

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

IN RE:

**LATIN AMERICAN MUSIC, COMPANY,
INC.**

DEBTOR

**CASE NO. 17-02023 ESL
SMALL BUSINESS
UNDER CHAPTER 11**

**DISCLOSURE STATEMENT PURSUANT TO SECTION 1125 OF THE
BANKRUPTCY CODE DESCRIBING THE REORGANIZATION
CHAPTER 11 PLAN PROPOSED BY DEBTOR**

**PLEASE READ THIS DISCLOSURE STATEMENT CAREFULLY. THIS
DISCLOSURE STATEMENT CONTAINS INFORMATION THAT MAY BEAR UPON
YOUR DECISION TO ACCEPT OR REJECT THIS PLAN OF REORGANIZATION.
THE PLAN PROPONENT BELIEVES THAT THIS PLAN OF REORGANIZATION IS IN
THE BEST INTEREST OF THE CREDITORS AND THAT THE PLAN IS FAIR AND
EQUITABLE. THE PROPONENT URGES THAT THE VOTER ACCEPT THE PLAN.**

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I. INTRODUCTION

Latin American Music Company, Inc. (hereinafter referred to as “LAMCO”, “Proponents” or “Debtors”) are the Debtors in a Chapter 11 bankruptcy case. On March 24 2017, Debtor commenced a bankruptcy case by filing a voluntary Chapter 11 petition under the United States Bankruptcy Code (hereinafter “Code”), 11 U.S.C. §101 *et seq.* Chapter 11 of the Bankruptcy Code allows the Debtor, and under some circumstances, creditors and other parties in interest, to propose a plan of reorganization (hereinafter “Plan”). The Plan may provide for the Debtor to reorganize by continuing to operate, to liquidate by selling assets of the estate, or a combination of both. Latin American Music Company, Inc., the party proposing the Plan, sent to you in the same envelope as this document, the proposed Plan. **THE DOCUMENT YOU ARE READING IS THE DISCLOSURE STATEMENT FOR THE PLAN WHICH IS ANNEXED HERETO AS EXHIBIT A.**

This is a reorganization plan. In other words, the Proponent seeks to accomplish payments under the Plan by distributing all the disposable income as it becomes available, to all parties and creditors as described in this Disclosure and in the Plan.

A. **Purpose of This Document**

This Disclosure Statement summarizes what is in the Plan, and tells you certain information relating to the Plan and the process the Court follows in determining whether or not to confirm the Plan.

READ THIS DISCLOSURE STATEMENT CAREFULLY IF YOU WANT TO KNOW ABOUT:

- (1) **WHO CAN VOTE OR OBJECT,**

- (2) THE PROPOSED TREATMENT OF YOUR CLAIM (*i.e.*, what your claim will receive if the Plan is confirmed), AND HOW THIS TREATMENT COMPARES TO WHAT YOU WOULD RECEIVE IN LIQUIDATION,**
 - (3) THE HISTORY OF THE DEBTOR AND SIGNIFICANT EVENTS DURING THE BANKRUPTCY,**
 - (4) WHAT THE COURT WILL CONSIDER WHEN DECIDING WHETHER TO CONFIRM THE PLAN,**
 - (5) THE EFFECT OF CONFIRMATION,**
- AND;**
- (6) THE FEASIBILITY OF THE PLAN.**

This Disclosure Statement cannot tell you everything about your rights. You should consider consulting your own lawyer to obtain more specific advice on how this Plan will affect you and what is the best course of action for you.

Be sure to read the Plan as well as the Disclosure Statement. If there are any inconsistencies between the Plan and the Disclosure Statement, the Plan provisions will govern.

Code Section 1125 requires a Disclosure Statement to contain “adequate information” concerning the Plan. The term “adequate information” is defined in the Bankruptcy Code Section 1125(a) as “information of a kind, and in sufficient detail,” about a debtor and its operations “that would enable such a hypothetical investor of the relevant class to make an informed judgment” about accepting or rejecting the Plan. The Bankruptcy Court (hereinafter “Court”) has determined that the information contained in

this Disclosure Statement is adequate, and it has approved this document in accordance with Bankruptcy Code Section 1124.

This Disclosure Statement is provided to each creditor whose claim has been scheduled by the Debtor or who has filed a proof of claim against the Debtor and to each interest holder of record as of the date of approval of this Disclosure Statement. Under the Bankruptcy Code, your acceptance of the Plan may not be solicited unless you receive a copy of this Disclosure Statement prior to or concurrently with such solicitation.

