

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

**IN RE:**

**CUPEYVILLE SCHOOL, INC.**

**DEBTOR**

**CASE NO. 15-09822 (MCF)**

**CHAPTER 11**

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**DISCLOSURE STATEMENT  
OF  
CUPEYVILLE SCHOOL, INC.**

**s/ALEXIS FUENTES-HERNÁNDEZ**

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## **I. INTRODUCTION**

Pursuant to Section 1125 of the United States Bankruptcy Code, 11 U.S.C. § 101, *et seq.* (the "Bankruptcy Code"), Cupeyville School, Inc., debtor and debtor-in-possession in the above captioned case ("Debtor"), submits its Disclosure Statement (the "Disclosure Statement") to all of its known creditors and parties in interest in the captioned case. The purpose of the Disclosure Statement is to provide such information as Debtor believes may be deemed necessary for Debtor's creditors to make an informed decision in exercising their rights to vote on Debtor's Plan (the "Plan"), dated as of the date of the Disclosure Statement. The Plan is being filed with the United States Bankruptcy Court for the District of Puerto Rico ("Bankruptcy Court")<sup>1</sup> simultaneously herewith.

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

The information contained in the Disclosure Statement has been provided by Debtor based upon Debtor's knowledge of its records, business, and affairs. Except as otherwise expressly indicated, the information provided by Debtor in the Disclosure Statement has not been subject to an audit or

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<sup>1</sup> Capitalized terms not otherwise defined herein have the same meaning as set forth in the Plan, other terms shall have the meaning ascribed to them in the Bankruptcy Code.

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independent review. Although great efforts have been made to be accurate, Debtor, its counsel and other professional advisors do not warrant the accuracy of the information contained herein.

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

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

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

## **II. SUMMARY OF THE PLAN**

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

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DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM	TREATMENT AND ESTIMATED RECOVERY UNDER THE PLAN
Holders of Allowed Administrative Expense Claims (Estimated)	N/A	\$141,725.00	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Except as otherwise agreed to by Debtor and the Holder of an Allowed Administrative Expense Claim, each such Holder shall be paid in full by Debtor in the regular course of Debtor's business or as authorized by the Court, on or before the Effective Date of the Plan.</p> <p>Payments to Professionals will be made as approved by the Bankruptcy Court during the pendency of the Chapter 11 Case. US Trustee Quarterly Fees will be paid when due, with any pending balance to be paid on or before the Effective Date of the Plan.</p>
Holders of Allowed Priority Tax Claims Secured and Unsecured	N/A	\$978,082.23	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>The Holders of Allowed Priority Tax Claims, Secured and Unsecured, shall be paid by Debtor as follows:</p> <ul style="list-style-type: none"> <li>(i) The Holders of Allowed Priority Tax Claims of \$5,000 or less, if any, will be paid 100%, in cash, on the Effective Date of the Plan.</li> <li>(ii) The Holders of Allowed Priority Tax Claims in excess of \$5,000, <b><i>except for the claims of the Department of Treasury of Puerto Rico ("Treasury")</i></b>; will be paid 100%, in cash, in deferred equal consecutive monthly installments as shown in the <b>Exhibit C</b> hereto, commencing on the Effective Date of the Plan and continuing on the last day of each month thereafter over a 59-month period after the Effective Date, equal to the amount of such Allowed Priority Tax Claims, plus the statutory rate of interest prevailing during the month the Plan is</li> </ul>

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			<p>confirmed, estimated at 4.50% per annum. Payments are estimated in \$6,206.45, per month.</p> <p>(iii) The Allowed Claims of Treasury, as reduced by the amounts paid to Treasury with the funds seized by such agency within the 90 days prior to the filing date, will be paid 100%, in cash, in deferred consecutive monthly installments as shown in the <b>Exhibit C-1</b> hereto, commencing on the Effective Date of the Plan and continuing on the last day of each month thereafter over a 59-month period after the Effective Date, equal to the amount of such Allowed Priority Tax Claims, plus the statutory rate of interest prevailing during the month the Plan is confirmed, estimated at 4.50% per annum. (See Exhibit C-1)</p>
<p>The Secured Claim of Banco Popular de Puerto Rico (“BPPR”)</p>	<p><b>Class 1</b></p>	<p>\$3,158,550.00</p>	<p>Impaired.</p> <p>Estimated Recovery: 100%</p> <p>BPPR’s secured claims resulting from a Credit Agreement executed on June 19, 2015 by and between BPPR and Debtor to refinance two (2) term loans (the “Agreement”), shall be paid in full (100%), in cash, pursuant to the Agreement, except for the principal payments scheduled for the year 2016, in the amount of \$100,000, which will be made pursuant to the Joint Motion for the Use of the Cash Collateral filed in Docket No. 51 dated March 16, 2016 (approved in Docket No. 58).</p> <p>All other principal payments will be made pursuant to the Agreement.</p> <p>Interest over BPPR’s secured claims will continue to be made (monthly) pursuant to the Agreement at 6.25% per annum, over the unpaid principal balance of the term loans.</p> <p>Moreover, BPPR will retain unaltered its collateral</p>

