

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

IN THE MATTER OF:

GIRARD MANUFACTURING, INC.

Debtor

CASE NO. 17-05975 (ESL)

CHAPTER 11

**FIRST AMENDED DISCLOSURE STATEMENT  
DATED NOVEMBER 26, 2018**

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## I. INTRODUCTION

Girard Manufacturing, Inc. (the “Debtor” or “Girard”) provides this First Amended Disclosure Statement (the “Disclosure Statement”) to its creditors and other parties in interest in order to disclose that information deemed by Debtor to be material, important and necessary for its creditors and other parties in interest to arrive at a reasonably informed decision in exercising their right to vote for acceptance of Debtor’s 11 U.S.C. Chapter 11 Plan (“Plan”) that is being filed with the United States Bankruptcy Court for the District of Puerto Rico (“Bankruptcy Court”) contemporaneously with the filing of this Disclosure Statement (the “Reorganization Case”).

Creditors are advised that they have the right to vote to accept or reject the Plan proposed by Debtor. They are further advised that in order for the Plan to be accepted by a class of creditors, the creditors composing such class, that hold at least two thirds in dollar amount and more than one half in total number of the allowed claims of such class that vote must accept the Plan. Therefore, it is very important for creditors to exercise their right to vote in reference to the acceptance or rejection of the Plan, since in accordance to Section 1141(d) of the Bankruptcy Code, except as otherwise provided therein, in the Plan or in the order confirming the Plan, the confirmation of a plan discharges a debtor from any debt that arose before the date of confirmation and from any debt of a kind specified in Section 502(g), 502(h), or 502(i) of the Bankruptcy Code, whether or not the creditors have accepted the Plan or have filed their claims, or such claims are deemed filed or allowed under Section 502 of the Bankruptcy Code.

NO REPRESENTATIONS CONCERNING THE DEBTOR (PARTICULARLY AS

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TO THE VALUE OF PROPERTY) ARE AUTHORIZED BY THE DEBTOR OTHER THAN AS SET FORTH IN THIS STATEMENT. ANY REPRESENTATIONS OR INDUCEMENTS OTHER THAN AS CONTAINED IN THIS STATEMENT SHOULD NOT BE RELIED UPON BY YOU AND SUCH ADDITIONAL REPRESENTATIONS AND INDUCEMENTS SHOULD BE REPORTED TO COUNSEL FOR THE DEBTOR WHO IN TURN SHALL DELIVER SUCH INFORMATION TO THE BANKRUPTCY COURT FOR SUCH ACTION AS MAY BE DEEMED APPROPRIATE.

THE FINANCIAL INFORMATION CONTAINED HEREIN IS AS OF APRIL 30, 2018 AND HAS NOT BEEN SUBJECTED TO A CERTIFIED AUDIT AND, CONSEQUENTLY, IS UNABLE TO WARRANT OR REPRESENT THAT IT IS WITHOUT ANY INACCURACY, ALTHOUGH EFFORTS HAVE BEEN MADE TO BE ACCURATE.

## **II. ADEQUACY OF DISCLOSURE IN A CHAPTER 11 CASE**

Post-petition disclosure and solicitation is governed by the provisions of Section 1125 of the Bankruptcy Code.

Section 1125, requires that, other than in small business cases under Section 1125(f) of the Bankruptcy Code, which is not the situation in Debtor's case, a written "disclosure statement" approved by the Court after notice and hearing be transmitted to holders of claims and interests together with the plan or a summary thereof. Post-petition solicitation of acceptances or rejections of a plan may be made only at the time of or after transmission of the "disclosure statement". 7 *Collier on Bankruptcy*, ¶1125.01[1] (Matthew Bender, 15 Ed. Rev.).

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Also, Section 1125(a)(1) requires that the disclosure statement contain "adequate information" in sufficient detail as far as reasonably practicable in light of the nature and history of the particular debtor and the condition of the debtor's financial records. It must be such information as would enable a hypothetical reasonable investor (typical of the holders of claims and interests of the relevant class) to make an informed judgment about the plan. Adequate information, however, need not include information about any other possible or proposed plan. *Collier on Bankruptcy*, op. cit. ¶1125.01[2].

