

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

IN RE: Komodidad Distributors, Inc.	Bankruptcy Case No.: 16-04164 Chapter 11
Debtor	
IN RE: G.A. Design & Sourcing, Corp.	Bankruptcy Case No.: 16-04166 Chapter 11
Debtor	
IN RE: G.A. Property Development, Corp.	Bankruptcy Case No.: 16-04167 Chapter 11
Debtor	
IN RE: G.A. Investors, S.E.	Bankruptcy Case No.: 16-04169 Chapter 11
Debtor	
IN RE: Gamaxport Inc.	Bankruptcy Case No.: 16-04170 Chapter 11
Debtor	ADMINISTRATIVELY CONSOLIDATED

DISCLOSURE STATEMENT OF

**KOMODIDAD DISTRIBUTORS, INC.
G.A. DESIGN & SOURCING, CORP.
G.A. PROPERTY DEVELOPMENT, CORP.
G.A. INVESTORS, S.E.
GAMAXPORT, INC.**

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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"), Komodidad Distributors, Inc. ("Komodidad") (Case No. 16-04164) and its affiliates, G.A. Design & Sourcing, Corp. ("GAD") (Case No. 16-041646), G.A. Property Development, Corp. ("GAP") (Case No. 16-04167), G.A. Investors, Inc. ("GAI") (Case No. 16-04169), and Gamaxport, Inc. ("GX") (Case No. 16-04170), debtors and debtors-in-possession in the above captioned cases ("Debtors"), submit their Consolidated Disclosure Statement (the "Disclosure Statement") to all of its known creditors and parties in interest in the captioned cases. The purpose of the Disclosure Statement is to provide such information as Debtors believe may be deemed necessary for Debtors' creditors to make an informed decision in exercising their rights to vote on Debtors' Consolidated Plan (the "Plan"), dated December 27, 2016. The Plan is being filed with the United States Bankruptcy Court for the District of Puerto Rico ("Bankruptcy Court")¹ simultaneously herewith.

Debtors recommend 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.

¹ Capitalized terms shall have the meaning as defined in the Plan.

The information contained in the Disclosure Statement has been provided by Debtors based upon Debtors' knowledge of its records, business, and affairs. Except as otherwise expressly indicated, the information provided by Debtors in the Disclosure Statement has not been subject to an audit or independent review. Although great efforts have been made to be accurate, Debtors, 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 Debtors' creditors to make an informed judgment in exercising their right to vote for or against the Plan.

No representations concerning Debtors, including the value of its assets, or the aggregate dollar amounts 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 Debtors' creditors that differ from those contained in the Disclosure Statement should not be relied upon in voting on the Plan.

Debtors believe that the Plan provides the quickest recovery and will maximize the return to creditors on their Claims. **ACCORDINGLY, DEBTORS 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 Debtors are to be treated. Allowed Administrative Expense Claims and any 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 Debtors, as well as that of Debtors' shareholder's interest in Debtors. To the extent that the terms of the Disclosure Statement vary from those of the Plan, the terms of the Plan will control.

DESCRIPTION OF CLAIM	CLASS	ESTIMATED AMOUNT OF ALLOWED CLAIM ²	TREATMENT AND ESTIMATED RECOVERY UNDER THE PLAN
Holders of Allowed Administrative Expense Claims (Estimated)	N/A	\$331,200.00	<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, including Allowed 503(b)(9) Administrative Expense Claims, 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 (the "Effective Date").</p> <p>Payments to Professionals will be made as approved by the Bankruptcy Court. US Trustee Quarterly Fees will continue to be paid when due, with any outstanding balance to be paid on or before the Effective Date of the Plan.</p>
Priority Tax Claims	N/A	\$10,993.05	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Holders of Allowed Priority Tax Claims, Secured and Unsecured, in excess of \$15,000 shall be paid by the Debtors either: (i) upon such terms as may be agreed to with such Holders; (ii) on the later of the Effective Date of the Plan or the date that such Allowed Priority Tax Claims would have been due if the Bankruptcy Case had not been commenced; or (iii) in 48 deferred consecutive monthly installments, commencing on the Effective Date of the Plan and continuing on the last day of each month thereafter over a 47-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, provided that the payment to the holders of Allowed Priority Tax Claims is effected in a manner not less favorable than the most favored non-priority unsecured claims provided for in the Plan.</p> <p>The Holders of Allowed Priority Tax Claims, Secured and Unsecured, if any, amounting to \$15,000 or less, will be paid in full, in cash, on the Effective Date of the Plan.</p>

² Allowed claims herein are presented on a Consolidated Basis. For detail by Debtor, please refer to Exhibit C hereto.

<p>The Secured Claims of the Economic Development Bank of P.R., Firstbank Puerto Rico, and Banco Popular de P.R., (collectively referred to as the “Syndicate”)</p>	<p>Class 1</p>	<p>\$44,613,604.45</p>	<p>Impaired</p> <p>Estimated Recovery: 100%</p> <p>Pursuant to the terms and conditions set forth in the Term Sheet attached hereto as the Exhibit AA³, the Syndicate’s Claims⁴ arising from various loans for the acquisition of certain real estate, inventories, and other assets, shall be paid as follows:</p> <ul style="list-style-type: none"> (i) regardless of the Effective Date, commencing on February 1, 2017, in twelve (12) monthly cash installments of \$208,333.33 including interest at 4.25% per annum⁵; (ii) followed by (ii) twenty-four (24) monthly installments of \$233,333.33, including interests at 4.25% per annum. (iii) If the Debtor meets the extension requirements defined in the Exhibit AA, then loan maturity date will be extended and shall continue to be paid as follows: by twenty-four (24) consecutive monthly installments of \$233,333.33 commencing on the first business day of the thirty-seventh (37) month after the Effective Date, including interest at the then applicable Base Rate Plus 1% fixed per annum (as defined in the Exhibit AA); followed by a balloon payment on the first business day of the 61st month after the Effective Date (the “Facility Maturity Date”) of the remaining principal balance, accrued interests and/or fees of the Allowed Syndicate Claim. (iv) In addition, if Borrowers annual combined net revenues derived from Debtors’ ordinary course of business exceed of \$27,000,000, in any given year, measured on a combined basis, then for the following fiscal years Borrowers will pay 2% of the corresponding monthly cash collections of January, May, June, and December, respectively, less \$100,000 per annum. <p>On and after the Effective Date, the Syndicate will retain unaltered (and, for the avoidance of any doubt, fully validated and acknowledged by Debtors, Guarantors, and all affiliates and shareholders thereof pursuant to the Plan and the Confirmation Order) all of its existing liens</p>
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³ As supplemented by its Appendix and Schedules.

⁴ As defined in the Plan and more fully described in Exhibit AA hereto.

⁵ With the first payment to be applied 100% to the principal of the claims, as set forth in the Exhibit AA.

