encumbrances: The above described Mortgaged Property is subject to easements and restrictive covenants as it appears from the Registry; and mortgage to guarantee a mortgage note for the sum of Two Hundred Thirty Thousand Dollars (\$230,000.00) payable to Royal Bank of Canada.

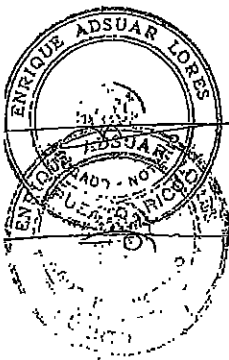
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--SIXTEENTH: Various Sums: -----
 ---(i) The principal amount of the Mortgage Note is SIX HUNDRED NINETY EIGHT THOUSAND DOLLARS (\$698,000.00). -----
 --(ii) The interest credit is SIXTY NINE THOUSAND EIGHT HUNDRED DOLLARS (\$69,800.00). -----
 --(iii) The credit for additional advances is --- SIXTY NINE THOUSAND EIGHT HUNDRED DOLLARS (\$69,800.00). -----
 --(iv) The credit for liquidated damages is SIXTY NINE THOUSAND EIGHT HUNDRED DOLLARS (\$69,800.00).-
 --(v) The foreclosure valuation is the sum of -----
 ONE MILLION THIRTY THOUSAND DOLLARS-----
 (1,030,000.00).-----

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 --SEVENTEENTH: Mortgagor Representations and Warranties: Mortgagor represents and warrants that: --(i) It has good and lawful authority to mortgage the Mortgaged Property in the manner and form hereby mortgaged. -----
 --(ii) It will warrant and defend said Mortgaged Property against all and every person or persons claiming the same or any part thereof. -----
 --EIGHTEENTH: Notice: All notices or demands in writing sent through the mail to the owner of record of the Mortgaged Property or addressed to said owner of the Mortgaged Property and sent through the United States mail, shall constitute sufficient notice on demand upon the debtor in any of the cases required by this instrument or by the relevant provisions of law. -----



--NINETEENTH: Waiver of Moratorium and -----

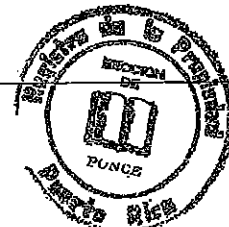
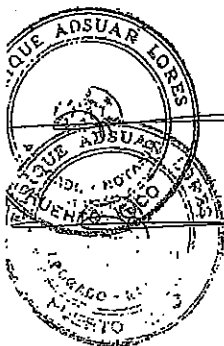
Redemption:-----

The Mortgagor, to the full extent that it may lawfully do so, agrees that it will not at any time insist upon, plead or in any way take advantage of and waives any redemption, or moratorium law now or hereafter in force and effect which would prevent or hinder the enforcement of the provisions of this Deed or any rights or remedies the Mortgagee may have hereunder or by law. -----

--TWENTIETH: Mortgage Interest Not Usurious: The Mortgagor warrants and represents to the Mortgagee that no interest to be accrued and payable under this Mortgage is usurious under Puerto Rican laws and regulations or other applicable law and regulations in effect on the date hereof.-----

--TWENTY FIRST: Indemnification: The Mortgagor will protect, indemnify and save harmless Mortgagee from and against any liabilities, obligations, damages, penalties, claims, causes of action, costs, charges and expenses (including, without limitation, reasonable attorney's fees and expenses) which may be imposed, upon or incurred by or asserted against Mortgagee by reason of (a) any accident, injury or damage to any person or property occurring on or about the Mortgaged Property or any part thereof; (b) any failure on the Mortgagor to perform or comply with any of the provisions hereof; (c) any necessity to defend any of the rights, title or interest conveyed or created by this Mortgage; or (d) the non-compliance with any law or regulation relating

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to the discharge of pollutants or the storage, treatment or disposal of hazardous or non-hazardous wastes on the Mortgaged Property. --
--Any amounts payable to Mortgagee under this Paragraph TWENTY FIRST which are not paid within ten (10) days after written demand therefor by the Mortgagee shall bear interest at the rate set forth in the Mortgage Note from the date of such demand, and such amounts, together with interest, shall be deemed to be indebtedness secured by this Mortgage.-----

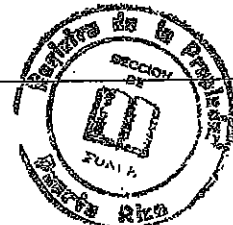
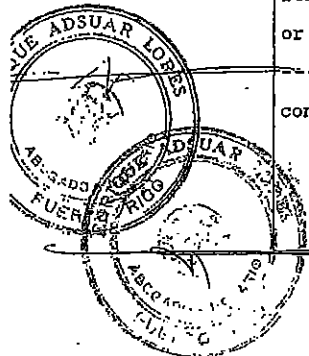
--TWENTY SECOND: Cross Collateral; Cross Default:
The Mortgage Note secured by this Mortgage may be pledged by Mortgagor to secure obligations of the mortgagor or other parties under the terms of a loan agreement or otherwise. It is the agreement of the parties hereto that the Mortgage will constitute collateral security for such obligation, it being further agreed that any default under the terms of the secured obligations, or of any loan documents executed in connection with the secured obligations, shall be deemed and shall constitute, at Mortgagee's discretion, a default under this Mortgage and the Mortgage Note. -----

--TWENTY-THIRD: Miscellaneous: -----

---(a) The headings of the clauses of this Mortgage have been inserted for convenience or reference only and shall in no way define, modify or restrict any of the provisions hereof; -----

---(b) If any one or more of the provisions contained herein or in the Mortgage Note shall be

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held invalid, illegal or unenforceable in any respect, such validity, illegality or unenforceability shall not affect any other provisions hereof or thereof, but each shall be considered as if such illegal, invalid or unforeseeable provision has never been included; -----

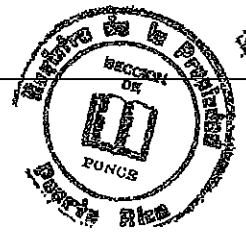
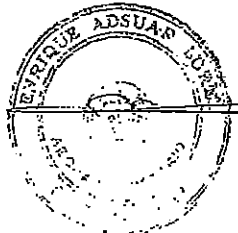
---(c) No failure or delay on the part of the Mortgagee in exercising any power or right hereunder shall operate as a waiver thereof or a waiver of any other term, provision or condition hereof (no single or partial exercise of any such right or power shall preclude any other or further exercise thereof or the exercise of any other right or power hereunder) and that all rights and remedies of the Mortgagee hereunder are cumulative and shall not be deemed exclusive of any rights or remedies provided by law; -----

---(d) Should the Mortgagor satisfy the Mortgage Note in the time and manner heretofore set forth, and comply with, and execute all agreements and stipulations required herein, then the Mortgagee shall execute in its favor the corresponding release and cancellation of this mortgage hereby waives the protection of any law that may require the Mortgagee to execute in favor of the Mortgagor such cancellation on any prior date. -----

-----ACCEPTANCE-----

--The appearing parties accept this instrument in all of its parts, as they find the same drafted in accordance with their instructions and I, the Notary, do hereby CERTIFY that I have advised the appearing parties (1) that the properties are described and the liens and encumbrances are

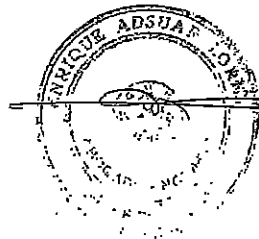
O.B.F.
M.M.



listed herein as reflected by certain title searches and reports prepared by an independent third party and not by the undersigned Notary; (ii) that this deed must be recorded in the appropriate Registry of Property; (iii) of the possibility of intervening documents affecting title being presented for recordation prior to the execution and/or presentation of this deed and of the preference or seniority that said intervening liens and/or encumbrances may gain by such prior execution or earlier presentation; (iv) of the desirability of verifying the status of liens and encumbrances on the property as may appear from the Registry of Property on this day and of the adverse consequence which may result from the failure to do so; and (v) of the possible existence and pendency of additional unrecorded statutory liens and real property taxes (including the statutory preferred legal mortgage in favor of the Commonwealth of Puerto Rico).

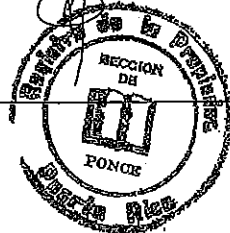
The appearing parties, having read this deed, ratify its contents, place their initials on every page of this instrument and sign before me, the Notary who certify my acquaintance with the appearing parties, their personal circumstances in accordance with their statements and all other things herein contained. -----

SRF
MS



A. B. B.
Z

[Handwritten signature]

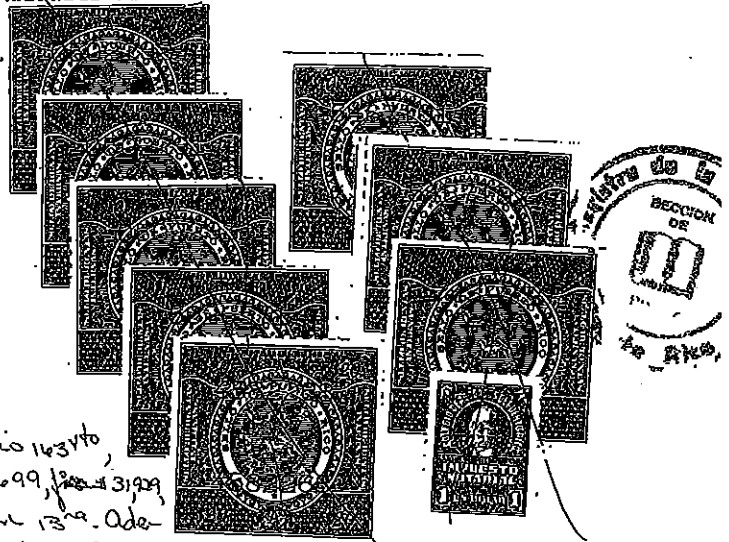


501 B 501
5252484

(firmado:) ~~Andrew Bert Foti~~-----
Miguel Artau-----

FIRMADO, signado, sellado y rubricado
Lcdo. Enrique Adsuar Loes hay
cancelados en el original los correspondientes
sallos de rentas internas e hipoteca notarial.
CERTIFICO: Que la copia precedida es copia fiel y
exacta de su original, y que bajo el número
----- y con sus Go -22- folios-----
obra en mi protocolo de Instrumentos Públicos,
para el corriente año. EN TESTIMONIO DE LO
QUAL, y para entregar a -----
--Royal Bank of Canada-----
expido la presente copia certificada, que firmo,
signo, y rubrico, en San Juan Puerto Rico,
en la misma fecha de su otorgamiento.

