

United States Bankruptcy Court
For the District of Puerto Rico

In re: AMERICAN TOOLS, INC.

CASE NO. 16-08071(BKT)

Debtor

CHAPTER 11

**AMENDED DISCLOSURE STATEMENT FOR THE CHAPTER 11
PLAN OF REORGANIZATION OF AMERICAN TOOLS, INC
RE: ARTICLE III & EXHIBITS B, E, F, G & G-1**

PLEASE NOTE THAT THIS DISCLOSURE STATEMENT IS BEING SUBMITTED FOR APPROVAL AND HAS NOT YET BEEN APPROVED BY THE BANKRUPTCY COURT. THIS IS NOT A SOLICITATION OF VOTES WITH RESPECT TO THE DEBTOR'S PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE BANKRUPTCY CODE OR AN OFFER WITH RESPECT TO ANY SECURITIES. ANY SUCH SOLICITATION OF OFFER WILL COMPLY WITH ALL APPLICABLE SECURITIES LAWS AND PROVISIONS OF THE BANKRUPTCY CODE. ACCEPTANCES OR REJECTIONS OF THE DEBTOR'S PLAN MAY NOT, AND WILL NOT, BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT. ACCORDINGLY, THE INFORMATION CONTAINED HEREIN IS SUBJECT TO CHANGE.

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ARTICLE I
INTRODUCTION

This is the disclosure statement (the “Disclosure Statement”) in the Chapter 11 case of AMERICAN TOOLS, INC. (the Debtor). This Disclosure Statement contains information about the Debtor and describes the Plan of Reorganization (the “Plan”) filed by the Debtor on March 20, 2018. A full copy of the Plan is submitted with this Disclosure Statement as a separate document. ***Your rights may be affected. You should read the Plan and this Disclosure Statement carefully and discuss them with your attorney. If you do not have an attorney, you may wish to consult one.***

The proposed distributions under the Plan are discussed at pages 9-12 of this Disclosure Statement. [General unsecured creditors are classified in Class 2 and will receive a distribution of 3% of their allowed claims.]

A. Purpose of This Document

This Disclosure Statement includes, without limitation, information about:

- the Debtor's corporate history and significant events during the bankruptcy case;
- events leading to the Chapter 11 case;
- the classification and treatment of claims and interests under the Plan, including who is entitled to vote on the Plan;
- significant aspects of the Plan, including how distributions under the Plan will be made;
- the statutory requirements for confirming the Plan;
- certain risk factors creditors should consider before voting and information regarding alternatives to confirmation of the Plan; and
- certain income tax consequences of the Plan.

In light of the foregoing, the Debtor believes that the Disclosure Statement contains "adequate information" to enable a hypothetical reasonable investor to make an informed judgment about the Plan and complies with all aspects of section 1125 of the Bankruptcy Code.

The Debtor believes the Plan is in the best interest of its estate and its creditors and strongly recommends that you vote to accept the Plan if you are entitled to vote. Assuming the requisite acceptances to the Plan are obtained, the Debtor will seek the Bankruptcy Court's approval of the Plan at the Confirmation Hearing.

The Plan and all documents to be executed, delivered, assured, and/or performed in connection with the Consummation of the Plan, are subject to revision and modification from time to time prior to the Effective Date.

B. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor rehabilitation, Chapter 11 promotes equality of treatment for similarly situated creditors and similarly situated equity interest holders, subject to the priority of distributions prescribed by the Bankruptcy Code.

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

Consummating a plan is the principal objective of a Chapter 11 Case. The Bankruptcy Court's confirmation of a plan binds the debtor, any person acquiring property under the plan, any creditor or equity interest holder of a debtor and any person or entity as maybe ordered by the Bankruptcy Court, in accordance with the applicable provisions of the Bankruptcy Code. Subject to certain limited exceptions, the order issued by the Bankruptcy Court confirming a plan provides for the treatment of the debtor's debt in accordance with the terms of the confirmed plan.