			<p>and security interests over all of the collateral securing the Allowed Syndicate's Claim (the "<u>Syndicate Collateral</u>") which Syndicate Collateral generally includes all tangible and intangible assets of the Debtors, and existing third-party guarantees, until the full payment of the Allowed Syndicate Claim pursuant to the Plan.</p> <p>Other covenants, agreements, and conditions precedent, with regards to the treatment set forth above for the Syndicate's Claims, are detailed in the Exhibit AA hereto, which is an integral part to this Disclosure Statement and Debtors' Plan.</p> <p>If any inconsistency exists between the Disclosure Statement and Exhibit AA, then the conditions and treatment described in Exhibit AA will govern.</p>
The Secured Claim of Scotiabank de Puerto Rico, Inc. ("Scotia")	Class 2	\$105,428.18	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Scotia's allowed claim, secured by a rental apartment at Rio Mar Ocean Village, Rio Grande, Puerto Rico, with an estimated fair market value of \$485,000, shall be paid in accordance with the contractual terms of this loan, with monthly payments of \$6,192, until the sale of the apartment.</p> <p>The net proceeds from the sale of such realty, as part of the Plan, will be used first to pay off the balance of Scotia's secured claim with the remaining funds, to reduce other claims described herein as selected by Debtors with the Syndicate's consent. Any arrears under this claim will be paid on or before the Effective Date.</p>
The Secured Claim of Toyota Financial Services ("Toyota")	Class 3	\$13,404.35	<p>Unimpaired.</p> <p>Estimated Recovery: 100%</p> <p>Toyota's secured claim arising from a loan for the acquisition of a 2011 Lexus ES350, shall continue to be paid pursuant to the contractual agreement with this lender with equal monthly installments of \$1,067.02, including principal and interest at 5.8% per annum, until the full payment of the claim. Any arrears under this claim will be paid on or before the Effective Date.</p>
Holders of Allowed Cure Claims from Assumed Executory Contracts	Class 4	\$396,897.65	<p>Impaired.</p> <p>Estimated Recovery: 100%</p>

			Holders of Allowed Unsecured Claims arising from the assumed unexpired leases and executory contracts shall be paid in full through twelve (12) consecutive monthly installments commencing on the Effective Date of the Plan and continuing on the thirtieth (30th) day of the subsequent eleven (11) months (except for the Cure Claims of VO Industrial Corporation, claims which will be paid through 24 equal consecutive monthly payments).
Holders of Allowed General Unsecured Claims	Class 5	\$4,951,485.83	<p>Impaired.</p> <p>Estimated Recovery: 25%</p> <p>Holders of Allowed General Unsecured Claims in excess of \$1,000, excluding those from Debtor's Shareholders and Affiliates (which, for the avoidance of any doubt, shall be cancelled and extinguished on the Effective Date and will not receive any recovery under the Plan), will be paid in full satisfaction of their claims 25% thereof through sixty (60) equal consecutive monthly installments of approximately \$20,200, commencing on the Effective Date of the Plan and continuing on the thirtieth (30th) day of the subsequent fifty-nine (59) months.</p> <p>Holders of Allowed General Unsecured Claims of \$1,000 or less, will receive in full satisfaction of their claims 25% thereof, in cash, on the Effective Date of the Plan.</p>
The Allowed Secured Claims of Mrs. Carmen Miranda Rivera	Class 6	\$135,201.67	<p>Impaired.</p> <p>Estimated Recovery: 100%</p> <p>The Allowed Secured Claim of Mrs. Carmen Miranda Rivera secured by a parcel of land acquired for parking spaces at Debtors' Caguas facilities, shall be paid by equal consecutive monthly installments of \$2,000, including interest at 4.5% per annum, until the full payment her claim.</p>
Interests in Debtors	Class 7	N/A	<p>Unimpaired.</p> <p>Estimated Recovery: N/A</p> <p>Holders of the Equity Interests in Debtors will not receive any distribution under the Plan. Debtors' Shareholders will retain its shares in Debtor, unaltered.</p>

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 Debtors 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 Debtors’ 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 Debtors and identifies the classes into which creditors and the equity holders 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 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** through **A-4**, to be returned to the following address:

**KOMODIDAD DISTRIBUTORS, INC.
c/o JAVIER VILARIÑO, ESQ.
VILARINO & ASSOCIATES LLC
PO BOX 9022515
San Juan, PR 00902-2515**

The Ballots must be received **on or before 4:00 P.M. (Eastern Standard Time) on _____, 2017**, to be counted in the voting. Ballots received after this time will not be counted in the voting unless the Bankruptcy Court so orders. Debtors recommend 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, 4, 5 and 6 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 to accept or reject the Plan. Class 7, Interests in Debtors, will retain its shares in Debtors, unaltered and thus, is deemed to have accepted 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 _____ **2017** at ____**.M.**, or as soon

thereafter as the parties can be heard. The Confirmation Hearing will be held before the Honorable Enrique S. Lamoutte Inclan, 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 Debtors, 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 Debtors 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, Debtors 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 Debtors' Description and Historical View

Debtors operate as the Gatsby Group, a group of privately owned entities composed of the following five (5) companies, which are managed under common control and ownership, described as follows:

- a. Komodidad Distributors, Inc. (hereinafter "Komodidad") was organized on August 4, 1965, for the purpose of selling apparel and accessories on a wholesale basis, under the trade name of "Gatsby". The Company operates a central office and a warehouse facility in the City of Caguas, as well as nine (9) stores throughout the busiest cities of Puerto Rico. It also operates a virtual store where sales are made through the internet web page. The stores operate under the trade name of "Gatsby" and "Shopgatsby.com", respectively. Komodidad operates and consolidates departments for all the affiliates and provides the necessary support in terms of human resources, accounting functions, mobilization of personnel to cover affiliates' needs, finance department, has historically allocated funds to cover the affiliates' obligations and provides all management functions of all affiliated entities.
- b. G.A. Design & Sourcing, Corp., was organized on September 21, 2004, for the purpose of developing techniques, processes, procedures, specifications and designs for clothing, apparel, and accessories for men, women, and children, and for the licensing and franchising of such techniques, processes, and procedures. It is also engaged in the design for the local and export markets (Intangible Business) and the sale and distribution of products, including clothing, apparel, and accessories to markets outside

of Puerto Rico (Export Business). This affiliate serves to strategize and look for opportunities to lower the costs of production, purchase, and design of clothing goods for the consolidated operation. Its operations are attached to Komodidad as the same is the one that develops and designs the merchandise sold at the Komodidad stores. Its operations have enable Debtors to reduce its merchandise costs, formerly acquired at the New York and Los Angeles markets, improving significantly the group gross margins.

