

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

IN RE:

HOGAR CARÍÑO INC.

CASE #17-02648 BKT

DEBTOR

CHAPTER 11

DISCLOSURE STATEMENT

PURPOSE OF THIS DISCLOSURE STATEMENT

HOGAR CARÍÑO INC. (DEBTOR), provides this Disclosure to enable each creditor that is so entitled to make an informed judgment in exercising the right to vote on the Debtor's Plan of Reorganization (the "Plan"). The information herein contained is intended solely for that purpose and solely for the use of Debtor's creditors. This Disclosure Statement may not be relied upon for any other purpose. Nothing contained in this Disclosure Statement constitutes an admission of any fact or liability by any party. The information contained in this Disclosure Statement has been submitted by debtor based upon his knowledge of debtor's records, business and affairs.

No representation concerning these disclosures or the Plan is authorized by Debtor other than as set forth in this Disclosure Statement. Any representation made by any person to secure your vote other than those contained in this Disclosure Statement should not be relied upon. Any person making representations or inducements concerning acceptance or rejection of the Plan should be reported to the Court.

1. INTRODUCTION:

HOGAR CARÍÑO INC. , as debtor in possession, provides this Disclosure Statement to all of Debtor's known creditors in order to disclose the information deemed by debtor to be material,

important and necessary for its creditors to arrive at a reasonably informed decision, in exercising their right to vote for Acceptance or Rejection of Debtor's Plan of Reorganization dated as of the date of the Disclosure Statement, hereinafter referred to as the "Plan", and any other pertinent matters in this case. The Plan is being filed with the Bankruptcy Court simultaneously herewith.

Debtor recommends that you vote to accept the Plan. Each creditor must, however review the Plan and the Disclosure Statement carefully, including all exhibits in their entirety, and determine whether or not to accept or reject the Plan based upon that creditor's independent judgement and evaluation. The description of the Plan in the Disclosure Statement is in summary form and is qualified by reference to the actual terms and conditions of the Plan, which should be review carefully before making a decision to accept or reject the Plan. Capitalize terms not otherwise defined herein have the same meaning as set forth in the Plan; others terms shall have the meaning ascribed to them in the Bankruptcy Code.

Debtor believes that the Plan provides the quickest recovery and will maximize the return to creditors on their Claims. **ACCORDINGLY, DEBTOR URGES ALL CREDITORS TO VOTE IN FAVOR OF THE PLAN.**

DISCLAIMER

Creditors are advised that the financial information contained in this Disclosure Statement has not been the object of an audit and is not certified by independent public accountants, except where expressly stated otherwise. The Debtor does not warrant or represent that the information contained herein is without inaccuracy notwithstanding its efforts to disclose all matters with careful attention to accuracy and completeness.

VOTING REQUIREMENTS

The Court will set a hearing on the Acceptance or Rejection of the Plan Of Reorganization after this Disclosure Statement has been approved by the Court. In order for the Plan to be confirmed by the Bankruptcy Court, the Bankruptcy Code requires that the Plan be approved by all classes of creditors and interest holders or that the Court find that the Plan is "fair and equitable" as to any dissenting class.

As provided by 11 U.S.C. 1124, a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such a class, the plan

(1) leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or

(2) notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default

(A) cures any such default that occurred before or after the commencement of the case under this title, other than a default of a kind specified in Section 365(b) of this title;

(B) reinstates the maturity of such claim or interest as such maturity existed before such default;

(C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and

(D) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

Ordinarily, but not in all circumstances, a plan may not be confirmed unless at least one impaired, assuming there is at least one impaired class, accepts the plan. A class has accepted the plan if such a plan has been accepted by creditors, other than those under 11 U.S.C. 1126(e), that hold at least two-thirds ($\frac{2}{3}$) in amount and more than one half ($\frac{1}{2}$) in number of the allowed claims of such class held by creditors, that have accepted or rejected such plan, i.e., those actually voting for the Plan. Creditors may vote for the acceptance or rejection of the plan.

Each creditor is urged to consult with its own attorney and obtain advice on the proposals and dispositions of the Disclosure Statement and Plan of Reorganization. The statements contained herein are only a brief summary of the confirmation process and should not be relied upon in making your determination as to whether to vote in favor of or against the plan. Creditors should consult their attorneys before making a determination to vote for or against the Plan.

