

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

In re VALDERRAMA A/C REFRIGERATION, INC., <i>Debtor.</i>	§ § § § §	No. 17-32091 Chapter 11
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**VALDERRAMA A/C REFRIGERATION, INC.'S
DISCLOSURE STATEMENT,
DATED SEPTEMBER 18, 2017**

On April 4, 2017, (the “*Petition Date*”), Valderrama A/C Refrigeration, Inc. (the “*Debtor*” or “*Valderrama*”) filed a voluntary petition under Chapter 11 of the United States Code (the “*Bankruptcy Code*”) in the United States Bankruptcy Court for the Southern District of Texas, Houston Division.

If you are a Creditor or Interest Holder, you should read this Disclosure Statement and the proposed Plan of Reorganization carefully. The Debtor urges all holders of Claims in Impaired Classes receiving Ballots to accept this Plan of Reorganization contained herein.

This Disclosure Statement and the proposed Plan of Reorganization (the “*Disclosure Statement and Plan*”), any amendments, supplements, and exhibits thereto, the accompanying Ballot form, if any, and the related materials delivered together herewith are being furnished by the Debtor to holders of Impaired Claims and Impaired Interests, pursuant to 11 U.S.C. § 1125, in connection with the solicitation by the Debtor of votes to accept or reject the Plan and the transactions as described herein.

This Disclosure Statement and Plan is designed to provide adequate information to enable holders of Claims against and Interests in the Debtor to make an informed decision whether to vote in favor of, or against, the Plan of Reorganization that the Debtor is proposing. All Creditors and Interest Holders are encouraged to read this Disclosure Statement and Plan in its entirety before voting to accept or reject the Plan proposed by the Debtor.

All holders of Impaired Claims should read and consider carefully the matters described in the Disclosure Statement and Plan as a whole prior to voting on the Plan proposed by the Debtor. The projected financial information contained herein has not been the subject of an audit. In making a decision to accept or reject the Plan, each Creditor must rely on its own examination of the Debtor as described in this Disclosure Statement and Plan, including the merits and risks involved. You are encouraged to seek the advice of qualified legal counsel with respect to the legal effect of any aspect of the Disclosure Statement and Plan. In addition, Confirmation and consummation of the

Plan are subject to conditions precedent that could lead to delays in consummation of the Plan proposed by Debtor. There can be no assurance that each of these conditions precedent will be satisfied or waived or that the Plan proposed by the Debtor will be consummated as to the Debtor. Even after the Effective Date, distributions under the Plan proposed by the Debtor may be subject to substantial delays for holders of Claims that are *Disputed*.

Incorporation of Documents by Reference

This Combined Disclosure Statement and Plan of Reorganization incorporates by reference certain documents relating to the Debtor that are not presented herein or delivered herewith. The following documents have been filed in the Debtor's bankruptcy and are incorporated by reference herein in their entirety, including all amendments thereto filed prior to the date set for confirmation:

- a. The Debtor's Schedules, filed April 18, 2017 (ECF no. 12).
- b. The Debtor's Statement of Financial Affairs, filed April 18, 2017 (ECF no. 14).
- c. The Debtor's Monthly Operating Reports filed prior to confirmation, including, but not limited to, the months ending April 30, 2017 (ECF no. 42), May 31, 2017 (ECF no. 60); June 30, 2017 (ECF no. 69), July 31, 2017 (ECF no. 70), and for subsequent months.

These and all other documents and pleadings filed with the Court pertaining to this case are available from the Clerk of the United States Bankruptcy Court for the Southern District of Texas (515 Rusk, 5th Floor, Houston, TX 77002, Tel. 713-250-5500). Electronic access to these documents and pleadings is available at <http://ecf.txsb.uscourts.gov>. A PACER login will be necessary to view the documents. If you do not have a PACER login, you may register online at <http://pacer.psc.uscourts.gov>.

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I.

Introduction

Valderrama A/C Refrigeration, Inc. (“*the Debtor*” or “*Valderrama*”) filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code (“*the Bankruptcy Code*”) in the United States Bankruptcy Court for the Southern District of Texas, Houston Division, on April 4, 2017 (“*the Petition Date*”). The case was assigned to Judge Karen K. Brown, under Case No. 17-32091. Since the Petition Date, the Debtor has operated its business as a Debtor-in-Possession pursuant to 11 U.S.C. § 1108.

This Disclosure Statement (“*Disclosure Statement*”) is provided, pursuant to 11 U.S.C. § 1125, to all of Debtor’s known creditors, holders of interests, and other parties in interest, including the United States Trustee. The purpose of this Disclosure Statement is to provide such information as will enable a hypothetical reasonable investor, typical of holders of claims or interests to make an informed judgment in exercising his, her or its rights either to accept or reject the Plan. A copy of the proposed Plan of Reorganization is attached to this Disclosure Statement as **Exhibit A**.