Section 1125(a)(2) defines the hypothetical investor referred to in subsection (a)(1) as an investor having:

a claim or interest of the relevant class,

such a relationship with the debtor as the holders of other claims or interests of such class generally have, and

such ability to obtain such information from sources other than the disclosure required by section 1125 as holders of claims or interests in such class generally. (*Collier on Bankruptcy*, op. cit. ¶1125.01[2][a]).

Disclosure is the pivotal concept in reorganization practice under the Bankruptcy Code.

As described in the House Report:

If adequate disclosure is provided to all creditors and stock holders whose rights are to be affected, then they should be able to make an informed judgment of [sic. on] their own rather than having a court or the Securities and Exchange Commission inform them in advance whether the proposed plan is a good plan. Therefore, the key to the consolidated chapter is the disclosure section. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 226-231 (1977)).

The definition of "adequate information" in Section 1125(a)(1) requires that a

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disclosure statement include information in sufficient reasonable detail as far as is practicable. *Collier*, op. cit. ¶1125.02[1].

As stated in the legislative history to Section 1125(a):

Precisely what constitutes adequate information in any particular instance will develop on a case-by-case basis. Courts will take a practical approach as to what is necessary under the circumstances of each case, such as the cost of preparation of the statements, the need for relative speed in solicitation and confirmation, and, of course, the need for investor protection. There will be a balancing of interests in each case. In reorganization cases, there is frequently great uncertainty. Therefore the need for flexibility is greatest. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. at 409 (1977)).

The Senate Report expands upon the House Report's description of Section 1125(a) in the following manner:

Reporting and audit standards devised for solvent and continuing businesses do not necessarily fit a debtor in reorganization. Subsection (a)(1) expressly incorporates consideration of the nature and history of the debtor and the condition of its books and records into the determination of what is reasonably practicable to supply. These factors are particularly pertinent to historical data and to discontinued operations of no future relevance.

A plan is necessarily predicated on knowledge of the assets and liabilities being dealt with and on factually supported expectations as to the future course of the business sufficient to meet the feasibility standard in section 1129(a)(11) of this title. It may thus be necessary to provide estimates or judgments for that purpose. Yet it remains practicable to describe, in such detail as may be relevant and needed, the basis for the plan and the data on which supporters of the plan rely.

S. R. Rep. No. 989, 95th Cong. 2d §§ 120-121 (1978).

The definition of "adequate information" contained in Section 1125(a)(1) must be

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considered together with the phrase, "investor typical of holders of claims or interest of the relevant class" defined in Section 1125(a)(2). That definition recognizes that the quality of information available to members of a given class will vary as will the sophistication of members of various classes. (*Collier*, op. cit. ¶1125.02[3]).

For example, a trade creditor may have a general unsecured claim for \$1,000 and be a member of a class, which includes a commercial bank holding a claim of \$1,000,000. The bank presumably will be more sophisticated in financial matters than the trade creditor and, depending on the circumstances of the case, may have access to detailed current and historical financial information concerning the debtor's business which is not, and has not been, available to the trade. Trade creditors, on the other hand, may have information with respect to the debtor's business and the sophistication necessary to interpret such information which is not enjoyed by the debtor's debenture holders or shareholders. (*Collier*, op. cit. ¶1125.02[3]).

Section 1125(d) specifically provides that the adequacy of disclosure is not to be governed by any otherwise applicable nonbankruptcy law, rule or regulation. (*Collier*, op. cit. ¶1125.02[4]).

As stated in the House Report:

The bill also permits the disclosure statement to be approved without the necessity for compliance with the very strict rules of Section 5 of the Securities Act of 1933, section 14 of the Securities Exchange Act of 1934, or relevant State securities laws. Without such a provision, the court would have no discretion in approving disclosure statements that go to public classes, but would be required in every case to require a full proxy statement or prospectus whenever public classes were solicited [sic]. Such a statement requires certified audited financial statements and extensive information. The cost of developing a prospectus or proxy statement for a large company often runs well over \$1 million. That cost would be nearly prohibitive in a

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bankruptcy reorganization. In addition, the information normally required under section 14 may simply be unavailable, because of the condition of the debtor. Finally, court supervision of the contents of the disclosure statement will protect the public investor from any serious inadequacies in the disclosure statement.

