

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

In re:)	Case No. 16-09980
)	
FARMACIAS FREDDY, INC.)	Chapter 11
)	
Debtor (s))	
_____)	

**FIRST DISCLOSURE STATEMENT
FOR PLAN OF REORGANIZATION DATED SEPTEMBER 15, 2017**

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1. INTRODUCTION

This is the disclosure statement (the “Disclosure Statement”) in the small business chapter 11 case of Farmacias Freddy, Inc. (the “Debtor”). This Disclosure Statement contains information about the Debtor and describes the Small Business Plan of Reorganization (the “Plan”) filed by the Debtor on September 15, 2017. A full copy of the Plan is attached to this Disclosure Statement as **Exhibit A**. 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 7 through 9 of this Disclosure Statement. Unsecured creditors are classified as Priority Unsecured Creditors and General Unsecured Creditors in Class 2. Combined, unsecured creditors are projected to receive a distribution of \$180,000.00 which equals approximately a 23.14% distribution of their Allowed Claims¹. Distributions to General Unsecured Creditors will be in the amount of \$72,0000.00 and will be made via sixty (24) monthly payments of \$3,000.00 commencing on the first day of the 37th month following the Effective Date of the Plan.

A. Purpose of This Document

This Disclosure Statement describes:

- The Debtor and significant events during the bankruptcy case,
- How the Plan proposes to treat claims or equity interests of the type you hold (i.e., what you will receive on your claim or equity interest if the plan is confirmed),
- Who can vote on or object to the Plan,
- What factors the Bankruptcy Court (the “Court”) will consider when deciding whether to confirm the Plan,
- Why the Debtor believes the Plan is feasible, and how the treatment of your claim or equity interest under the Plan compares to what you would receive on your claim or equity interest in liquidation, and
- The effect of confirmation of the Plan.

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

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

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

¹ See, Chart of Claims attached hereto as Exhibit F.

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

On _____ a.m. a Hearing shall be held before the Honorable Brian K. Tester at the United States Bankruptcy Court, District of Puerto Rico, José V. Toledo Federal Building & US Courthouse 300 Recinto Sur Street, Courtroom #_____, San Juan, Puerto Rico 00901 to determine whether to finally approve this Disclosure Statement and confirm the Plan (the “Confirmation Hearing”). The Court will fix the last day for the filing and serving of written objections to the disclosure statement and confirmation of the plan.

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 The Batista Law Group, PSC., Condominio Midtown 420 Ponce de Leon Ave., Suite 901, San Juan, PR 00918. See section IV. A. below for a discussion of voting eligibility requirements.

Your ballot must be received before _____ at 5:00 p.m EST. or it will not be counted.

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

Objections to this Disclosure Statement or to the confirmation of the Plan must be filed with the Court and served upon the Debtor by _____.

4. Identity of Person to Contact for More Information

If you want additional information about the Plan, you should contact:

The Batista Law Group, PSC
Jesús E. Batista Sánchez, Esq.
Mid-Town Plaza
420 Ponce De León, Ave.; Suite #901
San Juan, Puerto Rico 00969
Tel: (787) 620-2856
Fax: (787) 625-0259
Email: jesus.batista@batistalawgroup.com

C. Disclaimer

The Court has conditionally approved this Disclosure Statement as containing adequate information to enable parties affected by the Plan to make an informed judgment about its terms. The Court has not yet determined whether the Plan meets the legal requirements for confirmation, and the fact that the Court has approved this Disclosure Statement does not constitute an endorsement of the Plan by the Court, or a recommendation

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

II. BACKGROUND

A. Description and History of the Debtors' Business

The Debtor, Farmacias Freddy, Inc. ("Farmacias Freddy"), is a Small Business Debtor. Farmacias Freddy is managed and operated by its President, Mr. Elvis Ivan Garcia Mercado². Farmacias Freddy is a community drugstore which offers medicines and other miscellaneous goods to its customers. Farmacias Freddy owns a commercial property located at Calle Muñoz Rivera #9 Naguabo, PR (the "Commercial Property") and personal property (i.e., the inventory, account receivables and vehicle). In addition, Farmacias Freddy leases the premises of operation.