B. Confirmation Procedures

Persons Potentially Eligible to Vote on the Plan

In determining acceptance of the Plan, votes will only be counted if submitted by a creditor whose claim is duly scheduled by the Debtor as undisputed, non-contingent and un-liquidated, or who, prior to the hearing on confirmation of the Plan, has filed with the Court a proof of claim which has not been disallowed or suspended prior to computation of the votes on the Plan. The Ballot Form that you will receive does not constitute a proof of claim. If you are uncertain whether your claim has been correctly scheduled, you should check the Debtor's Schedules, which are on file at the office of the Clerk of the Bankruptcy Court located at: United States Bankruptcy Court, U.S. Court House, José V. Toledo Federal Building, 300 Recinto Sur Street, San Juan, P.R. 00901. The Clerk of the Bankruptcy Court will not provide this information by telephone.

THE COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE NOT YET BINDING ON ANYONE. HOWEVER, IF THE COURT LATER CONFIRMS

THE PLAN, THEN THE PLAN WILL BE BINDING ON THE DEBTOR AND ON ALL CREDITORS AND INTEREST HOLDERS IN THIS CASE.

1. Time and Place of the Confirmation Hearing

The hearing at which the Court will determine whether to confirm the Disclosure Statement and Plan has not been appointed by the Court.

2. Deadline For Voting For or Against the Plan

If you are entitled to vote, it is in your best interest to timely vote on the ballot that will be sent to you once the Disclosure Statement is approved by the Bankruptcy Court, and return to the undersigned Debtor's legal representation.

The deadline for you to submit your ballot will be established by the Court with the approval of the Disclosure Statement.

3. Deadline For Objecting to the Confirmation of the Plan

Objections to the confirmation of the Plan must be filed with the Court and served upon the undersigned Debtor's legal representation within the time that will be established by the Court with the approval of the Disclosure Statement.

4. Identity of Person to Contact for More Information Regarding the Plan

Any interested party desiring further information about the Plan should contact the undersigned Debtor's legal representation.

C. Disclaimer

The financial data relied upon in formulating the Plan is based on Debtor's Monthly Operating Reports which reflects a clear feasibility to pay off its creditors on the effective date of the Plan.

The Plan Proponent represents that everything stated in the Disclosure Statement is true to the Proponent's best knowledge.

PLEASE NOTE THAT THE APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A RULING ON THE MERITS, FEASIBILITY OR DESIRABILITY OF THE PLAN.

II. BACKGROUND

A. Description and History of the Debtor's Business

Latin American Music Company, Inc. is a corporation dedicated to licensing performance, synchronization and other rights under copyright in music compositions. Debtor, whom operates under the name of Latin American Music Company, is located at Ana Roque Duprey street corner Hija del Caribe Street, San Juan, Puerto Rico 00918. Debtor was incorporated in 1987. In Debtor's business most of its income comes from the licensing of music performances.

B. Principals/Affiliates of Debtor's Business

El Fideicomiso del Compositor Puertorriqueño is the only shareholder of Latin American Music Company, Inc., owning 100% of the shares. Regarding the principals of Latin American Music Company, Inc., Luis Raúl Bernand, serves as the president, Mrs. Dolores Vera acts as secretary.

C. Management of the Debtor Before and During the Bankruptcy

In this case, the Debtor's Board of Directors has elected the General Manager, Frederic Alan McAbee, as the person in charge of the Management of the Debtor during the Bankruptcy case.

D. Events Leading to Chapter 11 Filing

Here is a brief summary of the circumstances that led to the filing of this Chapter 11 case:

- a. Since Debtor is an organization that is protected by the Copyrights law under title 17 of the United States code, infringement actions are enforced through litigation.
- b. Most of Debtor's debts are the result of several litigations that had been brought to Court but have been lost.
- c. Due to the competition, Debtor confronted a hard economical situation as its income decreased until he could not afford the payment of its creditors.
- d. In good faith, Debtor tried to negotiate and pay to its creditors but to no avail.
- e. For all the reasons stated above and in the desperation of trying to save their business, Debtor filed a voluntary Chapter 11 bankruptcy petition that help them to reorganize and pay the money owed to all creditors.

Significant Events During the Bankruptcy

1. Bankruptcy Proceedings

The following is a chronological list of significant events which have occurred during this case:

- a. August 25, 2017 - The meeting of creditors was held and left open "sine die". Debtor has already filed and complied with all the changes and documents requested in the referred meeting.
- b. June 6, 2017 – A Status Conference Hearing was held.