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			including its security agreement and liens over Debtor's accounts receivable and mortgages over Debtor's real property until full payment thereof.
Toyota Credit de Puerto Rico ("Toyota")	<b>Class 2</b>	\$6,448.93	<p>Unimpaired</p> <p>Estimated Recovery:100%</p> <p>Toyota's Secured Claim resulting from a vehicle loan granted to Debtor, secured by a 2011 Toyota Sequoia, will continue to be paid as contractually agreed, with monthly payments of \$942.99, until full payment thereof.</p>
The Holders of pre-petition cure claims against Debtor, arising from the assumption by Debtor of Unexpired Executory Contracts	<b>Class 3</b>	\$36,409.34	<p>Unimpaired</p> <p>Estimated Recovery:100%</p> <p>The Holders of Allowed Pre-Petition Cure Claims arising from assumed executory contracts, as listed in Section 7.4 hereof, except for the lease agreement with BMW Financial Services, as were reduced for the payments made during the pendency of the case, shall be paid in full by Debtor, on the Effective Date of Debtor's Plan.</p> <p>The claim of BMW Financial Services will continue to be paid with monthly payments of \$723.34 per month, until the full payment thereof.</p>
Holders of Allowed General Unsecured Claims	<b>Class 4</b>	\$2,335,730.26	<p>Impaired.</p> <p>Estimated Recovery: 5%</p> <p>The Holders of Allowed General Unsecured Claims (excluding those from Debtor's Shareholders), of \$75,000 or less, will be paid in full satisfaction of their claims 5% thereof, in cash, on the Effective Date.</p> <p>The Holders of Allowed General Unsecured Claims over \$75,000, will be paid in full satisfaction of their claims 5% thereof through sixty (60) equal consecutive monthly installments of \$1,324.37, commencing on the Effective Date of Debtor's Plan and continuing on the thirtieth (30th) day of the</p>



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			subsequent fifty-nine (59) months.
Interests in Debtor	<b>Class 5</b>	N/A	Unimpaired.  Estimated Recovery: <b>N/A</b>  The Holders of the Equity Interest in Debtor will not receive any distribution under the Plan but will retain their shares in Debtor unaltered.

For a more detailed description of the treatment of the foregoing Classes of Claims and Interest, see “Treatment of Claims and Interest under the Plan”.

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

### **III. INFORMATION ABOUT THE REORGANIZATION PROCESS**

#### **3.1 Purpose of a Disclosure Statement**

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

Upon its approval by the Bankruptcy Court, the Disclosure Statement and its Exhibits will have been found to contain, in accordance with the provisions of the Bankruptcy Code, adequate information of a kind and in sufficient detail to enable a reasonable, hypothetical investor, typical of a holder of an

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impaired claim or an interest to make an informed judgment about the Plan. Approval of the Disclosure Statement, however, does not constitute a recommendation by the Bankruptcy Court either for or against the Plan.

### **3.2 Voting Procedure**

All creditors entitled to vote on the Plan may cast their votes for or against the Plan by completing, dating, signing and causing the Ballot Form accompanying this Disclosure Statement as **Exhibits A-1 and A-2**, to be returned to the following address:

**CUPEYVILLE SCHOOL, INC.**  
c/o Fuentes Law Offices  
PO Box 9022726  
San Juan, PR 00902-2726

The Ballots must be received **on or before 4:00 P.M. (Eastern Standard Time) on \_\_\_\_\_, 2016**, to be counted in the voting. Ballots received after this time will not be counted in the voting unless the Bankruptcy Court so orders. Debtor recommends a vote for "ACCEPTANCE" of the Plan.

### **3.3 Ballots**

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

Classes 1 and 4 are impaired under the Plan and entitled to vote for acceptance or rejection of the Plan. Classes 2 and 3 are unimpaired under the Plan and thus not entitled to vote. Class 5 is deemed to have rejected the Plan and not entitled to vote to accept or reject the Plan.

A party who holds claims in more than one impaired Class should complete a Ballot for each

Class with respect to the applicable portion of the claim included in each Class.

### **3.4 The Confirmation Hearing**

Pursuant to Section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing on confirmation of the Plan to commence on \_\_\_\_\_ **2016** at \_\_\_\_**.M.**, or as soon thereafter as the parties can be heard. The Confirmation Hearing will be held before the Honorable Mildred Caban Flores, United States Bankruptcy Judge, 300 Recinto Sur Street, San Juan, Puerto Rico 00901, or before such other Bankruptcy Judge and at such other place as may be indicated in the future.

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

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

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

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

attached as **Exhibit B** hereto.