Creditors are expressly referred to the Debtor's Schedules of Assets and Liabilities, the Statement of Financial Affairs and all other documents duly filed in this case with the Bankruptcy Court. This Disclosure Statement is predicated upon certain assumptions which may not materialize, and you are urged to give consideration to such assumptions.

No representation concerning the Debtor or as to the actual or realizable value of its property, are authorized by the Debtor other than as set forth in this Disclosure Statement. Any amendments or clarifications to this Disclosure Statement or the Plan shall be in writing and filed with the Court.

2. BRIEF HISTORY OF DEBTOR:

HOGAR CARIÑO INC. (DEBTOR), is a closed own corporation organized under the laws of the Commonwealth of Puerto Rico, organized on October 19, 1992 under Corporation Registry Number 82188 and in Good Standing with the Department of State of Puerto Rico. Roberto Padro Rosado is the President of the corporation and owner with One hundred (100%) of the stocks; Mrs. Elizabeth Padro Rivera is the Vice-president and Secretary; Roberto Padro Rivera is the treasurer of the corporation. Debtor operates its business D/B/A Hogar Cariño I and Hogar Cariño II. at a rented commercial property dedicated to provide home care for the elderly in San Juan and Carolina. The main office of the corporation is located at Urb. San Martin 1016, Pardo Street, San Juan, PR. The two elderly care homes are located at Calle Luis Pardo #1016, Urb. San Martin San Juan, Puerto Rico (Cariño I) and the second home at PR Road 860 km 3.0, Barrio Martin Gonzalez, Carolina PR (Cariño II). For the provision of the elderly care services Debtor operates its two facilities with 74 employees. Approximately 117 clients are been served in the two centers. The present income of the corporation comes from the services provided to the clients at the homes. Debtor has all operational permits, licenses and professionals required by government agencies to operate and provide the elderly care services at the described facilities. Debtor does not own or operate any other business. Debtor owns a real property located at #50 Barrio San Anton, Carolina PR. Which at this time is not operating or rented.

At the date of the filing of the Chapter 11 petition, Debtor had assets of **\$516, 698.00** and liabilities of **\$1,547,937.00**. In an effort to provide a solution to this matter, Debtor is proposing a plan to pay secured creditors, cure and pay the priority obligations allowed in full in 60 months after the date of the order for relief (April 18, 2017) and pay 5% to the unsecured claims that are allowed within a period no longer than 60 months.

The operating reports and statements filed since the filing were prepared by Debtor.

3. EVENTS LEADING TO BANKRUPTCY:

The overall economic situation, caused a reduction of patients with the effect of causing a decline on cash flow to pay creditors. In addition to the general economic crisis in all business, the late payments by Departamento de La Familia lowered the cash flow, and services provided has were reduced with the effect of reduce income. All this situation caused a reduction on monthly cash flow which severely affected Debtor's working capital causing also arrears with the obligations of the corporation; specifically payments to suppliers, debts with AEE; PR Department of Treasury (Hacienda) and IRS, and commercial mortgage payments to Scotiabank among others. As a precaution and existing the possibility of an attachment by the government agencies debtor was thus forced to file the instant petition under Chapter 11 of the Bankruptcy Code to protect the operation of its business. Debtor has continued operating as Debtor In Possession since then and is now in a position to propose a Plan of reorganization to creditors.

4. FINANCIAL INFORMATION:

Debtor's financial information is herein provided as Exhibit #1 which are the projections for the five (5) years of the proposed Plan and a schedule of the payments to be made under the Plan. **See also Business Income Statement at Exhibit # 3.**

The information provided in the Schedules and the Statement of Financial Affairs filed with the Court, reflect the Debtor's financial situation on the date of the petition.

Monthly Operating Reports available in the Bankruptcy Court's file, reflect Debtor's post petition finances. The Monthly Operating Reports provided by Debtor have been considered to establish the basis for payments under the Plan.

Debtor urges creditors and parties in interest to also review the documents available on file at the Bankruptcy Court, in order to make a conscious decision when voting **for or against** the proposed plan of reorganization herein provided by the Debtor.