The Court has approved the employment of the following professionals:

- i. Gratacós Law Firm, PSC – Law firm employed to represent Debtor in all the

- bankruptcy and related proceedings. The employment was approved on April 26, 2017..
- ii. Aquino, De Córdova, Alfaro & Co., LLP – Accounting firm employed to conduct the analysis of Debtor’s finance, prepare tax returns, complete monthly operating reports, prepare financial projections, amount other duties related to Debtor’s finances. The employment was approved on June 29, 2017.
 - iii. Attorney Jelka Duchesne Sanabria- Special attorney employed to represent debtor in non-bankruptcy litigation more specifically in copyright infringement actions. The employment was approved June 29, 2017. *See, docket no. 69.*
 - iv. Attorney Robert Penchina- Special attorney employed to represent debtor in non-bankruptcy litigation more specifically in copyright infringement actions. The employment was approved on June 29, 2017. *See, docket no. 70.*

Currently, there are no adversary proceedings and motions are pending, regarding the bankruptcy case.

2. Other Legal Proceedings

Currently, Debtor is involved in the following non-bankruptcy legal proceedings:

1. Latin American Music Company, Inc., also known as LAMCO, and Asociación de compositores y editores de música latinoamericana, also known as ACEMLA vs. Spanish Broadcasting System, Inc., and Raúl Alarcón, Jr., filed in the United States District Court for the Southern District of New York with case number 13-cv-01526-RJS.

2. J. Walter Thompson Puerto Rico, Inc. v. ACEMLA de Puerto Rico, et als., filed in the United States District Court for the District of Puerto Rico case number 17-cv-1094 (FAB).
3. ACEMLA de Puerto Rico, Inc., et. als. v. Banco Popular de Puerto Rico, et. als., filed in the United States District Court for the District of Puerto Rico with case number 13-1822 (CCC).
4. Maritza Ivette Morales Villamil, et. als. v. Lorna Ester Morales Zayas, et. als. v. Wilfredo Morales Villamil, et. als. v. ACEMLA de Puerto Rico, Inc. et als., filed in the First Instance State Court of Caguas with case number WAC-2012-0418.

3. Actual and Projected Recovery of Preferential or Fraudulent Transfers

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

4. Procedures Implemented to Resolve Financial Problems

In an effort to remedy the problems that led to the bankruptcy filing, Debtor has implemented the following procedures:

- a. In an effort to resolve its financial problems, Debtor tried to negotiate with its creditors to be able to pay the amounts owed before the filing of the bankruptcy case.

5. Current and Historical Financial Conditions

A summary of the Debtor's periodic operating reports recently filed in the Debtor's bankruptcy case is set forth in **Exhibit B**. This will help the reader to identify

the income, expenses and available cash that Debtor has had since the filing of the case.

According to the monthly operating reports, the Debtor will be able to make the proposed Plan. This summary of the Monthly Operating Reports start from March 2017 until October 2017.

At the end of the period of June 30, 2017, the amount left after disbursements was \$23,856.89; at the end of July 31, 2017, the amount left after disbursements was \$23,672.95; at the end of August 30, 2017, the amount left after disbursements was \$25,230.75; at the end of September 30, 2017, the amount left after disbursements was \$26,253.65; at the end of October 31, 2017, and the amount left after disbursements was \$27,760.80.

The aforementioned information is disclosed in **Exhibit B**. The rest of the periods can be evidenced by the Monthly Operating Reports.

III. SUMMARY OF THE PLAN OF REORGANIZATION

A. What Creditors and Interest Holders Will Receive Under the Proposed Plan

The Plan classifies claims and interests in various classes. The Plan states whether each class of claims or interests is impaired or unimpaired. The Plan provides the treatment each class will receive.

B. Unclassified Claims

Certain types of claims are not placed into voting classes. They are not considered impaired and they do not vote on the Plan because they are automatically entitled to

specific treatment provided for them in the Bankruptcy Code. As such, the Proponent has not placed the following claims in a class:

1. Administrative Expenses and Fees

Administrative expenses are claims for fees, costs or expenses of administering the Debtor's Chapter 11 case which are allowed under Code Section 507(a)(1), including all professional compensation requests pursuant to Sections 330 and 331 of the Code. The Code requires that all administrative expenses including fees payable to the Bankruptcy Court and the Office of the United States Trustee which were incurred during the pendency of the case must be paid on the Effective Date of the Plan, unless a particular claimant agrees to a different treatment.