Notario Público



Inscrito al folio 1634to,
del tomo 1699, folios 3129,
inscripción 13ra. Ade-

mós de la hipoteca constituida por este documento
fidei. está afecto a tres servidumbres a favor de A.S.
servidumbre de canal de riego subterráneo, dos servidumbres
favor del Municipio de Ponce, servidumbre a favor de
P.R. Telephone Co. ; condiciones restrictivas, e hipoteca a
de Royal Bank of Canada por \$ 250,000.00. Ponce,
de abril de 1992.
Dios. \$ 2,752.50
Ley 91-1970
2-1-1992

501 58 501
5258284

[Handwritten signature]

MORTGAGE PROMISSORY NOTE

FOR: \$25,000.00

PAYABLE: ON DEMAND

--- FOR VALUE RECEIVED, the undersigned promise to pay to the Bearer hereof on demand, the principal sum of TWENTY FIVE THOUSAND DOLLARS (\$25,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promise to pay interest upon the unpaid principal of this obligation, at a rate equal to twelve per cent (12%) per annum, from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable on the first day of each month at the domicile of the holder hereof.-----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this Note becomes necessary in order to collect the whole or a portion of the amount of this Note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a liquidated sum equal to ten per cent (10%) of the principal sum outstanding under this Note, which amount will become immediately due and payable upon the filing of such proceedings. -----

--- This Note is secured by a mortgage created and constituted by Deed Number -1- , executed on January 16th, 2001, before Notary Public Francisco M. Vázquez Santoni. -----

--- No reference herein to the deed and no provision of this Note or of the said deed shall alter or impair the obligation of the undersigned, which is absolute and unconditional, to pay the principal of and interest of this Note and the liquidated amount stipulated for costs, disbursements and attorney's fees in case of judicial proceedings. -----

--- This Note is a negotiable instrument under the Negotiable Instruments Law of Puerto Rico and its negotiability is not affected or impaired by reference to the mortgage deed. The undersigned hereby irrevocable waive any right or defense against any holder of this Note for reason of non-negotiability. -----

--- The undersigned hereby submit to the venue of any court selected by the holder of this Note in case of legal action for its collection.-----

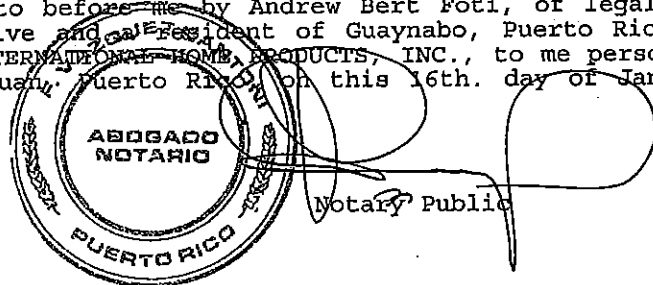
--- San Juan, Puerto Rico, this 16th. day of January, 2001.

INTERNATIONAL HOME PRODUCTS, INC.

By: Andrew Bert Foti
President

Affidavit Number 34,905

--- Subscribed to before me by Andrew Bert Foti, of legal age, married, executive and President of Guaynabo, Puerto Rico, as President of INTERNATIONAL HOME PRODUCTS, INC., to me personally known, in San Juan, Puerto Rico, on this 16th. day of January, 2001.



COPY 94 12

----- NUMBER ONE (1) -----
 ----- DEED OF MORTGAGE -----
 --- In the City of San Juan, Commonwealth of Puerto Rico, on this sixteenth (16th) day of January, Two Thousand One (2001). -----
 ----- BEFORE ME -----
 ----- FRANCISCO M. VAZQUEZ SANTONI -----
 --- Attorney at Law and Notary Public in and for the Commonwealth of Puerto Rico, with offices at the Lifetime Building, One Hundred Sixty Five Quisqueya Avenue, in the Ward of Hato Rey, City of San Juan, and with residence and domicile in the same city, -----
 ----- APPEARS -----
 --- AS THE SOLE PARTY HERETO: INTERNATIONAL HOME PRODUCTS, INC., Employer Social Security Number 66-025-7793, a Puerto Rico corporation, herein represented by its President Andrew Bert Foti, of legal age, married and a resident of Guaynabo, Puerto Rico, (hereinafter referred to as the "MORTGAGOR") duly authorized and empowered to execute these presents as he will prove whenever it may be necessary, as it appears from a Certificate of Resolution signed by its Assistant Secretary José Rivera Aponte, Affidavit Number "34,907", before Notary Public Francisco M. Vázquez Santoni on the sixteenth (16th) day of January, Two Thousand One (2001). -----
 --- The appearant assure me that he is in the full exercise of his civil rights without my knowing anything to the contrary, and being in my judgment

legally competent to execute this Instrument, he freely -----

SETS FORTH: -----

--- FIRST: That the MORTGAGOR is the owner of the property described in paragraph SEVENTH of this Deed, hereinafter collectively referred to as the "MORTGAGED PROPERTY". -----

THE NOTE -----

--- SECOND: That the MORTGAGOR, for the purpose of raising funds with which to obtain credit, pay off pending indebtedness, or for the purpose of covering other obligations connected with the operation and functioning of its business, has issued on this date a promissory note in the amount of TWENTY FIVE THOUSAND DOLLARS (\$25,000.00), payable to the bearer on demand, and bearing interest at a rate equal to twelve per cent (12%) per annum, from the date hereof until the date of full payment of this obligation, hereinafter referred to as the "Note". The Note literally transcribed reads as follows: -----

---"MORTGAGE PROMISSORY NOTE:-FOR: \$25,000.00-----
PAYABLE: ON DEMAND -----

--- FOR VALUE RECEIVED, the undersigned promise to pay to the Bearer hereof on demand, the principal sum of TWENTY FIVE THOUSAND DOLLARS (\$25,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promise to pay interest upon the unpaid principal of this obligation, at a rate equal to twelve per cent (12%) per annum, from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable on the first day of each month at the domicile of the holder hereof.-----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this Note becomes necessary in order to collect the whole or a portion of the amount of this Note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a liquidated sum equal to ten per cent (10%) of the principal sum outstanding under this Note, which amount will become immediately due and payable upon

the filing of such proceedings. -----

--- This Note is secured by a mortgage created and constituted by Deed Number -1---, executed on January 16th, 2001, before Notary Public Francisco M. Vázquez Santoni. -----

--- No reference herein to the deed and no provision of this Note or of the said deed shall alter or impair the obligation of the undersigned, which is absolute and unconditional, to pay the principal of and interest of this Note and the liquidated amount stipulated for costs, disbursements and attorney's fees in case of judicial proceedings. -----

--- This Note is a negotiable instrument under the Negotiable Instruments Law of Puerto Rico and its negotiability is not affected or impaired by reference to the mortgage deed. The undersigned hereby irrevocable waive any right or defense against any holder of this Note for reason of non-negotiability. -----

--- The undersigned hereby submit to the venue of any court selected by the holder of this Note in case of legal action for its collection. -----

--- San Juan, Puerto Rico, this 16th. day of January, 2001. -----

--- INTERNATIONAL HOME PRODUCTS, INC. -----

--- (Signed) By: Andrew Bert Foti -----
President -----

Affidavit Number 34,905 -----

--- Subscribed to before me by Andrew Bert Foti, married, of legal age, executive and a resident of Guaynabo, Puerto Rico, as President of INTERNATIONAL HOME PRODUCTS, INC., to me personally known, in San Juan, Puerto Rico, on this 16th. day of January, 2001. -----

--- (Signed) Francisco M. Vázquez Santoni -----
Notary Public." -----

--- (There appears affixed the Seal of the Notary). -----

----- MORTGAGE -----

--- THIRD: That in order to guarantee the total and complete payment for the principal sum of the Note amounting to TWENTY FIVE THOUSAND DOLLARS (\$25,000.00), interest thereon at a rate equal to twelve per cent (12%) per annum, from the date hereof until the date of full payment of this obligation. Interest shall be payable on the first day of each month in the place as may provided for

payment of the principal by the holder hereof until the total satisfaction of same, and to further secure an additional amount of TWO THOUSAND FIVE HUNDRED DOLLARS (\$2,500.00), to cover interest in addition to those secured by law, and the sum of TWO THOUSAND FIVE HUNDRED DOLLARS (\$2,500.00) which the debtor undertakes to pay as a liquidated amount without necessity for further liquidation and approval by the court to cover costs, expenses and attorney's fees in the event the holder of the Note has to take recourse to foreclosure or judicial collection thereof, and to further secure the amount of TWO THOUSAND FIVE HUNDRED DOLLARS (\$2,500.00), which is stipulated to cover any other advances that may be made under this contract in addition to the amounts stated in the promissory Note aforesaid, MORTGAGOR by these presents constitute a mortgage upon the MORTGAGED PROPERTY hereinafter described in paragraph SEVENTH, in favor of the owner, holder or bearer of the aforementioned mortgage promissory Note, including all of its buildings, machinery, installations and any other building or buildings, and structures that may be constructed on said MORTGAGED PROPERTY in the future, and which belong or may belong to the MORTGAGOR herein during the period of time that the mortgage is in effect, including all of its uses, servitudes and other appurtenances, as well as its rents and the products of the same and all apparatus and installations of any kind for the furnishing and distribution of heat, refrigeration, light, water or power and all the services and necessary installations presently installed upon or which may in the future be installed upon said

