

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

IN RE:	*	
	*	
ESTEBAN BEAUTY DISTRIBUTOR, CORP.	*	
ESTEBAN DISTRIBUTOR INC.	*	CASE NO. 16-03796 (EAG)
	*	16-03799 (EAG)
	*	
	*	
DEBTOR	*	

**ESTEBAN DISTRIBUTOR INC.
DISCLOSURE STATEMENT
DATED: JANUARY 17, 2017**

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Disclosure Statement

I. INTRODUCTION

This is the disclosure statement (the “Disclosure Statement”) in the small business Chapter 11 case of Esteban Distributor Inc. (Case No. 16-03796), hereinafter “the Debtor”.

Esteban Beauty Distributor Corp. (hereinafter “Debtor”) filed a voluntary petition for relief under the provisions of Chapter 11 of the Bankruptcy Code on May 11, 2016. Since the filing of the petition, Debtor has been managing the affairs and operating its business as a debtor-in-possession pursuant to sections 1107 and 1108 of the Bankruptcy Code.

The proposed distribution under the Plan is specified in the Exhibits included with this Disclosure Statement.

The administrative expenses are classified in **Class 1** and shall be paid full in cash as soon as practicable or agreed with the creditor no later than (a) the Effective Date or (b) the date any such claim becomes an allowed Administrative Claim.

There are unsecured priority claims classified in **Class 2**, this unsecured priority claims shall be paid full from Debtor’s on going sales operations in years 1 and 2 of the plan.

The Critical Vendor claim is classified in **Class 3**, this claim has been paid in full as per the critical vendor agreement from Debtor’s ongoing sales operations.

There are unsecured non priority claims classified in **Class 4** will receive a pro-rata distribution.

The general unsecured claim classified in **Class 5** will receive a pro-rata distribution.

The equity holders claims classified in **Class 6** will receive the same compensation as the last year, but no amount in excess.

This Disclosure Statement is being distributed by the Debtor to all creditors who are entitled to vote under Chapter 11, and is intended to provide adequate information in order for creditors to be able to make a reasonable informed judgment to accept or to reject the Plan.

A. Purpose of This Document

This Disclosure Statement describes: the Debtor and significant events during the bankruptcy case; how the Plan proposes to treat claims of the type you hold (what you will receive on your claim if the plan is confirmed); who can vote on or object to the Plan; what factors the Bankruptcy Court will consider when deciding whether to confirm the Plan; why Debtor believes the Plan is feasible; and how the treatment of your claim under the Plan compares to what you would receive on your claim in liquidation; and the effect of confirmation of the Plan.

Be sure to read the Plan as well as the Disclosure Statement. This Disclosure Statement describes the Plan, but it is the Plan itself that will, if confirmed, establish your rights.

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B. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing

The Court has not yet confirmed the Plan described in this Disclosure Statement. This section describes the procedures pursuant to which the Plan will or will not be confirmed.

1. Time and Place of the Hearing to Finally Approve This Disclosure Statement and Confirm the Plan

The hearing at which the Court will determine whether to finally approve this Disclosure Statement and confirm the Plan is pending for schedule. This hearing will be conducted at the United States Bankruptcy Court for the District of Puerto Rico which is located at 300 Recinto Sur Street, Room 109, San Juan PR 00901. The hearing on final approval of the Disclosure Statement and to consider the confirmation of this plan will be scheduled by the Court.

2. Deadline for Voting to Accept or Reject the Plan

If you are entitled to vote to accept or reject the plan, vote on the enclosed ballot and return it to the following address: Maria Soledad Lozada, Esq., P.O. Box 9023888, San Juan, PR 00902-3888

See section IV.A. Below for a discussion of voting eligibility requirements.

3. Deadline for Objecting to the Adequacy of Disclosure and Confirmation of the Plan

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon all creditors on or before the confirmation hearing.

4. Identity of Person to Contact for More Information

If you want additional information about the Plan, you should contact Maria Soledad Lozada, Esq., P.O. Box 9023888, San Juan, PR 00902-3888. Tel. 787-533-1400 or by electronic mail: msl@lozadalaw.com.