- c. G.A. Investors, S.E. was organized on December 23, 1994, and is primarily engaged in the administration and the development of real estates and rental of commercial spaces. It owns the majority of the real estate which serves to distribute the clothing apparel through Gatsby's stores. This entity's operation is also integrated to Komodidad operations, as it provides leased spaces to conduct Komodidad operations and sales. It also offers commercial lease spaces to third parties at the Caguas and Ponce properties.
- d. G.A. Property Development, Corp., organized on March 3, 2006, is engaged in the rehabilitation and development of real estates and the rental of commercial spaces. It has the same purpose as G.A. Investors, S.E., as it provides leased spaces to conduct Komodidad operations and sales.
- e. Gamaxport, Inc., organized on December 4, 1997, was created for the purpose of offering services as purchasing agents of goods and their resale outside of Puerto Rico. It also managed the logistics for the introduction of the Gatsby Group's merchandise in emerging international markets. It is also the owner of certain interest in real estates in Venezuela.

4.2 Events Preceding Debtors' Chapter 11 Filing.

During 2006, the local government having overspent its budget and being short of funds closed down for several weeks, creating fear and uncertainty in the commercial and private community, primarily affecting the retail industry in Puerto Rico.

Years after 2006, have been the worst period for the local retail industry been affected by the sharp increase in utilities costs, increases in the minimum salary, significant increases in occupancy costs such as rents and related, and an aggressive competition from US retail chains, which recently entered into the local retail market.

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, ("junk bonds)". 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 grades.

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 increase of the governmental debt over its revenues, and the lack of economic growth since 2006 and the coming years.

As a result of the economic crisis described above, 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 250,000 or possibly more. The reduction in population translates into less consumption, decrease in revenues for the government, 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 from 38% in 2010 to 50% in 2011.

During 2010, new department stores such as Macy's, Aeropostale, Aber Crombie & Fitch, Lacoste, among others, entered into the market (primarily at Plaza Las Americas) affecting the local retailers' sales, by using their purchase power, offering better prices in similar merchandise, and granting greater discounts.

Moreover, *The Mall of San Juan*, a 631,000 square foot shopping center that featured the first Nordstrom and Saks Fifth Avenue stores on the Island, in addition to over 100 specialty stores and restaurants, approximately 60% of which will be new to Puerto Rico, opened on March 26, 2015. The opening of this mall, reduced significantly the customers flows into local stores of medium-to-high clothes market. Although Debtors are somewhat different of normal local retailers, as its sales are performed through re-sellers, whose ultimately sells Debtors' merchandise to the final customers, all of the above factors affected the final customers' purchases and spending power. As a result, the re-sellers' (and Debtors') sales are also affected.

Statistics obtained from the Puerto Rico Planning Board, indicated that during the fiscal year 2015, a decrease of 1% was experienced by the retail industry, specifically for sales in clothing and shoe sales for men and women. However, it is important to understand that industry's statistics includes the figures for retail sales in clothing and shoes, for men and women, which also includes all type of clothing and demographics. Lastly, it must be underscored that such statistics include sales by many US chains that entered into the market during the last five (5) years, thus, the sale for local retailers have decreased significantly, as the same sales have been distributed among

many other players in the same market, with a less populated Island. Retail statistics for the last five (5) years are as follows:

Retail Sales in Clothing and Shoe Stores (In Thousands) (Fiscal Years)					
<u>Months</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
July	\$ 78,780	\$ 73,176	\$ 74,465	\$ 76,356	\$ 75,326
August	55,871	59,492	56,159	58,316	64,406
September	49,563	45,761	50,462	51,232	53,926
October	47,605	47,932	47,410	49,473	50,303
November	57,568	92,206	57,607	63,130	60,571
December	113,564	114,618	115,774	127,134	121,404
January	55,856	52,722	52,814	55,518	53,367
February	47,764	45,739	45,783	54,526	53,796
March	54,989	53,142	53,531	60,914	58,161
April	59,442	48,544	51,221	55,257	55,072
May	60,632	64,364	66,594	71,769	71,197
June	63,645	65,861	67,284	69,804	70,716
Totals	<u>\$ 745,279</u>	<u>\$ 763,558</u>	<u>\$ 739,104</u>	<u>\$ 793,427</u>	<u>\$ 788,244</u>
Change		<u>\$ 18,278</u>	<u>\$ (24,454)</u>	<u>\$ 54,323</u>	<u>\$ (5,183.3)</u>
% Change		<u>2.5%</u>	<u>-3.2%</u>	<u>7.3%</u>	<u>-1%</u>

Source: http://www.jp.gobierno.pr/Portal_JP/Default.aspx?tabid=185

During 2012, an increase of 2.5% was noted. This increase is attributed to the entrance of new clothing stores such as Forever Twenty-One, Abercrombie & Fitch, Carolina Herrera, Express Men, Massimo Dutti, Marciano, Oakley, and Victoria's Secret, among others. Some of these major chains also have been increasing their stores in major shopping malls and outlets such as: Plaza Las Americas, Plaza del Caribe, Plaza Carolina, Puerto Rico Premium Outlets (Barceloneta), and The Outlet Mall at Route 66.

Besides the economic recession, some of Debtors' clientele are tending to purchase its clothes over the Internet in web sites available 24 hours a day, providing free shipping and handling, and no sales taxes, as imposed locally.

Women apparel industry, showed larger decreases in sales, during 2015, as compared to 2014, as the total industry experienced.

The following table, obtained from Indicadorespr.com⁶, shows that this segment of the industry, experienced a 3% decline in sales, during 2015, as follows:

Women Apparel Retail Sales 2014 and 2015³			
<u>Months</u>	<u>2014</u>	<u>2015</u>	
July	\$ 21,641	\$ 20,595	
August	21,475	20,528	
September	23,265	22,122	
October	21,690	22,117	
November	30,024	28,539	
December	23,153	21,489	
January	24,683	23,179	
February	24,011	23,101	
March	17,997	17,585	
April	17,477	18,114	
May	20,521	20,782	
June	<u>38,851</u>	<u>38,148</u>	
Totals	<u>\$ 284,789</u>	<u>\$ 276,299</u>	
Change		<u>\$ (8,749)</u>	
% Change		<u>-3%</u>	

Therefore, as a result of the decrease in sales, Debtors' sales, especially Komodidad's sales, have been decreasing significantly during the last four (4) years, shown as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Net Sales	\$ 36,234,876	\$ 32,968,674	\$ 26,172,810	\$ 21,573,454
Cost of Sales	<u>21,717,522</u>	<u>19,193,929</u>	<u>13,680,258</u>	<u>11,752,266</u>
Gross Profit	14,517,354	13,774,745	12,492,552	9,821,188
Service Charges				
Income	1,461,776	1,442,675	1,570,460	1,224,739
Administrative Fees	<u>803,981</u>	<u>859,000</u>	<u>561,000</u>	<u>461,000</u>
Total Revenues	16,783,111	16,076,420	14,624,012	11,506,927
	46%	49%	56%	53%
Operating Expenses ⁷	<u>14,982,849</u>	<u>14,524,863</u>	<u>12,946,913</u>	<u>11,017,686</u>
Operating Income	<u>\$ 1,800,262</u>	<u>\$ 1,551,557</u>	<u>\$ 1,677,099</u>	<u>\$ 489,241</u>

However, Debtors' management has been able to reduce its operational expenses, as also shown above, by almost \$4 million, primarily during the last two (2) years.