This Disclosure Statement will be submitted to the Court after notice to all creditors. After a hearing, of which each creditor and party-in-interest will be notified, the Court may approve this Disclosure Statement as containing information of a kind and in sufficient detail as to enable a hypothetical creditor or party-in-interest typical of the classes being solicited to make an informed judgment about the Plan. Because of the unavoidable time lapse between this mailing and the conclusion of the hearing, the information and analysis set forth herein is as current as possible as of the date of the filing of this Disclosure Statement, but may not be current on the date of a hearing on this Disclosure Statement.

The Debtor provides this Disclosure Statement to all of its known creditors and parties-in-interest in order to disclose information deemed to be material, important and necessary for any creditor or party-in-interest to make a reasonably informed decision in exercising the right to vote for acceptance of the Plan of Reorganization.

In addition to this Disclosure Statement and Plan, each creditor or party-in-interest affected by the Plan will be provided with a ballot for acceptance or rejection of the Plan. The form should be completed and returned to Debtor’s counsel prior to the hearing on the confirmation of the proposed Plan. The time and date of the hearing will be set forth in a notice that each creditor and party-in-interest will also receive.

Your acceptance of the plan is important. In order for the Plan to be deemed “accepted,” at least two-thirds ($\frac{2}{3}$) in dollar amount of the holders of claims or interests in the class actually voting and more than one-half ($\frac{1}{2}$) in number of holders of claims or interests in the class actually voting must vote to accept the Plan. **In the event the requisite acceptances are not obtained, the Court may nevertheless confirm the Plan pursuant to 11 U.S.C. § 1120, if the Court finds the Plan accords fair and equitable treatment to any class rejecting it.** Whether or not you expect to be present at

the hearing on confirmation of the Plan, each creditor and interest holder is urged to fill in, date, sign, and promptly mail the ballot form as follows:

To the Clerk of the Bankruptcy Court: Copy to Debtor's Counsel:

David J. Bradley
Clerk of the Court
PO Box 61010
Houston, TX 77208

William P. Haddock
Pendergraft & Simon, LLP
2777 Allen Parkway, Suite 800
Houston, TX 77019
Fax. 713-868-1267
whaddock@pendergrachtsimon.com

Registered users may also
electronically file documents via the
Court's ECF system.

A. Explanation of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Upon filing of a Chapter 11 petition, Section 362(a) of the Bankruptcy Code provides for a temporary, automatic stay of all attempts to collect claims that arose prior to the Petition Date and other interference with the Debtor's property or business, in order to permit the debtor to attempt to reorganize.

Formulation of a Plan of Reorganization is the primary purpose of a Chapter 11 reorganization case. A Plan of Reorganization sets forth the means for satisfying the holders of claims against, and interests in, a Debtor. Accompanying a Plan of Reorganization, a Debtor must provide creditors and parties-in-interest a Disclosure Statement, which must provide "adequate information," as required by 11 U.S.C. § 1125(a), for a hypothetical, reasonable investor typical of holders of claims or interests of the relevant classes to make an informed judgment about the Debtor's proposed Plan, including the following:

- a. The sources of information for the Disclosure Statement;
- b. Incidents that led to the filing of the Chapter 11;
- c. The present condition of the Debtor while in Chapter 11;
- d. A description of the available assets and their value;
- e. The estimated return to the creditors if the estate were to be liquidated;
- f. The anticipated future of the Debtor;
- g. The identity and experience of the proposed management of the Debtor's business;
- h. The accounting process used and the identity of the person who furnished the information;

- i. The Plan;
- j. A description of all pending litigation involving the Debtor; and
- k. Tax Information.

Confirmation of a Chapter 11 plan of reorganization requires that either (i) all classes of claims and interests entitled to vote, accept the Plan, or (ii) that the Plan be accepted by the holders of at least one impaired class of claims not held by “insiders” within the meaning of the Bankruptcy Code and that the Plan be confirmed as to each objecting class, pursuant to 11 U.S.C. § 1129(b).

In addition to the acceptance requirements, 11 U.S.C. § 1129 contains additional criteria that must be satisfied before a bankruptcy court may confirm the Plan. Among other things, a Plan must be in the best interests of creditors and interest holders, which means that the cash or other property to be distributed to creditors and interest holders may not be less than the creditors would receive if all the Debtor’s assets were liquidated under Chapter 7 of the Bankruptcy Code.

Acceptance of a Plan of Reorganization by a class requires that, of the holders of claims or interests in the class actually voting, more than one-half ($\frac{1}{2}$) in number and at least two-thirds ($\frac{2}{3}$) in amount of the total allowed claims vote in favor of the plan. So long as one class of non-insider impaired claims or interests accepts a plan, a Plan need not be accepted by all impaired classes. A plan proponent may request that the Bankruptcy Court confirm a plan pursuant to its “cramdown” powers under 11 U.S.C. § 1129(b). A plan may be “crammed down” if it does not “discriminate unfairly” and is “fair and equitable” with respect to each impaired, dissenting class.

The Claims of Creditors in Classes 5, 6, and 7 are impaired under the Plan and their votes are hereby solicited.