The following chart lists all of the Debtor's unpaid administrative fees and expenses ("Compensation"), an estimate of future professional fees and other administrative claims and fees and their treatment under the Plan:

NAME	AMOUNT ESTIMATED	TREATMENT	TYPE OF CLAIM
Gratacós Law Firm, P.S.C.	\$10,000.00	Paid in full on or before the Effective Date	Professional compensation
Aquino, De Córdova, Alfaro & Co., LLP.	\$1,000.00	Paid in full on or before the Effective Date	Professional compensation

Special Counsel Jelka Duchesne Sanabria	\$10,000.00	Paid in full on or before the Effective Date	Professional compensation
Special Counsel Robert Penchina	\$5,000.00	Paid in full on or before the Effective Date	Professional compensation
Office of the U.S. Trustee Fees	As invoiced based on Debtor's quarterly disbursements	Paid in full on Effective Date or as the invoices become due	U.S. Trustee

a. Court Approval of Professional Compensation Required:

Pursuant to the Bankruptcy Code, the Court must rule on all professional compensation and expenses listed in this chart before the compensation and expenses will be owed. The professional in question must file and serve a properly noticed fee application for compensation and reimbursement of expenses and the Court must rule on the application. Only the amount of compensation and reimbursement of expenses allowed by the Court will be owed and required to be paid under this Plan as an administrative claim.

Each professional person who asserts a further administrative claim that accrues before the confirmation date shall file with the Bankruptcy Court, and serve on all parties required to receive notice, an application for compensation and reimbursement of expenses no later than sixty (60) days after the Effective Date of the Plan. Failure to file

such an application timely shall result in the professional person's claim being forever barred and discharged. Each and every other person asserting an administrative claim shall be entitled to file a motion for allowance of the asserted administrative claim within ninety days of the Effective Date of the Plan, or such administrative claim shall be deemed forever barred and discharged. No motion or application is required to fix the fees payable to the Clerk's Office or Office of the United States Trustee. Such fees are determined by statute.

As indicated above, the Debtor will need to pay approximately \$14,000.00 worth of administrative claims and fees on the Effective Date of the Plan, plus the Offices of The United States Trustee fees, unless a claimant has agreed to be paid later or the Court has not yet ruled on the claim. Debtor plans to pay most of this administrative claims and fees before the Effective Date.

C. Classified Claim and Interests

CLASS I - Priority Tax Claims

Priority tax claims are certain unsecured income, employment and other taxes described by Code Section 507(a)(8). Debtor will pay off its creditors on the effective date of the Plan.

The following is a list of all the Debtor's Section 507(a)(8) priority tax claims and their treatment under the Plan.

- a. Municipal Revenue Collection Center (C.R.I.M.) for a total priority amount of \$198.86. CRIM priority claim stems from taxes owed for 2016. The total amount claimed will be paid in one payment at the

effective date of the Plan.

- b. Department of Treasury for a total priority amount of \$2,226.53.

Treasury's priority claim stems from taxes owed. The total amount claimed will be paid in one payment at the effective date of the Plan.

This class is Unimpaired: claims in this class are not entitled to vote on the Plan since it will receive the 100% of its claim on the effective date of the plan.

Secured and Unsecured Claims and Interests

1. Classes of Secured Claims

Secured claims are claims secured by liens on property of the estate. The following represent all the classes containing Debtor's secured creditors and their treatment under the Plan:

CLASS II- Secured creditor Dolores Vera Vargas

This creditor is an insider.

Proposed treatment: Secured creditor Dolores Vera Vargas's security interests' stems from a contract entered with Debtor on June 2009 in which she would permit access to the catalog of music to Debtor and in return would receive 12.5% of the revenues. The total amount owed is \$191,376.00. Debtor will not be making payments in relation to this debt until after payments to all other creditors are satisfied.

This class is Impaired: claims in this class are entitled to vote on the Plan.

CLASS III - General Unsecured Claims

General unsecured claims are uncollateralized claims not entitled to priority under Code Section 507(a). The following is this Plan's treatment of the class containing all of Debtor's general unsecured claims.

General unsecured claims and creditors

These creditors are not insiders of the Debtor.

General unsecured claims are unsecured claims not entitled to priority under Code Section 507(a). These claims are to be treated as follows:

General unsecured claims are estimated between the creditors that filed their proofs of claim and the ones that were scheduled by Debtor and did not file a proof of claim in the amount of \$2,980.62. There are several creditors that filed proof of claims which are duplicated in the bankruptcy case 17-02021 ACEMLA de Puerto Rico, Inc. ACEMLA de Puerto Rico, Inc., in its Plan of Reorganization will be addressing the proposed payment Plan to those creditors. Those creditors are the following: Pamiás Curet, Freddie Pérez, Roberto Sueiro del Valle, Media Power Group, Inc., Banco Popular de Puerto Rico, and Spanish Broadcasting System, Inc.