⁶Obtained from: <https://www.indicadores.pr/Business/Ventas-al-Detalle-por-industria-y-region-Retail-Sa/5f6t-4fvc>

⁷ Excludes depreciation and amortization.

Cost savings programs such as salary reductions, positions eliminations/consolidation, reduction in marketing programs, were within the programs executed during 2016. Despite the harsh economic local conditions and enduring recession that has devastated the Puerto Rico economy over the last decade, Debtors was making the payment of its debt service with the Banks and to all suppliers.

Moreover, with the change in the strategies for the acquisition of its merchandise (internally designed), the overall gross margins have increased from 46% in 2011 to 53% in 2015.

Debtors' business is cyclical and during the low seasons of the year, Debtors concentrate in preparation for the forthcoming income generating season.

On various dates in March and April 2016, the Syndicate delivered certain Notices of Default and Reservations of Rights letters to the Debtors with respect to certain asserted Events of Default under the Amended and Restated Credit Facility, which the Debtors disputed. The Debtors and the Syndicate have engaged in litigation during the cases in respect of such matters and related issues, as detailed in numerous pleadings filed with the Court prior to the date hereof. Familiarity with such matters is assumed by reference to the applicable pleadings filed on the Court's docket. For the avoidance of doubt, each of the Debtors and the Syndicate has reserved all rights with respect to such matters, pending confirmation and effectiveness of the Plan filed contemporaneously herewith.

As a result of all of the above, in an effort to protect 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 May 25, 2016, Debtors filed their Chapter 11 Reorganization cases.

Debtors' Plan of Reorganization (the "Plan") contemplates that Debtors are going to continue with its operations, with new pricing inventories, the introduction of new merchandise designed and developed internally, and the implementation of certain costs savings programs.

4.3 Debtors' Post-Petition Endeavors.

As a result of the filing by the Chapter 11 petition, Debtors received the benefits of 11 U.S.C. § 362(a), which stayed all collection actions and judicial proceedings against them, providing Debtors 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 Debtors cases on June 27, 2016, which was closed.

Debtors have undertaken the following efforts for the benefit of their Estate and their creditors:

Debtors sought and obtained the Bankruptcy Court's approval to retain Vilariño & Associates, LLC, as their bankruptcy counsel.

Debtors also sought and obtained the Bankruptcy Court's approval to retain CPA Luis R. Carrasquillo & Co., P.S.C. ("Carrasquillo") as its financial consultant on all matters pertaining to Debtors' reorganization.

Moreover, Debtors' Management has commenced with the implementation of an aggressive restructuring plan to reduce Debtor's overhead costs to improve both, profitability and operating cash flows. Some of such programs are in the process of implementation and in general terms (summarized below), are concentrated on salary reductions to management, negotiations with landlords to reduce rents, elimination of certain benefits to employees, reduction of stores leased spaces, among others, described as follows:

Salary Reduction to Corporate Management In the ordinary course of business Debtors pay management annual salaries of approximately \$795,000. In order to assist Debtors in its

reorganization, management and ownership decreased their salaries by approximately 20%, in an overall basis. Annual savings will approximate to \$222,000 (including payroll taxes). Salary adjustments were effective on September 1, 2016.

Salary Reduction Attrition

During the last three (3) months, Management has reduced operating salaries by reducing stores operating hours (i.e. no operating during Sundays, in some stores), reduced salaries, reduced working hours to the warehouse employees, consolidated certain positions, and has reduced its head count by attrition. As a result of such initiatives, Debtor will achieve annual salary savings of approximately \$867,000 (in addition to that described above).

Rent Expense

Rent expense includes the rents paid to third parties, including the premises at Caguas (Office and Warehouse), Manati Store, Mayaguez Store, Hatillo Store, and two (2) properties in New York. Management has been in discussions with certain landlords and feels very positive that the negotiations detailed below will be achieved on or before November 30, 2016. If savings are not achieved, Debtor is considering rejecting some of those executory contracts and consolidate its retail operations in less locations. Rent expense savings are projected as follows:

Premises	Discount (**)	Actual Rent	Reduced Monthly Rent	Monthly Savings	Annual Savings
Caguas- Warehouse	25%	\$ 28,898	\$ 21,674	\$ 7,224	\$ 86,688
Manati (*)	50%	14,512	7,256	7,256	87,072
Mayaguez (*)	50%	17,664	8,832	8,832	105,984
Hatillo (*)	50%	14,137	7,069	7,069	84,822
NY Apartment	50%	7,390	3,700	3,690	44,280
		\$ 82,601	\$ 48,531	\$ 34,071	\$ 408,846

(*) Already accepted by landlords.

(**) The above rent reductions will be effective on or before November 30, 2016, except for NY apartment rent, which will be implemented not later than October 31, 2017.

In addition, Debtors have commenced to identify tenants for its owned realties to reduce the stores leased space and lease them to third parties' tenants. This initiative may produce additional rental income of approximately \$200,000 per year. Currently, Management is in discussions with two (2) potential tenants/buyers for the properties located at Naranjito and Puerto Nuevo. The sale and/or lease of these two (2) properties is under consideration.

Moreover other Cost Containment Programs have been implemented, to improve Debtor's Operating Cash Flows. Such programs are explained in detail on Schedule B to the **Exhibit AA** hereto.

Debtors have prepared their Cash Flows Projections, considering the cost containment programs mentioned above, as well as the improvements in its gross margins, and showing the feasibility of the proposed Plan of Reorganization.

Debtors reached an agreement with the Syndicate, for the treatment of its secured claims, filed on December 9, 2016 (Docket 278) attached hereto as the Exhibit AA.

V. CLAIMS AGAINST DEBTOR

5.1 Claims Against Debtor

Claims against Debtors that are Allowed Claims, as defined in the Plan, will be entitled to distribution pursuant thereto, as indicated in pages 6-9 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 Debtors' Schedules or Debtors' belief as to amounts due thereto. Debtors are including as **Exhibit C** hereto a Summary of Claims and Plan Payments as of December 12, 2016, including reconciliation of claims filed against Debtors, indicating those objected, to be objected, and those pending for review. **Exhibit D** hereto presents the allowed priority tax claims, if any.

