

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF PUERTO RICO**

IN RE:

METROPOLITAN INDUSTRIAL FOOD
SERVICES, INC.

Debtor

CASE NO. 15-08302 (MCF)

CHAPTER 11

DISCLOSURE STATEMENT

I. INTRODUCTION

METROPOLITAN INDUSTRIAL FOOD SERVICES, INC. (the “Debtor” or “Metropolitan”) provides this Disclosure Statement to its creditors and other parties in interest in order to disclose that information deemed by Debtor to be material, important and necessary for its creditors and other parties in interest to arrive at a reasonably informed decision in exercising their right to vote for acceptance of Debtor’s 11 U.S.C. Chapter 11 Plan (“Plan”) that is being filed with the United States Bankruptcy Court for the District of Puerto Rico (“Bankruptcy Court”) contemporaneously with the filing of this Disclosure Statement.

Creditors are advised that they have the right to vote to accept or reject the Plan proposed by Debtor. They are further advised that in order for the Plan to be accepted by a class of creditors, the creditors composing such class, that hold at least two thirds in dollar amount and more than one half in total number of the allowed claims of such class that vote must accept the Plan. Therefore, it is very important for creditors to exercise their right to vote in reference to the acceptance or rejection of the Plan, since

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in accordance to Section 1141(d) of the Bankruptcy Code, except as otherwise provided therein, in the Plan or in the order confirming the Plan, the confirmation of a plan discharges a debtor from any debt that arose before the date of confirmation and from any debt of a kind specified in Section 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not the creditors have accepted the Plan or have filed their claims, or such claims are deemed filed or allowed under Section 502 of the Bankruptcy Code.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS TO THE VALUE OF PROPERTY) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE FINANCIAL INFORMATION CONTAINED HEREIN IS AS OF DECEMBER 31, 2016 AND HAS NOT BEEN SUBJECTED TO A CERTIFIED AUDIT, FOR WHICH REASON THE DEBTOR IS UNABLE TO WARRANT OR REPRESENT THAT IT IS WITHOUT ANY INACCURACY, ALTHOUGH EFFORTS HAVE BEEN MADE TO BE ACCURATE.

II. ADEQUACY OF DISCLOSURE IN A CHAPTER 11 CASE

Post-petition disclosure and solicitation is governed by the provisions of Section

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1125 of the Bankruptcy Code.

Section 1125, requires that, other than in small business cases under Section 1125(f) of the Bankruptcy Code, which is not the situation in Debtor's case, a written "disclosure statement" approved by the Court after notice and hearing be transmitted to holders of claims and interests together with the plan or a summary thereof. Post-petition solicitation of acceptances or rejections of a plan may be made only at the time of or after transmission of the "disclosure statement". 7 *Collier on Bankruptcy*, ¶1125.01 [1] (Matthew Bender, 15 Ed. Rev.).

Also, Section 1125(a)(1) requires that the disclosure statement contains "adequate information" in sufficient detail as far as reasonably practicable in light of the nature and history of the particular debtor and the condition of the debtor's financial records. It must be such information as would enable a hypothetical reasonable investor (typical of the holders of claims and interests of the relevant class) to make an informed judgment about the plan. Adequate information, however, need not include information about any other possible or proposed plan. *Collier on Bankruptcy*, op. cit. ¶1125.01 [2].

Section 1125(a) (2) defines the hypothetical investor referred to in subsection (a) (1) as an investor having:

a claim or interest of the relevant class,

such a relationship with the debtor as the holders of other claims or interests of such class generally have, and

such ability to obtain such information from sources other than the disclosure required by section 1125 as holders of claims or interests in such class generally. (*Collier on Bankruptcy*, op. cit. ¶1125.01 [2] [a]).

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Disclosure is the pivotal concept in reorganization practice under the Bankruptcy Code.

As described in the House Report:

If adequate disclosure is provided to all creditors and stock holders whose rights are to be affected, then they should be able to make an informed judgment of [sic. on] their own rather than having a court or the Securities and Exchange Commission inform them in advance whether the proposed plan is a good plan. Therefore, the key to the consolidated chapter is the disclosure section. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 226-231 (1977)).

The definition of "adequate information" in Section 1125(a) (1) requires that a disclosure statement include information in sufficient reasonable detail as far as is practicable. *Collier*, op. cit. ¶1125.02 [1].