C. 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 the Disclosure Statement and Confirm the Plan.*

*This Honorable Court has scheduled confirmation hearing for April 25, 2018 at 9:00 a.m. at which the Court will determine whether to finally approve this Disclosure Statement. Hereinafter, the Court will schedule hearing on confirmation of the Plan. Hearing will be held at **JOSE V TOLEDO FED BLDG & US COURTHOUSE, 300 RECINTO SUR, 2ND FLOOR COURT ROOM 1** at the Bankruptcy Court for the District of Puerto Rico.*

- 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 the ballot in the enclosed envelope to **EMILY D. DAVILA, ESQ., 420 PONCE DE LEON, MIDTOWN #311, SAN JUAN, PR 00918.**

- 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 14 days prior to hearings scheduled on approval of Disclosure Statement and confirmation of the Plan.

- 4. Identity of person to Contact for More Information*

If you want additional information about the Plan, you should contact Attorney Emily D. Dávila.

ARTICLE II
BACKGROUND

A. Description and History of the Debtor's Business

Debtor is a corporation organized under the laws of the Commonwealth of Puerto Rico in 1972 and engaged in the manufacturing of custom sheet metal products in its physical facilities located in Bayamón, Puerto Rico. The Debtor's business has been focused in certain specialized industries such as pharmaceutical, medical devices, aeronautical, telecommunications, electronics, military and restaurants industries.

Through the years, Debtor has positioned its manufacturing business as the main sheet metal supplier in Puerto Rico and the Caribbean. Its ample manufacturing facilities and modern equipment provide room and production capacity for all the industry related services, from blue print analysis and design to finished products. In addition to be the industry leader, Debtor is also the only sheet metal manufacturing plant in Puerto Rico certified in ISO 9001:2008 and certified by the National Minority Supplier Development Council.

For many years, most part of the Debtor's clients were the multinational corporations doing business in Puerto Rico under the former US Internal Revenue Code's section 936, whose extended benefits to the Puerto Rico economy finally ended around year 2005. After the phase-out of the tax benefits provided by section 936, many of the US companies that were enjoying those benefits began the closing and moving of its manufacturing operations from Puerto Rico to other locations.

As part of those dramatic changes experienced by the local industrial market during the last decade, Debtor suffered a huge reduction in its business volume upon the loss of large clients such as Tyco PR, Intel, Life Savers, Water Millipore, Digital Equipment, Microdata, Technicon, Westinghouse and many others.

During those years, the Debtor's former management team faced an extremely difficult challenge of developing and implementing new business strategies to mitigate the impact of the external economic changes and the sharp loss of revenues. A slow reaction to the new business conditions and certain unsuccessful marketing strategies caused a negative impact on the Debtor's cash flows, an accumulation of debt balances and subsequent events of non-compliance with creditors' payment terms and requirements.

B. Management of the Debtor Before and During the Bankruptcy

Since the beginning of operations and through the date on which the bankruptcy petition was filed, the Vice President and Treasurer of the Debtor has been Mr. Jimmy Cepeda, who will be also in charge of the general supervision of Debtor's operations after the effective date of the order confirming the Plan. Mr. Cepeda is being helped on the day to day operations by Mr. Luis Alemañy, General Manager since 2015.