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 Debtors' 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 Debtors' Chapter 11 cases are to be prosecuted by Debtors, including any application to estimate or disallow Claims for voting purposes. Debtor has filed objections to the following claims, giving notice to the particular creditors that they had thirty (30) days to respond thereto:

POC #	Claimant	Total Amount Claimed	Amount Expected to be Allowed	Reason for Objection	Action by the Court
3-2	Mar Jor and Sons, Inc. (Komodidad)	\$16,274.67 Unsecured Priority	\$16,274.67 General Unsecured	Debtors have conducted a review of Proof of Claim ("POC") No. 3 filed by Mar Jor & Sons, Inc. ("Claimant") and noted that this claim was erroneously filed as an Unsecured Priority Claim instead as a General Unsecured Claim. Therefore, this claim, must be allowed in the amount as claimed, but classified as a General Unsecured Claim.	Granted Docket 249
3	Department of Treasury (GA Investors)	\$3,452.52 Priority \$141.05 Unsecured	\$0.00 Priority \$0.00 Unsecured	On September 13, 2016 Treasury filed the POC No. 3 in the case of GA Investors, which is related to payroll taxes for the month of April 2016. After the filing of the POC No. 3 by Treasury, Debtor reviewed its books and records and noted that it filed its quarterly tax returns on time and that have paid, all payroll taxes due for the month. Therefore, the claim was objected.	Granted Docket 163

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3	Department of Treasury (GA Design)	\$893.79 Priority \$100.00 Unsecured	\$0.00 Priority \$0.00 Unsecured	On September 13, 2016 Treasury filed the POC No. 3 in the case of GA Design, which is related to Sales and Use taxes for the month of February 2016. After the filing of the POC No. 3 by Treasury, Debtor reviewed its books and records and determined that no tax liabilities are due under this concept, for such month. Therefore, the claim was objected.	Decision Pending
2	Department of Treasury (GA Design)	\$1,792.56 Priority \$71.37 Unsecured	\$0.00 Priority \$0.00 Unsecured	On September 13, 2016 Treasury filed the POC No. 3 in the case of GA Design, which is related to Payroll Taxes for the month of April 2016. After the filing of the POC No. 3 by Treasury, Debtor reviewed its books and records and determined that no tax liabilities are due under this concept, for such month. Therefore, the claim was objected.	Decision Pending
21-1	Fast Office and Computer Supply	\$ 4,850.04 Priority	\$4,850.04 As a General Unsecured	On June 25, 2016, Claimant filed Proof of Claim ("POC") No. 21-1 for \$4,850.04. Based on the review of the document submitted, Debtor has concluded that Claimant erroneously filed as an Unsecured Priority Claim instead as a General Unsecured Claim. Although this creditor has identified "Other Priority" in item five (5) of the proof of claim form, such POC does not specify applicable paragraph of 11 U.S.C. § 507 (a) (___), to be considered a Priority Claim, and lacks of evidence to support this classification. Therefore, this claim, must be allowed in the amount claimed, but classified as a General Unsecured Claim.	Granted Docket 145
30-1	Toyota Credit de Puerto Rico	\$16,662.33 Secured Claim	\$0.00	An examination of this POC indicates that the correct Debtor under such POC is Mr. Jorge L. Bourdon Feliciano, Case Number 16-04332 (MFC). Therefore, it is clear that the POC-30 was filed in the erroneous case and is not due by the Debtors in this case.	Granted Docket 146
31-1	Aurea Colón Rivera	\$292,682.00 Unsecured Claim	\$0.00	On July 14, 2016, Claimant filed Proof of Claim ("POC") No. 31-1 for \$292,682.00. A review of the POC-31 shows that Claimant is attaching in support to her POC, copy of a Complaint	Granted Docket 147

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				<p>(the “Complaint”) filed under Civil Case No. EPE2016-0006-703, related to Labor Law Claims including unjustified dismissal, compensation under Law 80, discrimination, among other claims. The Compliant quantified the total alleged damages in the amount of \$292,682. However, as of the filing date, such case has not been concluded and there is no judgement in favor or against Debtors, thus this claim cannot be allowed as correct, nor for the amounts claimed. As a matter of fact, and as a result of the filing of Debtors’ Chapter 11 cases, the Court of the First Instance, Caguas Section, issued an order staying the procedures.</p> <p>Therefore, there is no final judgement nor amounts adjudicated to this claimant, pursuant to the claims set forth above.</p>	
43-1	Jessica Pou-Febles	\$22,124.41 General Unsecured Claim	\$0.00	<p>This claim is related to a labor law claim for unjustified dismissal, under case number EPE2014-0134. The POC quantified the total alleged damages, including the associated legal fees in \$22,124.41. However, as of the filing date, such case had not been concluded and there is not any judgement in favor or against Debtors, thus this claim cannot be allowed as correct, nor for the amounts claimed of the First Instance, Caguas Section, issued an order staying the procedures. Therefore, there is not a final judgement nor amounts adjudicated to this claimant, pursuant to the claims set forth above.</p>	Pending for decision
46-1	MILLIONARE CLUB APPAREL GROUP LLC	\$45,648.66 Unsecured Priority	\$45,648.66 General Unsecured	<p>Debtors have conducted a review of Proof of Claim (“POC”) No. 46 and noted that this claim was erroneously filed as an Unsecured Priority Claim instead as a General Unsecured Claim.</p> <p>Therefore, this claim, must be allowed in the amount as claimed, but classified as a General Unsecured Claim.</p>	Granted Docket 240
49-1	KIMIK, LLC	\$133,372.00 Unsecured Priority	\$133,372.00 As but as a General Unsecured Claim	<p>Debtors have conducted a review of Proof of Claim (“POC”) No. 49 filed by KIMIC, LLC. (“Claimant”) and noted that a portion of this claim, was erroneously filed or classified as an Unsecured Priority Claim instead as a General Unsecured Claim.</p> <p>Therefore, Debtors object the classification of the Claim, and as such, this POC must be allowed in the amount</p>	Granted Docket 206

				as claimed, but classified (100%) as a General Unsecured Claim.	
51-1	MIK MAK, Inc.	\$10,380.00	\$10,380.00 But as a General Unsecured Claim	Debtors have conducted a review of Proof of Claim ("POC") No. 51 and noted that a portion of this claim, was erroneously filed or classified as an Unsecured Priority Claim instead as a General Unsecured Claim. Therefore, Debtors object the classification of the Claim, and as such, this POC must be allowed in the amount as claimed, but classified (100%) as a General Unsecured Claim.	Granted Docket 236
52-1	State Insurance Fund Corporation	\$8,125	\$7,850	After a review of this proof of claim Debtor determined that the amount claimed was not considering a payment made in August 26, 2016 for \$275.00.	SIF Amended its Claim. Allowed as Amended
58-1	American Hangers & Fixtures Corp.	\$3,620	\$7,850	After a review of this proof of claim Debtor determined that the amount claimed duplicative with the POC No. 59.	Granted Docket 269

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 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 Claims 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 Debtors and the holder of an Allowed Administrative Expense Claim, each such holder shall be paid in full in the regular course of business or as authorized by the Court on or before the Effective Date.

If Debtors dispute any portion of an Administrative Expense Claim, Debtors 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.

6.3 Professionals Fees Claims

The professionals retained by Debtors in Debtors' Chapter 11 cases 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, Debtors have paid their Chapter 11 counsel and financial consultant \$194,550 approximately, including their retainer fees.