The provision does not prohibit a section 14-type statement or a prospectus. In some cases it may indeed be appropriate to go that length in disclosure. The courts will have to determine the need on a case-by-case basis. The section merely does not require it in every public case. (H.R. Rep. No. 95-595, 95th Cong., 1st Sess. 227-229 (1977)).

The aforesaid is even more applicable to Debtor considering that this Disclosure Statement does not go to public classes.

### **III. THE DEBTOR**

#### **3.1 Background of Debtor**

Girard was organized in May 3, 1984 pursuant to the laws of the Commonwealth of Puerto Rico. Girard is recognized by the Government Development Bank of Puerto Rico as a manufacturer. Since the 70's, Girard has been led by the same administration, and its current president is Mr. Jose A. Casal.

For more than 35 years Girard has been the undisputed leader in the local manufacturing industry of furniture for offices, laboratories, libraries, and institutions. Girard is the pioneer in the production of modular systems for offices, a revolutionary solution to the problems of horizontal space encountered by all offices that are expanding, offering the latest technological advances in a functional and efficient design. The result is a greater organization and economy of space, privacy, and overall, substantial savings in the corporate budget. In addition, we perform interior design and

small construction. Girard has the competitive advantage of being a manufacturer, which grant us flexibility in fabricating our own products according to the needs and specifications of our clients.

The principal objective of Girard is to continue offering our products to the public and maintain the employment of nearly 50 families like we have been doing for more than 35 years.

### **3.2 Industry (Market)**

Among Girard's clients, we have private entities like Merck Sharpe and Dome, Dewey University, RB Construction, and Amgen, among others. We are also the suppliers of equipment to several agencies of the Commonwealth of Puerto Rico, like the Department of Family, ACUDEM, ADSEF, Department of Health, Municipality of San Juan, Municipality of Cayey, and the Police Headquarters, among others. Within the last four (4) years a lot of our competitors have disappear, like Simon Dhury, MA Esteves and MAKRO, leaving use as practically the only supplier in a lot of categories.

Girard, throughout its history, has been focused in the diversification of its products and services, precisely to assure its operations in weak economies. Today, we are the only suppliers in Puerto Rico of several products. As such, we understand that we have a great potential in the near future to increase our sales. However, there is competition. The mayor competitors are Systema, Modern Office, Office One, Office Furniture Warehouse, IDS AFD, all of the aforementioned in the office furniture market; Saad Nazer in the manufacturing of furniture; Tab and Unisource in the market



of high density storage; and Keewanis and Baer Technologies in the market of lab furniture. Of all the aforementioned firms, only us and Saad Nazer are local companies.

Additionally, we handle brands that have the most recognition in the market like Spacesaver in the market of high density storage; MOTT in the market for lab furniture; and our own brand in the modular furniture market.

### **3.3 Debtor's Sales**

As disclosed in Debtor's statement of financial affairs, Debtor's sales has plummeted in the last couple of years. For Debtor's fiscal year of April 2015 to March 2016 the sales were \$4,635,510; for the fiscal year of April 2016 to March 2017 sales were \$647,518; and from April 2017 to the petition date sales were \$120,978. The reasons for the decline were twofold. First the economy of Puerto Rico plummeted; and not only the governmental purchases but the private purchases were simply non-existent. The second reason was the fact that the Municipality of San Juan did not pay a project that Debtor did to the tune of nearly \$2,000,000. Debtor had to obtain a loan from the PR Development Bank in order to do the project, but the Municipality failed to pay. As such, Debtor's cash flow was significantly hindered and Debtor was unable to perform in the few projects that it could have obtained.

### **3.4 Debtor's Board of Directors and Shareholders**

The Debtor's board of directors and officers are listed below:

<u>Name</u>	<u>Position</u>
Jose A. Casal	President and Secretary
Martha B. Molinos	Comptroller

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Debtor's only shareholder is Jose A. Casal.