The only creditor without a duplicated claim under this class is Department of Treasury in an unsecured amount claimed of \$1,101.66.

Proposed treatment: This class allowed unsecured claims will be paid in full at the effective date of the Plan, which represents a 100% payment.

This class is Unimpaired: claims in this class are not entitled to vote on the Plan since it will receive the 100% of its claim on the effective date of the plan.

CLASS IV - Equity Interests

This class is vacant since there are no Equity Interests in this case.

D. Means of Effectuating the Plan

1. Funding for the Plan

The Plan will be funded with cash available proceeds from the revenue that the Debtor generates from licensing, after paying operating expenses and taxes. Debtor's operating expenses consist of bank charges, contract labor, office supplies, payroll, repairs and maintenance, taxes, telephone, utilities, vehicle expenses, etc.

Taxes being paid by the Debtor are taxes to the Treasury Department of Puerto Rico, and to the Municipal Revenue Collection Center.

Debtor's projected income can be seen in the Forecasted Consolidated Statement of Income 2017. In the twelve months ending on March 31, 2018.

2. Post-confirmation Management

LAMCO's Board of Directors has selected Frederic Alan McAbee as the General Manager, and as the Post-confirmation manager of the Estate.

3. Disbursing Agent

Latin American Music Company, Inc. ("Disbursing Agent") shall act as the disbursing agent for the purpose of making all distributions provided for under the Plan. The Disbursing Agent will serve without bond and will not receive any compensation for distribution services rendered and expenses incurred pursuant to the Plan.

E. Other Provisions of the Plan

1. Executory Contracts and Unexpired Leases

The Plan provides that all Executory Contracts and Unexpired Leases, except for those specifically assumed by the Debtor in writing or previously assumed by Court Order, shall be deemed rejected. All proofs of claim with respect to claims arising from

said rejection must be filed with the Bankruptcy Court within the earlier of (i) the date set forth for filing claims in any order of the Bankruptcy Court approving such rejection or (ii) thirty (30) days after the Confirmation Date. Any such claims, proofs of which are not filed timely, will be barred forever from assertion.

The Debtor assumed the following unexpired leases and executory contracts under the Plan:

- a.** Contract agreements with restaurant
- b.** Contract agreements with radio stations
- c.** Contract agreements with television programs
- d.** Contract agreements with commercial centers
- e.** Contract agreements with municipalities
- f.** Contract agreements with universities
- g.** Contract agreements with casinos
- h.** Contract agreements with individual producers

Under Bankruptcy Code Section 107(b), a party in interest can request the court to enter an order to protect an entity with respect to its commercial information. In this case, Debtor has requested to file its contracts under seal, so it may protect its commercial information. Bankruptcy Rule 9018 establishes the procedure by which a party in interest may obtain a protective order authorizing the filing of a document under seal.

Also, Debtor will be assuming the following contracts:

Brandon Sand- 4787 Lenore DR. San Diego CA. 92115. This contract is valid and in full force until it is cancelled mutually by the parties. This is a contract for professional services as a Business Advisor. Honoraries of 35% of the gross license amount for each license agreement received by client as a result of the efforts. Payable as of the last day of the month following the month in which a license or fee is received.

Frederic Alan McAbee- P.O. Box 360172, San Juan, P.R. 00936-0172. The contract is valid and in full force until January 2, 2019. This is a contract for professional services as General Manager and senior business development advisor. This is a two (2) year contract plus commission. Honoraries are to be paid in the following manner: \$2,500.00 paid biweekly plus 15% commission of directly negotiated licenses plus 15% of directly renovated licenses. Receives a 5% of direct sales of equipment of licenses. Receives a 10% of commissions negotiated or renovated by a third party.

Dolores Julia Vera Vargas- P.O. Box 366714, San Juan, P.R. 00936-6714
This is a contract of Transfer and sale of Copyright Assets. Mrs. Dolores Vera is to receive 12.5% annually. This contract is valid and in full force until the parties mutually cancels it.

Dolores Julia Vera Vargas- P.O. Box 366714, San Juan, P.R. 00936-6714
This is a Subpublishing agreement. Mrs. Dolores Vera is to receive 12.5% annually. This contract is valid and in full force until the parties mutually cancels it.