Debtors estimate that additional Allowed Professionals Fee Claims, to all professionals, retained by Debtors will add to approximately between \$150,000 and \$175,000, 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. Debtors reserve the right to contest the allowance of any professional fees.

6.4 Classes of Claims and Equity Interest

As of the Petition Date, Debtors had secured claims due to the Syndicate of Banks, Scotiabank de Puerto Rico, Inc., Mrs. Carmen Miranda Rivera, Toyota Financial Services, cure claims from Assumed Executory Contracts, and General Unsecured Claims as more particularly described below. The Plan classifies the various claims against Debtors. 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 Debtors set forth in the Plan are as follows:

Class 1 – The Syndicate’s Claims– The Syndicate’s Claims⁸ arising from various loans for the acquisition and/or development of certain real estate, inventories, and other assets.

Class 2 - The Allowed Secured Claim of Scotiabank de Puerto Rico, Inc. (“Scotia”) – Scotia’s allowed claim secured by a rental apartment at Rio Mar Ocean Village, Rio Grande, Puerto Rico.

Class 3 – Holders of Allowed Secured Claim of Toyota Financial Services (“Toyota”) Toyota’s secured claim arising from a vehicle loan for the acquisition of a 2011 Lexus ES350.

Class 4 – Holders of Allowed Cure Claims from Assumed Executory Contracts – The Holders of Allowed Unsecured Claims arising from the assumed unexpired leases and executory contracts.

⁸ As defined in the Plan.

Class 5 – Holders of Allowed General Unsecured Claims – Class 5 consists of the Holders of Allowed General Unsecured Claims.

Class 6 – The Secured Claim of Mrs. Carmen Miranda Rivera – Class 6 consists of the secured claim of Mrs. Carmen Miranda Rivera, secured by a mortgage loan over a parcel of land adjacent to Debtors' commercial building at Caguas, P.R.

Class 7 – Holders of Interest in Debtors – Class 7 consists of the Holders of Interest in Debtors, consisting of Messrs. Carlos Galliano, Miguel Galliano, and Jorge Galliano.

6.5 Treatment of Claims.

Class 1 – The Syndicate's Claims

- (a) Impairment and Voting – Class 1 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Distribution – Pursuant to the agreement set forth in the Term Sheet attached hereto as the **Exhibit AA**⁹, the Syndicate's Claims¹⁰ arising from various loans for the acquisition of certain real estate, inventories, shall be paid as follows:
 - (i) regardless of the Effective Date, commencing on February 1, 2017, in twelve (12) monthly cash installments of \$208,333.33 including interest at 4.25% per annum;
 - (ii) followed by (ii) twenty-four (24) monthly installments of \$233,333.33, including interests at 4.25% per annum.
 - (iii) If the Debtor meets the extension requirements defined in the Exhibit AA, then loan maturity date will be extended and shall continue to be paid as follows: by

⁹ Including its Appendix and Schedules.

¹⁰ As defined in the Plan and more fully described in Exhibit AA hereto.

twenty-four (24) consecutive monthly installments of \$233,333.33 commencing on the first business day of the thirty-seventh (37) month after the Effective Date, including interest at the then applicable Base Rate Plus 1% fixed per annum (as defined in the Exhibit AA); followed by a balloon payment on the first business day of the 61st month after the Effective Date (the “Facility Maturity Date”) of the remaining principal balance, accrued interests and/or fees of the Allowed Syndicate Claim.

(iv) In addition, if Borrowers annual combined net revenues derived from Borrowers’ ordinary course of business exceed of \$27,000,000, in any given year, measured on a combined basis, then for the following fiscal years Debtors will pay 2% of the corresponding monthly cash collections of January, May, June, and December, respectively, less \$100,000 per annum.

On and after the Effective Date, the Syndicate will retain unaltered (and, for the avoidance of any doubt, fully validated and acknowledged by Debtors, Guarantors, and all affiliates and shareholders thereof pursuant to the Plan and the Confirmation Order) all of its existing liens and security interests over all of the collateral securing the Allowed Syndicate’s Claim (the “Syndicate Collateral”) which Syndicate Collateral generally includes all tangible and intangible assets of the Debtors, and existing third-party guarantees, until the full payment of the Allowed Syndicate Claim pursuant to the Plan. Other covenants, agreements, and conditions precedent, with regards to the treatment set forth above for the Syndicate’s Claims, are detailed in the **Exhibit AA** hereto, which is an integral part to this Disclosure Statement and Debtors’ Plan.

If any inconsistency exists between the Disclosure Statement, the Plan, and Exhibit AA, then the conditions and treatment described in Exhibit AA will govern.

Class 2 – Scotia’s Secured Claim

- (a) Impairment and Voting - Class 2 is unimpaired under the Plan and is not entitled to vote to accept or reject the Plan.
- (b) Distribution –Scotia’s allowed claim, secured by a rental apartment at Rio Mar Ocean Village, Rio Grande, Puerto Rico, with an estimated fair market value of \$485,000, shall be paid in accordance with the contractual terms of this loan, with monthly payments of \$6,192, until the sale of the apartment.

The net proceeds from the sale of such realty, as part of the Plan, will be used first to pay off the balance of Scotia’s secured claim with the remaining funds, to reduce other claims described herein as selected by Debtors with the Syndicate’s consent. Any arrears under this claim will be paid on or before the Effective Date.

Class 3 – The Allowed Secured Claim of Toyota Financial Services (“Toyota”)

- (a) Impairment and Voting - Class 3 is unimpaired under the Plan and is not entitled to vote to accept or reject the Plan.
- (b) Distribution – Toyota’s claim shall continue to be paid pursuant to the contractual terms of this vehicle loan with this lender with equal monthly installments of \$1,067.02, including principal and interest at 5.80% per annum, until the full payment of the claim. Any arrears under this claim will be paid on or before the Effective Date.

Class 4 – Holders of Allowed Cure Claims from Assumed Executory Contracts –

- (a) Impairment and Voting - Class 4 is impaired under the Plan and is entitled to vote to accept or

reject the Plan.

- (b) Treatment – Holders of Allowed Unsecured Claims arising from the assumed unexpired leases and executory contracts; shall be paid in full satisfaction of their claims 100% thereof through twelve (12) consecutive monthly installments commencing on the Effective Date of the Plan and continuing on the thirtieth (30th) day of the subsequent eleven (11) months (except for the Cure Claims of VO Industrial Corporation, claims which will be paid through 24 equal consecutive monthly payments).

Class 5 – Holders of Allowed General Unsecured Claims

- (a) Impairment and Voting - Class 5 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Treatment – Holders of Allowed General Unsecured Claims in excess of \$1,000, excluding those from Debtor's Shareholders and Affiliates (which, for the avoidance of any doubt, shall be cancelled and extinguished on the Effective Date and will not receive any recovery under the Plan), will be paid in full satisfaction of their claims 25% thereof through sixty (60) equal consecutive monthly installments of approximately \$20,400, commencing on the Effective Date and continuing on the thirtieth (30th) day of the subsequent fifty-nine (59) months.