The salaries of the aforementioned officers, which will stay unaltered after the Effective Date, are as follows:

Jose A. Casal - \$2,561.60 biweekly

Martha B. Molinos - \$2,468.80 biweekly

### **3.5 Significant Post-Petition Events**

After the bankruptcy filing, Hurricane María swept the Island and as such, Girard, like the rest of the Island, was focused in just coping with the new reality of the Island. After several months, and with the electricity back up at their facilities, Girard began its efforts to increase sales, particularly in those industries and/or clients that lost their furniture due to the hurricane. The process has been slow, but Girard feels confident that the sales projections attached hereto are feasible based on prior experience and the sales leads that are still pending to be perfected.

All lawsuits wherein Debtor was a defendant were stayed pursuant to Section 362 of the Bankruptcy Code when the captioned case was filed. Debtor had three lawsuits pending at the time of the bankruptcy filing wherein Debtor was the plaintiff and as such were not stayed pursuant to Section 362 of the Bankruptcy Code. The current status of these cases is as follows:

a. Girard Manufacturing, Inc. vs. Municipio de San Juan: This case is in the discovery process and the Court ordered the parties to discuss a possible settlement. The Municipality of San Juan is in the process of offering a payment plan to

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pay the amounts owed. However, these contract was assigned to Banco de Desarrollo de PR and any recovery will go directly to the current lien holder.

b. Girard Manufacturing, Inc. vs. Newport Bonding & Surety Company: In this case the local court issued a judgment staying the case due to the fact that Newport Bonding filed a petition for orderly liquidation in the Insurance Commission of Puerto Rico due to the fact that it was insolvent. Due to said fact, Debtor does not expect to recover a significant amount in this lawsuit.

c. Girard Manufacturing, Inc. v. Comision de Servicio Público de PR: This case was stayed due to the filing of the PROMESA case by the Government of Puerto Rico. Debtor proceeded to file a proof of claim in the PROMESA case but does not expect to recover a significant amount in this lawsuit.

### **3.6 Assets as of Petition Date**

Assets listed on Debtor's Schedules are an integral part of this Disclosure Statement and to the best of management's understanding are accurate as of the Petition Date. If Debtor deems that its schedules should be amended, it would do so within 20 days after the hearing to discuss the adequacy of the Disclosure Statement.

The Debtor's assets include the funds in its checking accounts, accounts receivables, vehicles, equipment, and inventory.

### **3.7 Liabilities as of the Petition Date**

Liabilities as of the Petition Date can be ascertained by reviewing Debtor's Schedules. Moreover, creditors can ascertain the total amount of their claims that would be deemed allowed for purposes of the confirmation of Debtor's Plan in **Exhibit**

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A, as well as financial projections to show how these claims are going to be paid under the Plan. The total allowed claim would be the basis for the distribution to be offered by Debtor as part of its Plan.

The Debtor has calculated the amount of claims deemed allowed for purposes of the confirmation of the Debtor's Plan as follows:

- Administrative Claims – the amount represents the estimated US Trustee fees and professional fees to be incurred related to the petition.
- Unsecured Priority Tax Claims – the amount represents the amounts owed to governmental entities as of the Petition Date for taxes in the amount of \$15,772.55, as per Debtor's books and records.
- Secured Creditor Claims – the amount represents the amounts owed pursuant to the lines of credit owed to Banco De Desarrollo Economico de Puerto Rico ("Banco Desarrollo") and Banco Popular de Puerto Rico ("BPPR"). The total amount owed is estimated to be at the Effective Date \$2,180,108.09 to Banco de Desarrollo and \$542,280.11 to Banco Popular, pursuant to the proof of claims filed by each entity.
- Unsecured Creditors – the amount included on **Exhibit A** represents the amount due and payable as of the Petition Date, as

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reconciled with Debtor's books and records, and will be the basis for the dividend to be distributed pursuant to Debtor's Plan. This class will be divided in two, i.e. General Unsecured of more than \$5,000.00 and a Convenience Class of General Unsecured of less than \$5,000.

Debtor does not have any pending claims entitled to priority by Section 507(a)(2), (3), (4), (5), (6), and (7) of the Bankruptcy Code, and accordingly, no class was created for said claims under the Plan.