### **3.5 Acceptances Necessary to Confirm the Plan**

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

### **3.6 Confirmation of the Plan without the Necessary Acceptances**

If a Class or Classes of impaired Claims do not accept the Plan, Debtor will request confirmation of the Plan under the “cram down” provisions of Section 1129(b) of the Bankruptcy Code, which permits confirmation, notwithstanding non-acceptance by one or more impaired Classes, if the Bankruptcy Court finds that the Plan does not discriminate unfairly against and is fair and equitable as to each non-accepting Class entitled to vote on the Plan, as long as at least one class of impaired creditors votes to accept the Plan. Section 1129(b) of the Bankruptcy Code requires among

other things, that claimants must either receive the full value of their claims and if they receive less, that no Class with junior liquidation priority may receive anything.

**THESE CALCULATIONS ARE BASED ONLY ON THE CLAIMS AMOUNTS AND NUMBER OF CREDITORS WHO ACTUALLY VOTE. ANY BALLOT THAT IS VALIDLY EXECUTED THAT DOES NOT CLEARLY INDICATE REJECTION OF THE PLAN SHALL BE DEEMED TO CONSTITUTE A VOTE FOR ACCEPTANCE OF THE PLAN. THE VOTE OF EACH CREDITOR IS IMPORTANT.**

#### **IV. GENERAL INFORMATION**

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

Debtor is a private, non-sectarian, co-educational college preparatory institution, located at Cupey Bajo, Río Piedras, Puerto Rico. It serves a predominantly Hispanic population offering a learning program for students in grades from Pre Pre-Kinder through 12<sup>th</sup> grade. Debtor was organized in 1963, responding to the needs of a growing suburban community interested in a bilingual/co-educational learning program.

Debtor is accredited by the Middle States Association, the Department of Education of Puerto Rico, and recognized as a School of Excellence by the U.S. Department of Education, Blue Ribbon School of Excellence. It is the only accredited school in Puerto Rico in hands of a Puerto Rican family. It is ranked by the Caribbean Business as #5 of the 28 Largest Private Schools in Puerto Rico (2013-2014).

Debtor's revenues are mainly composed of registration revenues, monthly tuition fees, cafeteria, after school programs, uniforms, among others. For the scholar year 2014-2015, Debtor had a registration of approximately 1,100 students from pre-kinder up to grade 12 with a faculty of over 180 teachers.

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

On February 4, 2014, the Credit rating agency Standard & Poor's ("S & P") downgraded the Government of Puerto Rico's general obligations (GOs) bonds to a speculative level, level which is also known as "junk". In other words, the general obligation bonds (GOs) are below the levels that are recommended to invest in such bonds. Since 2002, the GOs bonds, had been falling significantly, passing Baa3 by Moody's and BBB- by S & P. These are the minimum ratings in the category of investment grade (investment grade).

Downgrades suffered by the Government of Puerto Rico's bonds are the result of the sharp deterioration on the fiscal condition of the government, the growth of the government debt over its revenues, and the lack of economic growth since 2006, and the coming years.

As a result of above, among other reasons, a demographic transition in Puerto Rico has taken place in recent years, and what the 2010 U.S. Census originally reflected as a population loss of 82,821 people during the past decade, turned out to be of nearly 350,000 or possibly more. The reduction in population translates into less students in the private education sector, decrease in governmental revenues, and a decrease of investment from the private sector. The local depletion of intellectual or professional resources through emigration, or brain drain, has been substantial.

The Puerto Rico Community Survey showed that the percentage of people who left the island with some sort of college or post-secondary education increased to 50% in 2011, from 38% the previous year.

As a result of Puerto Rico's economy contraction during the past years, which had not allowed Debtor to increase the tuition fees during the past five (5) years<sup>2</sup>, coupled with the

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<sup>2</sup> Except for a slight increase made for the current scholar year.

significant increases in costs including utilities, supplies, and others and a decrease in enrolled students, the Debtor has been suffering a significant decrease in its free cash flows and has been accumulating trade and other liabilities, in the ordinary course of business.

Consequently, Debtor's management has been involved in the School's restructuring and reorganization process, for the purpose of remedying the financial problems and state of affairs that caused the significant decrease in enrollment during the last years, and mitigate the impact over School's cash flows.

As part of its internal reorganization, which commenced prior to the filing date, Debtor's management also discovered that the accounting department in charge of the accounting functions at the School was not paying on time, all of Debtor's obligations, primarily those relative to certain taxes, and as such, significant balances were accrued with various governmental agencies. As a result, Debtor replaced all of its personnel in the accounting department to commence with a financial reorganization and avoid the continuance of accrual of such liabilities.

Thus, in an effort to continue with its operations, provide a breathing spell and obtain the benefits of 11 U.S.C. 362 (A), which stays all collection actions and judicial proceedings, on December 12, 2015, Debtor filed its Chapter 11 Reorganization case.

Debtor's Plan of Reorganization (the "Plan") contemplates that Debtor will continue with its operations, implementing cost containment programs, which consider the reduction in expenses such as professional services, repairs, maintenance, contracted services, computer services, telephones, insurance, medical insurance, and other costs savings programs.