Confirmation makes the Plan binding upon the Debtor, all creditors, all interest holders, and other parties-in-interest, whether or not they have accepted the Plan. Section 1141(d) of the Bankruptcy Code provides, in pertinent part, as follows:

- (1) Except as otherwise provided in this subSection, in the plan, or in the order confirming the plan, the confirmation of a plan—
 - (A) discharges the debtor from any debt that arose before the date of such confirmation, and any debt of a kind specified in Section 502(g), 502(h), or 502(i) of this title, whether or not—
 - (i) a proof of the claim based on such debt is filed or deemed filed under Section 501 of this title;
 - (ii) such claim is allowed under Section 502 of this title; or
 - (iii) the holder of such claim has accepted the plan; and

- (B) terminates all rights and interests of equity security holders and general partners provided for by the plan. . . .
- (3) The confirmation of a plan does not discharge a debtor if—
 - (A) the plan provides for the liquidation of all or substantially all of the property of the estate;
 - (B) the debtor does not engage in business after consummation of the plan; and
 - (C) the debtor would be denied a discharge under Section 727(a) of this title if the case were a case under chapter 7 of this title.
- (4) The court may approve a written waiver of discharge executed by the debtor after the order for relief under this chapter. . . .
- (6) Notwithstanding paragraph (1), the confirmation of a plan does not discharge a debtor that is a corporation from any debt—
 - (A) of a kind specified in paragraph (2)(A) or (2)(B) of Section 523(a) that is owed to a domestic governmental unit, or owed to a person as the result of an action filed under subchapter III of chapter 37 of title 31 or any similar State statute; or
 - (B) for a tax or customs duty with respect to which the debtor—
 - (i) made a fraudulent return; or
 - (ii) willfully attempted in any manner to evade or to defeat such tax or such customs duty.

11 U.S.C. § 1141(d).

B. Procedure for Filing Proofs of Claim

To participate in the payments and other distributions under the Plan, a Creditor must have an Allowed Claim against the Debtor and an Interest Holder must have an Allowed Interest in the Debtor. The first step in obtaining an Allowed Claim or an Allowed Interest is generally filing a Proof of Claim or Proof of Interest.

A Proof of Claim is deemed filed for any Claim that appears in the Schedules which were filed in the Chapter 11 Case, except a Claim that is scheduled as disputed, contingent, unliquidated, or in an unknown amount. In other words, if a Creditor agrees with the amount of the Claim as scheduled by the Debtor, and that Claim is not listed in the Schedules as being disputed, contingent or unliquidated, it is not necessary that a separate Proof of Claim be filed.

Claims that are unscheduled, or which are scheduled as disputed, contingent or unliquidated, or which are scheduled in an amount that varies from the amount claimed by the Creditor holder shall be recognized and allowed only if a Proof of Claim was timely filed. **The deadline for the filing of Claims against the Debtor has been set by the Court as August 9, 2017¹** (the “*Bar Date*”).

C. Executory Contracts and Unexpired Leases

Claims allegedly arising from lease rejections made prior to the Bar Date should be filed on or before the Bar Date. The Debtor intends to assume the following executory contracts:

- Wells Fargo Financial National Bank–Bryant Heating & Cooling Systems Dealer Agreement Contract dated January 31, 2014.

Otherwise, the Plan constitutes a motion by the Debtor to reject, as of the Effective Date, all executory contracts and unexpired leases of the Debtor that were not assumed prior, or were not assigned to a purchaser as part of the Plan, or were not the subject of a motion to assume prior to the Confirmation Date.

If the rejection of an executory contract or unexpired lease results in a claim for damages by the other party or parties thereto, a Claim for such damages, if not heretofore evidenced by a filed proof of Claim, shall be forever barred and shall not be enforceable against the Debtor, the reorganized Debtor or their respective properties or their agents, successors or assigns, unless a Proof of Claim is filed with the Bankruptcy Court and served upon counsel for the Debtor on, or before, 30 days after the Effective Date.

D. Approval of the Disclosure Statement

Approval of the Disclosure Statement will be considered by the Court after at least 28 days’ notice to all parties-in-interest as required by Bankruptcy Rule 3017. The Court may grant conditional approval of the Disclosure Statement at an earlier date. If the Court grants conditional approval, final approval of the Disclosure Statement may be done at the Confirmation Hearing.

E. Voting

1. Persons Entitled to Vote

Classes 5, 6, and 7 may vote to accept or reject the Plan. Claimants in Classes 1, 2, 3, and 4 are unimpaired, are conclusively deemed to have accepted the Plan, and cannot vote. Any Claim as to which an objection is filed before voting has concluded is not entitled to vote, unless the Court, upon application or motion of the holder whose Claim has been objected to, temporarily allows the Claim in an amount that the Court deems proper for the purpose of voting to accept or reject the

¹ The Bar Date for claims of governmental units is October 17, 2017.

Plan. A vote may be disregarded or disallowed if the Court determines that it was not solicited or procured in good faith or in accordance with the provisions of the Bankruptcy Code.