MORTGAGED PROPERTY by the MORTGAGOR herein and, in general, upon all of the property, right, title and interest that the executing party may have in said MORTGAGED PROPERTY. -----

--- FOURTH: For the consideration heretofore set forth, the MORTGAGOR is obliged and undertake to: -

----- A. Comply with all laws, ordinances and regulations affecting the MORTGAGED PROPERTY or its use; will permit the Mortgagee, its agents and representatives, to inspect such property at any time; and will comply with all reasonable requirements by the mortgagee with respect to such property. -----

----- B. The MORTGAGOR will pay all taxes, assessments and similar charges levied and assessed or which may be hereafter levied and assessed against the MORTGAGED PROPERTY, or any part thereof, or upon the possession, use or operation thereof and in the event that MORTGAGOR shall fail to pay any tax, assessment or similar charge, the Mortgagee may, at its option, but without being obligated to do so, pay the same, and the MORTGAGOR shall reimburse the Mortgagee for such advances, on demand, together with interest at the same rate stipulated on the Note secured by this Mortgage from the date of disbursement by the Mortgagee until full payment of the amount so reimbursed. ---

----- C. No waiver by the Mortgagee of any default by the MORTGAGOR in the strict and literal performance of or compliance with the provisions of the Note and of the Mortgage shall be deemed to be a waiver of strict and literal performance of and compliance with any other provisions thereof or to be a waiver, or in any manner release the MORTGAGOR

from the strict and literal performance of and compliance with any such provisions in the future; nor shall any delay or termination of the Mortgagee to exercise of any such right accruing to it thereafter. -----

----- D. The sum stipulated in paragraph THIRD for costs, expenses, disbursements and attorney's fees in case of foreclosure or other legal proceedings, including any proceedings under the Bankruptcy Act, for the collection of the principal of, and interest on, the Note, is a liquidated sum and is payable up to ten per cent (10%) of the amounts claimed, demanded or sued for, upon the mere filing by the Mortgagee of such foreclosure or other judicial proceedings or of any proof of claim under the Bankruptcy Act to obtain payment of the Note and/or the Mortgage, all without need of judicial determination, which the MORTGAGOR hereby expressly waives. -----

----- E. The Mortgage is extensive to and shall cover any and all improvements, accessions, building and appurtenances now or hereafter incorporated to the MORTGAGED PROPERTY until either the principal of and interest on the Note is paid in full or the Mortgage is released by the Mortgagee. The Mortgage constituted by this deed is also extensive to and shall cover pending fruits and rents not collected at the time of the maturity of the Note, and to the value of the indemnities granted or due to the MORTGAGOR or to the owner of the MORTGAGED PROPERTY by underwriters of the MORTGAGED PROPERTY or by virtue of condemnation for purposes of public utility. -----

----- F. The mortgage creditor may at any time,

while prosecuting judicial proceedings in connection with this Mortgage, petition the court having jurisdiction in the premises to appoint a Receiver for the MORTGAGED PROPERTY including rents, issues, profits or yields of any nature derived from said MORTGAGE PROPERTY, all of which are expressly mortgaged in the same manner as if they had been specifically itemized in the clauses of this deed, and said Receiver shall have the broadest powers and faculties usually granted to a Receiver by the court and his appointment shall be made by the court as a matter of absolute right granted to the mortgage creditor without taking into consideration the value of the MORTGAGED PROPERTY or the solvency or insolvency of the MORTGAGOR or the defendants; and all said rents, issues, income and profits shall be employed by the Receiver in conformity with the terms of this Mortgage and rulings of said court. -----

----- G. All of the expenses of this deed, the expenses of a certified copy for the mortgage creditor duly recorded in the Registry of Property and all of the costs for the cancellation of the Mortgage in due time, as well as all taxes presently levied or that in the future may be levied on the principal of this Mortgage and its interest, shall be paid by the MORTGAGOR. -----

----- H. In case of (a) a breach of any of the conditions of this Mortgage or failure to make any payment on the part of the MORTGAGOR, or (b) in the event the amounts heretofore set forth are not promptly paid without demand or notice, or (c) in the event any or all of the stipulations, agreements, conditions or covenants of the

aforementioned promissory Note or of this mortgage are not duly, promptly and wholly complied with, or (d) in the event of attachment of the MORTGAGED PROPERTY for the collection of the taxes or charges assessed upon the same, or (e) in the event of adjudication in bankruptcy of the MORTGAGOR or of any of its successors in title of a voluntary petition in bankruptcy, or a petition for reorganization or for arrangement proceedings in accordance with the provisions of the Acts of Congress relating to bankruptcy; then in any or all of said events the total amount owed by virtue of the mortgage promissory Note above mentioned with accrued interest to that date, and all of the amounts secured by this Mortgage shall be considered due, demandable and payable at the option of the Mortgagee as fully and wholly as if it had originally been stipulated that all of the said sums would be due on that date, regardless of any statement to the contrary in the said promissory Note or in this Deed, and from that date on or afterwards at any time, at the option of the Mortgagee, and with out notice or demand whatsoever, the mortgage creditor may institute such judicial proceedings as may be necessary in the same manner as if the sums secured by this Instrument had become due before the institution of said proceedings. The mortgage creditors may also foreclose the mortgage for the amount thus declared due and payable and the MORTGAGED PROPERTY shall be sold to obtain satisfaction thereof and payment of the amounts claimed plus costs, expenses disbursements and attorney's fees. -----
----- I. In compliance with the provisions of

Article Number One Hundred Seventy Nine (179) of the Mortgage Law of Puerto Rico, it is hereby declared that the MORTGAGED PROPERTY has a value of TWENTY FIVE THOUSAND DOLLARS (\$25,0000.00),-----

----- J. It is stipulated and agreed that in case that the promissory Note secured by the mortgage constituted by this Deed be pledged or given as collateral to secure any indebtedness or obligation of the MORTGAGOR or of the holder of the said mortgage promissory Note, the pledgee or creditor, as holder of the said Note, may join in the action for the collection of the indebtedness or obligation guaranteed by the said pledge, or collateral, and any action to collect also the aforementioned mortgage promissory Note and for the foreclosure of the mortgage created by this Deed guaranteeing the same, so that with the proceeds of the said foreclosure he may collect and be paid in full the amounts claimed and owing to him by virtue of the indebtedness or obligation guaranteed by the said pledge or collateral. -----

----- K. The MORTGAGOR will keep the improvements now existing or hereafter erected on the MORTGAGED PROPERTY insured as may be required from time to time by the Mortgagee against loss by fire and other hazards, casualties and contingencies in such amounts and for such periods as may be required by the Mortgagee and will pay promptly when due any premiums on such insurance, provisions for payment of which has not been made hereinbefore. All insurance shall be carried in companies approved by the Mortgagee and policies and renewals thereof shall be held by the Mortgagee and have attached thereto loss payable clauses in favor of and in

form acceptable to the Mortgagee. In the event of loss, MORTGAGOR will give immediate notice by mail to the Mortgagee, who may file proof of loss if not made promptly by the MORTGAGOR, and each insurance company concerned is hereby authorized and directed to make payment for such loss directly to the Mortgagee instead of to the MORTGAGOR and the Mortgagee jointly, and the insurance proceeds or any part thereof may be applied by the Mortgagee, at its option, either to the reduction of the indebtedness hereby secured or to the restoration of the property damaged, the surplus, if any, to be returned to the MORTGAGOR. In the event of foreclosure of this mortgage or other transfer of title to the MORTGAGED PROPERTY in extinguishment of the indebtedness secured hereby, all rights, title and interest of the MORTGAGOR in and to any insurance policies then in force shall pass to the purchaser or grantee. -----

--- FIFTH: It is stipulated and agreed that if the MORTGAGED PROPERTY or any part of the parcel thereof is condemned, sold or otherwise disposed of or acquired by the United States of America, the Commonwealth of Puerto Rico, or any other Municipality of Puerto Rico, including, but without limitation, any of their respective agencies, dependencies, authorities or Instrumentalities of any public corporation, or if in any other form or manner the MORTGAGED PROPERTY, or any portion or parcel thereof, is dedicated to public use or for public purpose, then, in that event, the term for payment of the mortgage Note secured by the mortgage lien created by virtue of this Instrument shall by reason thereof expire and the said

mortgage note shall become immediately due and payable, it being stipulated and agreed that in the event the total amount of any compensation payable, or which may belong, to the MORTGAGOR by virtue of such condemnation, or as the purchase price of such sale, disposal or acquisition, shall belong to and shall be paid and delivered exclusively to the mortgage creditor directly by the condemning agency, by the purchaser or, in default thereof, by the Court wherein the condemnation proceedings may have been filed or are pending. The mortgage creditor shall in the event of such payment, apply the amounts received to pay first all interest accrued pending payment on the date thereof and, secondly, to pay the principal of the mortgage note or as much thereof as possible with the proceeds available, and in the event of a surplus, to pay such surplus to the MORTGAGOR. The MORTGAGOR hereby consent that payment and delivery to the mortgage creditor be made of such compensation or proceeds, further authorizing the mortgage creditor to make request for such payment and delivery, and in the event thereof, to appear before and request such payment and delivery from the Court wherein the condemnation proceedings may have been filed or are pending, and in the name of the MORTGAGOR to execute and deliver the proper receipt and/or letter of payment for the amounts received, with full power to endorse, collect and effect payments, in the name of the MORTGAGOR, of any checks or other orders of payment which may be delivered by reason thereof.