C. Events Leading to the Commencement of the Chapter 11 Case

- 1) Since its commencement of operations, the Debtor's business was mostly concentrated into the market comprised by the subsidiaries of US corporations that were operating manufacturing plants in Puerto Rico under the benefits of section 936 of the US Internal Revenue Code.
- 2) During those former years, the Debtor's annual sales were generally within the range of \$10 to \$15 million. Even though the products markup used to be traditionally low, the high sales volume allowed the company to have a profitable operation. At that time, the physical facilities were expanded and the production capacity was improved thru a costly investment in specialized machinery and equipment.
- 3) The deterioration of the U.S. and Puerto Rico economy that began in 2006 with the phase-out of section 936 had a significant adverse impact on the financial condition of the Debtor.
- 4) Elimination of the tax benefits provided by section 936, caused that many of the Debtor's clients decided to close their manufacturing plants in Puerto Rico during the last decade.
- 5) In addition, the demand for the sheet metal products manufactured by the Debtor suffered certain reduction because of the increasing use of plastic, instead of sheet metal, in parts used for the assembly of technological products.
- 6) Debtor began experiencing sharp reductions in revenues and significant operating losses, that were being subsidize by debt from existing lines of credit facilities with banks and suppliers.
- 7) Debtor accumulated a high debt level, and its affected cash flows did not allow to comply with debt payment schedules and creditors terms.
- 8) Some two years ago, Debtor restructured its administrative team and hired a new general manager with experience leading companies in transforming businesses into a sustainable long run operation. Who has been able to create new business lines and to improve production efficiency and markup of manufactured goods.
- 9) Even though the significant efforts of the new management team in creating new business lines and improving production efficiency, the condition of the Puerto Rico economy has not allowed the Debtor to attain the sales level necessary to meet both the old debt service as well as the current operating expenses.
- 10) During the last couple of years, Debtor has been dealing with legal actions from several suppliers and creditors trying to collect moneys and to foreclose property.
- 11) On October 7, 2016, Debtor filed the present Bankruptcy case under Chapter 11 of the US Bankruptcy Code to protect and reorganize its business.

D. Significant Events During Debtor's Chapter 11 Case

While operating as debtor in possession under Chapter 11 Case, the Debtor's management has been trying to stabilize the business operation and improve the cash flows.

During Debtor's bankruptcy case, there have not been any assets sales outside the ordinary course of business.

During Debtor's bankruptcy case, there have not been any financing or cash collateral orders.

During Debtor's bankruptcy case, there have not been any professionals approved by the Court, other than Debtor's attorney.

During Debtor's bankruptcy case, there have not been any adversary proceedings filed or significant litigation, including contested claim disallowance proceedings. There are no significant legal proceedings that are pending during the case in a forum other than the Court.

During Debtor's bankruptcy case, management has implemented or is to implement certain actions to improve revenues, reduce overhead and to become the Debtor's operations to be more cost efficient and effective. Among actions taken are the following:

- a. Aggressive marketing and sales strategies by new general manager to close contracts with new customers and to develop new projects with existing customers.
- b. Penetration into the Latin America's marketplace by focusing especially in the Costa Rica market.
- c. Identification and hiring of a new sales representative in the US market place to support expansion, with compensation fully based on commissions.
- d. Revision of products pricing structure to improve margin opportunities and pricing strategies.
- e. Reduction of operating costs and elimination of unnecessary expenses, mainly in areas such as utilities, administrative positions, and raw material costs.

E. Avoidance Actions

The Debtor does not intend to pursue preference, fraudulent conveyance, or other avoidance actions.

F. Claims Objections

Except to the extent that a claim is already allowed 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 XI of the Plan.

G. Current and Historical Financial Conditions

The identity and fair market value of the estate's assets are listed in **Exhibit B**. Debtor's most recent financial statements issued before bankruptcy, are set forth in **Exhibit H**. The assets and liabilities of Debtor at the filing date are shown in **Exhibit C**. A summary of the Debtor's periodic operating reports filed since the commencement of the Debtor's bankruptcy case is set forth in **Exhibit D**.

ARTICLE III

SUMMARY OF THE PLAN OF REORGANIZATION AND TREATMENT OF CLAIMS

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 view, their treatment under the Plan does not comply with that required by the Code. As such, the Plan Proponent has *not* placed the following claims in any class:

1. *Administrative Expenses*

Administrative expenses are costs or expenses of administering the Debtor's 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 Debtor's 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 (IRS payroll taxes)	\$58,560 Includes 1Q 2018	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 by the Court.	-0-	Paid in full on the effective date of the Plan, or according to terms of obligation if later
Professional Fees, as approved by the Court.	-0-	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-	Paid in full on the effective date of the Plan
Other administrative expenses	-0-	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	-0-	Paid in full on the effective date of the Plan
TOTAL	\$58,560	

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 five (5) years from the order of relief. It is expected that the Reorganization Plan is to be approved in June 2018 and the Effective Date of the Plan will be some 30 days following the confirmation order. As a result, Debtor will have no more than 39 months following confirmation of the Plan to complete the payment of such priority tax claims that amount to \$81,809.