C. Disclaimer

The Court's approval of this Disclosure Statement is subject to final approval at the hearing on confirmation of the Plan. Objections to the adequacy of this Disclosure Statement may be filed until the date of the confirmation hearing.

II. BACKGROUND

A. Description and History of the Debtor's Business

Debtor is a corporation existing under the laws of the Commonwealth of Puerto Rico which was incorporated on June 3, 1999. The Debtor is operating a beauty supplies distribution business in Puerto Rico. Among the essentials products they distribute 72% of their resale are products provide by Zotos

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International, Inc. and Joicos. The corporation is owned by Mr. Jose A Esteban Colon who is 100% owner and President of the corporation. The debtor's property is located in Toa Baja, Puerto Rico.

B. Insiders of the Debtor

The corporation is owned by Mr. Jose A Esteban Colon who is 100% owner and President of the corporation.

C. Management of the Debtor Before and During the Bankruptcy

Mr. Jose A. Esteban Colon has acted as administrator of the business since inception of the operations.

D. Events Leading to Chapter 11 Filing

The reason that triggered the filing of this bankruptcy petition was the imminent seize of the property by Treasury Department of Puerto Rico. The general slowdown of the economy and reduction of demand for the products combined with the increase in operating cost, were the principal reason that Debtor's cash flows had been reduced substantially since the year 2014 due to these negative economic conditions and the overall global recession.

E. Significant Events During the Bankruptcy Case

On May 17, 2016, Debtor filed the application to employ attorney Maria Soledad Lozada as debtor counselor and this application was approved by the Court on June 7th, 2016.

Upon filing of this bankruptcy petition, Debtor has taken all possible measures necessary to reorganize business affairs. Debtors are in compliance with the U.S. Trustee Office Operating Guidelines as follows:

- a) Monthly Operating Reports have been completed and filed with the Court up to November 2016.
- b) Property and public liability insurance has been maintained
- c) Quarterly fees required by the U.S. Trustee are up to date.
- d) Post-petition expenses are being paid in the ordinary course of business.
- e) Post-petition taxes are being paid as these become due.

Since the date of filing, Debtor has concentrated all efforts on identifying and developing means to support the Reorganization Plan that will provide payments of obligations to all creditors.

Debtor has determined that the best alternative to comply with the creditors in this case is fund a plan of reorganization funded by Debtor's ongoing sales operations to pay all creditors.

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F. Claims Objections

Except to the extent that a claim already allows pursuant to a final non-appealable order, the Debtor reserves the right to object claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan.

Creditor	Scheduled Amount	Proof of Claim	Proof of Claim Amount	Amount to be Objected	Reason for Objection
PR Department of Treasury	\$29,614.23	6	\$29,614.23	\$9,000	Tax Credit not applied.
Zotos International	\$72,648.63	4	\$72,648.63	\$72,648.63	Claim paid in full as part of the critical vendor agreement.

G. Current and Historical Financial Conditions

The identity and fair market value of the estate’s asset is listed as **Exhibit A**. The Debtors’ most recent tax returns for years ended as of December 31, 2014 and 2015, issued before bankruptcy, each of which was filed with the Court, are set forth in **Exhibit B**. A summary of the Debtors’ monthly operating reports has been filed since the commencement of the Debtors’ bankruptcy case is set forth in **Exhibit C**.

III. SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS

A. What is the Purpose of the Plan of Reorganization?

As required by the Code, the Plan places claims and equity interests in various classes and describes the treatment each class will receive. The Plan also states whether each class of claims or equity interests is impaired or unimpaired. If the Plan is confirmed, your recovery will be limited to the amount provided by the Plan.

B. Unclassified Claims

Certain types of claims are automatically entitled to specific treatment under the Code. They are not considered impaired, and holders of such claims do not vote on the Plan. They may, however, object if, in their minds, their treatment under the Plan does not comply with that required by the Code.