As stated in the legislative history to Section 1125(a):

Precisely what constitutes adequate information in any particular instance will develop on a case-by-case basis. Courts will take a practical approach as to what is necessary under the circumstances of each case, such as the cost of preparation of the statements, the need for relative speed in solicitation and confirmation, and, of course, the need for investor protection. There will be a balancing of interests in each case. In reorganization cases, there is frequently great uncertainty. Therefore the need for flexibility is greatest. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. at 409 (1977)).

The Senate Report expands upon the House Report's description of Section 1125(a) in the following manner:

Reporting and audit standards devised for solvent and continuing businesses do not necessarily fit a debtor in reorganization. Subsection (a) (1) expressly incorporates

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consideration of the nature and history of the debtor and the condition of its books and records into the determination of what is reasonably practicable to supply. These factors are particularly pertinent to historical data and to discontinued operations of no future relevance.

A plan is necessarily predicated on knowledge of the assets and liabilities being dealt with and on factually supported expectations as to the future course of the business sufficient to meet the feasibility standard in section 1129(a) (11) of this title. It may thus be necessary to provide estimates or judgments for that purpose. Yet it remains practicable to describe, in such detail as may be relevant and needed, the basis for the plan and the data on which supporters of the plan rely.

S. R. Rep. No. 989, 95th Cong. 2d §§ 120-121 (1978).

The definition of "adequate information" contained in Section 1125(a) (1) must be considered together with the phrase, "investor typical of holders of claims or interest of the relevant class" defined in Section 1125(a) (2). That definition recognizes that the quality of information available to members of a given class will vary as will the sophistication of members of various classes. (*Collier*, op. cit. ¶1125.02 [3]).

For example, a trade creditor may have a general unsecured claim for \$1,000 and be a member of a class, which includes a commercial bank holding a claim of \$1,000,000. The bank presumably will be more sophisticated in financial matters than the trade creditor and, depending on the circumstances of the case, may have access to detailed current and historical financial information concerning the debtor's business which is not, and has not been, available to the trade creditor. Trade creditors, on the other hand, may have information with respect to the debtor's business and the sophistication necessary to interpret such information which is not enjoyed by the debtor' debenture holders or shareholders. (*Collier*, op. cit. ¶1125.02 [3]).

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Section 1125(d) specifically provides that the adequacy of disclosure is not to be governed by any otherwise applicable non-bankruptcy law, rule or regulation. (*Collier*, op. cit. ¶1125.02 [4]).

As stated in the House Report:

The bill also permits the disclosure statement to be approved without the necessity for compliance with the very strict rules of Section 5 of the Securities Act of 1933, section 14 of the Securities Exchange Act of 1934, or relevant State securities laws. Without such a provision, the court would have no discretion in approving disclosure statements that go to public classes, but would be required in every case to require a full proxy statement or prospectus whenever public classes were solicited [sic]. Such a statement requires certified audited financial statements and extensive information. The cost of developing a prospectus or proxy statement for a large company often runs well over \$1 million. That cost would be nearly prohibitive in bankruptcy reorganization. In addition, the information normally required under section 14 may simply be unavailable, because of the condition of the debtor. Finally, court supervision of the contents of the disclosure statement will protect the public investor from any serious inadequacies in the disclosure statement.

The provision does not prohibit a section 14-type statement or a prospectus. In some cases it may indeed be appropriate to go that length in disclosure. The courts will have to determine the need on a case-by-case basis. The section merely does not require it in every public case. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 227-229 (1977)).

The aforesaid is even more applicable to Debtor considering that this Disclosure Statement does not go to public classes.

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III. THE DEBTOR

A. Background of Debtor – Overview of the Company's Business

Metropolitan Industrial Food Services, Inc. is a domestic corporation organized and authorized to do business under the laws of the Commonwealth of Puerto Rico since January 26, 1970. Their headquarters are located at 464 Calle Ing. Canals, Urb. Eleanor Roosevelt, Hato Rey, San Juan, P.R. Their mission is to provide the industry with the highest quality food service available in the market. Since 2011, Debtor corporation has been led by Mr. Josué Navarro, President & CEO, responsible for strategic vision, development and implementation, allocation of resources, and customer relations.