2. Voting Instructions

It is important that creditors exercise their right to vote to accept or reject the plan. All known Creditors entitled to vote on the Plan have been sent a ballot with this Disclosure Statement. Creditors should read the ballot carefully and follow the instructions contained therein. In voting for, or against, the Plan, use only the ballot or ballots sent with this Disclosure Statement.

The voting deadline is TBD. All ballots must be returned so that the person designated by the Court (“*the Balloting Agent*”) receives them prior to the voting deadline.

The Balloting Agent’s name and address is provided on the ballot. Unless otherwise ordered, the Debtor designates its counsel to serve as Balloting Agent.

In order to be counted, ballots must be signed by a person having authority to act on behalf of the person or entity voting and must be actually received by the Balloting Agent on, or before, the voting deadline.

Ballots that fail to provide the information to determine the Class to which they apply shall be counted, subject only to contrary determinations by the Court, in the Class determined by the Chapter 11 Debtor. Ballots that are signed and returned but not expressly voted either to accept or reject the Plan will be counted as a vote to accept the Plan.

F. Confirmation Hearing

The date and time of the Confirmation Hearing is TBD. The Confirmation Hearing will be held in Courtroom 403, United States Courthouse, 515 Rusk Street, 4th Floor, Houston, Texas 77002. The Court may adjourn the Confirmation Hearing from time to time without further notice except for an announcement made in open Court at the Confirmation Hearing or any continued Confirmation Hearing.

G. Objections

Section 1128(b) of the Bankruptcy Code provides that any party in interest may object, in writing, to confirmation of a plan of reorganization. Written objections to confirmation of the Plan, if any, must be filed with the Court and a copy of such written objections must be actually received by counsel for the Debtor at the following address on or before TBD.

William P. Haddock
Pendergraft & Simon, LLP
2777 Allen Parkway, Suite 800
Houston, TX 77019
Fax. 713-868-1267
E-mail. whaddock@pendergraftsimon.com

Objections not timely filed and actually received by either the Clerk or Debtor's counsel at the above address will not be addressed by the Court.

II.

Definitions, Rules of Interpretation & Computation of Time

A. Definitions

For purposes of this Disclosure Statement and Plan, except as expressly provided or unless the context otherwise requires, all capitalized terms not otherwise defined shall have the meanings ascribed to them in this Section. Any term used in this Disclosure Statement and Plan that is not defined herein, but is defined in the Bankruptcy Code or the Bankruptcy Rules, shall have the meaning ascribed to that term in the Bankruptcy Code or Bankruptcy Rules. Whenever the context requires, such terms shall include the plural as well as the singular number, the masculine gender shall include the feminine, and the feminine gender shall include the masculine.

“Administrative Claim” or ***“Administrative Priority Claim”*** means a Claim that is entitled to priority under 11 U.S.C. §§ 326, 327, 330, 503(b)(1)–503(b)(9), 506(c), or 1103 asserted in this case, which Claims are described in Section VI of this Disclosure Statement and treated in Section VI of this Disclosure Statement and Plan.

“Administrative Claim Bar Date” means the date set by the Court by which administrative claims entitled to priority under 11 U.S.C. §§ 326, 327, 330, 503(b), 506(c), or 1103 asserted in this case, including substantial contribution claims, must be filed. Debtor will request that the Court set the Administrative Claim Bar Date by separate order of the Court.

“Allowed Claim” means a Claim or any portion thereof:

1. that has been allowed by a Final Order,
2. that either has been Scheduled as a liquidated, non-contingent, undisputed Claim in an amount greater than zero in the Debtor's Schedules, as the same may from time to time be amended in accordance with the Bankruptcy Code, Bankruptcy Rules or order of the Bankruptcy Court, or is the subject of a timely filed proof of Claim as to which either no objection to its allowance has been filed (either by way of objection or amendment to the Schedules) within the periods of limitation fixed by the Bankruptcy Code or by any order of the Bankruptcy Court, or any objection to its allowance has been settled, waived through payment, or withdrawn, or has been denied by a Final Order, or
3. that is expressly allowed in a liquidated amount in the Plan; provided, however that with respect to an administrative claim.

“*Allowed Claim*” further means an administrative claim as to which a timely request for payment has been made in accordance with this Plan—if such written request is required—or other administrative claim, in each case as to which

1. a timely objection has not been filed, or
2. a timely objection is filed and such objection has been settled, waived through payment, or withdrawn, or has been denied by a Final Order.

“*Bankruptcy Estate*” shall mean the estate created under 11 U.S.C. § 541 upon the filing of the Bankruptcy Case.

“*Bankruptcy Rules*” mean, collectively, the Federal Rules of Bankruptcy Procedure and the Official Bankruptcy Forms, as amended, the Federal Rules of Civil Procedure, as amended, as applicable to the Chapter 11 Case or proceedings therein, and the Local Rules of the Bankruptcy Court, as applicable to the Chapter 11 Case or proceedings therein, as the case may be.

“*Claim*” means a claim against any of the Debtor’s Bankruptcy Estate, whether or not asserted, as defined in 11 U.S.C. § 101(5).