### **3.8 Debtor's Affiliates and Inter-Company Transactions**

Debtor has two related corporations. The first one is CM Investment, Inc., who owns the real estate wherein Debtor has its showroom in the Roosevelt Avenue in San Juan. The second one is The Little Tower Industrial Park, Inc., who owns the industrial park wherein Debtor has its manufacturing plant. Debtor has rental agreements with both entities for the aforementioned sites. In addition to the rent, Debtor provides services to The Little Tower for the security and maintenance of the industrial park. As such, there were multiple inter-company transactions that were not duly reconciled until after the bankruptcy petition was filed. In fact, there were pre-petition rents that were not duly recorded and had to be reconciled post-petition. Said reconciliation was finalized and the end result is as follows:

- a. The amount that Debtor owes to The Little Tower was lowered from \$1,103,764.98 to \$248,414.42; and
- b. The amount that Debtor owes to CM Investment was increased

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from \$384,000.00 to \$543,781.00.

Furthermore, in order to facilitate and improve the reorganization efforts of the Debtor, after the bankruptcy petition was filed Debtor's affiliates agreed to grant Debtor an 18 month rent abatement commencing on September 2017 until March 2019. After the rent abatement, Debtor will commence rent payments to The Little Tower of \$8,000 a month, and to CM Investment of \$5,000 a month. These rent charges are below the market value of similar properties.

#### **IV. THE PLAN**

##### **4.1 Overview**

It is Debtor's intention to make payments to its creditors through the Plan primarily consisting of:

1. Payment of all administrative expenses on the later of the Effective Date or as soon as feasible after the date any such claim becomes an allowed Administrative Claim.
2. Payment of 100% of allowed priority tax claims in the amount of \$15,772.55 to be on the Effective Date.
3. Secured Creditors, will be paid in full as follow: Banco Desarrollo's claim shall be paid in full with the voluntary surrender of the account receivable from Municipio de San Juan in the amount of \$1,900,000.00 and the balance to be paid through a payment plan of twenty (20) years at a 6% interest per annum, with a balloon payment at the 36<sup>th</sup> monthly payment;

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and BPPR's claim shall be paid in full through a payment plan of twenty (20) years at a 6% interest per annum with a balloon payment at the 36<sup>th</sup> monthly payment.

4. Payment of 7% of allowed unsecured claims of more than \$5,000 in sixty (60) equal monthly installments as detailed in **Exhibit A**.
5. Payment of 7% of allowed unsecured claims of less than \$5,000 on or before the Effective Date as detailed in **Exhibit A**.
6. All equity interests in Debtor will be unaltered.

#### **4.2 Means of Funding the Plan**

The Plan is to be funded by Girard's income which is estimated to be \$105,000 per month for a period of five (5) years.

#### **4.3 Feasibility of the Plan**

The Debtor's Plan will be fueled by the sales to be generated. Debtor understands that the Plan is a confirmable Plan for the benefit of its creditors, which will result in the payment in full of all secured claims, and a partial distribution to general unsecured creditors.

A Chapter 7 liquidation of the Debtor's assets would produce 0% distribution to unsecured creditors and assuming the successful sale of all assets. See Liquidation Analysis attached hereto as **Exhibit B**.

#### **4.4 Classification of Claims**

- 1.1 Class 1 (ADMINISTRATIVE CLAIMS)- Costs and expenses of

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administration as defined in the Bankruptcy Code as the same are allowed, approved and ordered paid by the Court. Debtor estimates that, at the time of the confirmation of the Plan, Class I administrative claims will be approximately \$24,875.00.

1.2 Class 2 (UNSECURED PRIORITY TAX CLAIMS) – Claims entitled to priority by Section 507 (a) (8) of the Bankruptcy Code, as the same are finally approved and allowed by the Court. Debtor estimates these claims in the amount of \$15,772.55.

1.3 Class 3 (PR Recovery and Development JV LLC) – Secured claim of PR Recovery and Development JV LLC previously Banco Desarrollo secured by a blanket lien on Debtor's assets, including cash, inventory, equipment, instruments, general intangibles, accounts, accounts receivable, among others. PR Recovery and Development JV LLC's claim shall be paid in full with the voluntary surrender of the account receivable from Municipio de San Juan in the amount of \$1,900,000.00 and the balance to be paid through a payment plan of twenty (20) years at a 6% interest per annum with a balloon payment in the 36<sup>th</sup> monthly payment. PR Recovery and Development JV LLC shall retain its lien until the payment in full of its claim as aforementioned.