Debtor operates eighteen (18) cafeterias at thirteen (13) locations: Hotel Gran Melia (Río Grande); Bacardi Destilery (Cataño); TEVA Pharmaceutical (Manatí and Fajardo); First Bank (San Juan); Medtronic (Humacao, Juncos, and Villaba); Puerto Rico & Caribbean Cardiovascular Center (San Juan); Banco Popular of Puerto Rico (San Juan); San Lucas Hospital (Guayama); University of Puerto Rico Mayagüez; and Hamilton Sundstrand (Santa Isabel).

The company serves clients in five (5) types of industries: tourism, manufacturing, hospitals, and financial and educational institutions. For the hospital industry, Debtor serves the general public and employees, as well as providing the hospital patients' diet. This initiative is led by Debtor's in-house dietitian, who formulates the patient's diet, taking the patients' nutritional requirements into consideration.

The Debtor NAICS and SIC code are 722310 and 5812, corresponding to the Food

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Service Contractors Industry. Companies in this industry contract to provide food services at commercial, institutional, and governmental locations. The US Food Service Contracting Industry includes about 3,000 companies with combined annual revenue of about \$37 billion. Major companies in the US include ARAMARK, Centerplate, and Delaware North.

Debtor has been dedicated to the food industry for over forty (40) years. Also, Debtor has been considered a pioneer and a leader in the Puerto Rico food industry. Because of the fiscal benefits provided by Section 936 of the Internal Revenue Code, many multinational manufacturers operating in Puerto Rico contracted Debtor to operate their cafeteria restaurants. Debtor operated up to sixty (60) restaurants for such clients while Section 936's benefits were in effect. Also, several manufacturers subsidize part or the entirety of the food costs for their employees as part of their benefits. This resulted in greater sales for Debtor, from an increasing number of loyal consumers. However, after Section 936's benefits were phased out and repealed between 1996 and 2006, many of Debtor's multinational clients ceased their operations in Puerto Rico, forcing Debtor to shut down a considerable amount restaurants.

Since then, Debtor has diversified by servicing restaurants in other industries, such as hospitals and educational institutions. Despite this, the number of restaurants operated by Debtor has been reduced to eighteen (18) as of February 1, 2017, and aggregate sales have significantly diminished. These circumstances created a working capital deficiency for Debtor. As a result, Debtor began to accumulate a debt with the

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Department of Treasury of Puerto Rico (“DT”), among other creditors.

On October 23, 2015, Debtor filed a voluntary petition for relief under the provisions of Chapter 11 of the Bankruptcy Code. Pursuant to Debtor representations, the filings were made on an emergency basis due to the accumulated debt with the DT and the risk of a potential closing and/or levy.

As a result of the filing of the Chapter 11 petition, Debtor received the benefits of 11 USCA §362(a), which stays all collection and garnishment actions, and judicial proceedings against the debtors; thus staying DT collection efforts on the filing date. Free from the pressure that drove Debtor to file under Chapter 11, management had the opportunity to reorganize the business operations through a turnaround of the operations.

On August 30, 2016, Debtor and creditor Ballester Hermanos, Inc. (“Ballester”) stipulated and agreed to provide Ballester “adequate protection” for their claim in the restructuring process. The stipulation was approved by the Court on September 28, 2016. As a result, Ballester’s is entitled to a minimum monthly payment of \$3,000 during the restructuring process, as their claims have priority equal to administrative expenses of the kind specified in sections 503(b) and 507(a) of the Bankruptcy Code.

B. Events Leading to the Chapter 11 Case

1. Deterioration Economic Conditions

It is well established that Puerto Rico’s economy has been stagnant since the 1970s. In recent years, a severe downturn has compounded Puerto Rico’s

longstanding economic problems, with real gross national product (GNP) down about 10 percent from its 2005 level. Historically, the Island's economy has tended to track the U.S. mainland economy, and some of the factors underlying the recent decline in Puerto Rico mirror those on the U.S. mainland, including weakness in the real estate market, stress on financial institutions, declines in construction activity, and a significant paring back of government jobs. The latest downturn in Puerto Rico, however, started earlier and was much steeper than that on the U.S. mainland, and to date, the economy has shown no signs of recovery.

Unfortunately, Puerto Rico's economic and fiscal situation has worsened since January 2013. The majority of, not to say all, economic indicators have worsened or remained flat since then. Contrary to 2012, the constitutional loan margin is exhausted, the Government Development Bank's (GDB) ability to finance the central government has also exhausted and access to capital markets is at interest rates the island simply can't pay over the long term.