B. Insiders of the Debtors

The "insider" of the Debtor is Mr. Elvis Garcia Mercado, and Mr. Ivan Garcia Ramos, who combined own 100.00% of the shares of the Debtor.

C. Management of the Debtors Before and During the Bankruptcy

During the two years prior to the date on which the bankruptcy petition was filed, the officers, directors, managers or other persons in control of the Debtor (collectively the "Manager") was Mr. Ivan Garcia Ramos. Similarly, the Manager of the Debtor during the Debtors' chapter 11 case, through the end of August 2017, was also Mr. Ivan Garcia Ramos.

In September of 2017, however, Mr. Garcia Ramos' father, Mr. Elvis Ivan Garcia Mercado, who was also the former President and Founder of the Debtor, re-took control of the Debtor. As noted, Mr. Garcia Mercado was the Founder of the Debtor and former President of the same. In years past, Mr. Garcia Mercado attempted to go into retirement and left his son, Mr. Garcia Ramos, to manage the Debtor as its new President. Unsatisfied by the on-going financial struggles of the Debtor, however, Mr. Garcia Mercado decided in August/September 2017 to regain control of the Debtor in the hopes of managing its financial turnaround.

Therefore, after the Effective Date, the directors, officers, and voting trustees of the Debtor, any affiliate of the Debtor participating in a joint Plan with the Debtor, or successor of the Debtor under the Plan (collectively the "Post Confirmation Managers"), will also be Mr. Elvis Garcia Mercado. Mr. Garcia Mercado is taking a minimal salary of \$300.00 per week and does not expect to increase such an amount in the foreseeable future. Further explanation of the

² As explained in this Disclosure Statement, the Debtor was operated, through August of 2017, by Mr. Garcia Mercado's son, Mr. Ivan Garcia Ramos. Mr. Garcia, however, stepped away from the operation of the corporation in early September of 2017.

responsibilities and compensation of these Post Confirmation Managers are described in Section III. D. below of this Disclosure Statement.

D. Events Leading to Chapter 11 Filing

The Bankruptcy Petition in this case was filed to estopp a pending garnishment by the Internal Revenue Services. Due to the general decline in the economy of the Commonwealth of Puerto Rico, Farmacias Freddy has been unable to meet the exacting demands of its creditors, including the IRS. Accordingly, Farmacias Freddy sought bankruptcy protection with the intent to reorganize the secured claim against the Commercial Property as well as the claim of other creditors in line with the Debtor's present financial capacity.

E. Significant Events During the Bankruptcy Case

On December 23, 2016, the Petition Date, the Debtor filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. Since that time, the Debtor has operated his financial affairs as Debtor and Debtor in Possession.

The Debtor has closed all pre-petition bank accounts. All Monthly Operating Reports, through the month ending July 2017, have been filed. *See*, Dockets #20, 21, 29, 30, 35, 48, 52, 54, 63, 64, 65, and 69. Upon information and belief, Quarterly Fees payable to the United States Trustee have been paid.

The 341 Meeting of Creditors was held on January 27, 2017, at 9:00 AM. Since, on February 7, 2017 (Dk. #16) this Court entered an Order approving Jesus E. Batista Sanchez, Esq., as Counsel of Record. Further, on August 11, 2017 the Debtor entered into a Stipulated Agreement with its primary secured creditor, Coop A/H Naguabena in order to grant relief of stay in the favor of the Coop. *See*, Dk. #66. This Honorable Court approved the Stipulation on September 5, 2017. *See*, Dk. #70. The Stipulated Agreement was motivated by the fact that the real property, which was not used by the Debtor in its operation, was not necessary for the Effective Reorganization of the Debtor.