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1. Administrative Expenses

Administrative expenses are costs or expenses of administering the Debtors' chapter 11 case which are allowed under § 507(a) (2) of the Code. Administrative expenses also include the value of any goods sold to the Debtor in the ordinary course of business and received within 20 days before the date of the bankruptcy petition. The Code requires that all administrative expenses be paid on the effective date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists the Debtors' estimated administrative expenses and their proposed treatment under the Plan:

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	\$0.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	\$0.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later
Estimated Professional Fees when approved by the Court.	\$20,000	Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan.
Clerk's Office Fees	\$0.00	Paid in full on the effective date of the Plan
Other administrative expenses Including Domestic Support Obligations.	\$0.00	Domestic support obligations to be paid according to the terms of the obligations as detailed in the Divorce Decree judgment.
Office of the U.S. Trustee Fees	\$1,300.00	Paid in full on the effective date of the Plan
TOTAL	\$21,300.00	

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See details in **Exhibit D** “Payment under the Plan of Reorganization”

2. Priority Tax Claims

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a) (8) of the Code. Unless the holder of such a § 507(a)(8) priority tax claim agrees otherwise, it must receive the present value of such claim, in regular installments paid over a period not exceeding 5 years from the order of relief.

Each holder of a priority tax claim will be paid consistently with § 1129(a)(9)(C) of the Code, in monthly cash installments, equal to the allowed amount of its claim, plus 3.25% yearly interest over a period ending before the statutory five (5) year period from the date of the filing of the captioned petition. The following chart lists the Debtor’s estimated § 507 (a)(8) priority tax claims and their proposed treatment under the plan:

Description (name and type of tax)	Estimated Amount Owed	Priority Amount	Date of Assessment	Treatment
CRIM– (Claim No.5) Priority Portion	\$56,327.60	\$10,173.99	8/19/2016	Paid in full by Debtor’s on going sales operations.
Treasury Department– (Claim No. 6) Priority Portion-	\$29,614.23	\$16,552.43	9/07/2016	Paid in full by Debtor’s on going sales operations.
Treasury Department– (Claim No. 7) Priority Portion-	\$210,594.31	\$154,624.16	9/07/2016	Paid in full by Debtor’s on going sales operations.

See details in **Exhibit D** “Payment under the Plan of Reorganization”

D. Classes of Claims and Equity Interests

The following are the classes set forth in the Plan, and the proposed treatment that they will receive under the Plan:

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1. Classes of Administrative Claims

Administrative expenses are costs or expenses of administering the Debtors' chapter 11 case which are allowed under § 507(a) (2) of the Code, these include the US Trustee Fees and attorney's fees. These will be paid in full and not impaired.

Class #	Description	Impairment	Treatment
Class 1	Administrative Claims	Impaired	Paid in full on the effective date of the Plan, or according to terms of obligation if later.
	Estimated Professional Fees when approved by the Court. \$20,000	NO	Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan.
	Office of the U.S. Trustee Fees \$1,300	NO	Paid in full on the effective date of the Plan

2. Classes of Unsecured Priority Claims

Priority tax claims are unsecured income, employment, and other taxes described by § 507(a) (8) of the Code. These are CRIM and Treasury Department. These will be paid in full and not impaired.

Class #	Description (name and type of tax)	Impairment	Treatment
Class 2	Priority Taxes	Impaired	
	CRIM- (Claim No.5) Priority Portion \$10,173.99	NO	Paid in full by Debtor's ongoing sales operations.
	Treasury Department- (Claim No. 6) Priority Portion-\$16,552.43	NO	Paid in full by Debtor's ongoing sales operations.
	Treasury Department- (Claim No. 7) Priority Portion-\$154,624.16	NO	Paid in full by Debtor's ongoing sales operations.

3. Classes of Critical Vendor

The Critical Vendor claim is classified in Class 4. This is a general unsecured claims which is are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code, but was

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named critical vendor as per agreement because debtor’s reorganization depended on the distribution of these products. The following chart identifies the Plan’s proposed treatment of Class 3, which contain general unsecured claims against the Debtor:

Class #	Description	Impairment	Treatment
Class 3	Critical vendor	Impaired	The amount due under this class has been paid full from Debtor’s ongoing sales operations as part of the critical vendor agreement signed.
	Zotos International Inc. Claim No 4 \$0.00	NO	The amount due under this class has been paid full from Debtor’s ongoing sales operations as part of the critical vendor agreement signed.