--- SIXTH: (a) Where the context so requires, the singular shall include the plural and the plural

the singular, and the use of either gender shall include both genders; (b) any reference to a number of days mean calendar days unless the contrary is expressly stipulated, and (c) the captions to the paragraphs of this Instrument have been inserted for convenience only and as means of referring to them and are not to be interpreted as stipulations of this Instrument. -----

--- SEVENTH: The MORTGAGED PROPERTY is described in the Spanish Language as follows: -----

URBANA: Solar radicado en la Urbanización Héctor A. Piñero situada en los Barrio Martín Peña y Hato Rey de San Juan, que se describe con el número y área colindantes siguientes, solar Doce guión Trece (12-13) del Bloque "B" de esta urbanización y con un área superficial de dos mil trescientos ochenta y cinco punto diez (2,385.10) metros cuadrados. En lindes por el NORTE, en cincuenta y tres punto veintiocho (53.28) metros con la calle Quisqueya; por el SUR, en treinta y seis punto setenta y cinco metros (36.75m.) Con el solar número dieciséis (16) y en distancia de dieciséis metros (16.00m.) Con el solar número treinta y tres (33); por el ESTE, en cuarenta y dos punto sesenta metros (42.60m.) con la calle San Juan; y por el OESTE, en veintidós punto veintiocho metros (21.28m) con el solar treinta y dos 932) y en una distancia de treinta y uno punto cincuenta metros (31.50m.) Con el solar número once (11) del Bloque "B". -----

---- Inscrita al folio doscientos ochenta y uno (281) del tomo mil doscientos setenta y dos (1,272) de Río Piedras, finca número treinta y cinco mil cuatrocientos sesenta y uno (35,461), Registro de la Propiedad de San Juan, Sección Segunda. -----

--- EIGHTH: The above described Property was acquired by MORTGAGOR, as it appears from Deed Number One (1) executed in San Juan, Puerto Rico, on the first (1st) day of March, Nineteen hundred and ninety (1990), before Notary Public José E. Ríos, recorded at page two hundred eighty one (281) of volume one thousand two hundred seventy two (1272) of Río Piedras Norte, property number thirty five thousand four hundred sixty one (35,461).-----

--- NINTH: The above described Property is subject to a mortgage securing six (6) mortgage notes in

the sum of Forty Thousand Dollars (\$40,000.00) each, for a total of TWO HUNDRED FORTY THOUSAND DOLLARS (\$240,000.00) guaranteed by Deed Number One (1), executed on the first day of March, Nineteen hundred and ninety (1990) before Notary Public José E. Ríos. -----

--- Said mortgage is in the process of being canceled by judicial proceedings. -----

--- I, the Notary, do hereby CERTIFY that I advised the appearing party herein of the legal effects of the present document which was executed before me by said party, who waived his right to have attesting witnesses for this execution after having been advised by me of such right. -----

--- I, the Notary, further CERTIFY AND ATTEST that the appearing parties stamped the initials of the name on every page of this Deed and signed the same, and as to my personal acquaintance with the appearant, as to their personal qualifications in accordance with their statements, as well as to everything else herein contained and alleged, I, the subscribing Notary, CERTIFY AND ATTEST. -----

--- SIGNED: ANDREW BERT FOTI-----

--- SIGNED, SEALED, MARKED AND FLOURISHED ---
FRANCISCO M. VAZQUEZ SANTONI
NOTARY PUBLIC -----

MORTGAGE PROMISSORY NOTE

FOR: \$115,000.00

PAYABLE: On demand

--- FOR VALUE RECEIVED, the undersigned promises to pay FIRSTBANK PUERTO RICO, or order, the principal sum of ONE HUNDRED FIFTEEN THOUSAND DOLLARS (\$115,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promises to pay on the first day of each month hereafter, interest upon the unpaid principal of this obligation, at the rate of twelve per cent (12%) per annum from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable in the same place as is hereinabove provided for payment of the principal hereof. -----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this note becomes necessary in order to collect the whole or a portion of the amount of this note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a liquidated sum equal to ten per cent (10%) of the principal sum of this NOTE, which amount will become immediately due and payable upon the filing of such proceedings. -----

--- This NOTE is secured by a mortgage created and constituted by Deed Number 93 --- executed on February 14, 2001, before Notary Public

--- No reference herein to the deed and no provision of this NOTE or of the said deed shall alter or impair the obligation of the undersigned, which is absolute and unconditional, to pay the principal of and interest of this NOTE and the liquidated amount stipulated for costs, disbursements and attorney's fees in case of judicial proceedings. -----

--- This NOTE is a negotiable instrument under the Negotiable Instruments Law of Puerto Rico and its negotiability is not affected or impaired by reference to the mortgage deed. The undersigned hereby irrevocable waives any right or defense against any holder of this NOTE for reason of non-negotiability. -----

--- The undersigned hereby submits to the venue of any court selected by the holder of this note in case of legal action for its collection. -----

--- San Juan, Puerto Rico, this 14th day of February, 2001. -----

INTERNATIONAL HOME PRODUCTS, INC.

By: Andrew Bert Foti
President

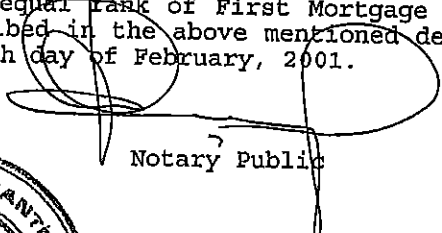
Affidavit Number 34,948

--- Subscribed to before me by Andrew Bert Foti, of legal age, married, executive and a resident of Guaynabo, Puerto Rico, as President of INTERNATIONAL HOME PRODUCTS, INC., to me personally known, in San Juan, Puerto Rico, on this 14th day of February, 2001.



[Signature]
Notary Public

By virtue of Deed Number 94 of even date herewith executed before the undersigned Notary Public the rank of the mortgage which secures the payment of this Note is equalized so that from this date on the mortgages in the principal sum of \$1,000,000.00, \$270,000.00 and \$1,230,000.00 and the mortgage in the principal sum of \$115,000.00 share equal rank of First Mortgage over the real estate project described in the above mentioned deed. San Juan, Puerto Rico this 14th day of February, 2001.


Notary Public



92

----- NUMBER NINETY THREE (93) -----
----- DEED OF MORTGAGE -----
--- In the City of San Juan, Commonwealth of Puerto Rico, on this fourteenth (14th) day of February, Two Thousand One (2001). -----
----- BEFORE ME -----
----- FRANCISCO M. VAZQUEZ SANTONI -----
--- Attorney at Law and Notary Public in and for the Commonwealth of Puerto Rico, with offices at the Lifetime Building, One Sixty Five (165), Quisqueya Avenue, in the Ward of Hato Rey, City of San Juan, and with residence and domicile in San Juan, Puerto Rico. -----
----- APPEARS -----
--- AS THE SOLE PARTY HERETO: INTERNATIONAL HOME PRODUCTS, INC., Employer Social Security Number 66-025-7793, a Puerto Rico corporation, herein represented by its President Andrew Bert Foti, of legal age, married and a resident of Guaynabo, Puerto Rico, (hereinafter referred to as the "MORTGAGOR") duly authorized and empowered to execute these presents as he will prove whenever it may be necessary, as it appears from a Certificate of Resolution signed by its Assistant Secretary José Rivera Aponte, Affidavit Number " 34,946 ", before Notary Public Francisco M. Vázquez Santoni on the fourteenth (14th) day of February, Two Thousand One (2001). -----
--- The appearant assures me that he is in the full exercise of his civil rights without my knowing anything to the contrary, and being in my judgment legally competent to execute this instrument, he freely -----

----- SETS FORTH: -----

--- FIRST: That the MORTGAGOR is the owner of the property or properties described in paragraph SEVENTH of this deed, hereinafter referred to as the "MORTGAGED PROPERTY".

----- THE NOTE -----

--- SECOND: That the MORTGAGOR, for the purpose of raising funds with which to obtain credit, pay off pending indebtedness, or for the purpose of covering other obligations connected with the operation and functioning of its business, has issued on this date a promissory note in the amount of ONE HUNDRED FIFTEEN THOUSAND DOLLARS (\$115,000.00), payable to FIRSTBANK PUERTO RICO, and bearing interest at the rate of twelve per cent (12%) per annum, from the date hereof and until the total satisfaction of the same, hereinafter referred to as the "NOTE". The NOTE literally transcribed reads as follows: -----

--- "MORTGAGE PROMISSORY NOTE: - FOR: \$115,000.00
PAYABLE: On demand -----

--- FOR VALUE RECEIVED, the undersigned promises to pay FIRSTBANK PUERTO RICO, or order, the principal sum of ONE HUNDRED FIFTEEN THOUSAND DOLLARS (\$115,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promises to pay on the first day of each month hereafter, interest upon the unpaid principal of this obligation, at the rate of twelve per cent (12%) per annum from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable in the same place as is hereinabove provided for payment of the principal hereof. -----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this note becomes necessary in order to collect the whole or a portion of the amount of this note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a liquidated sum equal to ten per cent (10%) of the principal sum of this NOTE, which amount will become immediately due and payable upon the filing of such proceedings. -----

--- This NOTE is secured by a mortgage created and -----

constituted by Deed Number 93 ----- executed on
February 14, 2001, before Notary Public Francisco
M. Vázquez Santoni. -----

--- No reference herein to the deed and no
provision of this NOTE or of the said deed shall
alter or impair the obligation of the undersigned,
which is absolute and unconditional, to pay the
principal of and interest of this NOTE and the
liquidated amount stipulated for costs,
disbursements and attorney's fees in case of
judicial proceedings. -----

--- This NOTE is a negotiable instrument under the
Negotiable Instruments Law of Puerto Rico and its
negotiability is not affected or impaired by
reference to the mortgage deed. The undersigned
hereby irrevocable waives any right or defense
against any holder of this NOTE for reason of
non-negotiability. -----

--- The undersigned hereby submits to the venue of
any court selected by the holder of this note in
case of legal action for its collection. -----

--- San Juan, Puerto Rico, this 14th day of
February, 2001. -----

--- INTERNATIONAL HOME PRODUCTS, INC. -----

--- (Signed) By: Andrew Bert Foti -----
President -----

Affidavit Number 34.948 -----

--- Subscribed to before me by Andrew Bert Foti,
married, of legal age, executive and a resident of
Guaynabo, Puerto Rico, as President of
INTERNATIONAL HOME PRODUCTS, INC., to me personally
known, in San Juan, Puerto Rico, on this 14th day
of February, 2001. -----