In addition to the above, as noted above, the Debtor recently underwent a management change from Mr. Ivan Garcia Ramos, the Debtor's former President, to Mr. Elvis Garcia Mercado, the Debtor's new President. Under new leadership, the Debtor has undertaken, amongst others, the following steps in order to achieve financial viability:

- (a) the Debtor surrendered the Nanguabe Commercial Property which was not cash-flow positive and was not necessary for the Debtor's effective re-organization in as much as the Debtor did not operate its business out of such premises;
- (b) the Debtor replaces its former President, and as a result will save approximately \$2,500.00 in net salaries³;
- (c) the Debtor reduced its staff and will save approximately \$600.00 per week in additional salaries;

³ The Debtor's former President received salaries and related compensations of approximately \$4,000.00; the Debtor's new President is receiving a weekly salary of \$300.00 per week.

(d) the Debtor's new management in undertaking new marketing efforts in order to drive sales.

Based upon the above, the Debtor projects that commencing in September of 2017, financial results will be superior to those experienced during the first 9-months of the present re-organization. *See*, **Exhibit E**.

F. Projected Recovery of Avoidable Transfers.

At this juncture, the Debtor has not identified pre-petition transfers which are subject to avoidance. In light of the management change in the Debtor, the Debtor's investigation with respect to pre-petition transfers is on-going. If you received a payment or other transfer within 90 days of the bankruptcy, or other transfer avoidable under the Code, the Debtors may seek to avoid such transfer.

G. Claims Objections

Except to the extent that a claim is already allowed pursuant to a final non-appealable order, the Debtors reserve the right to object to claims. Therefore, even if your claim is allowed for voting purposes, you may not be entitled to a distribution if an objection to your claim is later upheld. The procedures for resolving disputed claims are set forth in Article V of the Plan. Unless otherwise ordered by this Honorable Court, any objection to a proof of claim (i.e., "Claim Objections") will be filed on or before the 30th following the Effective Date of the Plan.

H. Current and Historical Financial Conditions

The identity of the estate's assets are listed in **Exhibit D**. As of the Petition Date, the Debtors' Assets and Liabilities reflected assets with a book value in the amount of \$617,582.54 and Liabilities in the amount of \$1,128,601.33.

As of the date of the filing of the Voluntary Petition, the Debtors' primary assets included: (i) real property located at Calle Munoz Rivera 39 Naguabo, PR 00718 (the "Commercial Property"), with an approximated value of \$250,000.00; (b) account receivables, with a book value of approximately \$32,000.00; (c) inventory, with a market value (i.e., retail price) of \$282,745.20; and (d) equipment, with a book value of \$17,053.99 and (e) other personal property owned by the Debtor estimated at \$5,500.00. *See*, **Exhibit D**, attached hereto.

The Debtor primary liabilities correspond to secured and unsecured claims which have been filed and/or scheduled by the Debtor. For example, amongst others these claims include: (a) a secured claim on the Primary Residence, estimated in the amount of \$250,832.21 (b) a Priority claim, in the amount of \$358,944.38. Finally, a total of \$518,824.74 in general unsecured claims have been filed or scheduled against the Debtor. The Debtors most recent financial statements issued before the bankruptcy are set forth in **Exhibit C**.

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

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

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

B. Unclassified Claims

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

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

<u>Type</u>	<u>Estimated Amount Owed</u>	<u>Proposed Treatment</u>
Expenses Arising in the Ordinary Course of Business After the Petition Date	Less than \$1,000.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later.
The Value of Goods Received in the Ordinary Course of Business Within 20 Days Before the Petition Date	\$0.00	Paid in full on the effective date of the Plan, or according to terms of obligation if later.
Professional Fees, as approved by the Court, and expected to be owed as of the Effective Date of the Plan.	\$5,000.00	Paid in full on the effective date of the Plan, or according to separate written agreement, or according to court order if such fees have not been approved by the Court on the effective date of the Plan.
Clerk's Office Fees	\$0.00	Paid in full on the effective date of the Plan