1.4 Class 4 (BPPR) - Secured claim of BPPR secured by a second lien on Debtor's accounts receivables and movable property. BPPR's claim shall be paid in full through a payment plan of twenty (20) years at a 6% interest per annum with a balloon payment in the 36<sup>th</sup> monthly payment, as more fully detailed in a Stipulation to be filed in Court as a supplement to the Plan. BPPR shall retain its lien until the payment in full of its claim as aforementioned.



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1.5 Class 5 (UNSECURED CLAIMS OF MORE THAN \$5,000) – Allowed unsecured claims of more than \$5,000, excluding the claim of Banco Popular related to a corporate guarantee of an affiliate’s loan which is up to date. Banco Popular will not receive any dividend on this class but the guarantee will continue.

1.6 Class 6 (UNSECURED CLAIMS OF LESS THAN \$5,000) – Allowed unsecured claims of less than \$5,000.

1.7 Class 7 (GUARANTEE OF BANCO POPULAR) - Allowed unsecured claim of Banco Popular in the total amount of \$3,675,344.16 related to the corporate guarantee issued by Debtor for the mortgage loan of the related company The Little Tower Industrial Park.

1.8 Class 8 (EQUITY HOLDERS) – Persons and/or entities holding common shares of the Debtor.

**4.6 Treatment of Claims and Voting Under the Plan**

<b>Class</b>	<b>Description of Claim</b>	<b>Treatment Under Plan</b>	<b>Status/Entitled to Vote</b>	<b>Estimated Aggregate Amount of Claims</b>	<b>Estimated Recovery Percentage</b>
Class 1	Administrative Expense Claims	Will be paid in full from Debtor funds on or before the Effective Date	Unimpaired Deemed to Accept the Plan Not Entitled to Vote	\$24,875	100%

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Class 2	Unsecured Priority Tax Claims	Will be paid in full from Debtor funds on the Effective Date	Unimpaired Deemed to Accept the Plan Not Entitled to Vote	\$15,772.55	100%
Class 3	Secured Creditor (PR Recovery and Development JV LLC)	Will be paid in full from the with the voluntary surrender of the account receivable from Municipio de San Juan in the amount of \$1,900,000.00 and the balance to be paid through a payment plan of twenty (20) years at a 6% interest per annum with a balloon payment in the 36 <sup>th</sup> monthly payment	<b>Impaired</b> Entitled to Vote	\$2,180,108.09	100% plus interest
Class 4	Secured Creditor (BPPR)	Will be paid in full through a payment plan of twenty (20) years at a 6% interest per annum, with a balloon payment in the 36 <sup>th</sup> monthly payment, as more fully detailed in a Stipulation to be filed in Court as a supplement to the Plan. BPPR shall retain its lien until the payment in full of its claim as aforementioned	<b>Impaired</b> Entitled to Vote	\$542,280.11	100% plus interest
Class 5	Unsecured Claims of more than \$5,000	Will be paid 7% of their claims in 60 monthly payments	<b>Impaired</b> Entitled to Vote	\$1,320,456.50	7%

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Class 6	Convenience Class Unsecured Claims of less than \$5,000	Will be paid 7% of their claims on the Effective Date	<b>Impaired</b> Entitled to Vote	\$41,416.45	7%
Class 7	Guarantee of Banco Popular	Will not be paid under the Plan but Debtor will continue to guarantee the subject loan.	Unimpaired Deemed to Accept the Plan Not Entitled to Vote	\$3,675,344.16	0%
Class 8	Equity Holder	No distribution under the Plan  All equity holders will retain their interests on the Debtor	Unimpaired Deemed to Accept the Plan Not Entitled to Vote	\$0	100%

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 OR WITH EACH OTHER IN ORDER TO FULLY UNDERSTAND THE PLAN. THE PLAN IS COMPLEX INASMUCH AS IT REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BY THE DEBTOR, AND AN INTELLIGENT JUDGMENT CONCERNING SUCH PLAN CANNOT BE MADE WITHOUT UNDERSTANDING IT.