The following chart lists the Debtor's estimated §507(a)(8) priority tax claims and their proposed treatment under the Plan. See also related **Exhibit G** and **Exhibit G1**.

Description	Estimated Amount Owed	Date of Assessment	Treatment
<i>Internal Revenue Service</i> Payroll taxes.	\$12,532	2016	Payment interval = Monthly Payment = \$348.82 Payments begin - 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % = 5.0 Total Payout = \$13,604
<i>CRIM</i>	\$8,911	2014-2016	Payment interval = Monthly Payment = \$248.02

Personal property tax.			Payments begin - 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % =5.0 Total Payout = \$9,673
<i>PR Department of Labor</i> Unemployment insurance.	\$5,563	2016	Payment interval = Monthly Payment = \$154.84 Payments begin - 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % =5.0 Total Payout = \$6,039
<i>Corp. Fondo del Seguro del Estado</i> Workmen compensation.	\$42,253	2016	Payment interval = Monthly Payment = \$1,176.08 Payments begin - 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % =5.0 Total Payout = \$45,867
<i>PR Department of the Treasury</i> Sales tax (IVU) and payroll taxes.	\$8,779	2016	Payment interval = Monthly Payment = \$244.35 Payments begin - 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % =5.0 Total Payout = \$9,529
<i>Municipio de Bayamón</i>	\$3,771	2015-2016	Payment interval = Monthly Payment = \$104.95

Municipal license tax.			Payments begin – 30 days after confirmation of plan; estimated to commence on month 21. Payments end - On the 39 th installment Interest Rate % =5.0 Total Payout = \$4,093
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C. 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:

1. *Classes of Secured Claims*

Allowed secured claims are claims secured by property of the Debtor’s bankruptcy estate (or that are subject to set off) to the extent allowed as secured claims under §506 of the Code. If the value of the collateral or setoffs securing the creditor’s claim is less than the amount of the creditor’s allowed claim, the deficiency will be classified as a general unsecured claim.

Class 1 Secured Claim, corresponds to advances issued under a flexi funding arrangement for Debtor’s monthly working capital needs through the factoring and assignment of accounts receivable, to be paid in accordance to Final Order Approving Post-Petition Factoring Agreement. The collateral securing the creditor’s asserted interest includes all the Debtor’s accounts receivable and inventory.

In addition, Debtor has a claim of \$279,716 from Oriental Bank on two credit facilities secured by a chattel mortgage on certain commercial machinery and equipment. No payment for secured creditors is provided for in the Amended Plan due to the fact that relief from stay was granted in favor of secured creditor. Secured creditors will retain their lien over the collateral properties released from stay. Estimated unsecured claims allowed to Oriental Bank is \$249,920.79, an estimate of the allowed deficiency that could arise upon the foreclosure and subsequent sale of the property. Such unsecured claims will be paid to the creditors on the basis of the 3% offer to the unsecured claims in Class 3, but only when the foreclosure and property disposition process is formally completed and to the extent of any realized deficiency loss. Such property has an estimated liquidation value of \$29,795.

The following chart lists all classes of Debtor’s secured prepetition claims and their proposed treatment under the Plan:

<u>Class #</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
1	<i>Secured claim of:</i> Flexible Funding	Unimpaired	Monthly Payment = -\$0- Payments begin – N/A

	Collateral description= Accounts receivable and inventory Any outstanding sum owed is to be paid in accordance with Order entered granting post-petition Factoring Agreement Priority of liens=Chattel mortgage		Payments end – N/A Balloon payment = Amounts are paid in full in accordance to approved post-petition factoring agreement Funding fee = 7.0% Treatment of Lien = Value of collateral equals secured claim.
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2. Classes of Priority Unsecured Claims

Certain priority claims that are referred to in §§507(a)(1), (4), (5), (6), and (7) of the Code are required to be placed in classes. The Code requires that each holders of such claim receive cash on the effective date of the Plan equal to the allowed amount of such claim. However, a class of holders of such claims may vote to accept different treatment.