The prospects for an economic recovery in the short or mid-term is considered highly unlikely and recovery will most likely require significant structural changes to take place which at best implies a protracted solution to Puerto Rico's economic woes. Currently Puerto Rico is Debtor's only market, which in turn poses a significant market risk. In addition, Debtor is

undergoing a significant structural cost reduction program in order to offset the effects of a protracted solution to Puerto Rico's economic problems.

2. Debtor's Deteriorating Financial Condition

Prior to the Petition Date, the Debtor's principal source of liquidity was cash flow generated from operations. As a result of Debtor's liquidity constraints Debtor failed to remit to the Secretary of Treasury of Puerto Rico amounts collected or assessed related to withholding taxes.

3. Impact of Liquidity Constraints

Notwithstanding, the initiatives undertaken by the Company to alleviate its liquidity constraints, the Debtor still encountered significant and increasing operational and financial difficulties through 2014-2015. As previously discussed, in the months leading up to the Petition Date, gross margins, cash flow and profitability declined significantly.

The Debtor faced increased liquidity constraints, which were further exacerbated by the carrying costs of the Debtor's leveraged balance sheet and by Debtor's inability to obtain additional financing to fund its operational and working capital needs.

Prior to the Petition Date, the Debtor had to dedicate a substantial portion of its cash flow from operations to the servicing of its existing indebtedness. The cumulative adverse effects of the above mentioned factors and Debtor's inability to increase its margin, the Debtor was not able to generate sufficient cash flow from operations to service its indebtedness and to meet other obligations.

4. Significant Post-Petition Events

All significant Post-Petition Events are detailed below in Section IV – The Chapter 11 Case.

5. Assets as of Petition Date

Assets listed on Debtor's Schedules, as amended, are an integral reference to this Disclosure Statement and to the best of Debtor's understanding are accurate as of the filing of the Bankruptcy petition.

Debtor's assets include cash, accounts receivable, property and equipment, inventory, pre-paid expenses, deposits, and real estate. Almost all of Debtor's assets are subject to liens and security interests.

6. Liabilities as of the Petition Date

Liabilities as of the Petition Date can be ascertained by reviewing Debtor's Schedules, as amended. Moreover, creditors can ascertain the total amount of their claims that would be deemed allowed for purposes of the confirmation of Debtor's Plan in **Exhibit A**. The total allowed claim would be the basis for the distribution to be offered by Debtor as part of its Plan.

The Debtor has calculated the amount of claims deemed allowed for purposes of the confirmation of the Debtor's Plan as follows:

- Administrative Claims – the amount represents the US Trustee fees to be incurred related to the petition; and compensation of professionals approved by the Court.
- Priority Tax Claims – the amount represents the amounts owed to

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the taxing authorities as of the petition date in the approximate amount of \$1,544,619.09, taking into consideration the objections to claims to be filed.

- Executory Contracts – the amount represents the arrears on the executory contracts to be assumed by Debtor through the Plan.
- Secured Creditors Claims – the amount represents the secured amounts owed to Ballester Hermanos, Inc., IRS, and CRIM as of the petition date in the approximate amount of \$709,907.72, \$49,659.02, and \$16,995.00, respectively.
- General Unsecured Claims – the amount included on **Exhibit A** represents the amount due and payable as of the petition date, as indicated in the Debtor's books and records, and will be the basis for the dividend to be distributed pursuant to Debtor's Plan.

Debtor does not have any pending claims entitled to priority by Section 507(a)(2), (3), (4), (5), (6), and (7) of the Bankruptcy Code, and accordingly, no class was created for said claims under the Plan.

IV. THE CHAPTER 11 CASE

A. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor's rehabilitation, Chapter 11 promotes equality treatment for similarly situated creditors and similarly situated equity interest

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holders, subject to the priority of distributions prescribed by the Bankruptcy Code's "absolute priority" rule which governs distribution priorities, and governs how Chapter 11 plans treat different classes of dissimilarly situated creditors and equity holders.

Commencement of a Chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the bankruptcy commencement date. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

Consummating a plan of reorganization is the principal objective of a Chapter 11 reorganization case. The bankruptcy court's confirmation of a plan of reorganization binds the debtor, any issuer of securities under the plan of reorganization, any person acquiring property under the plan of reorganization, any creditor or equity interest holder of a debtor, and any other person or entity as may be ordered by the Bankruptcy Court in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order issued by the Bankruptcy Court confirming a plan of reorganization discharges a debtor from any debt that arose prior to the confirmation of the plan of reorganization and provides for the treatment of such debt in accordance with the terms of the confirmed plan of reorganization.

