

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

IN RE:

VENT ALARM CORPORATION

Debtor

CASE NO. 15-09316 (MCF)

CHAPTER 11

FIRST AMENDED DISCLOSURE STATEMENT

I. INTRODUCTION

VENT ALARM CORPORATION (the “Debtor” or “VALCOR”) provides this First Amended Disclosure Statement (the “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 (the “Plan”) that is being filed with the United States Bankruptcy Court for the District of Puerto Rico (the “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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 2

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 JANUARY 31, 2018 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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 3

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]).

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 4

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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 5

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's debenture holders or shareholders. (*Collier*, op. cit. ¶1125.02 [3]).

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 6

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.

III. THE DEBTOR

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

1. Corporate Structure

Vent-Alarm Corporation (“VALCOR”) is a privately held domestic corporation organized and authorized to do business under the laws of the Commonwealth of Puerto Rico. The Company is engaged in the sale, distribution and installation of security windows, doors and related products, made up aluminum, valwood and glass materials. Its principal office and place of business is located at Real 189 km. 9.2 Gurabo, Puerto Rico.

2. Description of Debtors’ Business and Customers

In 1965 Don Jesus “Chico” Sosa founded SAMCOR (Sosa Architectural Metal Corporation) to manufacture and supply architectural designed products in aluminum and glass. The first manufacturing plant was established in Sabana Llana, Rio Piedras. In his pursuit of innovation Don Chico in 1980 designed and patented security windows, which evolved to security doors as well. As a result, in 1981 VALCOR (Vent Alarm Corporation) was founded. In 1992 a new manufacturing plant was built in Gurabo, Puerto Rico where both SAMCOR and VALCOR shared the facilities. In 1999 VALCOR acquired the assets of SAMCOR and has since been a leader manufacturer of aluminum and glass products in Puerto Rico and the Caribbean. Architectural elements in commercial and government buildings and in thousands of homes across the island embodies VALCOR’s legacy.

3. The Debtors' Product Overview

VALCOR offers a wide range of aluminum and glass products. VALCOR designs, manufactures, sells and installs security windows, doors and related products, made up of aluminum and glass materials.

4. The Debtors' Business Strategy

Although VALCOR's products enjoy an excellent reputation and recognition within Puerto Rico's market, the decline of the construction industry had a devastating effect on VALCOR's sales. Said decline in sales forced the corporation to enter into an agreement with Luchetti Investment, LLC ("Luchetti") for the sale of the majority of VALCOR's assets. Said sale was approved by the Bankruptcy Court under the provisions of Section 363 of the Bankruptcy Code. In fact, in order for the sale to be perfected, Luchetti had to purchase the notes of VALCOR's secured creditors prior to the approval of the sale. As such VALCOR is submitting the instant liquidating plan under Chapter 11 in order to properly liquidate its remaining assets to be benefit of all its creditors.

B. Board of Directors

The Debtor's board of directors is listed below.

<u>Name</u>	<u>Position</u>
Jesús M. Sosa Aguilar	CEO, Shareholder
Fernando A. Sosa Velasco	President, Shareholder
Gladys Garcia Reyes	Secretary
Beatriz Sosa Velasco	Treasurer, Shareholder
Inés Sosa Velasco	Member, Shareholder

C. 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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 10

take place which at best implies a protracted solution to Puerto Rico's economic woes. Currently Puerto Rico is Debtor's major market which in turn poses a significant market risk; as such, Debtor's strategic plan was changed in order to properly liquidate all its assets.

2. Deteriorating Conditions in the Construction Industry

Once a vigorous part of the economy, Puerto Rico's construction sector remains at its lowest point in more than a decade with little hope of improvement in the next few years, when activity is expected to stay at its present level of under \$2 billion. Undoubtedly, the reduction in the construction activity has significantly impacted the Company's revenue stream.