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

As a result of the filing by the Chapter 11 petition, Debtor received the benefits of 11 U.S.C. §

362(a), which stayed all collection actions and judicial proceedings against it, providing Debtor with the opportunity to file a Plan and Disclosure Statement, as envisioned by the Bankruptcy Code, without the pressures that drove them into Chapter 11. The United States Trustee held the first meeting of creditors pursuant to Section 341 of the Bankruptcy Code in Debtor case on January 20, 2016, which was closed.

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

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

## **V. CLAIMS AGAINST DEBTOR**

### **5.1 Claims Against Debtor**

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

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

### **5.2 Objections to Claims**

The amounts set forth as due to holders of unclassified and classified claims are estimates only, based upon Debtor's Schedules or Debtor's belief as to amounts due thereto. Debtor is including as **Exhibit C** hereto an Updated Summary of Claims and Plan Payments as of May 26, 2016, including reconciliation of claims against Debtor, indicating those objected, to be objected, and those pending for review.



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

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

After an initial review, Debtor will file objections to the following claims, giving notice to the particular creditors that they have thirty (30) days to respond thereto:

POC #	Claimant	Total Amount Claimed	Amount Expected to be Allowed	Reason for Objection
15	State Insurance Fund of P.R. ("SIF")	\$74,374.34 Priority  \$49,236.40 Unsecured	\$52,428.09 Priority  \$71,182.65 Unsecured	On March 29, 2016 SIF filed the POC 15 for \$123,610.74 for unpaid workmen compensation premiums and others charges, for various years. Based on the examination of the POC, Debtor noticed that SIF erroneously classified the 2012 premiums as a priority claim, instead of as a general unsecured claim.  Based on the above, POC No. 15 must be partially allowed for \$52,428.09 as a Priority Tax Claim and for \$71,182.65 as a general unsecured claim.
16	Mrs. Diana Bajandas ("Claimant")	\$1,000,000.00 Unsecured	\$0.00 Unsecured	On March 30, 2016 claimant filed a POC for \$1,000,000. A review of the POC-16 shows that Claimant is attaching, as support to her POC, copy of an Amended Complaint (the "Complaint") filed under Civil Case No. 14-1011 (FAB). The Complaint refers to various claims under ASAAA, Puerto Rico Law No. 44, and Law 80, all related to Labor Law matters.  The Complaint quantified the total alleged damages in \$1,000,000. However, as of the filing date, such case had not been concluded and there is not any judgement in favor or against Debtor, thus this claim cannot be allowed as correct, nor for the amounts claimed.  In any event, Claimant may file a Motion for the Relief from Stay to continue with the proceedings, and when a judgement is entered, modified its claims accordingly.

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18	Luis Ramon Reyes ("Claimant")	\$245,125.00 Unsecured	\$0.00 Unsecured	<p>On April 18, 2016, Claimant filed Proof of Claim No. 18 ("POC No. 18") for \$245,125 for alleged employee benefits.</p> <p>Claimant has failed to provide any documents supporting the details of the amount claimed in POC No. 18.</p> <p>Moreover, in fact, this Claimant which is an ex-employee of the Debtor, dismissed during 2015, owes Debtor the amount of \$111,913. Debtor will file an adversary proceeding for the collection of said amount. Furthermore, Debtor is considering the cost-benefit considerations of making a forensic investigation to determine if Claimant owes additional funds to the Debtor, due to wrongful management of Debtor's assets during his tenure of Debtor's books and records.</p> <p>Based on the above, POC No. 18 must be disallowed.</p>
19	Camera Mundi, Inc.	\$2,480.20 Unsecured	\$1,047.99 Unsecured	<p>On May 10, 2016, Claimant filed Proof of Claim No. 19 ("POC No. 19") for \$2,480.20.</p> <p>However, POC-19 was filed after April 19, 2016 and therefore, it is time barred. Thus, Debtor is allowing the amount of \$1,047.99 which represents the scheduled amount, which was based on Debtor's books and records as of the filing date.</p>

**VI. DESCRIPTION OF THE PLAN**

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

Except as otherwise agreed to by Debtor and the Holder of an Allowed Administrative Expense Claim, each such Holder shall be paid in full by Debtor in the regular course of Debtor's business or as authorized by the Court, on or before the Effective Date of the Plan.

**6.1 Unclassified Claims**

In accordance with Section 1123(a)(1) of the Bankruptcy Code, Administrative Expense Claims and Priority Tax Claims Secured and Unsecured are not classified in the Plan. A

description of the unclassified claims and the Claims and Interest in each class, as well as the estimated principal amount thereof as of the Effective Date and their treatment, are set forth in the Plan. Administrative Expense Claims are generally the ordinary and necessary costs of administering and operating during a Chapter 11 case.