Holders of Allowed General Unsecured Claims of \$1,000 or less, will receive in full satisfaction of their claims 25% thereof, in cash, on the Effective Date.

Class 6 – The Secured Claim of Mrs. Carmen Miranda Rivera ("Mrs. Rivera")

- (a) Impairment and Voting - Class 6 is impaired under the Plan and is entitled to vote to accept or reject the Plan.
- (b) Distribution –Mrs. Rivera's allowed claim, shall be paid by equal consecutive monthly

installments of \$2,000, including interest at 4.5% per annum, until the full payment her claim.

Class 7 – The Interest of Debtors’ Shareholder

- (a) Impairment and Voting - Class 7 is unimpaired under the Plan, and not entitled to vote to accept or reject the Plan, as it is deemed to have accepted the Plan pursuant to 11USC § 1126 (g).
- (b) Distribution – The Holders of Equity Interest in Debtors will not receive any distribution under the Plan but will retain its shares in Debtors, unaltered.

6.6 Means for Implementation of the Plan

Claims will be paid with available funds arising from Debtors’ operations, available cash balance as of the Effective Date, the collections of Debtors’ accounts receivable, and Debtors’ continued operations.

Debtors’ Cash Flows Projections, showing the feasibility of the Plan are included hereto as **Exhibit E**.

The projections present Debtors’ projected results of operations (on a consolidated basis) and Plan payments during the five-year period ending on December 31, 2021, and consider the implementation of the Plan.

6.7 Cancellation of Existing Agreements

Except to the extent reinstated or unimpaired under this Plan or the Term Sheet (as supplemented) attached as the Exhibit AA hereto, or for purposes of evidencing a right to distribution under the Plan or as otherwise provided hereunder, on the Effective Date, all

agreements and other documents evidencing any Claim or rights of any holder of a Claim against Debtors, including all indentures and notes evidencing such Claims, shall be cancelled.

6.8 Effectuating Documents and Further Transactions

Upon entry of the Confirmation Order, Debtors 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.

6.9 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 Debtors 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.

6.10 Debtors' Post Confirmation Management

After the confirmation of the Plan, Debtors will continue with its current management, consisting of its President, Mr. Jorge Galliano, and other members of its management team, in fundamental positions for Debtors' operations. In order to assist Debtors' in their reorganization, Management has

reduced their salaries to provide savings to the operations, of more than \$200,000¹¹, as follows:

<u>Employee</u>	<u>Pre-petition Salaries</u>	<u>Annual Salary Reduction (10%-30%)</u>	<u>Post-petition Salaries</u>
GALLIANO ARTIME JORGE A	\$ 155,820	\$ 15,582	\$ 140,238
GALLIANO GARCIA CARLOS J	97,000	26,000	71,000
GALLIANO ARTIME CARLOS	116,820	35,046	81,774
CARTAGENA GALLIANO GISELA	83,200	16,640	66,560
GALLIANO DE QUESADA ANA ISABEL	31,200	6,240	24,960
GALLIANO DE QUESADA, BEATRIZ	70,720	-	70,720
DE QUESADA DE GALLIA, BEATRIZ	52,000	10,400	41,600
GALLIANO MIGUEL	84,000	42,000	42,000
GARCIA SANTIAGO DIGNA (*)	<u>44,200</u>	<u>44,200</u>	<u>-</u>
TOTAL	<u>\$ 734,960</u>	<u>\$ 196,108</u>	<u>\$ 538,852</u>

6.11 Executory Contracts and Unexpired Leases

Executory contracts and unexpired leases, except for those; listed or mentioned 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 rejected on the Effective Date and the entry of the Confirmation Order by the Bankruptcy Court shall constitute approval of such rejection pursuant to Sections 365(a) and 1123(b)(2) of the Bankruptcy Code.

If the rejection of any executory contract or unexpired leases 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.

¹¹ Considering savings of \$25,494 in payroll taxes.

6.12 Exculpation

Debtors, and its present and former members, officers, directors, representatives, shareholders, employees, advisors, consultants, 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 Debtors' 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, including any liability arising under the Internal Revenue Code or criminal laws of the United States.

VII. LIQUIDATION AND FINANCIAL ANALYSIS

7.1 Best Interest of Creditors and Comparison with Chapter 7 Liquidation

The Liquidation Analysis (**Exhibit F**) reveals that in the event of a liquidation of Debtors' assets under Chapter 7, considering the costs and expenses of such a proceeding, and the updated appraisal reports provided by the Syndicate, there would be a substantial loss to Debtors' Estate. It reflects that in a liquidation scenario, Secured Claims, Chapter 7 Administrative Claims and Chapter 11 Administrative Claims, would receive dividends over their allowed claims, leaving no funds in the Estate for the General Unsecured Creditors. Under this scenario, the Holders of Allowed General Unsecured Claims will not receive any dividend of their allowed claims from the proceeds of the liquidation.

Confirmation of the Plan will assure that holders of Administrative Expense Claims, and General

Unsecured Claims will 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 Debtors' control.

7.2 Feasibility of the Plan

A) Financial Projections

Debtors have prepared financial projections (the "Projections") based on the confirmation and implementation of the Plan. The Projections are based upon estimates and assumptions that, although developed and considered reasonable by Debtors are inherently subject to significant economic uncertainties and contingencies beyond Debtors' control, as well as to certain assumptions with regards 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.

The Projections are attached as **Exhibit E** to this Disclosure Statement. As **Exhibit G** hereto, Debtor is including copy of its certified combined financial statements as of December 31, 2015. **Exhibit H**, hereto presents Debtors' Monthly Operating Report as of September 30, 2016. **Exhibit I**, hereto presents Debtors' Consolidated Summary of Monthly Operating Report as of September 30, 2016.

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

As of the Petition Date, Debtors owned assets and had liabilities, as more particularly described in its Schedules and Statement of Financial Affairs, filed with the Bankruptcy Court on May 25, 2016, and as Amended on May 27, 2016, July 21, 2016, and September 14 and 15, 2016. Debtor has prepared and filed with the Bankruptcy Court monthly operating reports summarizing its post-petition financial performance (see Exhibits H and I). 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) Real Property

As of the Petition Date, Debtor was the owner in fee simple of various real properties, as listed and more fully described in its Schedule A filed at Court on July 21, 2016 (Docket No. 95), with an aggregate estimated value of \$43,094,568.00¹², summarized as follows:

Road PR-2, Km 11.6 Int., Bayamon, PR	\$ 2,200,000.00
José Mercado Avenue & South of Ruiz Belvis Street, Caguas, PR	22,000,000.00
Galería del Sur Shopping Center	7,700,000.00
1250-1252, San Juan, PR	4,700,000.00
3 Km 6 8 San Antón & Sabana Abajo Ward, Carolina, PR	2,900,000.00
Cedro Abajo Ward, 152 Km 14.6, Naranjito, PR	2,500,000.00
Apt 5A, Caguas, PR	100,000.00
Cairo 1243, San Juan, PR	150,000.00
Betances 58, Caguas, PR	75,000.00
Apt. 8287 Ocean Villa, Rio Grande, PR	547,000.00
Betances 66, Caguas, PR	<u>222,568.00</u>
Estimated Value	<u>\$ 43,094,568.00</u>

A detail and full descriptions of Debtor's real properties are included in Debtors' Schedule A, available for public inspection at the office of the Clerk of the Bankruptcy Court during regular business hours.