The following chart lists all classes containing under §§507(a)(1), (4), (5), (6), and (a)(7) of the Code and their proposed treatment under the Plan:

Class #	Description	Impairment	Treatment
N/A	Priority unsecured claims pursuant to Section 507(a)(1), (4), (5), (6) and (7) Total claims= \$-0-	N/A	N/A

3. Classes of General Unsecured Claims

General unsecured claims are not secured by property of the estate and are not entitled to priority under §507(a) of the Code. Class 2 comprises general unsecured claims that are proposed to be paid under the Plan based on a 3% of the allowed claim through sixty monthly installments.

Class 2 unsecured claims include a claim from Bautista Cayman Asset Company that is stated at \$1,939,295 and relates to an intercorporate guarantee provided by Debtor on a mortgage loan secured by the physical facilities used by Debtor for its manufacturing operation, warehouse and administrative offices. Such property is not part of the Debtor’s assets. Instead it is owned by a related real estate corporation that defaulted the terms of the mortgage loan.

In addition, Class 2 unsecured claims include a claim from Servimetal LLC that is not to be paid from Debtor’s assets since creditor has a personal guarantee from certain corporate officers who entered into a Stipulation Agreement at a local court to pay the balance due out of their own personal funds. Amount is excluded from allowed unsecured claims to be paid under the Plan.

Unsecured claim of \$249,921 allowed to Oriental Bank, holder of two chattel mortgage notes on the machinery and equipment released from the stay, is an estimate of the maximum allowed deficiency that could arise upon the foreclosure and subsequent sale of the released property. Such unsecured claim will be paid to the creditor on the basis of the 3% offer to the unsecured claims in Class 2, but only when the foreclosure and property disposition process is formally completed and to the extent of any realized deficiency loss that will never exceed the related allowed unsecured claim to such creditor.

The following chart identifies the Plan’s proposed treatment of Class 2 general unsecured claims against the Debtor. See also related **Exhibit G** and **Exhibit G1**.

Class #	Description	Impairment	Treatment
2	General Unsecured Claims Total claims=\$3,823,470	Impaired	Monthly Payment = \$1,911.73 Payments begin -30 days after confirmation of Plan Payments end - On the 60 th installment Balloon pmt =-0- Interest rate % =-0- Total payout = \$114,704 Estimated percentage of claim to be paid = 3.0%

4. Class of Equity Interest Holders

Equity interest holders are parties who hold an ownership interest (i.e., equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. In a partnership, 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:

Class #	Description	Impairment	Treatment
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3	Equity interest holders	Unimpaired	Retains their rights
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D. Means of Implementing the Plan

1. Source of Payments

Total monthly payment proposed under the Plan is **\$4,189**, including \$2,277 to be paid during the first 39 months in the case of priority tax debts and \$1,912 to be paid through a 60 months term in the case of general unsecured claims.

Source of funds for payments under the Plan is the collection of post-petition sales as per attached schedule of projected financial information. Net monthly business income is projected to cover the proposed monthly payment under the Plan.

Post-confirmation Management

The post confirmation manager of the Debtor, and his compensation, shall be as follows:

- Name: Jimmy Cepeda
- Position: Vice-President and Treasurer
- Compensation: Monthly compensation of \$3,333

E. Risk Factors

The proposed Plan of Reorganization will be affected should the Debtor’s sales levels projected for the next several years are not met. Revenue goals will depend on how the industrial and commercial customers will react to the following risk factors:

1. Slowdown of the Puerto Rico economy
2. Expected delay in the recovery process of the Puerto Rico economy
3. Changes in the Puerto Rico political environment
4. Small competitors in the industry who are less qualified

In addition, Debtor is to monitor the negotiations between its related landlord and Bautista Cayman Asset Company, holder of the mortgage note secured by the real estate facilities used by Debtor for its business activity.