3. The Debtor's Deteriorating Financial Condition

Prior to the Petition Date, the Debtor's principal source of liquidity was cash flow generated from operations, cash on hand and borrowings under Secured Credit Facilities. During 2015 Debtor's then existing secured revolving line of credit amounting to \$1.5 million was termed out upon lender's request. The line of credit facility had been used by Debtor to finance the collection of receivables and the purchase of inventory. The cancellation of such facility further deteriorated Debtor's financial condition, as it further eroded Debtor's liquidity. These liquidity constraints also threatened the Debtor's ability to continue to pursue necessary growth and development initiatives. As a result of the liquidity constraints, Debtor was unable to meet its current obligations. Furthermore, as a result of the liquidity constraints Debtor failed to remit

to the Secretary of Treasury of Puerto Rico amounts collected or assessed related to sales tax. On November 18, 2015 the Secretary of Treasury of the Puerto Rico Treasury Department notified the Company that it had placed an embargo over all of its personal property for unpaid taxes. The amount levied by the Secretary of Treasury including interest and penalties amounted to \$1,864,865. As a result of the action taken by the Secretary of Treasury, the Company was precluded from continuing its operations. On November 24, 2015, the Company filed a voluntary petition for reorganization under Chapter 11 of the Bankruptcy Code and was authorized to continue managing and operating the business as a debtor in possession.

4. 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 after its bankruptcy filing. 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 aforementioned factors and Debtor's inability to increase its

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 12

margin, the Debtor was not able to generate sufficient cash flow from operations to service its indebtedness and to meet other obligations.

5. Significant Post-Petition Events

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

6. 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, plant and equipment, inventory, pre-paid expenses and deposits. Almost all of Debtor's assets are subject to liens and security interests.

7. 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:

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 13

- 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 the taxing authorities as of the petition date in the approximate amount of \$1,393,530.45, taking into consideration the amended proofs of claims to be filed by Treasury and/or the objections to claims to be filed by Debtor.
- Secured Creditor Claims – the amount represents the secured amounts previously owed to Banco Popular and Oriental Bank as of the petition date in the approximate amount of \$3,850,000.00 and \$1,518,113.18, which, as aforementioned were transferred to Luchetti.
- 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 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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 15

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 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 requirements 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, and the Debtor's liquidating plan.

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. However, as aforementioned, these measures were not enough to keep the business afloat and Debtor had no other option but to sell its assets to maximize the recovery to all creditors.

2. Employment of Professionals

Counsel for Debtor. With leave of the Bankruptcy Court, Debtor has 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 WRG Certified Public Accountants, PSC as its financial advisor and in house accountant in connection with its Chapter 11 and other proceedings.

3. Post-Petition Management Structure

As part of Debtor's efforts to restructure its operations a major cost reduction program was instituted, which also included the reduction of certain management positions and/or replacements.

In the month of September 2016 Mr. Antonio Rodriguez - Executive Vice President resigned from VALCOR. Debtor brought on board Mr. Pedro Collado as General Manager to strengthen its manufacturing operations. Mr. Collado is an industrial engineer with vast experience in the industry. The addition of Mr. Collado to Debtor's management increased efficiency in its

manufacturing operations. Additionally, this change has also represented a reduction in payroll.

In the month of October 2016 Mr. Jorge Sosa – IS Manager resigned from VALCOR. This change has also represented a reduction in payroll.

In the month of September the following officers-insiders positions were eliminated:

- a. Inés Sosa Velasco - Client Service Manager.
- b. Beatriz Sosa Velasco – Marketing Manager.

In addition to the aforementioned changes, since September 2016 Mr. Jesus M. Sosa the founder and current CEO of VALCOR decided to forego his compensation. These changes represent an annual cost savings in excess of \$200,000.

However, as aforementioned, these measures were not enough to keep the business afloat and Debtor had no other option but to sell its assets to maximize the recovery to all creditors.

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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 18

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 rejected 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 rejected 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.