## **6.2 Administrative Expense Claims**

Except as otherwise agreed to by Debtor and the holder of an Allowed Administrative Expense Claim, each such Holder shall be paid in full by Debtor in the regular course of Debtor's business or as authorized by the Court, on or before the Effective Date of the Plan.

If Debtor disputes any portion of an Administrative Expense Claim, Debtor shall pay such Claim within thirty (30) days after the entry of a Final Order with respect to the allowance of such disputed Administrative Expense Claim. These claims will be paid from certain shareholder's contributions to be made on or before the Effective Date of the Plan.

## **6.3 Professional Fee Claims**

The professionals retained by Debtor in Debtor's Chapter 11 case have and will incur fees and expenses from the date of their retention through the Effective Date of the Plan. It is impossible to predict the amount of professional administrative expense fees that will be incurred through the confirmation of the Plan. As of the filing of this Disclosure Statement, Debtor has paid its Chapter 11 counsel and financial consultant \$40,000, as their retainer fees.

Debtor estimates that additional Allowed Professionals Fee Claims, to all professionals, retained by Debtor will approximate between \$100,000 and \$125,000, for unpaid services to be rendered and expenses incurred up to the Confirmation of the Plan. All amounts paid and to be paid to professionals through the Confirmation Date, including interim fees and expenses are subject to final Bankruptcy Court approval. Debtor reserves the right to contest the allowance of any professional fees.

These claims will be paid from certain shareholder's contributions to be made on or before the Effective Date of the Plan.

#### 6.4 Priority Tax Claims Secured and Unsecured

The Holders of Allowed Priority Tax Claims, Secured and Unsecured, as listed in the **Exhibit D** hereto, shall be paid by Debtor as follows:

- (i) The Holders of Allowed Priority Tax Claims of \$5,000 or less, if any, will be paid 100%, in cash, on the Effective Date of the Plan.
- (ii) The Holders of Allowed Priority Tax Claims in excess of \$5,000, except for the claims of the Department of Treasury of Puerto Rico ("Treasury"); will be paid 100%, in cash, in deferred equal consecutive monthly installments as shown in the Exhibits C and D hereto, commencing on the Effective Date of the Plan and continuing on the last day of each month thereafter over a 59-month period after the Effective Date, equal to the amount of such Allowed Priority Tax Claims, plus the statutory rate of interest prevailing during the month the Plan is confirmed, estimated at 4.50% per annum. Monthly payments are estimated in \$6,206.45, per month.
- (iii) The Allowed Claims of Treasury, as reduced by the amounts paid to Treasury with the funds seized by such agency within the 90 days prior to the filing date, will be paid 100%, in cash, in deferred consecutive monthly installments as shown in the **Exhibit C-1** hereto, commencing on the Effective Date of the Plan and continuing on the last day of each month thereafter over a 59-month period after the Effective Date, equal to the amount of such Allowed Priority Tax Claims, plus the statutory rate of interest prevailing during the month the Plan is confirmed, estimated at 4.50% per annum.

## **6.5 Classes of Claims and Equity Interest**

As of the Petition Date, Debtor had secured claims payable to Banco Popular de Puerto Rico (“BPPR”) and Toyota Credit de Puerto Rico (“Toyota”), and pre-petition cure claims on assumed executory contracts, and other non-priority unsecured claims, as more particularly described below. The Plan classifies the various claims against Debtor. A description of all classes of Claims and the Equity Interest, the estimated principal amount due to each Class as of the Effective Date and its treatment are set forth below. The Classes of Claims and the Interest in Debtor set forth in the Plan are as follows:

**Class 1 – The Secured Claim of Banco Popular de Puerto Rico (“BPPR”) –** Class 1 consists of the Allowed Secured Claims of BPPR for \$3,158,550.00 (as reduced for the payments made during the pendency of the case), arising from a Credit Agreement executed on June 19, 2015, by and between BPPR and Debtor to refinance two (2) term loans (the “Agreement”), secured by a first mortgage over Debtor’s real property located at Cupey, San Juan, Puerto Rico and liens over Debtor’s accounts receivable.

**Class 2 – The Secured Claim of Toyota Credit de Puerto Rico (“Toyota”) -** Class 2 consists of Toyota’s secured claim resulting from a vehicle loan granted to Debtor, secured by a 2011 Toyota Sequoia.

**Class 3 – The Holders of Pre-petition Cure Claims -** Class 3 consists of the Holders of Pre-petition cure claims against Debtor, arising from the assumption by Debtor of unexpired executory contracts.

**Class 4 – The Holders of Allowed General Unsecured Claims -** Class 4 consists of the Holders of Allowed General Unsecured Claims.