Prior to soliciting acceptances of a proposed plan of reorganization, Section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement

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containing information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the plan of reorganization. This Disclosure Statement is being submitted in accordance with the requirement of Section 1125 of the Bankruptcy Code.

The following is a general summary of the Chapter 11 Case, including, without limitation, the significant post-petition events, the administration of the Chapter Case 11, the stabilization of the Debtor's operations following the Chapter 11 filing, the Debtor's restructuring initiatives since the Chapter 11 filing, and the Debtor's business plan which culminated in the Debtor's Chapter 11 plan of reorganization.

B. ADMINISTRATION OF THE CHAPTER 11 CASE

On the Petition Date, the Debtor sought certain relief from the Bankruptcy Court to ensure its operations continued with the least possible disruption, including but not limited to, the relief set forth below.

1. Stabilization of Business Operations

In the weeks following the Petition Date, the Debtor focused on stabilizing its business operations and its customer and vendor relationships. It engaged in communications with critical suppliers, vendors, customers and employees to provide them with an understanding of the Debtor's financial situation and a general plan for emergence from Chapter 11.

2. Employment of Professionals

Counsel for Debtor. With leave of the Bankruptcy Court, Debtor has

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retained Alexis Fuentes-Hernandez of Fuentes Law Offices, L.L.C. as its counsel in connection with its Chapter 11 and other proceedings.

Financial Advisor and In-house Accountant. With the leave of the Bankruptcy Court, Debtor has retained Aida M. Escribano-Ramallo, CPA , CIRA, CFE of BDO Puerto Rico, PSC as its financial advisor and accountant in connection with its Chapter 11 and other proceedings.

3. Executory Contracts and Leases

Subject to the approval of the Bankruptcy Court, the Bankruptcy Code empowers a debtor in possession to assume or reject executory contracts and unexpired leases. Generally, an “executory contract” is a contract under which material performance is due from both parties. If an executory contract of unexpired lease is rejected by a debtor in possession, the other parties to the agreement may file a claim for damages incurred by reason of the rejection, which claim is treated as a prepetition claim. If such contract or lease is assumed by a debtor in possession, the debtor-in-possession has the obligation to cure any prepetition defaults thereunder.

Except as otherwise provided herein, all unexpired leases or executory contracts will be deemed assumed by Debtor as of the Effective Date. Any other unexpired lease or executory contract that has not been rejected or assumed by Debtor with the Bankruptcy Court’s approval on or prior to the

Confirmation Date will be deemed to have been assumed by Debtor as of the Effective Date, unless prior to the Confirmation Date there is pending before the Bankruptcy Court a motion to assume such lease or contract.

Each Person that is a party to an executory contract or unexpired lease that is rejected as of the Confirmation Date shall be entitled to file, no later than thirty (30) days after the Confirmation Date (unless an earlier date has been established by the Bankruptcy Court for such claimant, in which case such earlier date shall control), a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor. Each Person that is a party to an executory contract or unexpired lease subject to a motion to reject that is pending before the Bankruptcy Court on the Confirmation Date shall be entitled to file, not later than thirty (30) days after the date that the Bankruptcy Court approves such motion, a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor.

4. Other Post-Petition Significant Events

The following is a summary of the other significant events that have occurred in Debtor's Chapter 11 case.

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- a. On December 2, 2015, Debtor and RRT Distributors Corporation filed a stipulation for allowance and payment of administrative expense under Sections 546(c) and 503(B)(9) of the Bankruptcy Code, which was granted by the Court.
- b. On August 30, 2016, Debtor and Ballester Hermanos, Inc., filed a stipulation for adequate protection, which was granted by the Court.

C. CLAIMS ADMINISTRATION

Debtor is in the process of reconciling all proofs of claims filed in its Chapter 11 case. Attached hereto as **Exhibit B** is the list of all proofs of claims that have been filed up to date. Debtor understands that any other objections to claims will be filed twenty (20) days after the hearing on approval of the instant Disclosure Statement, including the objection to Treasury's claim.