“*Class*” means a category of holders of Claims or Interests, as described in Section VI below.

“*Confirmation*” means entry by the Bankruptcy Court of the Confirmation Order confirming this Plan.

“*Confirmation Date*” means the date of entry by the Bankruptcy Court of the Confirmation Order.

“*Confirmation Order*” means the order entered by the Bankruptcy Court confirming the Plan.

“*Effective Date*” means the date when the Confirmation Order becomes a Final Order.

“*Final Order*” means an order or judgment of the Bankruptcy Court, as entered on the docket in the Debtor’s Bankruptcy Case, the operation or effect of which has not been stayed, reversed, or amended and as to which order or judgment (or any revision, modification, or amendment thereof) the time to appeal or seek review or rehearing has expired and as to which no appeal or petition for review or rehearing was filed or, if filed, remains pending.

“*Impaired*” means, when used with reference to a Claim or Equity Interest, a Claim or Equity Interest that is impaired within the meaning of 11 U.S.C. § 1124.

“*Insider*” means has the definition as provided under 11 U.S.C. § 101(31)(B).

“*IRS*” means the Internal Revenue Service.

“**Person**” means an individual, corporation, partnership, governmental unit, joint venture, association, joint stock company, limited liability company, limited liability partnership, trust, estate, unincorporated organization, or other entity.

“**Plan**” means Valderrama A/C Refrigeration, Inc.’s Plan of Reorganization attached to this Disclosure Statement as **Exhibit A**.

“**Plan Documents**” means any documents referenced in the Plan that are intended to be executed pursuant to the Confirmed Plan.

“**Priority Claim**” means a Claim asserted under 11 U.S.C. §§ 507(a)(3)–507(a)(10) against the Debtor’s Bankruptcy Estate.

“**Retained Claims**” shall mean any avoidance or preference claim under 11 U.S.C. §§ 542–551 or other causes of action owned by the Debtor as of the Confirmation Date.

“**Secured Claim**” means a Claim, other than a setoff claim, that is secured by an encumbrance, or the proceeds of the sale of such property, in which the Debtor has an interest, to the extent of the value, as of the effective date or such later date as is established by the Bankruptcy Court, of such interest or encumbrance as determined by a Final Order of the Bankruptcy Court pursuant to 11 U.S.C. § 506 or as otherwise agreed upon in writing by Debtor and the holder of such Claim.

“**Substantial Consummation**” shall have the meaning given to that term in 11 U.S.C. § 1101(2). Substantial Consummation shall occur on the effective date.

“**Unimpaired Claim**” means a claim that is not an impaired claim.

“**Unsecured Claim**” shall mean a claim that is not entitled to priority under 11 U.S.C. §§ 507(a)(1)–507(a)(9), and includes deficiency claims of any of the secured creditors.

“**Voting Deadline**” means the deadline by which Ballots to accept or reject the Plan must be received by Debtor’s counsel by in order to be counted. This deadline will be set by order of the Bankruptcy Court.

B. Rules of Interpretation

For purposes of this Disclosure Statement and Plan of Reorganization:

1. Any reference in this Disclosure Statement and Plan to a contract, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions;
2. Any reference in this Disclosure Statement and Plan to an existing document or exhibit filed or to be filed means such document or exhibit as it may have been or may be amended, modified, or supplemented;

3. Unless otherwise specified, all references in this Disclosure Statement and Plan to Sections, Articles, Schedules, and Exhibits are references to Sections, Articles, Schedules, and Exhibits of or to this Combined Disclosure Statement and Plan;
4. The words “herein” and “hereto” refer to this Disclosure Statement and Plan in its entirety rather than to a particular portion of this Combined Disclosure Statement and Plan;
5. Captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of this Disclosure Statement and Plan; and
6. The rules of construction set forth in 11 U.S.C. § 102 and in the Bankruptcy Rules shall apply.

C. Computation of Time

All times referenced in this Disclosure Statement and Plan are prevailing Central Time. In computing any period of time prescribed or allowed by this Disclosure Statement and Plan, the provisions of Fed. R. Bankr. P. 9006(a) shall apply.

III.

The Plan Proponent

The proposed Plan is proposed by the Debtor-in-Possession, Valderrama A/C Refrigeration, Inc., and its Disclosure Statement was prepared by the Debtor-in-Possession.

IV.

The Chapter 11 Debtor

Valderrama A/C Refrigeration, Inc. is a Texas corporation formed on April 15, 2011. It started its business operations in April 2011. Valderrama’s primary business has been the installation and repair of commercial and residential air conditioning and commercial refrigeration equipment in the Houston, Texas metropolitan area.

At all material times, Valderrama has maintained its principal place of business at 8412 Hansen Road, Houston, Texas 77075.

A. Background and Events Leading to the Chapter 11 Filing

Valderrama was originally organized by Jose Soto and his wife, Sonia Feliz. While an additional shareholder, Heriberto Abreu, invested money, Sonia Feliz continues to be the dominant shareholder, owning 70 percent of the Debtor's common stock.