--- (Signed) Francisco M. Vázquez Santoni -----
Notary Public. -----

--- (There appears affixed the Seal of the
Notary). -----

----- MORTGAGE -----

--- THIRD: That in order to guarantee the total
and complete payment for the principal sum of the
NOTE amounting to ONE HUNDRED FIFTEEN THOUSAND
DOLLARS (\$115,000.00), interest thereon at the rate
of twelve per cent (12%) per annum from the date
hereof until the total satisfaction of same, and to
further secure an additional amount of ELEVEN
THOUSAND FIVE HUNDRED DOLLARS (\$11,500.00) to cover
interest in addition to those secured by law, and
the sum of ELEVEN THOUSAND FIVE HUNDRED DOLLARS

(\$11,500.00) which the debtor undertakes to pay as a liquidated amount without necessity for further liquidation and approval by the court to cover costs, expenses and attorney's fees in the event the holder of the NOTE has to take recourse to foreclosure or judicial collection thereof, and to further secure the amount of ELEVEN THOUSAND FIVE HUNDRED DOLLARS (\$11,500.00) which is stipulated to cover any other advances that may be made under this contract in addition to the amounts stated in the promissory NOTE aforesaid, MORTGAGOR by these presents constitutes a mortgage upon the MORTGAGED PROPERTY hereinafter described in paragraph SEVENTH in favor of the owner, holder or bearer of the aforementioned mortgage promissory NOTE, including all of its buildings, machinery, installations and any other building or buildings, and structures that may be constructed on said MORTGAGED PROPERTY or in the buildings existing on the same, or which may be constructed thereon in the future, and which belong or may belong to the MORTGAGOR herein during the period of time that the mortgage is in effect, including all of its uses, servitudes and other appurtenances, as well as its rents and the products of the same and all apparatus and installations of any kind for the furnishing and distribution of heat, refrigeration, light, water or power and all the services and necessary installations presently installed upon or which may in the future be installed upon said MORTGAGED PROPERTY by the MORTGAGOR herein and, in general, upon all of the property, right, title and interest that the executing party may have in said MORTGAGED PROPERTY. -----

--- **FOURTH:** For the consideration heretofore set

forth, the MORTGAGOR is obliged and undertakes to:

----- A. Comply with all laws, ordinances and regulations affecting the MORTGAGED PROPERTY or its use; will permit the Mortgagee, its agents and representatives, to inspect such property at any time; and will comply with all reasonable requirements by the mortgagee with respect to such property. -----

----- B. The MORTGAGOR will pay all taxes, assessments and similar charges levied and assessed or which may be hereafter levied and assessed against the MORTGAGED PROPERTY, or any part thereof, or upon the possession, use or operation thereof and in the event that MORTGAGOR shall fail to pay any tax, assessment or similar charge, the Mortgagee may, at its option, but without being obligated to do so, pay the same, and the MORTGAGOR shall reimburse the Mortgagee for such advances, on demand, together with interest at the same rate stipulated on the NOTE secured by this Mortgage from the date of disbursement by the Mortgagee until full payment of the amount so reimbursed. ---

----- C. No waiver by the Mortgagee of any default by the MORTGAGOR in the strict and literal performance of or compliance with the provisions of the NOTE and of the Mortgage shall be deemed to be a waiver of strict and literal performance of and compliance with any other provisions thereof or to be a waiver, or in any manner release the MORTGAGOR from the strict and literal performance of and compliance with any such provisions in the future, nor shall any delay or termination of the Mortgagee to exercise of any such right accruing to it thereafter. -----

----- D. The sum stipulated in paragraph THIRD for

costs, expenses, disbursements and attorney's fees in case of foreclosure or other legal proceedings, including any proceedings under the Bankruptcy Act, for the collection of the principal of, and interest on, the NOTE, is a liquidated sum and is payable up to ten per cent (10%) of the amounts claimed, demanded or sued for, upon the mere filing by the Mortgagee of such foreclosure or other judicial proceedings or of any proof of claim under the Bankruptcy Act to obtain payment of the NOTE and/or the Mortgage, all without need of judicial determination, which the MORTGAGOR hereby expressly waives. -----

----- E. The Mortgage is extensive to and shall cover any and all improvements, accessions, building and appurtenances now or hereafter incorporated to the MORTGAGED PROPERTY until either the principal of and interest on the NOTE is paid in full or the Mortgage is released by the Mortgagee. The Mortgage constituted by this deed is also extensive to and shall cover pending fruits and rents not collected at the time of the maturity of the NOTE, and to the value of the indemnities granted or due to the MORTGAGOR or to the owner of the MORTGAGED PROPERTY by underwriters of the MORTGAGED PROPERTY or by virtue of condemnation for purposes of public utility. -----

----- F. The mortgage creditor may at any time, while prosecuting judicial proceedings in connection with this mortgage, petition the court having jurisdiction in the premises to appoint a Receiver for the MORTGAGED PROPERTY including rents, issues, profits or yields of any nature derived from said MORTGAGE PROPERTY, all of which are expressly mortgaged in the same manner as if

they had been specifically itemized in the clauses of this deed, and said Receiver shall have the broadest powers and faculties usually granted to a Receiver by the court and his appointment shall be made by the court as a matter of absolute right granted to the mortgage creditor without taking into consideration the value of the MORTGAGED PROPERTY or the solvency or insolvency of the MORTGAGOR or the defendants; and all said rents, issues, income and profits shall be employed by the Receiver in conformity with the terms of this Mortgage and rulings of said court. -----

----- G. All of the expenses of this deed, the expenses of a certified copy for the mortgage creditor duly recorded in the Registry of Property and all of the costs for the cancellation of the Mortgage in due time, as well as all taxes presently levied or that in the future may be levied on the principal of this Mortgage and its interest, shall be paid by the MORTGAGOR. -----

----- H. In case of (a) a breach of any of the conditions of this Mortgage or failure to make any payment on the part of the MORTGAGOR, or (b) in the event the amounts heretofore set forth are not promptly paid without demand or notice, or (c) in the event any or all of the stipulations, agreements, conditions or covenants of the aforementioned promissory NOTE or of this mortgage are not duly, promptly and wholly complied with, or (d) in the event of attachment of the MORTGAGED PROPERTY for the collection of the taxes or charges assessed upon the same, or (e) in the event of adjudication in bankruptcy of the MORTGAGOR or of any of its successors in title of a voluntary petition in bankruptcy, or a petition for

reorganization or for arrangement proceedings in accordance with the provisions of the Acts of Congress relating to bankruptcy; then in any or all of said events the total amount owed by virtue of the mortgage promissory NOTE above mentioned with accrued interest to that date, and all of the amounts secured by this Mortgage shall be considered due, demandable and payable at the option of the Mortgagee as fully and wholly as if it had originally been stipulated that all of the said sums would be due on that date, regardless of any statement to the contrary in the said promissory NOTE or in this deed, and from that date on or afterwards at any time, at the option of the Mortgagee, and without notice or demand whatsoever, the mortgage creditor may institute such judicial proceedings as may be necessary in the same manner as if the sums secured by this instrument had become due before the institution of said proceedings. The mortgage creditors may also foreclose the mortgage for the amount thus declared due and payable and the MORTGAGED PROPERTY shall be sold to obtain satisfaction thereof and payment of the amounts claimed plus costs, expenses disbursements and attorney's fees. -----

----- I. In compliance with the provisions of Article Number One Hundred Seventy Nine (179) of the Mortgage Law of Puerto Rico, it is hereby declared that the MORTGAGED PROPERTY has a value of ONE HUNDRED FIFTEEN THOUSAND DOLLARS (\$115,000.00).

----- J. It is stipulated and agreed that in case that the promissory NOTE secured by the mortgage constituted by this deed be pledged or given as collateral to secure any indebtedness or obligation of the MORTGAGOR or of the holder of the said

mortgage promissory NOTE, the pledgee or creditor, as holder of the said NOTE, may join in the action for the collection of the indebtedness or obligation guaranteed by the said pledge, or collateral, and any action to collect also the aforementioned mortgage promissory NOTE and for the foreclosure of the mortgage created by this deed guaranteeing the same, so that with the proceeds of the said foreclosure he may collect and be paid in full the amounts claimed and owing to him by virtue of the indebtedness or obligation guaranteed by the said pledge or collateral. -----

----- K. The MORTGAGOR will keep the improvements now existing or hereafter erected on the MORTGAGED PROPERTY insured as may be required from time to time by the Mortgagee against loss by fire and other hazards, casualties and contingencies in such amounts and for such periods as may be required by the Mortgagee and will pay promptly when due any premiums on such insurance, provisions for payment of which has not been made hereinbefore. All insurance shall be carried in companies approved by the Mortgagee and policies and renewals thereof shall be held by the Mortgagee and have attached thereto loss payable clauses in favor of and in form acceptable to the Mortgagee. In the event of loss, MORTGAGOR will give immediate notice by mail to the Mortgagee, who may file proof of loss if not made promptly by the MORTGAGOR, and each insurance company concerned is hereby authorized and directed to make payment for such loss directly to the Mortgagee instead of to the MORTGAGOR and the Mortgagee jointly, and the insurance proceeds or any part thereof may be applied by the Mortgagee, at its option, either to the reduction of the

indebtedness hereby secured or to the restoration of the property damaged, the surplus, if any, to be returned to the MORTGAGOR. In the event of foreclosure of this mortgage or other transfer of title to the MORTGAGED PROPERTY in extinguishment of the indebtedness secured hereby, all rights, title and interest of the MORTGAGOR in and to any insurance policies then in force shall pass to the purchaser or grantee. -----