- a. On December 22, 2015, the Court granted Debtor's request to assume several executory contracts that were necessary for Debtor to continue its operations.
- b. On February 10, 2016 Bird Group, LLC and Putnam LAC Holding LLC ("Bird-Putnam") commenced a contested matter regarding the executory contract of the Ciudadela Project. Said contested matter commenced with the filing of a motion requesting to shorten the term for Debtor to assume or reject the contract. After Debtor moved the Court for assumption of the contract, Bird-Putnam objected Debtor's request. Furthermore, Bird-Putnam filed an adversary proceeding requesting injunctive relief regarding the installation of substitute glass in the Ciudadela Project. In order to continue the Ciudadela Project, Debtor filed for approval of the Court a financing agreement with its surety, i.e. United Surety and Indemnity Company, which was objected by Bird-Putnam and Oriental

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 20

Bank. During the hearing to discuss the assumption of the Ciudadela Project contract, the Court ruled in favor of Debtor and allowed the assumption of said contract. Bird-Putnam filed an appeal to said ruling. Furthermore, the financing agreement with USIC was approved by the Court. Thereafter, Debtor and Bird-Putnam reached a settlement agreement, as amended, that entailed a global settlement of all their differences, including a modification of the Ciudadela Project contract in order to include a Change Order whereby Bird will purchase the majority of the materials needed to complete the project, a request to vacate the order approving the financing agreement with USIC, a voluntary dismissal of the appeal filed by Bird-Putnam, and certain financial covenants and financial reporting obligations. Said settlement was objected by USIC, but ultimately approved by the Court.

- c. On February 19, 2016 Oriental Bank filed a motion to prohibit the use of cash collateral. However, during the hearing to discuss the same, the Court denied the motion after accepting Debtor's offer to grant Oriental Bank a replacement lien over Debtor's post-petition receivables.
- d. On February 25, 2016 Oriental Bank filed a motion for relief from stay regarding the realty held as collateral. During the hearing to discuss the same, the Court denied the motion due to the equity cushion that exists in said collateral.

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 21

- e. On March 23, 2016 Debtor filed a stipulation for adequate protection with Banco Popular regarding the realty held as collateral by the bank. Said stipulation has been extended from time to time.
- f. On February 2, 2017, Debtor filed its first disclosure statement and plan of reorganization. After several objections to the disclosure statement were filed, Debtor requested additional time to file an amended disclosure statement.
- g. After the passing of Hurricane Maria, Debtor entered into an ordinary course transaction with Bird Group and Putnam on October 19, 2017, in order to purchase a power generator and be able to continue its operations.
- h. On November 7, 2017, Debtor and Puma Energy Caribe, LLC entered into a stipulation in order to settle their controversies and collect at a discount one of Debtor's receivables. Said stipulation was finally approved by the Court and Debtor will use said funds to pay outstanding administrative claims and/or to fuel its Plan.
- i. On February 1, 2018, Banco Popular's claim was transferred to Luchetti.
- j. On February 2, 2018, Oriental Bank's claims were transferred to Luchetti.
- k. On February 6, 2018 Debtor and Luchetti filed two urgent motions. The first was to approve a post-petition financing in order to maintain Debtor's operations; and the second one was to approve the sale of the majority of

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 22

Debtor's assets pursuant to Section 363 of the Bankruptcy Code. The Court, after several amendments were filed, approved both motions.

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 claims unless Treasury proceeds to amend its proof of claims.

D. THE DEBTOR'S OPERATIONAL RESTRUCTURING INITIATIVES

Debtor's reorganization plan is geared to enable the company to maximize the recovery to creditors by selling all its assets. Debtor's liquidity has been negatively impacted by the reduction in sales experienced over the last years and by the reduction in its margin. In response to these events, VALCOR's tried several approaches to have a profitable business but was unable to have a successful result. Therefore, VALCOR's Reorganization Plan entails the sale of all its assets.