Since its founding, Valderrama has been engaged in the business of installing and servicing commercial and residential air conditioning equipment and installing and servicing commercial refrigeration equipment. Historically, Valderrama's business has been 30 percent commercial and 70 percent residential. Moreover, Valderrama's sales are cyclical, when average high temperatures are greater than 80°F, the company has historically had positive cash flow, and in those times where the average high temperatures are less than 80°F, Valderrama's earnings are down.

B. Financials at Petition Date

The fair market value of the Debtor's assets and amount of liabilities is reflected in the Debtors Schedules. (ECF no. 12). On the Filing Date, the fair market value of the Debtor's assets and amount of its debts are summarized as follows:

Assets	
Real Property (Schedule A)	\$1,530,889.00
Personal Property (Schedule B)	
Cash	\$900.00
Accounts Receivable	16,371.31
Inventory	19,000.00
Equipment	24,650.00
Office Equipment & Furniture	5,000.00
Other	<u>911.00</u>
	<u>66,832.31</u>
Total Assets	<u>\$1,597,721.31</u>
Debts	
Secured Debts (Schedule D)	\$1,709,876.79
Priority Debts (Schedule E)	0.00
General Unsecured Debts (Schedule F)	<u>247,259.24</u>
Total Debts	<u>\$1,957,136.03</u>

C. Financial Performance after Petition Date

The Debtor has continued its business operations after the Petition Date. During this period, the Debtor's net income and cash flow is summarized as follows:

Income for the Period Apr. 4, 2017–Jul. 31, 2017		
Sales		\$352,477.12
Cost of Goods Sold		<u>0.00</u>
Gross Profit		\$352,477.12
Operating Expenses:		
Selling & Marketing	\$265,174.66	
General & Administrative	54,509.84	
Insiders' Compensation	0.00	
Professional Fees	0.00	
Other	<u>650.00</u>	<u>320,334.50</u>
Net Loss		<u>\$32,142.62</u>
Cash Flows for the period Apr. 4, 2017–Jul. 31, 2017		
Beginning Cash		\$900.00
Cash Receipts		
Operations	\$352,477.12	
Other	<u>0.00</u>	\$352,477.12
Cash Disbursements		
Operations	319,684.50	
Professional Fees	0.00	
U.S. Trustee Fees	650.00	
Other	<u>0.00</u>	<u>(320,334.50)</u>
Ending Cash		<u>\$33,042.62</u>

For a complete report of the Debtor's post-petition financials, please refer to the Debtor's Monthly Operating Reports filed prior to confirmation, including, but not limited to, the months ending April 30, 2017 (ECF no. 42), May 31, 2017 (ECF no. 60); June 30, 2017 (ECF no. 69), July 31, 2017 (ECF no. 70), and for subsequent months.

D. Management of the Debtor

At all material times prior to the filing of the Chapter 11 Petition the Debtor was managed by its officers and directors as is summarized below:

Person	Relationship to Debtor
Sonia Feliz	President & Secretary 70% voting shareholder
Heriberto Abreau	Vice-President 30% voting shareholder
Jose Soto	Director

On March 31, 2017, the Debtor's shareholders, by unanimous written consent, named Dario Ciriaco as the President and Director of the Debtor, and he has managed the Debtor's business since that date.

E. Insiders of the Debtor

The individuals identified in Section D, *supra*, constitute insiders of the Debtor as that term is defined in 11 U.S.C. § 101(31)(B).

F. Significant Events During the Bankruptcy Case

1. Administration of the Case

This case was originally filed April 4, 2017. The United States Trustee has not organized a Creditor's Committee.

The meeting of creditors, pursuant to 11 U.S.C. § 363, was held May 16, 2017, and it was conducted by a representative of the Office of the United States Trustee. The meeting was not concluded, pending the submission of certain documents regarding insurance coverage and the filing of income tax returns to the U.S. Trustee.

The Court approved the employment of the following professionals:

- a. William P. Haddock – lead counsel for the Debtor-in-Possession on May 30, 2017 (ECF no. 50);
- b. Anne K. Ritchie – special counsel for the Debtor-in-Possession on May 30, 2017 (ECF no. 49); and

- c. Michael P. Jayson – accountant for the Debtor-in-Possession on July 5, 2017 (ECF no. 58).

On July 18, 2017, the Court ordered the Debtor to either assume or reject the Wells Fargo Financial National Bank–Bryant Heating & Cooling Systems Dealer Agreement Contract, dated January 31, 2004, by September 18, 2017. (ECF no. 61). On August 3, 2017, the Debtor, with the consent of Wells Fargo Financial National Bank, filed an Agreed Motion to Assume the Wells Fargo Financial National Bank–Bryant Heating & Cooling Systems Dealer Agreement Contract, dated January 31, 2004. (ECF no. 65).