**Class 5 –Debtor's Shareholder** – Class 5 consists of the Holders of the Equity Interest in Debtor.

## **6.6 Treatment of Claims.**

### **Class 1 – The Secured Claims of BPPR**

- (a) Impairment and Voting – Class 1 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Distribution – BPPR's Claim, in the amount of \$3,158,550.00 (as reduced for the payments made during the pendency of the case) shall be paid in full (100%), in cash, pursuant to the Agreement, except for the principal payments scheduled for the year 2016, in the amount of \$100,000, which will be made pursuant to the Joint Motion for the Use of the Cash Collateral filed in Docket No. 51 dated March 16, 2016 (approved in Docket No. 58). All other principal payments will be made pursuant to the Agreement.

Interest over BPPR's secured claims will continue to be made (monthly) pursuant to the Agreement at 6.25% per annum, over the unpaid principal balance of the term loans.

Moreover, BPPR will retain unaltered its collateral including its security agreement and liens over Debtor's accounts receivable and mortgages over Debtor's real property until full payment thereof.

### **Class 2 – The Secured Claims of Toyota**

- (a) Impairment and Voting - Class 2 is unimpaired under the Plan and is not entitled to vote to accept or reject the Plan.
- (b) Treatment -Toyota's Secured Claim will continue to be paid as contractually agreed,

with monthly payments of \$942.99, until full payment thereof.

### **Class 3- Holders of Pre-Petition Cure Claims**

- (a) Impairment and Voting – Class 3 is unimpaired under the Plan and is not entitled to vote to accept or reject the Plan.
- (b) Treatment –The Holders of Allowed Pre-Petition Cure Claims arising from assumed executory contracts, as listed in Section 7.4 hereof, except for the lease agreement with BMW Financial Services, as were reduced for the payments made during the pendency of the case, shall be paid in full by Debtor, on the Effective Date of Debtor's Plan.

The claim of BMW Financial Services will continue to be paid with monthly payments of \$723.34 per month, until the full payment thereof.

### **Class 4- Holders of Allowed General Unsecured Claims**

- (c) Impairment and Voting – Class 4 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (d) Treatment – The Holders of Allowed General Unsecured Claims (excluding those from Debtor's Shareholders), of \$75,000 or less, will be paid in full satisfaction of their claims 5% thereof, in cash, on the Effective Date of the Plan. Those with claims over \$75,000, will be paid in full satisfaction of their claims, 5% thereof, through sixty (60) equal consecutive monthly installments of \$1,262.15, commencing on the Effective Date of Debtor's Plan and continuing on the thirtieth (30th) day of the subsequent fifty-nine (59) months.

### **Class 5 – The Interest of Debtor's Shareholder**

- (a) Impairment and Voting - Class 5 is unimpaired under the Plan, is not entitled to vote to

accept or reject the Plan, as it is deemed to have rejected the Plan pursuant to 11USC § 1126 (g).

- (b) Distribution – The Holders of Equity Interest in Debtor will not receive any distribution under the Plan, but will retain their shares in Debtor, unaltered.

## **6.7 Means for Implementation of the Plan**

Except as otherwise provided in the Plan, Debtor will effect payments of pending Administrative Expense Claims on or before the Effective Date from the estimated cash balance in its DIP accounts, as of the Effective Date. BPPR's secured claims, shall be paid in full (100%), in cash, pursuant to the Agreement, as set forth above.

Toyota Secured Claim, Executory Contracts Cure Claims, General Unsecured Claims, as well as Priority Tax Claims, will be paid through the payment plans as set forth above and on Debtor's Plan, from the cash resulting from Debtor's Operations, as shown in Debtor's Projected Cash Flows Statements enclosed hereto as **Exhibit G**.

## **6.8 Cancellation of Existing Agreements**

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

## **6.9 Effectuating Documents and Further Transactions**

Upon entry of the Confirmation Order, Debtor shall be authorized and instructed to execute, deliver, file or record such contracts, instruments, releases, consents, certificates,



resolutions and other agreements and documents and take such actions as may be reasonably necessary or appropriate to effectuate, implement, consummate and further evidence the terms and conditions of the Plan, including, without limitation, implementing all settlements and compromises as set forth in or contemplated by the Plan and performing all obligations under the Plan.

#### **6.10 Authority to Act**

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

#### **6.11 Debtor's Post Confirmation Management**

After confirmation of the Plan, Debtor will continue with its current management, consisting of its President, Mr. Ricardo González ("Mr. González") and its Secretary and Director, Mrs. Ana Maria González Matos ("Mrs. González"). After the confirmation of the Plan, Mr. and Mrs. González salaries will be \$134,000 and \$169,000, annually, respectively.

#### **6.12 Executory Contracts and Unexpired Leases**

Executory contracts and unexpired leases, as listed below in **Section 7.4**, which have not expired by their own terms or have been rejected on or prior to the Confirmation Date, shall be deemed assumed on the Effective Date and the entry of the Confirmation Order by the

Bankruptcy Court shall constitute approval of such assumption pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

If the rejection of any executory contract or unexpired leases not listed in Section 7.4 hereof results in a claim for damages by the other party or Debtor to such contracts or leases, any claim for such damages, if not evidenced by a filed proof of claim, shall be forever barred and will not be enforceable against the Estate, or its properties, its agents, successors, or assigns, unless a proof of claim is filed with the Bankruptcy Court and served upon counsel for Debtor on or before forty-five (45) days following the Confirmation Date. Debtor retains the right to further object to any rejection damages claims filed in accordance with this Section.