Other administrative expenses	\$0.00	Paid in full on the effective date of the Plan or according to separate written agreement
Office of the U.S. Trustee Fees	\$0.00	Paid in full on the effective date of the Plan
Total	\$6,000.00	

2. Priority Tax Claims

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

The following chart lists the Debtors' estimated § 507(a)(8) priority tax claims and their proposed treatment under the Plan:

<u>Description</u>	<u>Estimated Amount Owed</u>	<u>Date of Assessment</u>	<u>Treatment</u>
Internal Revenue Services POC #4	\$45,016.91	2013-2015	Pmt Interval: 36 Payment Amount of Pmt: \$1,315.00 Begin Date: 1 st Month End Date: 36 th Month Interest Rate: 3.25% Total Payout Amount: \$47,340.00
Department of Labor	\$12,879.96	2014-2016	Pmt Interval: 36 Payment Amount of Pmt: \$376.00 Begin Date: 1 st Month End Date: 36 th Month Interest Rate: 3.25% Total Payout Amount: \$13,536.00
Departamento de Hacienda POC #10 and #11	\$28,474.50	2014-2016	Pmt Interval: 36 Payment Amount of Pmt: \$831.21 Begin Date: 1 st Month End Date: 36 th Month Interest Rate: 3.25% Total Payout Amount: \$29,923.56
Municipio de Naguabo	\$11,977.35	2014-2016	Pmt Interval: 36 Payment Amount of Pmt: \$350.00 Begin Date: 1 st Month End Date: 36 th Month Interest Rate: 3.25% Total Payout Amount: \$12,600.00

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 Debtors' bankruptcy estate (or that are subject to setoff) 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 Class 2 General Unsecured Claim, unless the creditor's claim is secured only by collateral which is the Debtor's property.

<u>Class</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>
1.	<u>The Allowed Class 1 Allowed Secured Claim of Cooperativa Naguabeña POC #6.</u> Class 1 consists of the Allowed Secured Claim, if any, of Cooperativa de Ahorro y Credito Naguabeña ("Naguabeña"). Naguabeña is allegedly secured by Debtor's Commercial Property located at Calle Munoz Rivera #9, Naguabo, PR 00718 (the "Commercial Property"). Naguabeña has filed POC # 6 in the amount of \$250,832.21. If Allowed, Naguabeña's Allowed Class 1 Claims shall be in the amount of \$250,832.21.	No	Yes	The Allowed Class 1 Secured Claim of Naguabeña should be allowed in the amount of \$250,832.21. Class 1 Claim will paid in full 100% via the surrender of Debtor's interest in the Commercial Property

2. Class 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.

In this Case, Unsecured Claims are classified in Class #2. The following chart identifies the Plan's proposed treatment of the class of claims which contain general unsecured claims against the Debtor:

<u>Class</u>	<u>Description</u>	<u>Insider</u>	<u>Impairment</u>	<u>Treatment</u>

2.	<p><u>The Allowed Class 2 Claims of General Unsecured Creditors.</u></p> <p>Class 2 General Unsecured Claims consists of all unsecured claims allowed under § 502 of the Code. This Class consists of the pre-petition unsecured claims against the Debtor, to the extent Allowed, if any and any other Allowed Claims which are deemed partially or entirely unsecured. It is anticipated that the Claims Allowed pursuant to Class 2 will be in the approximate amount of \$778,907.38. <i>See, Chart of Claims</i>, attached as <u>Exhibit F</u>.</p>	No	Yes	<p>The Allowed Class 2 General Unsecured Claims, if any, will be satisfied via a cash distribution, in the amount of \$72,000.00. Based on the Allowed Claims, this distribution represents an almost 10.00% distribution, on any Allowed Class 2 General Unsecured Claim. Distributions will be made on a monthly basis commencing on the 1st day of the 37th month following the Effective Date of the Plan and continue thereafter for 24 months. Payments will be in the amount of \$3,000.00.</p>
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3. 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 include both general and limited partners. In a limited liability company (“LLC”), the equity interest holders are the members. Finally, with respect to an individual who is a debtor, the Debtor is the equity interest holder.