5. ASSETS AND LIABILITIES

HOGAR CARIÑO INC., filed a voluntary bankruptcy petition on April 18, 2017 under case number 17-02648 BKT. The schedules filed showed total assets of \$518,698.00 . Debtor owns 100% interest on a commercial real estate property of ONE (1) acre located at Barrio San Anton, Carolina, Puerto Rico with a n estimated value of \$200,000. Debtor's liabilities included are in the amount of \$1,547,937. For the operation of its business at the Elderly Homes, the two homes are located at Calle Luis Pardo # 1016, Urb. San Martin, San Juan, Puerto Rico (Cariño I); and at Road 860 km 3.0 Barrio Martin Gonzalez, Carolina Puerto Rico. (Cariño II). DEBTOR'S assets and value thereof are addressed in the projections prepared by Debtor. Copy attached. In addition Debtor expects to have a reasonable increase in the future elderly clients to be served due the opening of a new center (Cariño III) at the real estate property located at Barrio San Anton Carolina. Debtor believes that this together with proper management and marketing advertising will allow Debtor to remain under the protection of the Bankruptcy Code.

6. LIABILITIES AS OF PETITION DATE

Debtor's creditors as of the time of the petition were listed as follows:

a.) Secured interest claim holders: As of January 10 , 2018, secured creditors have been claimed and scheduled in the amount of \$914,179.13. Secured Claimants are Internal Revenue Services claim # 5; CRIM claim #4; Scotiabank de Puerto Rico claim # 2.

b.) Unsecured interest priority claim holders: At this time, unsecured priority creditors have been claimed or scheduled in the amount of \$160,299.16.

c.) Unsecured interest claim holders: At this time, general unsecured creditors have been claimed and scheduled in the amount of \$1,382,920.80. A detail of all pre-petition debts, as classified by debtor is provided in the schedule of Payments under the Plan of Reorganization enclosed.

d.) Administrative debts: Debtor will pay post- petition administrative expenses on the effective date.

7. OWNERSHIP AND MANAGEMENT:

HOGAR CARIÑO INC., is a closely held corporation organized on October 19, 1992, under

the laws of the Commonwealth of Puerto Rico under Corporation Registry Number 82188 and in Good Standing. Roberto Padro Rosado is the President of the corporation and owner with one hundred (100%) of the stocks; Mrs. Elizabeth Padro Rivera is the Vice-president and Secretary of the Corporation and Mr. Roberto Padro Rivera is the Treasurer of the corporation. The Vice-president Elizabeth Padro Rivera is responsible for the performance and administration of the existing operation of the corporation where she dedicates his time in full to the operation. The compensation as salary for this services is approximately \$1,400.00 per month. Mrs. Elizabeth Padro Rivera will continue the services with the corporation with no pay raise for the duration of the plan. Debtor estimates that the administrative expenses including attorney and accountants fees will not be greater than \$20,000.00.

8. LIQUIDATION ANALYSIS

One requirement for the confirmation of a plan under Chapter 11 of the Code is that with respect to each impaired class of claims, each claim holder of such class has accepted the plan or will receive or retain under the plan on account of such allowed claim, a value as of the effective date of the plan, that is not less than the amount such claim holder would receive or retain if the Debtor were liquidated under Chapter 7 of the Code, on such date. In order to provide the value as of the effective date of the plan under Chapter 7 of the Code, the Debtor provides the following liquidation analysis. For the purpose of determining a liquidation value, the scheduled value of the property, has been determined at market value and adjusted using Debtor's experience as to the liquidation value of the office equipment and the inventory. **A detailed liquidation analysis is enclosed herein as Exhibit number 2.**

The liquidation analysis prepared for this case, after deducting the portion belonging to the payroll obligation, shows that the estimated dividend for the unsecured creditors under a Chapter 7 scenario is less than 1% of the debt. Under the proposed plan of reorganization Debtor provides a 5% dividend to all unsecured creditors to be payable in not more than five (5) years from the effective date.