4. Classes of Unsecured non priority – commercial loan

These are general unsecured claims which is are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. This Class will receive a pro-rata distribution of \$4,000 with the general unsecured claims. The following chart identifies the Plan’s proposed treatment of Class 3, which contain general unsecured claims against the Debtor:

Class #	Description	Impairment	Treatment
Class 4	Unsecured non priority – commercial loan	Impaired	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	SCOTIABANK– (Claim No.2) Unsecured Non Priority Portion \$101,764.92	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	SCOTIABANK– (Claim No. 3) Unsecured Non Priority Portion- \$132,622.63	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.

5. Classes of General Unsecured Claims

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General unsecured claims are not secured by property of the estate and are not entitled to priority under § 507(a) of the Code. This Class will receive a pro-rat distribution of \$4,000. The following chart identifies the Plan’s proposed treatment of Class 3, which contain general unsecured claims against the Debtor:

Class #	Description	Impairment	Treatment
Class 5	General Unsecured Creditors	Impaired	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	Corporación Europea (Claim No. 1) General unsecured portion 21,282.97	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	CRIM– (Claim No.5) General unsecured portion 46,153.61	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	Treasury Department– (Claim No. 6) General unsecured portion 13,061.80	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.
	Treasury Department– (Claim No. 7) General unsecured portion 55,970.15	YES	The amounts due under this class will be paid a portion pro-rata from proceeds of the ongoing sales operations of the Debtor.

6. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (i.e., equity interest) of the Debtors. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, equity interest holders include both general and limited partners. In a limited liability company (“LLC”), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

The following chart sets forth the Plan’s proposed treatment of the class of equity interest holders: There may be more than one class of equity interests in, for example, a partnership case, or a case where the prepetition debtor had issued multiple classes of stock.

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Class #	Description	Impairment	Treatment
Class 6	Equity interest holders	Impaired	The amount due under this class will be paid a portion pro-rata from proceeds of ongoing sales operations of the Debtor.
	Jose A. Esteban Colon	YES	Debtor's president will receive same compensation as the last year, but no amount in excess.

D. Means of Implementing the Plan

1. Source of Payments

The Plan will be implemented as required under §1123(a) (5) of the Code. Debtor's will pay from ongoing sales operations.

2. Post-confirmation Management

The Post-Confirmation Manager of the Debtor will remain the same, under Debtor's president Jose A. Esteban

E. Risk Factors

No risks that might affect the Debtor's ability to make payments and other distributions required under the Plan have been identified at this time.

F. Executory Contracts and Unexpired Leases

Debtor assumes the executory contract of exclusive distribution with creditor Zotos International.

G. Tax Consequences of Plan

Creditors and Equity Interest Holders Concerned with How the Plan May Affect Their Tax Liability Should Consult with Their Own Accountants, Attorneys, And/Or Advisors.

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IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

To be confirmable, the Plan must meet the requirements listed in §§ 1129(a) or (b) of the Code. These include the requirements that: the Plan must be proposed in good faith; at least one impaired class of claims must accept the plan, without counting votes of insiders; the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and the Plan must be feasible. These requirements are not the only requirements listed in § 1129, and they are not the only requirements for confirmation.

A. Who May Vote or Object

Any party of interest may object to the confirmation of the Plan if the party believes that the requirements for confirmation are not met.

Many parties of interest, however, are not entitled to vote to accept or reject the Plan. A creditor or equity interest holder has a right to vote for or against the Plan only if that creditor or equity interest holder has a claim or equity interest that is both (1) allowed or allowed for voting purposes and (2) impaired.

1. What Is an Allowed Claim or an Allowed Equity Interest?

Only a creditor or equity interest holder with an allowed claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated, or (2) the creditor has filed a proof of claim or equity interest, unless an objection has been filed to such proof of claim or equity interest. When a claim or equity interest is not allowed, the creditor or equity interest holder holding the claim or equity interest cannot vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or equity interest for voting purposes pursuant to Rule 3018(a) of the Federal Rules of Bankruptcy Procedure.