In this Case, the Debtor’s Equity is classified in Class #3. The following chart sets forth the Plan’s proposed treatment of the class of equity interest holders:

<u>Class</u>	<u>Description</u>	<u>Impairment</u>	<u>Treatment</u>
3.	Debtors’ Equity (Ownership) Interest over Property of the Estate	No	The Debtor will retain its Ownership Interest.

D. Means of Implementing the Plan

1. Source of Payments

Payments and distributions under the Plan will be funded by the following:

The Plan establishes that the Plan will be funded from the cash-flows generated by the Reorganized Debtor. The Debtor’s cash-flows consist of the business income and revenue

generated by the Debtor. The Debtor will contribute its cash flows to fund the Plan commencing on the Effective Date of the Plan and continue to contribute through the date that Holders of Allowed Class 1 and 2 Claims receive the payments specified for in the Plan.

2. Post-confirmation Management

The Post-Confirmation Managers of the Debtor shall be Mr. Elvis Garcia Mercado. As of today, and into the foreseeable future, including as of the Effective Date, Mr. Garcia Mercado's compensation will continue to be \$300.00 per week.

E. Risk Factors

The proposed Plan has the following risks:

1. Income Risk Factor: Although the Debtor believes the Reorganized Debtor will be able to generate sufficient income subsequent to the Effective Date of the Plan to make the payments contemplated by the Plan, there is a risk that the income that is projected from the operation of the Corporation is not sufficient and thus the Debtor will not achieve the income necessary to enable it to make payments to Creditors.

F. Executory Contracts and Unexpired Leases

The Plan does not contemplate the debtor assuming any executory contracts and/or unexpired leases. 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 lease 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.

Unless specifically listed and assumed under the Plan, all executory contracts and unexpired leases will be deemed 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 Is 60 Days from the Rejection of Such Agreement or any other later date set by the Court. 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.

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, but are not limited to, the requirements that: (a) the Plan must be proposed in good faith; (b) at least one impaired class of claims must accept the plan, without counting votes of insiders; (c) the Plan must distribute to each creditor and equity interest holder at least as much as the creditor or equity interest holder would receive in a chapter 7 liquidation case, unless the creditor or equity interest holder votes to accept the Plan; and (d) 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 or allowed for voting purposes and (2) impaired.

In this case, the Plan Proponent believes that Classes 1 and 2 are impaired and that holders of claims in Classes 1 and 2 are therefore entitled to vote to accept or reject the Plan. The Plan Proponent believes that the Equity Class, which is Class 3, is unimpaired and that holders of claims in Class 3, 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 claim or an allowed equity interest has the right to vote on the Plan. Generally, a claim or equity interest is allowed if either (1) the Debtor has scheduled the claim on the Debtor's schedules, unless the claim has been scheduled as disputed, contingent, or unliquidated and/or such claim has been objected to; 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 April 27, 2017.

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
- holders of claims or equity interests in classes that do not receive or retain any value under the Plan;
- 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 “cram-down” on non-accepting classes, as discussed later in Section IV - 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 their votes to accept the Plan, and (2) the holders of at least two-thirds (2/3) in dollar amount of the allowed claims in the class, who vote, cast their votes to accept the Plan.

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

2. Treatment of Nonaccepting Classes

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

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 D**.

This analysis of the Debtor’s assets and liabilities reveals that the “forced-sale value” of the Debtor’s assets (i.e., value that could be generated by a Chapter 7 Trustee if assets needed to be sold liquidation in a 90-day window) amount to approximately 162,020.81. This is based on a “forced sale” value of the Debtor’s inventory, account receivables, and Equipment netting – free of sale costs – equal to 50.00% of its Retail Value and Book Value, respectively. A hypothetical Chapter 7 liquidation would also lead to Trustee and professional fees estimated at \$16,952.00; leaving a balance of approximately \$145,0000.00 for a Chapter 7 Trustee to administer and to distribute to all unsecured creditors.