Confirmation of the Plan will not only intends and projects that holders of Allowed Priority Claims, Secured Creditors will be paid in FULL, and Allowed General Unsecured Claims, will be paid 5% of their claims. **As part of the reorganization process and informing with more details MEANS OF EXECUTION OF THE PLAN** debtor will establish another care center facilities

at the commercial property located at Barrio San Anton at Vega Baja providing home care to an estimate of 40 clients; which will allow debtor to count on an extra income apart from the other source of income at the two homes. This will generate other net income estimated to be around \$4,000 per month to fund the plan payments.

9. SUMMARY OF PLAN:

Debtor's Plan Of Reorganization dated January 15, 2018 classifies and treats claims as follows:

DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS:

The plan divides the creditors into classes in accordance with the dispositions of 11 U.S.C. 1122 and 1123. Creditors and other parties in interest are urged to read and consider the Plan in full inasmuch as it represents a proposed legally binding agreement with Debtor and any other party involved. The classes of creditors are as follows:

CLASS 1- ADMINISTRATIVE EXPENSES

(1) Class 1 shall consist of allowed Cost and Expenses of Administration as defined in the Bankruptcy Code under Section 503, including but not limited to the fees to the United States Trustee, fees and expenses of the Debtor's counsel and accountant as may be allowed by the Bankruptcy Court upon application thereof and after notice and hearing in accordance with the Bankruptcy Code and Rules, any unpaid taxes or fees accrued since petition date and court costs accrued since the petition date.

CLASS 2- GENERAL SECURED CLAIMS

(2) Class 2 consists on all secured claims or portions of claims to date filed. The expected amount allowed in these claims is \$360,108.69. **Secured claim #5 by INTERNAL REVENUE SERVICES will be paid in full. Claim # 2 by Scotiabank de Puerto Rico will be paid the value of the collateral estimated in \$200,000.00; Claim #4 by CRIM will be paid in Full.**

CLASS 3- UNSECURED PRIORITY CLAIMS

(3) Class 3 are claims entitled to priority pursuant to 11 U.S.C. Sections 507 (a)(2),(3), (4), (5), (6), (7),(8) and (9) of the Bankruptcy Code, as the same are allowed, approved and ordered paid by the Court. Government's priority claims under section 507(a)(8) will be treated as Class 3 Claims to be paid in full over 5 years. Any amounts owed under this class, shall be paid in full by debtor over a period ending not later than five (5) years after the date of the order for relief (April 18, 2017).

CLASS 4- GENERAL UNSECURED CREDITORS

(4) Class 4 are unsecured claims whose claims to the extent that such claims are approved and allowed by the Court or deemed allowed under the provisions of the Bankruptcy Code. Each member of this class will receive a distribution equal to 5% of its allowed claim pursuant to the terms and conditions of the plan, that is during the five (5) years following the effective date.

CLASS 5- EQUITY INTEREST HOLDERS

(5) Class 5 Equity interest holders are parties who hold an ownership interest (equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. The shareholders will not receive any dividend under the Plan on account of his equity security.

Classes 1, and 3 are not impaired by the Plan. Classes 2 and 4 are impaired by the Plan.

10. TREATMENT OF CLASSES

Claims are divided into four classes and their treatment is described below. Class 1 is not impaired by the Plan.

CLASS 1 Shall consist of allowed Administrative expense priority claims as provided under Section 503 of the Code, including but not limited to the fees to the United States Trustee, fees and expenses of the Debtor's counsel and accountant as may be allowed by the Bankruptcy Court upon application thereof and after notice and hearing in accordance with the Bankruptcy Code and Rules, any unpaid taxes or fees accrued since petition date and court costs accrued since the petition date.

This class shall be paid in cash and in full on the Effective Date or as soon as feasible after the

date any such claim becomes an allowed Administrative claim, or as otherwise due in the normal course of Debtor's activities.

CLASS 2 Shall consists on all secured claims or portions of claims. Any allowed amount owed under this class will be paid in full over a period not exceeding five (5) years from the effective date of the Plan.