--- FIFTH: It is stipulated and agreed that if the MORTGAGED PROPERTY or any part of the parcel thereof is condemned, sold or otherwise disposed of or acquired by the United States of America, the Commonwealth of Puerto Rico, or any other Municipality of Puerto Rico, including, but without limitation, any of their respective agencies, dependencies, authorities or instrumentalities of any public corporation, or if in any other form or manner the MORTGAGED PROPERTY, or any portion or parcel thereof, is dedicated to public use or for public purpose, then, in that event, the term for payment of the mortgage NOTE secured by the mortgage lien created by virtue of this instrument shall by reason thereof expire and the said mortgage note shall become immediately due and payable, it being stipulated and agreed that in the event the total amount of any compensation payable, or which may belong, to the MORTGAGOR by virtue of such condemnation, or as the purchase price of such sale, disposal or acquisition, shall belong to and shall be paid and delivered exclusively to the mortgage creditor directly by the condemning agency, by the purchaser or, in default thereof, by the Court wherein the condemnation proceedings may have been filed or are pending. The mortgage

creditor shall in the event of such payment, apply the amounts received to pay first all interest accrued pending payment on the date thereof and, secondly, to pay the principal of the mortgage note or as much thereof as possible with the proceeds available, and in the event of a surplus, to pay such surplus to the MORTGAGOR. The MORTGAGOR hereby consents that payment and delivery to the mortgage creditor be made of such compensation or proceeds, further authorizing the mortgage creditor to make request for such payment and delivery, and in the event thereof, to appear before and request such payment and delivery from the Court whersin the condemnation proceedings may have been filed or are pending, and in the name of the MORTGAGOR to execute and deliver the proper receipt and/or letter of payment for the amounts received, with full power to endorse, collect and effect payments, in the name of the MORTGAGOR, of any checks or other orders of payment which may be delivered by reason thereof. -----

--- SIXTH: (a) Where the context so requires, the singular shall include the plural and the plural the singular, and the use of either gender shall include both genders; (b) any reference to a number of days mean calendar days unless the contrary is expressly stipulated, and (c) the captions to the paragraphs of this instrument have been inserted for convenience only and as means of referring to them and are not to be interpreted as stipulations of this instrument. -----

--- SEVENTH: The MORTGAGED PROPERTY is described as follows: -----

----URBANA: Solar compuesto de dos mil trescientos treinta y siete punto cincuenta metros cuadrados (2,337.50 m.c.) según plano de inscripción y de

agrupación de los solares A y B localizados en la Avenida Quisqueya, esquina Calle número cinco (5) de Hato Rey, Puerto Rico; preparado por el Agrimensor Roberto Cabrera Vela, licencia número nueve mil trescientos veintiocho (9328) el día diecinueve (19) de octubre de mil novecientos ochenta y ocho (1988) y en lindes por el Norte, en cuarenta y uno punto cuatro mil seiscentos dos metros lineales (41.4602 m.l.) con la calle número tres (3) y en veintitrés punto nueve mil trescientos setenta y cinco metros lineales (23.9375 m.l.) con terrenos del Municipio de San Juan para un total de sesenta y cinco punto tres mil novecientos setenta y siete metros lineales (65.3977 m.l.); por el Sur, en cincuenta y cinco punto cero cero treinta y cinco metros lineales (55.0035 m.l.) con la Avenida Quisqueya; por el Este, en cuarenta y uno punto cuatro mil cuatrocientos dos metros lineales (41.4402 m.l.) con propiedades del Señor Carlos Haussler; y por el Oeste, en treinta y cuatro punto cinco mil setecientos tres metros lineales (34.5703 m.l.) con la Calle número cinco (5)."

--- Recorded at page at page two hundred ninety one (291) of Volume One thousand two hundred sixty four (1264) of Río Piedras Norte, property number thirty thousand three hundred forty one (35,341), Registry of the Property of San Juan, Second Section. ----

--- **EIGHTH:** The above described property was acquired by MORTGAGOR herein, as it appears from Deed Number Five (5) executed in San Juan, Puerto Rico, on the thirty first (31st) day of October, Nineteen Hundred and Eighty Eight (1988), before Notary Public José Héctor Toledo Toledo, recorded at Page Two hundred ninety one (291) of Volume One thousand two hundred sixty four (1264) in the Registry of Property of San Juan, Second Section, property number thirty five thousand three hundred forty one (35,341). ----

----The above described property is subject to the following liens and encumbrances: ----

---- A) Mortgage constituted to secure a mortgage promissory note in the principal amount of ONE MILLION DOLLARS (\$1,000,000.00), payable to the order of The Royal Bank of Canada, on demand, as per the terms of Deed Number Twenty seven (27), executed in San Juan, Puerto Rico on the first (1st) day of December, nineteen hundred eighty

eight (1988) before Notary Public Jorge Souss Villalobos, recorded at page two hundred ninety two (292) of Volume One thousand two hundred sixty four (1,264), Property number Thirty five thousand three hundred forty one (35,341), Registry of Property of San Juan, Second Section. -----

---- B) Mortgage constituted to secure a mortgage promissory note in the principal amount of TWO HUNDRED SEVENTY THOUSAND DOLLARS (\$270,000.00), payable to the order of The Royal Bank of Canada, on demand, as per the terms of Deed Number Eight (8), executed in San Juan, Puerto Rico on the third (3rd) day of March, nineteen hundred ninety one (1991) before Notary Public Enrique Adsuar Lores, recorded at page two hundred ninety three (293) of Volume One thousand two hundred sixty four (1,264), Property number Thirty five thousand three hundred forty one (35,341), Registry of Property of San Juan, Second Section. -----

---- C) Mortgage constituted to secure a mortgage promissory note in the principal amount of ONE MILLION TWO HUNDRED THIRTY DOLLARS (\$1,230,000.00), payable to the order of Scotiabank de Puerto Rico, on demand, as per the terms of Deed Number Seven (7), executed in San Juan, Puerto Rico on the twenty fifth (25th) day of March, nineteen hundred ninety six (1996) before Notary Public Geórgina S. Colón Ortiz, recorded at page two hundred ninety three, reverse (293) of Volume One thousand two hundred sixty four (1,264), Property number Thirty five thousand three hundred forty one (35,341), Registry of Property of San Juan, Second Section. -

--- I, the Notary, do hereby CERTIFY that I advised the appearing party herein of the legal effects of

the present document which was executed before me by said party, who waived his right to have attesting witnesses for this execution after having been advised by me of such right. -----

--- I, the Notary, further CERTIFY AND ATTEST that the appearing party stamped the initials of his name on every page of this deed and signed the same, and as to my personal acquaintance with the appearant, as to his personal qualifications in accordance with his statements, as well as to everything else herein contained and alleged, I, the subscribing Notary, CERTIFY AND ATTEST. -----

--- At this stage of the execution, appears FIRSTBANK PUERTO RICO, Employer Identification Number "66-018-3103", a Puerto Rico banking corporation duly organized and existing under the Laws of the Commonwealth of Puerto Rico, with a principal office at Santurce, Puerto Rico, represented herein by its Vice President Mister Eric López Bajandas, of legal age, married, executive and resident of San Juan, Puerto Rico, to consent, as it appears from a Certificate of Resolution signed by its Secretary Antonio Escribá Oliver, Affidavit Number "12,992", before Notary Public Michel Rachid Piñeizo, on the twenty third (23rd) day of May, Two thousand (2000), as it hereby consents, to the constitution of this MORTGAGE in its favor, all in accordance with Article One Hundred and Eighty Six (186) of the --

MORTGAGE PROMISSORY NOTE

FOR: \$805,000.00

PAYABLE: On demand

--- FOR VALUE RECEIVED, the undersigned promises to pay FIRSTBANK PUERTO RICO, or order, the principal sum of EIGHT HUNDRED FIVE THOUSAND DOLLARS (\$805,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promises to pay on the first day of each month hereafter, interest upon the unpaid principal of this obligation, at the rate of twelve per cent (12%) per annum from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable in the same place as is hereinabove provided for payment of the principal hereof. -----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this note becomes necessary in order to collect the whole or a portion of the amount of this note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a liquidated sum equal to ten per cent (10%) of the principal sum of this NOTE, which amount will become immediately due and payable upon the filing of such proceedings. -----

--- This NOTE is secured by a mortgage created and constituted by Deed Number 91 ---- executed on February 14, 2001, before Notary Public

--- No reference herein to the deed and no provision of this NOTE or of the said deed shall alter or impair the obligation of the undersigned, which is absolute and unconditional, to pay the principal of and interest of this NOTE and the liquidated amount stipulated for costs, disbursements and attorney's fees in case of judicial proceedings. -----

--- This NOTE is a negotiable instrument under the Negotiable Instruments Law of Puerto Rico and its negotiability is not affected or impaired by reference to the mortgage deed. The undersigned hereby irrevocable waives any right or defense against any holder of this NOTE for reason of non-negotiability. -----

--- The undersigned hereby submits to the venue of any court selected by the holder of this note in case of legal action for its collection. -----

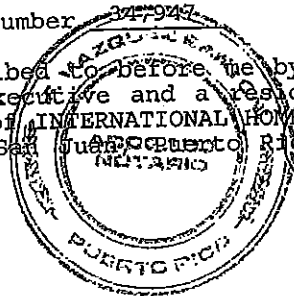
--- San Juan, Puerto Rico, this 14th day of February, 2001.

INTERNATIONAL HOME PRODUCTS, INC.

By: Andrew Bert Foti
President

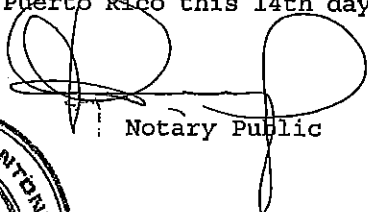
Affidavit Number 317947

--- Subscribed to before me by Andrew Bert Foti, of legal age, married, executive and a resident of Guaynabo, Puerto Rico, as President of INTERNATIONAL HOME PRODUCTS, INC., to me personally known, in San Juan, Puerto Rico, on this 14th day of February, 2001.



[Signature]
Notary Public

By virtue of Deed Number 92 of even date herewith executed before the undersigned Notary Public the rank of the mortgage which secures the payment of this Note is equalized so that from this date on the mortgage in the principal sum of \$475,000.00 and the mortgage in the principal sum of \$805,000.00 share equal rank of First Mortgage over the property described in the above mentioned deed. San Juan, Puerto Rico this 14th day of February, 2001.