2. Rejections

On the Effective Date, all executory contracts not assumed shall be deemed to be rejected. The order confirming the Plan shall constitute an order approving the rejection of the lease or contract. If you are a party to a contract or lease to be rejected and 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. See Disclosure Statement for the specific date.

There are no rejections in this case.

F. Changes in Rates Subject to Regulatory Commission Approval

This Debtor is not subject to governmental regulatory commission approval of its rates.

1. Retention of Jurisdiction

The Court shall retain jurisdiction of this case pursuant to the provisions of Chapter 11 of the Bankruptcy Code, pending the final allowance or disallowance of all claims affected by the Plan, and to make such orders as are necessary or appropriate to carry out the provisions of this Plan.

In addition, the Court shall retain jurisdiction to implement the provisions of the Plan in the manner as provided under Section 1142, sub-paragraphs (a) and (b) of the Bankruptcy Code. If the Court abstains from exercising, or declines to exercise jurisdiction, or is otherwise without jurisdiction over any matter set forth in this Section, or if the Debtor or the reorganized debtor elect to bring an action or proceeding in any other forum, then this Section have no effect upon and shall not control, prohibit or limit the exercise of jurisdiction by any other court, public authority or commission having competent jurisdiction over such matters. Also, the Court will retain jurisdiction for Attorney fees and steps after the confirmation of the Disclosure Statement.

G. Procedures for Resolving Contested Claims

The Debtor shall have 60 days subsequent to confirmation to object to the allowance of claims. The Proponent has reviewed the claims that have been filed. The Proponent intends to object or cause the Disbursing Agent to object to the following number and amounts of claims in each class.

1. Effective Date

The Plan will become effective on the Effective Date thirty (30) days after the order of confirmation becomes final.

2. Modification

The Plan Proponent may alter, amend or modify the Plan at any time prior to the Confirmation Date and thereafter as provided in Section 1127(b) of the Bankruptcy Code.

H. Tax Consequences of Plan

CREDITORS AND INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS, ATTORNEYS, AND/OR ADVISORS. The following disclosure of possible tax consequences is intended solely for the purpose of alerting readers to possible tax issues this Plan may present to the Debtor. The Proponent CANNOT and DOES NOT represent that the tax consequences contained below are the only tax consequences of the Plan because the Tax Code embodies many complicated rules which makes it difficult to state completely and accurately all the tax implications of any action. A tax consequence of the Plan could be an increase in the sales tax or an imposition of a services tax. Debtor cannot predict these complications but has projected the budget to have an available cash flow that could be used to pay these

new taxes, if these were to be imposed or amended in the future and during the validity of the Plan.

Creditors should consult with their own accountants, attorneys and/or advisors, the possible implications in their tax liability, depending on their particular circumstances, the Department of Treasury of Puerto Rico's code, the Internal Revenue Service code, etc.

Creditors and Interest Holders can verify the amounts to be paid through the Plan, detailed above in this Disclosure Statement. As Debtor cannot predict these situations, Debtor cannot specify which creditors or interest holders may have this situation.

I. Risk Factors

The following discussion is intended to be a non-exclusive summary of certain risks attendant upon the consummation of the Plan. You are encouraged to supplement this summary with your own analysis and evaluation of the Plan and Disclosure Statement, in their entirety, and in consultation with your own advisors. Based on the analysis of the risks summarized below, the Plan Proponent believes that the Plan is viable and will meet all requirements of confirmation:

- Revenue diminution
- Imposition of new taxes

IV. CONFIRMATION REQUIREMENTS AND PROCEDURES

PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THIS PLAN SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The

following discussion is intended solely for the purpose of alerting readers about basic confirmation issues, which they may wish to consider, as well as certain deadlines for filing claims. The proponent CANNOT and DOES NOT represent that the discussion contained below is a complete summary of the law on this topic.

Many requirements must be met before the Court can confirm a Plan. Some of the requirements include that the Plan must be proposed in good faith, that creditors or interest holders have accepted the Plan, that the Plan pays creditors at least as much as creditors would receive in a Chapter 7 liquidation, and that the Plan is feasible. These requirements are not the only requirements for confirmation.

A. Who May Vote or Object

1. Who May Object to Confirmation of the Plan

Any party in interest may object to the confirmation of the Plan, but as explained below not everyone is entitled to vote to accept or reject the Plan.