D) Personal Property

As of the Petition Date, Debtors' Schedules listed Debtors' personal property consisting of checking accounts, utility bonds (deposits), accounts receivable, furniture, fixtures, store equipment, vehicles, leasehold improvements, prepaid insurance, prepaid expenses, and inventory. A detail of

¹² These values reflect the values obtained from various appraisal reports dated 2013 and 2014. These values do not necessarily reflect the actual market values of the real properties as of the filing date nor as of the date of the Disclosure Statement. Please refer to Debtors' Liquidation Analysis for updated information.

Debtors' 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.

7.3 Pending Litigation and Other Liabilities

At the time of the filing of the Chapter 11 petition, certain causes of actions were either pending or stayed. After the filing of the petition, one cause of action has resumed. Following are the causes of actions related to the bankruptcy estate and its status:

Case Title/Case Number	Nature of Case	Forum	Status
Rios Mendez, Steven Yarok vs Gatsby Mayaguez IICI201500547	Civil Tort Claim	Superior Court, Añasco, Puerto Rico	Concluded
Jessica Pou Febles vs Komodidad Distributors, Inc. EPE2014-0134	Labor Claim	Court of the First Instance, Caguas Section	Stayed
Aurea Colón Rivera vs Komodidad Distributors, Inc. EPE2016-0006	Labor Claim	Court of the First Instance, Caguas Section	Resumed
Julio Cesar Álamo Casiano Su Esposa Elizabeth López Merced vs Komodidad Distributors, Inc. EDP-2009-0062	Tort and Damages	Court of the First Instance, Caguas Section	Closed

7.4 Leases and Executory Contracts

As of the Petition Date, Debtors were parties to the following unexpired leases and executory contracts, as set forth in its Amended Schedule G, as indicated below.

Name and Mailing Address of other Parties to Lease or Contract	Description of Contract of Lease and Nature of Debtor's Interest.
LEXUS DE SAN JUAN PO BOX 29477 SAN JUAN, PR 00929	Contract Type: LEASE AGREEMENT Term: SIX (6) YEARS Description: LEXUS ES350 ACTION TAKEN BY DEBTOR: ASSUMED THE CONTRACT
ORIENTAL BANK AND TRUST PO BOX 195115	Contract Type: LEASE AGREEMENT Term: SIX (6) YEARS

Lead Case: Komodidad Distributors, Inc.
Joint Disclosure Statement

Case No. 16-04164 (ESL)
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SAN JUAN, PR 00919	Description: NISSAN JUKE 2012 ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
XEROX CORPORATION PO BOX 827598 PHILADELPHIA, PA 19182	Contract Type: COPIERS SERVICE CONTRACT Term: FIVE (5) YEARS Description: LEASE AGREEMENT 1 ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
XEROX CORPORATION PO BOX 827598 PHILADELPHIA, PA 19182	Contract Type: COPIERS SERVICE CONTRACT Term: FIVE (5) YEARS Description: LEASE AGREEMENT 2 ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
HP FINANCIAL CORPORATION PO BOX 71494 SAN JUAN, PR 00936	Contract Type: SERVERS- HARDWARE SERVICE CONTRACT Term: FOUR (4) YEARS Description: FINANCIAL SERVICES ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
G & S REALTY 1, LLC	Contract Type: RENT AGREEMENT Term: FIVE (5) YEARS Description: LEASE AGREEMENT FOR NY RESEARCH AND DEVELOPMENT OFFICES. ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
V.O. INDUSTRIAL, CORP. PO BOX 734 CAGUAS, PR 00728	Contract Type: RENT AGREEMENT Term: FIVE (5) YEARS Description: TWO (2) LEASE AGREEMENTS FOR COMMERCIAL OFFICES AND WAREHOUSE FACILITES AT CAGUAS, P.R. ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
ROSA RODRIGUEZ, S.E. (RRSE) PO BOX 906 HATILLO, PR 00659	Contract Type: RENT AGREEMENT Term: NINETEEN (19) YEARS Description: HATILLO STORE ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
Name and Mailing Address of other Parties to Lease or Contract	Description of Contract of Lease and Nature of Debtor's Interest.
CRP II-MANATI, LLC PO BOX 636699 ATLANTA, GA 30353	Contract Type: RENT AGREEMENT Term: ONE (1) YEAR Description: MANATI STORE ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
CRP II-UNIVERSITY, LLC PO BOX 636699 ATLANTA, GA 30353	Contract Type: RENT AGREEMENT Term: TWO (2) YEARS Description: MAYAGUEZ STORE ACTION TAKEN BY DEBTORS: ASSUMED THE CONTRACT
EQUITY RESIDENTIAL MANAGEMENT, LLC	Contract Type: RENT AGREEMENT Term: TWO (2) YEARS

140 TRUMP PLACE RIVERSIDE BLVD, NEW YORK, NY	Description: APARTMENT NEW YORK, NY ACTION TAKEN BY DEBTORS: WILL MODIFY OR REJECT THE CONTRACT
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All of the above executory contracts will be deemed as Assumed, as may be modified during the pendency of the case, with the Confirmation Order with any arrears paid pursuant to the treatment of Class 3 above.

Moreover, Debtors are parties on certain lease agreements as Landlords. All these contracts will be deemed as Assumed, with the Confirmation Order.

VIII. BAR DATE AND DETERMINATION OF CLAIMS

8.1 Bar Date

On May 31, 2016, in the “Notice of Chapter 11 Bankruptcy Case, Meeting of Creditors and Deadlines” issued in Debtors’ case the Bankruptcy Court fixed September 26, 2016, as the bar date for the filing of proofs of claims and interests (except for Governmental Units), and November 28, 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 Debtors’ Schedules, 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) Debtors' liquidation under Chapter 7 of the Bankruptcy Code, (b) dismissal of Debtors' 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 Debtors' 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 F 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 Debtors' 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

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, Debtors do not foresee a different plan. Debtors believe that the Plan described herein will provide the greatest and most expeditious return to creditors.

X. TAX EFFECTS

Based on Debtors' 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

Debtors submit 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 28th day of December, 2016.

**Komodidad Distributors, Inc.
G.A. Design & Sourcing, Corp.
G.A. Property Development, Corp.
G.A. Investors, S.E.
Gamaxport Inc.**

**By: /s/ Jorge Galliano
Jorge Galliano
President**