Notary Public



COPY

----- NUMBER NINE ONE (91) -----

----- DEED OF MORTGAGE -----

--- In the City of San Juan, Commonwealth of Puerto Rico, on this fourteenth (14th) day of February, Two Thousand One (2001). -----

----- BEFORE ME -----

----- FRANCISCO M. VAZQUEZ SANTONI -----

--- Attorney at Law and Notary Public in and for the Commonwealth of Puerto Rico, with offices at the Lifetime Building, One Sixty Five (165), Quisqueya Avenue, in the Ward of Hato Rey, City of San Juan, and with residence and domicile in San Juan, Puerto Rico. -----

----- APPEARS -----

--- AS THE SOLE PARTY HERETO: INTERNATIONAL HOME PRODUCTS, INC., Employer Social Security Number 66-025-7793, a Puerto Rico corporation, herein represented by its President Andrew Bert Foti, of legal age, married and a resident of Guaynabo, Puerto Rico, (hereinafter referred to as the "MORTGAGOR") duly authorized and empowered to execute these presents as he will prove whenever it may be necessary, as it appears from a Certificate of Resolution signed by its Assistant Secretary José Rivera Aponte, Affidavit Number " 34,946 ", before Notary Public Francisco M. Vázquez Santoni on the fourteenth (14th) day of February, Two Thousand One (2001). -----

--- The appearant assures me that he is in the full exercise of his civil rights without my knowing

anything to the contrary, and being in my judgment legally competent to execute this instrument, he freely -----

----- SETS FORTH: -----

--- FIRST: That the MORTGAGOR is the owner of the property or properties described in paragraph SEVENTH of this deed, hereinafter referred to as the "MORTGAGED PROPERTY". -----

----- THE NOTE -----

--- SECOND: That the MORTGAGOR, for the purpose of raising funds with which to obtain credit, pay off pending indebtedness, or for the purpose of covering other obligations connected with the operation and functioning of its business, has issued on this date a promissory note in the amount of EIGHT HUNDRED FIVE THOUSAND DOLLARS (\$805,000.00), payable to FIRSTBANK PUERTO RICO, and bearing interest at the rate of twelve per cent (12%) per annum, from the date hereof and until the total satisfaction of the same, hereinafter referred to as the "NOTE". The NOTE literally transcribed reads as follows: -----

--- "MORTGAGE PROMISSORY NOTE: - FOR: \$805,000.00
PAYABLE: On demand -----

--- FOR VALUE RECEIVED, the undersigned promises to pay FIRSTBANK PUERTO RICO, or order, the principal sum of EIGHT HUNDRED FIVE THOUSAND DOLLARS (\$805,000.00) in legal currency of the United States of America, at its domicile. The undersigned further promises to pay on the first day of each month hereafter, interest upon the unpaid principal of this obligation, at the rate of twelve per cent (12%) per annum from the date hereof until the date of full payment of this obligation. Interest hereon shall be payable in the same place as is hereinabove provided for payment of the principal hereof. -----

--- In case recourse to the courts, including any proceedings under the Bankruptcy Act by the holder of this note becomes necessary in order to collect the whole or a portion of the amount of this note, or in case of foreclosure of the mortgage securing this obligation, the undersigned agrees to pay the court's expenses, costs, disbursements and attorney's fees which may be incurred in a

liquidated sum equal to ten per cent (10%) of the principal sum of this NOTE, which amount will become immediately due and payable upon the filing of such proceedings. -----

--- This NOTE is secured by a mortgage created and constituted by Deed Number 91 ----- executed on February 14, 2001, before Notary Public Francisco M. Vázquez Santoni. -----

--- No reference herein to the deed and no provision of this NOTE or of the said deed shall alter or impair the obligation of the undersigned, which is absolute and unconditional, to pay the principal of and interest of this NOTE and the liquidated amount stipulated for costs, disbursements and attorney's fees in case of judicial proceedings. -----

--- This NOTE is a negotiable instrument under the Negotiable Instruments Law of Puerto Rico and its negotiability is not affected or impaired by reference to the mortgage deed. The undersigned hereby irrevocable waives any right or defense against any holder of this NOTE for reason of non-negotiability. -----

--- The undersigned hereby submits to the venue of any court selected by the holder of this note in case of legal action for its collection. -----

--- San Juan, Puerto Rico, this 14th day of February, 2001. -----

--- INTERNATIONAL HOME PRODUCTS, INC. -----

--- (Signed) By: Andrew Bert Foti -----
----- President -----

Affidavit Number 34,947 -----

--- Subscribed to before me by Andrew Bert Foti, married, of legal age, executive and a resident of Guaynabo, Puerto Rico, as President of INTERNATIONAL HOME PRODUCTS, INC., to me personally known, in San Juan, Puerto Rico, on this 14th day of February, 2001. -----

--- (Signed) Francisco M. Vázquez Santoni -----
Notary Public. -----

--- (There appears affixed the Seal of the Notary). -----

----- MORTGAGE -----

--- THIRD: That in order to guarantee the total and complete payment for the principal sum of the NOTE amounting to EIGHT HUNDRED EIGHT THOUSAND DOLLARS (\$805,000.00), interest thereon at the rate of twelve per cent (12%) per annum from the date hereof until the total satisfaction of same, and to further secure an additional amount of EIGHTY

THOUSAND FIVE HUNDRED DOLLARS (\$80,500.00) to cover interest in addition to those secured by law, and the sum of EIGHTY THOUSAND FIVE HUNDRED DOLLARS (\$80,500.00) which the debtor undertakes to pay as a liquidated amount without necessity for further liquidation and approval by the court to cover costs, expenses and attorney's fees in the event the holder of the NOTE has to take recourse to foreclosure or judicial collection thereof, and to further secure the amount of EIGHTY THOUSAND FIVE HUNDRED DOLLARS (\$80,500.00) which is stipulated to cover any other advances that may be made under this contract in addition to the amounts stated in the promissory NOTE aforesaid, MORTGAGOR by these presents constitutes a mortgage upon the MORTGAGED PROPERTY hereinafter described in paragraph SEVENTH in favor of the owner, holder or bearer of the aforementioned mortgage promissory NOTE, including all of its buildings, machinery, installations and any other building or buildings, and structures that may be constructed on said MORTGAGED PROPERTY or in the buildings existing on the same, or which may be constructed thereon in the future, and which belong or may belong to the MORTGAGOR herein during the period of time that the mortgage is in effect, including all of its uses, servitudes and other appurtenances, as well as its rents and the products of the same and all apparatus and installations of any kind for the furnishing and distribution of heat, refrigeration, light, water or power and all the services and necessary installations presently installed upon or which may in the future be installed upon said MORTGAGED PROPERTY by the MORTGAGOR herein and, in general, upon all of the property, right, title and interest

that the executing party may have in said MORTGAGED PROPERTY. -----

--- FOURTH: For the consideration heretofore set forth, the MORTGAGOR is obliged and undertakes to:

----- A. Comply with all laws, ordinances and regulations affecting the MORTGAGED PROPERTY or its use; will permit the Mortgagee, its agents and representatives, to inspect such property at any time; and will comply with all reasonable requirements by the mortgagee with respect to such property. -----

----- B. The MORTGAGOR will pay all taxes, assessments and similar charges levied and assessed or which may be hereafter levied and assessed against the MORTGAGED PROPERTY, or any part thereof, or upon the possession, use or operation thereof and in the event that MORTGAGOR shall fail to pay any tax, assessment or similar charge, the Mortgagee may, at its option, but without being obligated to do so, pay the same, and the MORTGAGOR shall reimburse the Mortgagee for such advances, on demand, together with interest at the same rate stipulated on the NOTE secured by this Mortgage from the date of disbursement by the Mortgagee until full payment of the amount so reimbursed. ---

----- C. No waiver by the Mortgagee of any default by the MORTGAGOR in the strict and literal performance of or compliance with the provisions of the NOTE and of the Mortgage shall be deemed to be a waiver of strict and literal performance of and compliance with any other provisions thereof or to be a waiver, or in any manner release the MORTGAGOR from the strict and literal performance of and compliance with any such provisions in the future; nor shall any delay or termination of the Mortgagee

to exercise of any such right accruing to it thereafter. -----

----- D. The sum stipulated in paragraph THIRD for costs, expenses, disbursements and attorney's fees in case of foreclosure or other legal proceedings, including any proceedings under the Bankruptcy Act, for the collection of the principal of, and interest on, the NOTE, is a liquidated sum and is payable up to ten per cent (10%) of the amounts claimed, demanded or sued for, upon the mere filing by the Mortgagee of such foreclosure or other judicial proceedings or of any proof of claim under the Bankruptcy Act to obtain payment of the NOTE and/or the Mortgage, all without need of judicial determination, which the MORTGAGOR hereby expressly waives. -----

----- E. The Mortgage is extensive to and shall cover any and all improvements, accessions, building and appurtenances now or hereafter incorporated to the MORTGAGED PROPERTY until either the principal of and interest on the NOTE is paid in full or the Mortgage is released by the Mortgagee. The Mortgage constituted by this deed is also extensive to and shall cover pending fruits and rents not collected at the time of the maturity of the NOTE, and to the value of the indemnities granted or due to the MORTGAGOR or to the owner of the MORTGAGED PROPERTY by underwriters of the MORTGAGED PROPERTY or by virtue of condemnation for purposes of public utility. -----

----- F. The mortgage creditor may at any time, while prosecuting judicial proceedings in connection with this mortgage, petition the court having jurisdiction in the premises to appoint a Receiver for the MORTGAGED PROPERTY including

rents, issues, profits or yields of any nature derived from said MORTGAGE PROPERTY, all of which are expressly mortgaged in the same manner as if they had been specifically itemized in the clauses of this deed, and said Receiver shall have the broadest powers and faculties usually granted to a Receiver by the court and his appointment shall be made by the court as a matter of absolute right granted to the mortgage creditor without taking into consideration the value of the MORTGAGED PROPERTY or the solvency or insolvency of the MORTGAGOR or the defendants; and all said rents, issues, income and profits shall be employed by the Receiver in conformity with the terms of this Mortgage and rulings of said court. -----