V. THE PLAN

4.1 Overview

It is Debtor's intention to make payments to its creditors through the Plan primarily consisting of:

1. Payment of all administrative expenses on the later of the Effective Date, the date the Administrative Claims become allowed, or as agreed to with the holder of each Administrative Claim.
2. Payment of all claims by executory contract holders through the contractual terms with each holder.
2. Payment of 100% of Secured Creditor Ballester Hermanos, Inc.'s claim, i.e.

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\$709,907.72, through sixty monthly payments of \$5,000.00 for principal and interest at 6.00%, and a balloon payment of \$602,708.80 on the sixty-first month.

3. Payment of 100% of Secured Creditor IRS's claim, i.e. \$49,659.02, through forty-two (42) consecutive monthly installments of \$1,257.98, which includes an interest of 3.5%.
4. Payment of 100% of Secured Creditor CRIM's claim, i.e. \$16,995.00, through forty-two (42) consecutive monthly installments of \$430.53, which includes an interest of 3.5%.
5. Payment of 100% of amount expected to be allowed of priority tax claims, i.e. \$1,544,619.09, plus the statutory interest rate of 3.5%, through forty-two (42) equal monthly payments commencing on the Effective Date.
5. Payment of approximately 1.08% of the expected to be allowed unsecured claims, through sixty (60) equal monthly payments totaling \$416.67 commencing on the Effective Date.
6. All holders of Debtor's equity interests will keep their interests.

4.2 Means of Funding the Plan

The Plan is to be funded with the available funds originating from Debtor's operations, and as set for in the Cash Flows Projections attached herein as the **Exhibit A**.

4.3 Feasibility of the Plan

Debtor understands that the Plan is a confirmable Plan for the benefit of its creditors, will result in the creation of additional direct and indirect jobs, and enable the Debtor to maintain the majority of its current employees, which at the time are two

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hundred and sixty (260).

The proposed Plan provides for \$25,000.00 for distribution to general unsecured creditors through sixty (60) equal monthly payments on a pro-rata basis. A Chapter 7 liquidation of the Debtor's Assets would produce no distribution to unsecured creditors.

4.4 Classification of Claims

4.4.1 Unclassified Claims

ADMINISTRATIVE CLAIMS - Costs and expenses of administration as defined in the Bankruptcy Code as the same are allowed, approved and ordered paid by the Court. Debtor estimates that, at the time of the confirmation of the Plan, Class I administrative claims to be approximately \$26,500.00.

PRIORITY TAX CLAIMS – Claims entitled to priority by Section 507 (a) (8) of the Bankruptcy Code. Such Priority Tax Claims consist of sales and use tax, income tax, and other miscellaneous taxes accrued prior to the Petition Date.

All Priority Tax Claims will be paid in cash and shall receive in full satisfaction thereof 100% of its claims through forty-two (42) equal consecutive monthly installments commencing on the Effective Date and on the 30th day of the subsequent 41 months. Debtor will pay interests at the statutory rate, estimated at 3.50% per annum, to the Holders of Priority Tax Claims that will receive their payment under the deferred payment plans.

4.4.2 Classified Claims

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Class 1 (EXECUTORY CONTRACTS) – Class 1 shall consist of the claims of the executory contract holders estimated in the total amount of \$8,145.00.

Class 2 (SECURED BALLESTER HERMANOS) - Class 2 shall consist of the secured claim of Ballester Hermanos, Inc. estimated in the total amount of \$709,908 secured by Debtor’s real property in Urb. Eleanor Roosevelt, San Juan.

Class 3 (SECURED IRS) - Class 3 shall consist of the secured claim of IRS estimated in the total amount of \$49,659 secured by all of Debtor’s property, including its real property in Urb. Eleanor Roosevelt, San Juan.

Class 4 (SECURED CRIM) – Class 4 shall consist of the secured claim of CRIM estimated in the total amount of \$16,995 secured by Debtor’s real property in Urb. Eleanor Roosevelt, San Juan.

Class 5 (GENERAL UNSECURED CREDITORS) – Class 5 shall consist of the unsecured claims. The total amount of these claims is estimated to be \$2,313,944.

Class 6 (EQUITY HOLDERS) – Class 6 shall consist of all equity interests in the Debtor.