## V. ALTERNATIVES TO THE PLAN

If the Plan is not confirmed and consummated, alternatives to the Plan include (a) an alternative plan of reorganization, (b) liquidation of the Debtor under Chapter 7 of the Bankruptcy Code, and (c) dismissal of the Reorganization Case.

### 5.1 Alternative Plan of Reorganization

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The Debtor believes that the Confirmation and implementation of the Plan is preferable to a liquidation alternative because it provides for payment in full, plus interest, of all non-contingent claims.

## **5.2 Liquidation under Chapter 7**

If the Plan cannot be confirmed, the Debtor's Reorganization Case may be converted to a case under chapter 7 of the Bankruptcy Code, pursuant to which a trustee or trustees would be appointed to liquidate the assets of the Debtor for distribution in accordance with the priorities established by the Bankruptcy Code. In a liquidation under Chapter 7, the Debtor's claimant will receive payment in full of their claims, but without interest, and only after the Chapter 7 Trustee is able to liquidate all assets.

The Liquidation Analysis prepared by the Debtor is attached to this Disclosure Statement as **Exhibit B**. The Liquidation Analysis takes into account the nature, status, and underlying estimated value of the assets and the extent to which such assets are subject to liens and security interests.

## **VI. TAX CONSEQUENCES OF THE PLAN**

The Plan will result in cancellation of indebtedness ("COD"), however, since the COD is part of a proceeding under Chapter 11 of the Bankruptcy Code, there is no realization of income for U.S. federal or Puerto Rican tax purposes. Debtor understands that any taxes resulting from the Plan, will be expressly discharged as part of the Confirmation of the Plan.

## **VII. FINANCIAL INFORMATION RESPECTING THE DEBTOR**

Debtor will continue to file monthly statements of cash receipts and

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disbursements, a summary of which is included in the **Exhibit C** herein, in a timely manner.

## VIII. LIQUIDATION ANALYSIS

Before confirmation of Debtor's Plan, the Bankruptcy Court must analyze the Plan and determine that it is in the best interest of each impaired class of creditors. One major factor in this analysis is the determination of Debtor's liquidation value and a comparison as to whether this liquidation value exceeds the proposed recovery to impaired classes under the Plan. The proposed treatment of impaired classes under the Plan exceeds any potential recovery through liquidation.

In order to determine the effect on unsecured creditors if a Chapter 7 Trustee attempts liquidation, a Liquidation Analysis is included as **Exhibit B** hereto. As shown, since all of the Debtor's assets are subject to liens and security interests, the liquidation scenario would produce no distribution to priority and unsecured claims. **Furthermore, some of the assets that were listed in Debtor's schedules are credits and unused net operating losses that can only be used in future income tax returns and such have no liquidation value.**

### 8.1 Best Interest Test

The proposed Plan provides for payment in full of secured and priority creditors and a 4% payment to general unsecured creditors. A Chapter 7 liquidation of the Debtor's assets would produce no payment to the priority and general unsecured creditors.

## IX. LEASES AND EXECUTORY CONTRACTS

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### **9.1 General**

The Debtor has several unexpired leases and executory contracts. Debtor has already assumed several leases through the bankruptcy case; and in regarding the lease with BMW the stay was lifted in favor of BMW but thereafter one of Debtor's officers proceeded to obtain a personal loan to cover all the amounts owed to BMW and as such there will be no deficiency claim regarding this lease. The leases and executory contracts that have not been already assumed by Debtor shall be deemed rejected on the Effective Date.

### **9.2 Treatment**

Subject to the approval of the Bankruptcy Court, the Bankruptcy Code empowers a debtor in possession to assume or reject executory contracts and unexpired leases. Generally, an "executory contract" is a contract under which material performance is due from both parties. If an executory contract of unexpired lease is rejected by a debtor in possession, the other parties to the agreement may file a claim for damages incurred by reason of the rejection, which claim is treated as a prepetition claim. If such contract or lease is assumed by a debtor-in-possession, the debtor-in-possession has the obligation to cure any prepetition defaults thereunder.