----- G. All of the expenses of this deed, the expenses of a certified copy for the mortgage creditor duly recorded in the Registry of Property and all of the costs for the cancellation of the Mortgage in due time, as well as all taxes presently levied or that in the future may be levied on the principal of this Mortgage and its interest, shall be paid by the MORTGAGOR. -----

----- H. In case of (a) a breach of any of the conditions of this Mortgage or failure to make any payment on the part of the MORTGAGOR, or (b) in the event the amounts heretofore set forth are not promptly paid without demand or notice, or (c) in the event any or all of the stipulations, agreements, conditions or covenants of the aforementioned promissory NOTE or of this mortgage are not duly, promptly and wholly complied with, or (d) in the event of attachment of the MORTGAGED PROPERTY for the collection of the taxes or charges assessed upon the same, or (e) in the event of

adjudication in bankruptcy of the MORTGAGOR or of any of its successors in title of a voluntary petition in bankruptcy, or a petition for reorganization or for arrangement proceedings in accordance with the provisions of the Acts of Congress relating to bankruptcy; then in any or all of said events the total amount owed by virtue of the mortgage promissory NOTE above mentioned with accrued interest to that date, and all of the amounts secured by this Mortgage shall be considered due, demandable and payable at the option of the Mortgagee as fully and wholly as if it had originally been stipulated that all of the said sums would be due on that date, regardless of any statement to the contrary in the said promissory NOTE or in this deed, and from that date on or afterwards at any time, at the option of the Mortgagee, and with out notice or demand whatsoever, the mortgage creditor may institute such judicial proceedings as may be necessary in the same manner as if the sums secured by this instrument had become due before the institution of said proceedings. The mortgage creditors may also foreclose the mortgage for the amount thus declared due and payable and the MORTGAGED PROPERTY shall be sold to obtain satisfaction thereof and payment of the amounts claimed plus costs, expenses disbursements and attorney's fees. -----

----- I. In compliance with the provisions of Article Number One Hundred Seventy Nine (179) of the Mortgage Law of Puerto Rico, it is hereby declared that the MORTGAGED PROPERTY has a value of EIGHT HUNDRED FIVE THOUSAND DOLLARS (\$805,000.00).

----- J. It is stipulated and agreed that in case that the promissory NOTE secured by the mortgage

constituted by this deed be pledged or given as collateral to secure any indebtedness or obligation of the MORTGAGOR or of the holder of the said mortgage promissory NOTE, the pledgee or creditor, as holder of the said NOTE, may join in the action for the collection of the indebtedness or obligation guaranteed by the said pledge, or collateral, and any action to collect also the aforementioned mortgage promissory NOTE and for the foreclosure of the mortgage created by this deed guaranteeing the same, so that with the proceeds of the said foreclosure he may collect and be paid in full the amounts claimed and owing to him by virtue of the indebtedness or obligation guaranteed by the said pledge or collateral. -----

----- K. The MORTGAGOR will keep the improvements now existing or hereafter erected on the MORTGAGED PROPERTY insured as may be required from time to time by the Mortgagee against loss by fire and other hazards, casualties and contingencies in such amounts and for such periods as may be required by the Mortgagee and will pay promptly when due any premiums on such insurance, provisions for payment of which has not been made hereinbefore. All insurance shall be carried in companies approved by the Mortgagee and policies and renewals thereof shall be held by the Mortgagee and have attached thereto loss payable clauses in favor of and in form acceptable to the Mortgagee. In the event of loss, MORTGAGOR will give immediate notice by mail to the Mortgagee, who may file proof of loss if not made promptly by the MORTGAGOR, and each insurance company concerned is hereby authorized and directed to make payment for such loss directly to the Mortgagee instead of to the MORTGAGOR and the

Mortgagee jointly, and the insurance proceeds or any part thereof may be applied by the Mortgagee, at its option, either to the reduction of the indebtedness hereby secured or to the restoration of the property damaged, the surplus, if any, to be returned to the MORTGAGOR. In the event of foreclosure of this mortgage or other transfer of title to the MORTGAGED PROPERTY in extinguishment of the indebtedness secured hereby, all rights, title and interest of the MORTGAGOR in and to any insurance policies then in force shall pass to the purchaser or grantee. -----

--- FIFTH: It is stipulated and agreed that if the MORTGAGED PROPERTY or any part of the parcel thereof is condemned, sold or otherwise disposed of or acquired by the United States of America, the Commonwealth of Puerto Rico, or any other Municipality of Puerto Rico, including, but without limitation, any of their respective agencies, dependencies, authorities or instrumentalities of any public corporation, or if in any other form or manner the MORTGAGED PROPERTY, or any portion or parcel thereof, is dedicated to public use or for public purpose, then, in that event, the term for payment of the mortgage NOTE secured by the mortgage lien created by virtue of this instrument shall by reason thereof expire and the said mortgage note shall become immediately due and payable, it being stipulated and agreed that in the event the total amount of any compensation payable, or which may belong, to the MORTGAGOR by virtue of such condemnation, or as the purchase price of such sale, disposal or acquisition, shall belong to and shall be paid and delivered exclusively to the mortgage creditor directly by the condemning

agency, by the purchaser or, in default thereof, by the Court wherein the condemnation proceedings may have been filed or are pending. The mortgage creditor shall in the event of such payment, apply the amounts received to pay first all interest accrued pending payment on the date thereof and, secondly, to pay the principal of the mortgage note or as much thereof as possible with the proceeds available, and in the event of a surplus, to pay such surplus to the MORTGAGOR. The MORTGAGOR hereby consents that payment and delivery to the mortgage creditor be made of such compensation or proceeds, further authorizing the mortgage creditor to make request for such payment and delivery, and in the event thereof, to appear before and request such payment and delivery from the Court wherein the condemnation proceedings may have been filed or are pending, and in the name of the MORTGAGOR to execute and deliver the proper receipt and/or letter of payment for the amounts received, with full power to endorse, collect and effect payments, in the name of the MORTGAGOR, of any checks or other orders of payment which may be delivered by reason thereof. -----

--- SIXTH: (a) Where the context so requires, the singular shall include the plural and the plural the singular, and the use of either gender shall include both genders; (b) any reference to a number of days mean calendar days unless the contrary is expressly stipulated, and (c) the captions to the paragraphs of this instrument have been inserted for convenience only and as means of referring to them and are not to be interpreted as stipulations of this instrument. -----

--- SEVENTH: The MORTGAGED PROPERTY is described

as follows: -----

----URBANA: Finca compuesta de MIL CERO OCHENTA Y SEIS PUNTO CINCUENTA Y SEIS METROS CUADRADOS (1,086.56 M.C.), sita en el Barrio Hato Rey, San Juan, Puerto Rico, y en linderos por el NORTE, con la finca principal de Metropolitana Real Estate and Finance Corporation, en cuarenta y cuatro punto veinticinco (44.25) metros; por el SUR, con la Avenida Caubet antes, hoy Quisqueya, en veintitrés punto treinta (23.30) metros; por el ESTE, con la finca principal de los esposos Pérez López antes, hoy Atlantic Corporation, en cuarenta y siete punto treinta y cinco (47.35) metros; y por el OESTE, con finca principal de José Rullán y Antonio Caubet antes, hoy Clínica del Dr. Olaguibet A. López Pacheco, en cuarenta y un punto setenta y cinco (41.75) metros. Contiene un edificio de cuatro plantas dedicado a comercio y vivienda. -----

---- Pending recordation at Entry One hundred seventy nine (179) of Daily Book Nine hundred sixty three (963) in the Registry of Property of San Juan, Second Section, property number twenty four thousand seven hundred eighty eight (24,788). ----

--- EIGHTH: The above described property was acquired by MORTGAGOR herein, as it appears from Deed Number Fourteen (14) executed in San Juan, Puerto Rico, on the twenty sixth (26th) day of April, Nineteen Hundred and Ninety Nine (1999), before Notary Public Hilda Isabel Rodríguez Mercado, registered at Entry One hundred seventy nine (179) of Daily Book Nine hundred sixty three (963) in the Registry of Property of San Juan, Second Section, property number twenty four thousand seven hundred eighty eight (24,788). ----

----The above described property is subject to the following liens and encumbrances: -----

---- Mortgage constituted to secure a mortgage promissory note in the principal amount of FOUR HUNDRED SEVENTY FIVE THOUSAND DOLLARS (\$475,000.00), payable to the bearer, on demand, as per the terms of Deed Number Fifteen (15), executed in San Juan, Puerto Rico on the twenty sixth (26) day of March, nineteen hundred ninety nine (1999) before Notary Public Hilda Isabel

Rodríguez Mercado, recorded at page twenty six (26) of Volume Eight hundred fifty three (853), Registry of Property, San Juan, Second Section. -----

--- I, the Notary, do hereby CERTIFY that I advised the appearing party herein of the legal effects of the present document which was executed before me by said party, who waived his right to have attesting witnesses for this execution after having been advised by me of such right. -----

--- I, the Notary, further CERTIFY AND ATTEST that the appearing party stamped the initials of his name on every page of this deed and signed the same, and as to my personal acquaintance with the appearant, as to his personal qualifications in accordance with his statements, as well as to everything else herein contained and alleged, I, the subscribing Notary, CERTIFY AND ATTEST. -----

--- At this stage of the execution appears FIRSTBANK PUERTO RICO, Employer Identification Number "66-018-3103", a Puerto Rico banking corporation duly organized and existing under the Laws of the Commonwealth of Puerto Rico, with a principal office at Santurce, Puerto Rico, represented herein by its Vice President Mister Eric López Bajandas, of legal age, married, executive and resident of San Juan, Puerto Rico, to consent, as it appears from a Certificate of Resolution signed by its Secretary Antonio Escribá Oliver, Affidavit Number "12,992", before Notary Public Michel Rachid Piñeiro, on the twenty third (23rd) day of May, Two thousand (2000), as it hereby consents, to the constitution of this MORTGAGE in its favor, all in accordance with Article One Hundred and Eighty Six (186) of the