1.5 Treatment of Claims and Voting Under the Plan

| | Description of Claim | Treatment Under Plan | Status/Entitled to Vote | Estimated Aggregate Amount of Claims | Estimated Recovery Percentage |
|--------------|-------------------------------|--|---|---|--------------------------------------|
| Unclassified | Administrative Expense Claims | Will be paid in full from Debtor’s excess cash | <p>Unimpaired</p> <p>Deemed to Accept the Plan</p> <p>Not Entitled to Vote</p> | \$26,500.00 | 100% |

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|--------------|--|--|---|--------------|--------|
| Unclassified | Priority Tax Claims | Will be paid in full through forty two (42) monthly payments commencing on the Effective Date of the Plan, plus the statutory interest rate | Unimpaired Not Entitled to Vote | \$1,544,619 | 100% |
| Class 1 | Executory Contracts | Will be paid in full through the same contractual terms | Unimpaired Not Entitled to Vote | \$8,145 | 100% |
| Class 2 | Secured Creditor Ballester Hermanos | Will be paid in full through a 5-year payment plan with a 6% interest per annum and a balloon payment at the 61 st month | Impaired Entitled to Vote | \$709,907.72 | 100% |
| Class 3 | Secured Creditor IRS | Will be paid in full through forty two (42) monthly payments commencing on the Effective Date of the Plan, plus the statutory interest rate | Unimpaired Not Entitled to Vote | \$49,659 | 100% |
| Class 4 | Secured Creditor CRIM | Will be paid in full through forty two (42) monthly payments commencing on the Effective Date of the Plan, plus the statutory interest rate | Unimpaired Not Entitled to Vote | \$16,995 | 100% |
| Class 5 | General Unsecured Creditors | Payment of approximately 1.08 % of amount expected to be allowed of the general unsecured claims to be paid through sixty (60) equal monthly payments commencing on the Effective Date of the Plan | Impaired Entitled to Vote | \$2,313,944 | 1.08 % |

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|---------|----------------|---|--|-----|------|
| Class 6 | Equity Holders | All equity interests holders will retain their interest in Debtor | Unimpaired Deemed to Accept the Plan Not Entitled to Vote | N/A | 100% |
|---------|----------------|---|--|-----|------|

THE FOREGOING IS A PRESENTATION OF THE CLASSIFICATION OF CLAIMS UNDER THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL. THEY ARE FURTHER URGED TO CONSULT WITH COUNSEL OR WITH EACH OTHER IN ORDER TO FULLY UNDERSTAND THE PLAN. THE PLAN IS COMPLEX INASMUCH AS IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BY THE DEBTOR AND AN INTELLIGENT JUDGMENT CONCERNING SUCH PLAN CANNOT BE MADE WITHOUT UNDERSTANDING IT.

VI. ALTERNATIVES TO THE PLAN

If the Plan is not confirmed and consummated, alternatives to the Plan include (a) an alternative plan of reorganization, (b) liquidation of the Debtor under chapter 7 of the Bankruptcy Code, and (c) dismissal of the Reorganization Case.

A. Alternative Plan of Reorganization

The Debtor believes that the Confirmation and implementation of the Plan is preferable to a liquidation alternative because it provides for the greatest possible recovery to Debtor’s unsecured creditors and will allow Debtor to maintain the majority of its current employees, and produce additional employments through the construction of the leasehold improvements in the new site.

B. Liquidation under Chapter 7

If the Plan cannot be confirmed, the Debtor’s Reorganization Case may be converted to a case under Chapter 7 of the Bankruptcy Code, pursuant to which a

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trustee or trustees would be appointed to liquidate the assets of the Debtor for distribution in accordance with the priorities established by the Bankruptcy Code. In liquidation under Chapter 7, the Debtor's priority tax claimant will only receive 52% of their claims and the Debtor's unsecured creditors would receive no distribution.

The Liquidation Analysis prepared by the Debtor is attached to this Disclosure Statement as **Exhibit C**. The Liquidation Analysis takes into account the nature, status, and underlying estimated value of the assets and the extent to which such assets are subject to liens and security interests. The principal assumption underlying the results of the Liquidation Analysis is that the underlying value of the Debtor's assets is less than the claims of its secured creditors. As of the filing date, Debtor has indebtedness to secured creditors in the approximate amount of \$776,561.98. The value of Debtor's assets is estimated to yield in a hypothetical liquidation scenario \$978,268. After taking into consideration the administrative claims, there would not be enough funds to even pay the priority claims in full, and there would be no proceeds left for distribution to Debtor's unsecured creditors.