### **6.13 Exculpation**

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

## **VII. LIQUIDATION AND FINANCIAL ANALYSIS**

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

The Liquidation Analysis (**Exhibit E**) reveals that in the event of a liquidation of Debtor's

assets under Chapter 7, considering the costs and expenses of such a proceeding, there would be a substantial loss to Debtor's Estate. It reflects that in a liquidation scenario that the General Unsecured Creditors will not receive any dividends. The Liquidation Analysis also reflects what in Chapter 11 the respective creditors are expected to receive under the Plan versus what is projected they would receive in Chapter 7, underscoring the benefits of the confirmation of the Plan and its effectiveness.

Confirmation of the Plan will assure that holders of Chapter 11 Administrative Expense Claims, Allowed Priority Tax Claims, and General Unsecured Claims receive prompt dividends on their claims, as set forth above.

The Liquidation Analysis contains estimates and assumptions that, although developed and considered reasonable by Debtor, are inherently subject to significant economic uncertainties and contingencies beyond Debtor's control.

## **7.2 Feasibility of the Plan**

### **A) Financial Projections**

Debtor, with the assistance of its Court appointed financial consultant, has prepared updated financial projections (the "Projections") (**Exhibit G**) based on the confirmation and implementation of the Plan. The Projections are based upon estimates and assumptions that, although developed and considered reasonable by Debtor are inherently subject to significant economic uncertainties and contingencies beyond Debtor's control, as well as to certain assumptions with regard to the value of assets that are subject to change. Accordingly, there can be no assurance that the projected performance reflected in the Projections will be realized.

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

As of the Petition Date, Debtor owned assets and had liabilities, as more particularly described in its Schedules and Statement of Financial Affairs, filed with the Bankruptcy Court on December 12,

2015. Debtor has prepared and filed with the Bankruptcy Court monthly operating reports summarizing its post-petition financial performance (see **Exhibits F and H**). These monthly operating reports and Debtor's Schedules, Statement of Financial Affairs, and Schedules of executory contracts are available for public inspection at the office of the Clerk of the Bankruptcy Court during regular business hours.

**C) Personal Property**

As of the Petition Date, Debtor's Schedules listed Debtor's personal property consisting of checking accounts, security deposits, accounts receivable, furniture, fixtures, equipment, prepaid insurance, and prepaid expenses. A detail of Debtor's personal property is included in its Schedule B, available for public inspection at the office of the Clerk of the Bankruptcy Court during regular business hours.

**D) Real Properties:** Debtor is the owner of the following real properties:

- a. Parcel of Land of approximately 4.56 acres, located at Road PR-844, Km. 0.4, Cupey Ward, San Juan, Puerto Rico, with buildings and improvements used for the operations of Debtor's (School) Business, an estimated value of \$4,500,000. This real property serves as collateral of BPPR's secured claims.
- b. Residential apartment located at Guanina Condominium, Apartment No. 7, Villa Taina, Cabo Rojo, Puerto Rico, with an estimated value of \$145,000.

**7.3 Pending Litigation and Other Liabilities**

At the time of the filing of the Chapter 11 petition, Debtor has the following cases pending or stayed by the provisions of Section 362(a) of the Bankruptcy Code:

CAPTION OF SUIT AND CASE NUMBER	NATURE OF PROCEEDING	COURT	STATUS OR DISPOSITION
DIANA BAJANDAS vs CUPEYVILLE SCHOOL, INC., ET. AL. CASE NUM.: 14-cv-01011-FAB	LABOR CLAIM	UNITED STATES DISTRICT COURT OF PUERTO RICO	STAYED

**Cupeyville School, Inc.**

**Case No. 15-09822 (MCF)**

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CAPTION OF SUIT AND CASE NUMBER	NATURE OF PROCEEDING	COURT	STATUS OR DISPOSITION
LUIS G. BAEZ, IVONNE E BERRIOS LOPEZ, POR SI Y EN REPRESENTACION DE LA SOCIEDAD DE BIENES GANACIALES Y DE SU HIJA MENOR DE EDAD, ANDREA BAEZ BERRIOS vs. CUPEYVILLE SCHOOL, INC., ET AL. CIVIL NUM.: KDP 2015-0241 (802)	TORT AND DAMAGES	COURT OF FIRST INSTANCE OF PUERTO RICO, SAN JUAN SECTION	STAYED

#### 7.4 Leases and Unexpired Executory Contracts

As of the Petition Date, Debtor was a party to the following unexpired executory contracts, (as set forth in Debtor's Schedule G), which will be deemed as assumed, upon the Confirmation of Debtor's Plan:

Name and Mailing Address, including Zip Code, of other Parties to Lease or Contract	Description of Contract of Lease and Nature of Debtor's Interest
ARA SECURITY INTEGRATORS PO BOX 29742 SAN JUAN, PR 00920-0742	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: INSTALLMENT OF FIRE DETECTION SYSTEM ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
AT&T PO BOX 70261 SAN JUAN, PR 00936-8261	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: INTERNET AND TELEPHONE SERVICE PROVIDER ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
BMW FINANCIAL SERVICES PO BOX 3608 DUBLIN, OH 43016-0306	Contract Type: CAR LEASE AGREEMENT Term: FIVE (5) YEARS Description: 2011 BMW X3 FINANCING AGREEMENT ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
DYNAMICS PO BOX 600 HAGERSTOWN, MD 21740	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: TUITION MANAGEMENT AND BILLING SOFTWARE ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
INTELLIGENT TECHNOLOGIES, CORP. INDUSTRIAL MARIO JULIA #696 CALLE B SUITE 3 SAN JUAN, PR 00920	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: COMPUTER REPAIR AND MAINTENANCE SERVICE ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
INTERCONTINENTAL SAN JUAN HOTEL & CASINO 6063 ISLA VERDE AVENUE CAROLINA, PR 00979	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: SENIOR PROM ACTIVITIES FOR MAY 2016 ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED

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NELNET BUSINESS SOLUTIONS INC D/B/A FACTS MANAGEMENT CO PO BOX 9366 LINCOLN, NE 68501-2505	Contract Type: SERVICE CONTRACT Term: ONE (1) YEAR Description: TUITION MANAGEMENT, PAYMENT ADMINISTRATION, AND PROCESSING SOFTWARE ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
OLIVER EXTERMINATING, CORP. PO BOX 36388 SAN JUAN, PR 00936-3888	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: EXTERMINATING SERVICES ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
PARQUE KOFRESI PMB 392 200 AVE RAFAEL CORDERO STE 140 CAGUAS, PR 00725-3757	Contract Type: SERVICE CONTRACT Term: Description: SENIOR PROM ACTIVITIES FOR MAY 2016 ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
PAUL ROSALY VEGA PO BOX 2 BAYAMON, PR 00960	Contract Type: LEASE AGREEMENT Term: FIVE (5) YEARS Description: LEASED PHOTOCOPIERS ACTION TAKEN BY DEBTOR: DEEMED AS ASSUMED
REPUBLIC SERVICES INC PO BOX 9001099 LOUISVILLE, KY 40290-1099	Contract Type: SERVICE CONTRACT Term: MONTH TO MONTH Description: WASTE DISPOSAL SERVICES ACTION TAKEN BY DEBTOR: DEEMED AS ASSUME

## **VIII. BAR DATE AND DETERMINATION OF CLAIMS**

### **8.1 Bar Date**

On December 16, 2015, in the “Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors and Deadlines” issued in Debtor’s case the Bankruptcy Court fixed April 19, 2016, as the bar date for the filing of proofs of claims and interests (except for Governmental Units), and June 13, 2016, for such filings by Governmental Units.

### **8.2 Determination of Claims**

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

the Claims will be treated according to the terms of the Plan), or disallowed (at which time the reserves will be distributed on account of Allowed Claims pursuant to the terms of the Plan).

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

## **IX. ALTERNATIVES TO THE PLAN**

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

### **A. Liquidation Under Chapter 7**

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

As set forth in the Liquidation Analysis attached as Exhibit E hereto, Debtor believes that conversion of the Case to Chapter 7 of the Bankruptcy Code, considering the costs and expenses of such a proceeding, would result in a substantial loss to Debtor's Estate. The Liquidation Analysis reflects what in Chapter 11 the respective creditors are expected to receive under the Plan versus what is projected they would receive in Chapter 7, underscoring the benefits of the confirmation of the Plan and its effectiveness. Thus, Debtor believes that the interest of creditors and the goals of Chapter 11 are better served by the confirmation of the Plan.

### **B. Dismissal of the Case**

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Dismissal of the Case would likely create substantial problems for all parties involved, including a run to the courthouse, which would result, in an abandonment of the orderly and structured equitable payments provided by the Plan. Therefore, dismissal of the Case is not a viable alternative for creditors.

**C. Alternative Plan of Reorganization**

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

**X. TAX EFFECTS**

Based on Debtor's available net operating carry losses forwards, the provisions of the Puerto Rico Internal Revenue Code of 2011, as amended, and the tax provisions of the Bankruptcy Code, Debtor expects that the implementation of the Plan will not have any tax effects.

**XI. CONCLUSION**

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

San Juan, Puerto Rico, this 13<sup>th</sup> day of July, 2016.

**CUPEYVILLE SCHOOL, INC.**

By: Ricardo Gonzalez  
**RICARDO GONZALEZ**  
**President**