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. Secured Creditor Luchetti (previously Banco Popular of Puerto Rico) partial payment in kind of its collateral.
3. Secured Creditor Luchetti (Oriental Bank) full payment in kind of its collateral.
4. Payment of 21.6% of amount expected to be allowed of priority tax claims, i.e. \$1,393,530.45, within 30 days after the Effective Date.
5. Payment of approximately 1.3% of the expected to be allowed unsecured claims, from the approximate \$60,000 carve out for unsecured creditors to be paid within 120 days after the Effective Date.
6. All of Debtor's equity interests will be cancelled on the Effective Date.

4.2 Means of Funding the Plan

The Plan is to be funded with the available funds originating from the sale of Debtor's assets, 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.

The proposed Plan provides for an estimated carve-out of \$60,000.00 for distribution to general unsecured creditors on or before 120 days after the Effective Date on a pro-rata basis. A Chapter 7 liquidation of the Debtor's Assets would produce no distribution to unsecured creditors.

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 24

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 \$1,179,236.

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 approximately \$300,000.00 on or before 30 days after the Effective Date.

4.4.2 Classified Claims

Class 1 (SECURED CREDITOR LUCHETTI PREVIOUSLY BPPR) – Class 1 shall consist of the secured claim of Luchetti (previously Banco Popular) estimated in the total amount of \$3,861,054.64, secured by Debtor's business real property located in Gurabo.

Class 2 (SECURED CREDITOR LUCHETTI PREVIOUSLY ORIENTAL) - Class 2 shall consist of the secured claim of Oriental Bank estimated in the total amount of \$1,518,113.18 secured by Debtor's cash, accounts receivables, inventory, machinery and equipment, land lot in Gurabo and real property in Andalucía Avenue.

Class 3 (GENERAL UNSECURED CREDITORS) – Class 3 shall consist of the

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
 Page 25

unsecured claims, including the deficiencies of the secured creditors. The total amount of these claims is estimated to be \$4,364,860.95.

Class 4 (EQUITY HOLDERS) – Class 4 shall consist of all equity interests in the Debtor.

4.5 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 the proceeds of the liquidation of Debtor’s assets	Unimpaired Deemed to Accept the Plan Not Entitled to Vote	\$1,179,236	100%
Unclassified	Priority Tax Claims	Will be paid \$300,000 from the proceeds of the liquidation of Debtor’s assets as payment in full	Impaired Entitled to Vote	\$1,389,604.41	21.6%
Class 1	Secured Creditor Luchetti (previously Banco Popular)	Will be paid through with its collateral as a partial payment in kind; and the deficiency to receive a dividend under the unsecured class.	Impaired Entitled to Vote	\$3,861,054.64	58.3%
Class 2	Secured Creditor Luchetti (previously Oriental Bank)	Will be paid in full with its collateral as a full payment in kind	Impaired Entitled to Vote	\$1,518,113.18	100%

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
 Page 26

Class 3	General Unsecured Creditors	Payment of approximately 1.3% of the amounts expected to be allowed of the general unsecured claims to be paid within 120 days after the Effective Date of the Plan	Impaired Entitled to Vote	\$4,364,860.95	1.3 %
Class 4	Equity Holders	All equity interests will be cancelled	Impaired Deemed to Reject 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 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 receive 0% of their claims and the Debtor's unsecured creditors would equally 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 \$5,879,167.82. The value of Debtor's assets is estimated to yield in a hypothetical liquidation scenario \$4,917,381.89. After taking into consideration the administrative claims, there would not be enough funds to even pay the priority

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 28

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.

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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 29

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 approximately \$60,000.00 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.

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

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 30

- 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 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.

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.

VENT ALARM CORPORATION
First Amended Disclosure Statement

Case No. 15-09316 (MCF)
Page 31

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.

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 26th day of March, 2018.

VENT ALARM CORPORATION
P.O. Box 1319
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s/ Fernando A. Sosa Velasco
FERNANDO A. SOSA VELASCO