2. Cash Collateral Matters

Shortly after the filing of the bankruptcy petition, the Debtor filed an emergency motion seeking the interim use of cash collateral. (ECF no. 5). On April 7, 2017, the Court entered an Order authorizing the use of cash collateral. (ECF no. 7). After negotiations with Wallis State Bank, the Court entered an Agreed Interim Cash Collateral Order on April 26, 2017. (ECF no. 19). On May 24, 2017, the Court entered an Agreed Final Cash Collateral Order. (ECF no. 43).

3. Relocation to New Business Location & Foreclosure of Real Property

After the commencement of the case, the Debtor determined that it could not afford to service its debt from the purchase of its business premises at 8412 Hansen Road, Houston, Texas 77075. On May 16, 2017, the Debtor found a smaller, more affordable location where it could conduct its business, and it filed an emergency motion for the approval of a lease. On May 17, 2017, the Court granted the motion. (ECF no. 33). At the commencement of the lease, the Debtor moved its business operations to 1212 Illinois Street, Houston, Texas 77587, where it continues to operate its business.

At the time the Debtor sought approval of the lease, Wallis State Bank also filed a motion for relief from the automatic stay so that it could pursue its rights under state law to foreclose on the real property at 8412 Hansen Street. (ECF no. 30). This was resolved by an agreed order (ECF no. 47), and Wallis State Bank foreclosed on the vacated property on July 4, 2017. At the substitute trustee's sale, Wallis State Bank acquired the property by bidding its debt. The Debtor and its guarantors remain liable for any deficiencies.

4. Investigation of Avoidance Actions

Upon information and belief, there are a number of avoidance actions that the Debtor could pursue against Jose Soto for the unauthorized use of the company's credit and unauthorized payments of the personal expenses of Jose Soto and/or Sonia Feliz. These claims are disputed, and they are also subject to being offset by the value received by the Debtor for the prepetition use of vehicles that were titled in the name of Jose Soto.

On June 15, 2017, the Jose Soto and Sonia Feliz, the Debtor's principal shareholder, filed a voluntary petition under Chapter 13 of the Bankruptcy Code in the case styled, *In re Jose Manuel Soto and Sonia A. Feliz*, No. 17-33786, in the United States Bankruptcy Court for the Southern District

of Texas. The deadline for the filing of claims is October 26, 2017. At the present date, no plan of reorganization has been confirmed; however, as of the date of the filing of this Disclosure Statement, the debtors in that case have proposed a plan that would make approximately \$27,334.27 available for distribution to holders of allowed, general, unsecured claims. This payment is based upon projected disposable net income of \$2,410.00 per month.

Exhibit E to this Disclosure Statement is a summary of the debtors' proposed Chapter 13 plan shows their monthly disposable income and a the proposed treatment of their creditors' claims.

Based upon the foregoing factors, the Debtor believes it is impracticable to pursue any avoidance actions against Jose Soto.

V.

Sources of Information

The sources of information for this Disclosure Statement are the books and records of the Debtor, unless specifically stated to be from other sources. The source of information concerning assets is taken from the Debtor's schedules and supplemented with current information available to the Debtor. The valuations stated in the Disclosure Statement are those of Valderrama A/C Refrigeration, Inc.

VI.

Classification and Treatment of Claims & Equity Interests

All claims and interests are placed in the Classes set forth below. A claim or interest is placed in a particular Class only to the extent that the claim or interest falls within the description of that Class, and is classified in other Classes to the extent that any portion of the Claim or Interest falls within the description of such other Classes. A claim is also placed in a particular Class for the purpose of receiving distributions pursuant to the Plan only to the extent that such Claim is an Allowed Claim in that Class and such Claim has not been paid, released, or otherwise settled.

A. CLASS 1 – Administrative Claims, Professional Fee Claims & U.S. Trustee Quarterly Fees

Description. All Claims entitled to administrative priority under 11 U.S.C. §§ 330(a)(1) and 503(b)(2) incurred by the Debtor during the Bankruptcy Case and U.S. Trustee Quarterly Fees Assessed Pursuant to 28 U.S.C. § 1930(a)(6). A summary of the claims in Class 1 are as follows:

Claimant	Estimated Amount	Treatment/Comment
U.S. Trustee	\$650.00	Unimpaired. The amount is based on amounts distributed by Debtor post-petition pursuant to 28 U.S.C. § 1930(a)(6)
William P. Haddock	15,000.00	Unimpaired. Any payments to counsel for the Debtor-in-Possession are subject to Court approval of fee application(s).
Anne K. Ritchie	1,000.00	Unimpaired. Any payments to counsel for the Debtor-in-Possession are subject to Court approval of fee application(s).
Michael P. Jayson	4,000.00	Unimpaired. Any payments to counsel for the Debtor-in-Possession are subject to Court approval of fee application(s).

Treatment. The above Administrative Claims shall be paid from cash on hand as described below.

Claims of the United States Trustee. The Reorganized Debtor (or other responsible party) shall be responsible for timely payment of United States Trustee quarterly fees incurred pursuant to 28 U.S.C. § 1930(a)(6). Any fees due as of the date of confirmation of the plan will be paid in full on the Effective Date of the plan. After confirmation, the Reorganized Debtor shall pay United States Trustee quarterly fees as they accrue until this case is administratively closed by the Court. The Reorganized Debtor shall file with the Court a quarterly financial report or affidavit for each quarter (or portion thereof) that the case remains open.