Except as otherwise provided therein, any unexpired lease or executory contract that has not been rejected or assumed by Debtor with the Bankruptcy Court's approval on or prior to the Confirmation Date will be deemed to have been rejected by Debtor as of the Effective Date, unless prior to the Confirmation Date there is pending before the Bankruptcy Court a motion to assume such lease or contract.

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Each Person that is a party to an executory contract or unexpired lease that is rejected as of the Confirmation Date shall be entitled to file, no later than thirty (30) days after the Confirmation Date (unless an earlier date has been established by the Bankruptcy Court for such claimant, in which case such earlier date shall control), a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor. Each Person that is a party to an executory contract or unexpired lease subject to a motion to reject that is pending before the Bankruptcy Court on the Confirmation Date shall be entitled to file, not later than thirty (30) days after the date that the Bankruptcy Court approves such motion, a proof of claim for damages alleged to have arisen from the rejection of such executory contract or unexpired lease, or be forever barred from asserting such Claim against Debtor or the Reorganized Debtor.

Debtor estimates that the rejection of this unexpired lease will not create a deficiency claim under the Plan.

## **X. MISCELLANEOUS**

### **10.1 Professionals Employed**

Counsel for Debtor. With leave of the Bankruptcy Court, Debtor has retained Alexis Fuentes-Hernandez of Fuentes Law Offices as its counsel in connection with its Chapter 11 and other proceedings.

### **10.2 Estimated Administrative Expenses**

The Debtor has estimated administrative expenses (US Trustee and Professional

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fees) not to exceed \$14,875.

### **10.3 Objections to Claims**

Debtor will continue to reconcile the proof of claims with its records and will file objections to claims deemed objectionable not later than twenty (20) days before the Confirmation Hearing.

### **10.4 Retention of Jurisdiction**

Notwithstanding confirmation of the Plan, the Bankruptcy Court will retain jurisdiction for all purposes provided by the Bankruptcy Code, including, but not limited to:

1. The determination of the allowance of claims upon the objection to such claims by Debtor or by any other party in interest;
2. The determination of requests for payment of claims entitled to priority under 11 USC §507(a)(1), including compensation of parties entitled thereto;
3. The resolution of any disputes regarding the interpretation of the Plan;
4. The implementation of the provisions of the Plan and entry and enforcement of orders in aid of consummation of the Plan;
5. The modification of the Plan pursuant to 11 USC §1127; and
6. The adjudication of any cause of action, including avoiding powers actions, brought by Debtor, by a representative of the estate, or by a Trustee under the Bankruptcy Code.

### **10.5 Modification of the Plan**



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Pursuant to the provisions of Section 1127 of the Bankruptcy Code, Debtor has the right to modify or alter the provisions of the Plan at any time prior or subsequent to Confirmation, but before substantial consummation of the Plan.

#### **10.6 Effective Date of the Plan**

The Effective Date of the Plan will be 30 days after the Confirmation Order is final and unappealable.

#### **10.7 Effect of Confirmation and Discharge**

Confirmation and the Order of Confirmation will constitute final settlement of payment to all creditors and implementation of all injunctions and discharges as provided for in the Plan. Pursuant to 11 USC §1141(d)(3), Debtor will not receive a discharge of debt in this bankruptcy case.

### **XI. CONCLUSION**

Your receipt of this Disclosure Statement means that, either you requested a copy upon filing and the Court granted the request or the Court has approved this Disclosure Statement as containing adequate information to enable you to make an informed choice. The Court's approval of the Disclosure Statement does not constitute a recommendation by the Court either for against the Plan, nor a guarantee of the accuracy or completeness of the information contained herein.

**DEBTOR'S MANAGEMENT BELIEVES THAT THE PLAN IS IN THE BEST INTEREST OF THE CREDITORS AND RECOMMENDS THAT YOU VOTE TO ACCEPT THE PLAN. YOUR VOTE IS IMPORTANT. PLEASE VOTE PROMPTLY.**

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In San Juan, Puerto Rico, this 26<sup>th</sup> day of November, 2018.

**GIRARD MANUFACTURING, INC.**  
P.O. Box 10378  
San Juan, PR 00922-0378

*s/ Jose A. Casal Seibezzi*  
**JOSE A. CASAL SEIBEZZI**