2. Who May Vote to Accept/Reject the Plan

A creditor or interest holder has a right to vote for or against the Plan if that creditor or interest holder has a claim that is both (1) allowed or allowed for voting purposes and (2) classified in an impaired class.

a) What Is an Allowed Claim/Interest

As noted above, a creditor or interest holder must first have an allowed claim or interest to have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in interest brings a motion objecting to the claim. When an objection to a claim or interest is filed, the creditor or interest holder holding the claim or interest cannot

vote unless the Court, after notice and hearing, either overrules the objection or allows the claim or interest for voting purposes.

THE BAR DATE FOR FILING A PROOF OF CLAIM IN THIS CASE WAS JULY 31, 2017 AND SEPTEMBER 25, 2017 FOR GOVERNMENTAL UNITS.

A creditor or interest holder may have an allowed claim or interest even if a proof of claim or interest was not timely filed. A claim is deemed allowed if (1) it is scheduled on the Debtor's schedules and such claim is not scheduled as disputed, contingent, or un-liquidated, and (2) no party in interest has objected to the claim. An interest is deemed allowed if it is scheduled and no party in interest has objected to the interest.

b) What Is an Impaired Claim/Interest

As noted above, an allowed claim or interest only has the right to vote if it is in a class that is impaired under the Plan. A class is impaired if the Plan alters the legal, equitable, or contractual rights of the members of that class. For example, a class comprised of general unsecured claims is impaired if the Plan fails to pay the members of that class 100% of their claim plus interest.

In this case, the Proponent believes that classes I and II are impaired and that holders of claims in each of these classes are therefore entitled to vote to accept or reject the Plan. Parties who dispute the Proponent's characterization of their claim or interest as being impaired or unimpaired may file an objection to the Plan contending that the Proponent has incorrectly characterized the class.

3. Who Is Not Entitled to Vote

The following four types of claims are not entitled to vote: (1) claims that have been disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant

to Code Section 507(a)(1), which are Domestic Support Obligations, (a)(2), which are Administrative Expenses, and (a)(8), which are Government Tax claims; and (4) claims in classes that do not receive or retain any value under the Plan. Claims in unimpaired classes are not entitled to vote because such classes are deemed to have accepted the Plan. Claims entitled to priority pursuant to Code Section 507(a)(1), (a)(2), and (a)(8) are not entitled to vote because such claims are not placed in classes and they are required to receive certain treatment specified by the Code. Claims in classes that do not receive or retain any value under the Plan do not vote because such classes are deemed to have rejected the Plan. **EVEN IF YOUR CLAIM IS OF THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE CONFIRMATION OF THE PLAN.**

The Debtor, under the Plan proposed, has no Domestic Support Obligations. The class of Administrative Expenses are composed by the undersigned Attorney, the Accountant Aquino, De Córdova, Alfaro & Co., LLP., Special Counsel Jelka Duchesne Sanabria, Special Counsel Robert PENCHINA, and the U.S. Trustee's fees. Under the Plan, the Priority government tax claims class, are composed by the Department of Treasury of Puerto Rico, and the Municipal Revenue Collection Center. This Priority classes under the 11 U.S.C. 507(a)(1), (a)(2), and (a)(8) are deemed to have accepted the Plan because they will be paid in full.

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 is entitled to accept or reject a Plan in both capacities by casting one ballot for the secured part of the claim and another ballot for the unsecured claim.

5. Votes Necessary to Confirm the Plan

If impaired classes exist, the Court cannot confirm the Plan unless (1) at least one impaired class 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 “cramdown” on non-accepting classes, as discussed later in Section (IV.A.8.).

6. Votes Necessary for a Class to Accept the Plan

A class of claims is considered to have accepted the Plan when more than one-half ($\frac{1}{2}$) in number and at least two-thirds $\frac{2}{3}$ in dollar amount of the allowed claims that actually voted, voted in favor of the Plan. A class of interests is considered to have accepted the Plan when at least two-thirds ($\frac{2}{3}$) in amount of the allowed interest-holders of such class which actually voted, voted to accept the Plan.

7. Treatment of Non-accepting Classes

As noted above, even if all impaired classes do not accept the proposed Plan, the Court may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by the Code. The process by which non-accepting classes are forced to be bound by the terms of the Plan is commonly referred to as “cram-down”. The Code allows the Plan to be “crammed down” on non-accepting classes of claims or interests if it meets all consensual requirements except the voting requirements of Section 1129(a)(8) and if the Plan does not “discriminate unfairly” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan as referred to in 11 U.S.C. §1129(b) and applicable case law.

8. Request for Confirmation Despite Non-acceptance by Impaired Class(es)

The party proposing this Plan asks the Court to confirm this Plan by cram-down on impaired classes if any of these classes do not vote to accept the Plan.