Based on the priority distribution scheme of the Bankruptcy Code, Priority Unsecured Creditors would be first in line, and net of interest payable to such creditors, Priority Unsecured Creditors would receive approximately \$99,000.00. This would leave less than \$46,000.00 to be distributed to General Unsecured Creditors.

In this Case, however, General Unsecured creditors are expected to receive \$72,000.00 or an almost 10.00 % distribution on their Allowed General Unsecured Claim. Accordingly, the 10.00% distribution to general unsecured creditors equals or exceeds the amount general

unsecured creditors would receive in a hypothetical Chapter 7 Liquidation. As such, the distribution to general unsecured creditors in this Case meets and exceeds the so called Liquidation Value Test.

D. Feasibility

The Court must also find that confirmation of the Plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor, unless such liquidation or 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. The Debtor estimates that at the time of an Order of Confirmation, which for purposes of this Disclosure Statement is estimated at sometime around December of 2017, the Debtor will have in excess of \$10,000.00 in liquid assets to fund the payments due on the Effective Date of the Plan. A table showing the projected 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 E.**

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 a 5-year Cash Flow Projection, which is attached as **Exhibit E.**

Here, the Debtor's post confirmation projected cash-flows demonstrate the sustained ability to continue to make payments on the claims reorganized through the Plan in addition to all other operational payments and expenses of the Debtor. Based on the operational restructuring the Debtor has undertaken, the Debtor expects a slight decrease in sales that will result from the Debtor's shortening of operational hours. This, however, will be more than off-set by a reduction in labor expenses which exceeds the slight reduction in sales. As a result, the Debtor expects to convert a generally speaking break-even operation, into a cash-flow positive operation. From the projected Effective Date of the Plan (projected as January of 2018) through December of 2022 (i.e., 5-years), the Debtor projects positive cash-flows which serve as evidence the feasibility of the Debtor's Plan.

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

V. EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

To the fullest extent permitted by applicable law, and except as otherwise provided in the Plan, the operative documents implementing the Plan, or the Confirmation Order: (a) on the Effective Date the Confirmation Order shall operate as a discharge under 11 U.S.C. § 1140(d)(1) of the Bankruptcy Code, and as a release of any and all Claims, Debts, Liens, Security Interests, and encumbrances of and against the Reorganized Debtor and all Property that arose before Confirmation, including without limitation, any Claim of a kind specified in §§ 502(g), 502(h), or 502(i) of the Bankruptcy Code, and all principal and interest, whether accrued before, on, or after the Petition Date, regardless of whether (i) a Proof of Claim has been filed or deemed filed, (ii) such Claim has been Allowed pursuant to § 502 of the Bankruptcy Code, or (iii) the Holder of such Claim has voted on the Plan or has voted to reject the Plan; and (b) from and after the Effective Date (i) all Holders of Claims shall be barred and enjoined from asserting against the Reorganized Debtor and his property any Claims, Debts, Liens, Security Interests, and encumbrances of and against all Property of the Estate, and (iii) the Debtor shall be fully and finally discharged of any liability or obligation on a Disallowed Claim or an Interest. Except as otherwise specifically provided herein, nothing in the Plan shall be deemed to waive, limit, or restrict in any manner the discharge granted upon Confirmation of the Plan pursuant to § 1141 of the Bankruptcy 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. The Plan Proponent may also seek to modify the Plan at any time after confirmation only if (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modifications after notice and a hearing.

Upon request of the Debtors, the United States trustee, or the holder of an allowed unsecured claim, the Plan may be modified at any time after confirmation of the Plan but before the completion of payments under the Plan, to (1) increase or reduce the amount of payments under the Plan on claims of a particular class, (2) extend or reduce the time period for such payments, or (3) alter the amount of distribution to a creditor whose claim is provided for by the Plan to the extent necessary to take account of any payment of the claim made other than under the Plan.

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.

Respectfully Submitted,

/s/ Elvis Garcia Mercado
Elvis Garcia Mercado, as President

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