F. Executory Contracts and Unexpired Leases

The Plan, in **Exhibit A**, lists all executory contracts and unexpired leases that the Debtor will assume under the Plan. Assumption means that the Debtor has elected to continue to perform the obligations under such contracts and unexpired leases, and to cure defaults of the type that must be cured under the Code, if any.

If you object to the assumption of your unexpired leases or executory contract, the proposed cure of any defaults, or the adequacy of assurance of performance, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan, unless the Court has set an earlier time.

All executory contracts and unexpired leases that are not listed in Exhibit A will be rejected under the Plan. Consult your adviser or attorney for more specific information about particular contracts or leases.

If you object to the rejection of your contract or lease, you must file and serve your objection to the Plan within the deadline for objecting to the confirmation of the Plan.

The Deadline for Filing a Proof of Claim Based on a Claim Arising from the Rejection of a Lease or Contract was February 13, 2017. Any claim based on the rejection of a contract or lease will be barred if the proof of claim is not timely filed, unless the Court orders otherwise.

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.

The following are the anticipated tax consequences of the Plan:

(1) Tax consequences to the Debtor of the Plan

Section 1031.01(a)(10) of the PR Internal Revenue Code of 2011 states that the income resulting for a Debtor on a debt discharge under a bankruptcy proceeding will be exempt from PR income taxes.

(2) General tax consequences on creditors of any discharge.

Creditors will take a deduction for the loss arising from the write off of accounts receivable that are not to be collected, in the year the write off is recognized for tax purposes.

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

Many parties in 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 for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that Classes 1 and 3 are impaired and that holders of claims in those classes are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that Classes 2 and 4 are unimpaired and that holders of claims in that class, therefore, do not have the right to vote to accept or reject the Plan.

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

Only a creditor or equity interest holder with 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.

The deadline for filing a proof of claim in this case was February 13, 2017 and April 7, 2017 for governmental claims.

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

As noted 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;
- 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

- Administrative expenses.

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.

4. Who Can Vote in More than One Class

A creditor whose claim has been allowed in part as a secured claim and in part as an unsecured claim, or who otherwise hold claims in multiple classes, is entitled to accept or reject a Plan in each capacity, and should cast one ballot for each claim.

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 on non-accepting classes, as discussed later in Section [B.2.].

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 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's 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 §1129(a)(8) of the Code, does not discriminate unfairly, and is a fair and equitable toward each impaired class that has not voted to accept the Plan.

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 F**. It shows that upon a

liquidation of the Debtor in the Bankruptcy Court or otherwise, there would be no additional funds for distribution to the General Creditors.

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 is proposed in the Plan.

1. Ability to Initially Fund Plan

The Plan Proponent believes that the Debtor 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. Tables showing the amount of cash on hand on the effective date of the Plan, and the sources of that cash are attached to this disclosure statement as Exhibit F.

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

The Plan Proponent must also show that it will have enough cash over the life of the Plan to make the required Plan payments.

The Plan Proponent has provided projected financial information. Those projections are listed in **Exhibit E**.

The Plan Proponent's financial projections show that the Debtor will have an aggregate annual average cash flow, after paying operating expenses and post-confirmation taxes, that will be enough to cover proposed payments under the Plan.

You Should Consult with Your Accountant or other Financial Advisor if you Have Any Questions Pertaining to These Projections.

ARTICLE V **EFFECT OF CONFIRMATION OF PLAN**

A. Discharge of Debtor

Debtor is a corporation and § 1141 (d)(3) is not applicable

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.

If the reorganized debtor substantially defaults on the plan payments due to the IRS, the outstanding balance is immediately due and payable. Payment shall be for the entire amount owed to the IRS under the plan. The IRS may collect these unpaid tax liabilities through the administrative collection provisions of the Internal Revenue Code.

B. Modification of Plan

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 re voting on the Plan he 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 re voting 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 consummates *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.

ARTICLE VI
OTHER PLAN PROVISIONS

None.

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