B. Liquidation Analysis

Another confirmation requirement is the “Best Interest Test”, which requires a liquidation analysis. Under the Best Interest Test, if a claimant or interest holder is in an impaired class and that claimant or interest holder does not vote to accept the Plan, then that claimant or interest holder must receive or retain under the Plan property of a value not less than the amount that such holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Bankruptcy Code.

In a Chapter 7 case, the Debtor’s assets are usually sold by a Chapter 7 trustee. Secured creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien. Administrative claims are paid next. Next, unsecured creditors are paid from any remaining sales proceeds, according to their rights to priority. Unsecured creditors with the same priority share in proportion to the amount of their allowed claims. Finally, interest holders receive the balance that remains after all creditors are paid, if any.

In order for the Court to be able to confirm this Plan, the Court must find that all creditors and interest holders who do not accept the Plan will receive at least as much under the Plan as such holders would receive under Chapter 7 liquidation. The Plan Proponent maintains that this requirement is met here. Enclosed as **Exhibit C** is a demonstration of a liquidation scenario, that all creditors and interest holders will receive

at least as much under the Plan as such creditor or interest holder would receive under Chapter 7 liquidation.

C. Feasibility

Another requirement for confirmation involves the feasibility of the Plan, which means 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 under the Plan, unless such liquidation or reorganization is proposed in the Plan.

Also, we have to consider whether the Proponent will have enough cash over the life of the Plan to make the required Plan payments. The Debtor has controlled the expenses.

The Proponent believes that this aspect of the feasibility requirement is met because Debtor's projected income is enough to fund the proposed Plan as seen the Monthly Operating Reports. Debtor will have enough to make the payments of the Plan on the effective date.

V. EFFECT OF CONFIRMATION OF PLAN

A. Discharge

The Plan provides that upon confirmation of the Plan, the Debtor shall be discharged of liability for payment of debts incurred before confirmation of the Plan, to the extent specified in 11 U.S.C. §1141. However, any liability imposed by the Plan will not be discharged. If Confirmation of the Plan does not occur or if, after Confirmation occurs, the Debtor elects to terminate the Plan, the Plan shall be deemed null and void.

In such event, nothing contained in the Plan shall be deemed to constitute a waiver or release of any claims against the Debtor or its estate or any other persons, or to prejudice in any manner the rights of the Debtor or its estate or any person in any further proceeding involving the Debtor or its estate. The provisions of the Plan shall be binding upon Debtor, all Creditors and all Equity Interest Holders, regardless of whether such Claims or Equity Interest holders are impaired or whether such parties accept the Plan, upon Confirmation thereof.

B. Revesting of Property in the Debtor

Except as provided in the Plan, the confirmation of the Plan revests all of the property of the estate in the Debtor.

C. Modification of Plan

The Proponent may modify the Plan at any time before confirmation. However, the Court may require a new disclosure statement and/or revoting on the Plan if Proponent modifies the plan before confirmation.

The Proponent may also seek to modify the Plan at any time after confirmation so long as (1) the Plan has not been substantially consummated and (2) the Court authorizes the proposed modification after notice and a hearing. Proponent further reserves the right to modify the treatment of any Allowed Claims at any time after the Effective Date of the Plan upon the consent of the Creditor whose Allowed Claim treatment is being modified, so long as no other Creditors are materially adversely affected.

D. Post-Confirmation Conversion/Dismissal

A creditor or party in interest may bring a motion to convert or dismiss the case under Section 1112(b), after the Plan is confirmed, if there is a default in performance of the Plan or if cause exists under Section 1112(b). If the Court orders the case converted to Chapter 7 after the Plan is confirmed, then all property that had been property of the Chapter 11 estate, and that has not been disbursed pursuant to the Plan, will revert in the Chapter 7 estate, and the automatic stay will be reimposed upon the revested property only to the extent that relief from stay was not previously granted by the Court during this case.

Quarterly fees pursuant to 28 U.S.C. § 1930(a)(6) continue to be payable to the Office of the United States Trustee post-confirmation until such time as the case is converted, dismissed, or closed pursuant to a final decree.

In Caguas, Puerto Rico, this December 28, 2017.

Debtor

//s// Luis Raúl Bernard

Luis Raúl Bernard

as President of Latin American Music Company, Inc.

GRATACÓS LAW FIRM, P.S.C.

P.O. Box 7571

Caguas, P.R. 00726

P: (787) 746-4772

F: (787) 746-3633

E:

/s Víctor Gratacós Díaz

Víctor Gratacós Díaz, Esq.

USDC-PR: 127906