CLASS 3 are the claims of taxing authorities entitled to priority pursuant to 11 U.S.C. section 507 (a) (7) to the extent that such claims are allowed and ordered paid by the Court. Claims allowed in this class will be paid in full as provided in 11 U.S.C. section 1129 (a) (9) ©. This claims will be paid in full by Debtor over a period ending not later than five (5) years after the date of the order for relief (April 18, 2017); **paid in monthly installments and a final payment at the end of the five years period.**

CLASS 4 are the claims of unsecured creditors without priority to the extent that such claims are not disputed and are allowed and ordered paid by the Court. Creditors in this class will be paid 5% on monthly installments within a period not to exceed 60 months.

CLASS 5- EQUITY INTEREST HOLDERS

Equity interest holders are parties who hold an ownership interest (equity interest) in the Debtor. In a corporation, entities holding preferred or common stock are equity interest holders. The shareholders will not receive any dividend under the Plan on account of his equity security.

THE FOREGOING IS A PRESENTATION OF THE CLASSIFICATION OF CLAIMS UNDER THE PLAN. CREDITORS ARE URGED TO READ THE PLAN IN FULL. THEY ARE FURTHER URGED TO CONSULT WITH COUNSEL IN ORDER TO FULLY UNDERSTAND THE PLAN.

Debtor's estate, consisting of the real estate property, personal properties, a checking account, office equipment and inventory, and, being able to continue operations and generating income, will allow for the payment of the secured and priority creditors allowed, with a dividend available to

unsecured creditors (Class 4).

LEASES AND EXECUTORY CONTRACTS

Debtor assumes commercial leases as described in Schedule "G" of the petition.

MEANS FOR EXECUTION OF THE PLAN

As soon as feasible after the Order of Confirmation of this Plan becomes final and unappealable, the operation of the Debtor shall be and will become the general responsibility of the Debtor under its officers.

Except as otherwise provided in the Plan, Debtor will effect payment of all Administrative Expense Claims, Secured Claims; Priority Tax Claims and General Unsecured Claims. The other claims will be paid according to the Plan schedule provided.

On the Effective Date of the Plan the distribution, administration and management of debtor's affairs, collection of moneys and distribution to creditors, will be under the control and supervision and administration of the current officer and Vice-president, Mrs. Elizabeth Padro Rivera. She will assume the same roles that she has been assuming throughout this reorganization process. Debtor does not anticipate adjustments to officer's salary or dividends distribution during the next five or during the life of the reorganization plan. The officers of the Corporation will not receive any dividend during the duration of the Payment Plan.

The Plan shall be funded by the following means:

Cash on hand at the Effective Date.

Funds to be obtained from the operation of debtor's business Hogar Cariño I and Hogar Cariño II.

New income from the operation of another Elderly Care facilities (Cariño III) to be establish at debtor's real estate property at Barrio San Anton, Carolina with an estimate capacity of 40 patients. Projected net monthly income for Cariño III are \$4,000.00

Future income from savings on reduction of operational expenses maintaining and increasing the services to customers, revising the monthly rates will be use also for the payment

plan. Projections for the next five years are attached herewith.

EFFECT OF CONFIRMATION OF PLAN

A. DISCHARGE OF DEBTOR

Discharge. On the effective date of the Plan, the Debtor shall be discharge from any debt that arouse 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 © of the Federal Rules of Bankruptcy Procedure, or (iii) of a kind specified in § 1141 (d) (6) (B). After the effective date of the Plan your claims against the Debtor will be limited to the debts described in clauses (I) through (iii) of the preceding sentence.

B. MODIFICATION OF PLAN

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 revoting 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 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.

APPROVAL OF THE PLAN:

It is important that you exercise your right to vote on acceptance or rejection of the Plan. A ballot form is attached which you may use for this purpose. (See exhibit # 5)

Debtor submits that the Plan is fair and reasonable and in the best interest of the Estate and Creditors and offers the best possible recoveries for Creditors under the circumstances. Debtor therefore, urges creditors to vote in favor of the Plan.

RESPECTFULLY SUBMITTED in San Juan , Puerto Rico, this 15 day of January, 2018.

HOGAR CARIÑO INC.

s/Elizabeth Padro Rivera

ELIZABETH PADRO RIVERA, Vice-President

I hereby certify that on this date true and correct copies of this Disclosure Statement and Plan of Reorganization, has been electronically filed with the Clerk of Court using the CM/ECF System which will notify the parties in interest.

s/Luis D. Flores González
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