2. What Is an Impaired Claim or Impaired Equity Interest?

As stated above, the holder of an allowed claim or equity interest has the right to vote only if it is in a class that is impaired under the Plan. As provided in § 1124 of the Code, a class is considered impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class.

3. Who is Not Entitled to Vote

The holders of the following five types of claims and equity interests are not entitled to vote:

- holders of claims and equity interests that have been disallowed by an order of the Court;

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- holders of other claims or equity interests that are not “allowed claims” or “allowed equity interests” (as discussed above), unless they have been “allowed” for voting purposes.
- holders of claims or equity interests in unimpaired classes;
- holders of claims entitled to priority pursuant to §§ 507(a)(2), (a)(3), and (a)(8) of the Code; and
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- Administrative expense

Even If You Are Not Entitled to Vote on the Plan, You Have a Right to Object to the Confirmation of the Plan and to the Adequacy of the Disclosure Statement.

B. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class of creditors has accepted the Plan without counting the votes of any insiders within that class, and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed by a cram down of non-accepting classes.

1. Votes Necessary for a Class to Accept the Plan

A class of claims accepts the Plan if both of the following occur: (1) the holders of more than one-half (1/2) of the allowed claims in the class, who vote, cast their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

A class of equity interests accepts the Plan if the holders of at least two-thirds (2/3) in amount of the allowed equity interests in the class, who vote, cast their votes to accept the Plan.

2. Treatment of Non-accepting Classes

Even if one or more impaired classes reject the Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner prescribed by § 1129(b) of the Code. A plan that binds non-accepting classes is commonly referred to as a cram-down plan. The Code allows the Plan to bind non-accepting classes of claims or equity interests if it meets all the requirements for consensual confirmation except the voting requirements of § 1129(a) (8) of the Code, does not discriminate unfairly, and is fair and equitable toward each impaired class that has not voted to accept the Plan.

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You should consult your own attorney if a cram down confirmation will affect your claim or equity interest, as the variations on this general rule are numerous and complex.

C. Liquidation Analysis

To confirm the Plan, the Court must find that all creditors and equity interest holders who do not accept the Plan will receive at least as much under the Plan as such claim and equity interest holders would receive in a chapter 7 liquidation. A liquidation analysis is attached to this Disclosure Statement as **Exhibit A**.

D. Feasibility

The Court must find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtors or any successor to the Debtors, unless such liquidation or reorganization is proposed in the Plan.

1. Ability to Initially Fund Plan

The Plan will be funded by Debtor's ongoing sales operations. Thus, it will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date.

2. Ability to Make Future Plan Payments And Operate Without Further Reorganization

The Plan will be funded by Debtor's ongoing sales operations. Thus, it will have enough cash on hand on the effective date of the Plan to pay all the claims and expenses that are entitled to be paid on that date.

V. EFFECT OF CONFIRMATION OF PLAN

A. Discharge of Debtor

Discharge. On the effective date of the Plan, the Debtor shall be discharged from any debt that arose before confirmation of the Plan, subject to the occurrence of the effective date, to the extent specified in § 1141(d)(1)(A) of the Code, except that the Debtor shall not be discharged of any debt (i) imposed by the Plan, (ii) of a kind specified in § 1141(d)(6)(A) if a timely complaint was filed in accordance with Rule 4007(c) of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141(d)(6)(B). After the effective date of the Plan your claims against the Debtor will be limited to the debts described in clauses (i) through (iii) of the preceding sentence.

B. Modification of Plan

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The Plan Proponent may modify the Plan at any time before confirmation of the Plan. However, the Court may require a new disclosure statement and/or a repetition of the voting process on the Plan.

The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modifications after notice and a hearing.

C. Final Decree

Once the estate has been fully administered, as provided in Rule 3022 of the Federal Rules of Bankruptcy Procedure, the Plan Proponent, or such other party as the Court shall designate in the Plan Confirmation Order, shall file a motion with the Court to obtain a final decree to close the case. Alternatively, the Court may enter such a final decree on its own motion.

s/JOSE A ESTEBAN COLON

Jose A. Esteban Colon

President of Esteban Beauty Distributor Corp.

/s/María Soledad Lozada

MARIA SOLEDAD LOZADA

ATTORNEY FOR DEBTOR

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