VII. TAX CONSEQUENCES OF THE PLAN

Debtor understands that based on Debtor's net operating losses carry forwards, the implementation of the Plan will not result in a tax liability. Additionally, under the provisions of the Puerto Rico Internal Revenue Code, any gains on restructuring trouble debts, as a result of the confirmation of a Bankruptcy Plan, are not taxable.

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VIII. FINANCIAL INFORMATION RESPECTING THE DEBTOR

Debtor has filed and will continue to file its monthly statements of cash receipts and disbursements (its “Operating Statements”) in a timely manner. A summary of all the Operating Statements is attached hereto as **Exhibit D**.

IX. LIQUIDATION ANALYSIS

Before confirmation of Debtor’s Plan, the Bankruptcy Court must analyze the Plan and determine that it is in the best interest of each impaired class of creditors. One major factor in this analysis is the determination of Debtor’s liquidation value and a comparison as to whether this liquidation value exceeds the proposed recovery to impaired classes under the Plan. The proposed treatment of impaired classes under the Plan exceeds any potential recovery through liquidation.

In order to determine the effect on unsecured creditors if a Chapter 7 Trustee attempts liquidation, a Liquidation Analysis is included as **Exhibit C** hereto. As shown, since most of the Debtor’s assets are subject to liens and security interests, the liquidation scenario would produce partial distribution to priority claims and no distribution to unsecured claims.

9.1 Best Interest Test

The proposed Plan provides for \$25,000.00 to be distributed to general unsecured creditors. A Chapter 7 liquidation of the Debtor’s Assets would produce no distribution to the general unsecured creditors.

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X. MISCELANEOUS

10.1 Objections to Claims

Debtor will continue to reconcile the proof of claim with its records and will file objections to claims deemed objectionable not later than twenty (20) days before the Confirmation Hearing.

10.2 Retention of Jurisdiction

Notwithstanding confirmation of the Plan, the Bankruptcy Court will retain jurisdiction for all purposes provided by the Bankruptcy Code, including, but not limited to:

1. The determination of the allowance of claims upon the objection to such claims by Debtor or by any other party in interest;
2. The determination of requests for payment of claims entitled to priority under 11 USC §507(a) (1), including compensation of parties entitled thereto;
3. The resolution of any disputes regarding the interpretation of the Plan;
4. The implementation of the provisions of the Plan and entry and enforcement of orders in aid of consummation of the Plan, including injunctions, releases and discharges provided for as part of Debtor's Plan;
5. The modification of the Plan pursuant to 11 USC §1127; and
6. The adjudication of any cause of action, including avoiding powers actions, brought by Debtor, by a representative of the estate, or by a Trustee under the Bankruptcy Code.

10.3 Modification of the Plan

Pursuant to the provisions of Section 1127 of the Bankruptcy Code, Debtor has

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the right to modify or alter the provisions of the Plan at any time prior or subsequent to Confirmation, but before substantial consummation of the Plan.

10.4 Effective Date of the Plan

The Effective Date of the Plan shall be thirty days (30) days after the Confirmation Order becoming final and unappealable or June 1, 2017, whichever occurs last.

10.5 Effect of Confirmation and Discharge

Confirmation and the Order of Confirmation will constitute final settlement of payment to all creditors and implementation of all injunctions, releases and discharges as provided for in the Plan. Completion of the payments contemplated in the Plan shall act, constitute, and operate as a discharge of any and all liability and indebtedness of Debtor which existed prior to Confirmation, subject to any applicable exception to discharge as provided for in 11 USC §1141(d) (2) and 11USC §523.

XI. CONCLUSION

Your receipt of this Disclosure Statement means that, either you requested a copy upon filing and the Court granted the request or the Court has approved this Disclosure Statement as containing adequate information to enable you to make an informed choice. The Court's approval of the Disclosure Statement does not constitute a recommendation by the Court either for or against the Plan, nor a guarantee of the accuracy or completeness of the information contained herein.

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DEBTOR'S MANAGEMENT BELIEVES THAT THE PLAN IS IN THE BEST INTEREST OF THE CREDITORS AND RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN. YOUR VOTE IS IMPORTANT. PLEASE VOTE PROMPTLY.

San Juan, Puerto Rico, this 27th day of February, 2017.

**METROPOLITAN INDUSTRIAL
FOOD SERVICES, INC.**
P.O. Box 193907
San Juan, PR 00919

s/ Josué V. Navarro
JOSUÉ V. NAVARRO