All other Administrative Claims. With respect to all requests for payment of professional fees pursuant to 11 U.S.C. §§ 327, 328, 330, 331, 503(b), 506(c), or 1103 for services rendered and expenses incurred prior to the Effective Date, such professionals shall file and serve an application for final allowance of compensation and reimbursement of expenses no later than 30 days after the entry of the Confirmation Order. Once allowed by final order of the Court, professional fees will be paid.

Class 1 claims will be paid in full and are not impaired.

B. CLASS 2 – Allowed, Unsecured *Ad Valorem* Tax Claims

Description. Class 2 consists of all claims for *ad valorem* taxes that were secured by a lien on the real property formerly owned by the Debtor. On July 4, 2017, Wallis State Bank foreclosed on the real property and was the successful bidder at a substitute trustee's sale held on the same date. Subsequently, Wallis State Bank paid the outstanding *ad valorem* taxes associated with the real property.

To the extent any taxes remain unpaid, the following taxing authorities may have claims:

Claimant	Periods
Harris County (Taxing Units 40, 41, 43, 44)	2015–2017
San Jacinto Community College District (Taxing Unit 47)	2015–2016
City of Houston (Taxing Unit 61)	2015–2017
Harris County Improvement Dist. #9	2016–2017
Pasadena I.S.D.	2015–2017

Any taxes due for 2016 through July 4, 2017 are entitled to priority; any taxes due for 2015 or any earlier tax period are not entitled to priority. 11 U.S.C. § 507(a)(8)(B).

Treatment. To the extent the claims in Class 2 are entitled to priority under 11 U.S.C. § 507(a)(8)(B), holders of such allowed priority claims shall be paid in full from cash on hand at the Effective Date and in deferred cash payments, paid quarterly, after the Effective Date. To the extent the holder of a priority claim under Class 2 is also the holder of any claim that is not entitled to priority under 11 U.S.C. § 507, such nonpriority claim will be treated as a general, unsecured claim in Class 6.

Class 2 claims will be paid in full and are not impaired to the extent that they are entitled to priority under 11 U.S.C. § 507.

C. CLASS 3 – Allowed, Secured *Ad Valorem* Tax Claims

Description. Class 3 consists of allowed *ad valorem* taxes that are secured by a self-executing tax lien, pursuant to the Tex. Tax Code § 32.01, on the business personal property of the Estate.

The Debtor estimates these tax claims are as follows:

Claimant	Amount
Harris County (Taxing Units 40, 41, 43, 44)	\$2,430.27
City of South Houston (Taxing Unit 78)	2,105.00
San Jacinto Community College District (Taxing Unit 47)	264.38
City of Houston (Taxing Unit 61)	302.03

Claimant	Amount
Pasadena I.S.D.	<u>943.54</u>
Total	<u>\$6,045.22</u>

These amounts are subject to change given the filing of proofs of claims by the bar date for governmental claims—October 2, 2017.

Treatment. The above Allowed, Secured *Ad Valorem* Tax Claims shall be paid in full, with interest at the rate of 12.0% per annum, on the Effective Date and in deferred cash payments, paid quarterly, after the Effective Date.

Class 3 claims are not impaired.

D. CLASS 4 – Claims Secured by a Lien Against Cash Collateral

Description. Class 4 consists of allowed claims secured—in whole, or in part—by a lien against the Debtor’s cash, accounts receivable, and other “cash collateral” as that term is defined in 11 U.S.C. § 363(a) as well as other personal property of the Debtor.

There are two known holders such claims as follows:

Claimant	Secured	Unsecured	Total
Wallis State Bank	\$112,564.35	\$ 0.00	\$112,564.35
Funding Metrics, LLC	<u>19,473.42</u>	<u>14,250.00</u>	<u>33,473.42</u>
Total	<u>\$132,037.77</u>	<u>\$14,250.00</u>	<u>\$146,037.77</u>

The lien of Wallis State Bank was perfected prior to the perfection of the lien of Funding Metrics, LLC.

Treatment. Claims in Class 4 shall be paid out of the cash, and the cash proceeds from the collection of the Debtor’s accounts receivable and other assets defined as “cash collateral,” pursuant to 11 U.S.C. § 363(a), in deferred cash payments, paid monthly, after the Effective Date on the 15th day of every month of at least \$5,000 per month. All payments to holders of allowed claims in Class 4 shall first be made to Wallis State Bank, and when such claim is paid in full, then payments shall be made to such other holders of claims in Class 4 in the order in which their liens were perfected.

Provided that it does not prejudice Debtor’s ability to satisfy its other financial obligations under its Confirmed Plan, nothing in this Paragraph shall prevent the Debtor from paying in excess of \$5,000 per month in satisfaction of the claim in this Class.

To the extent an allowed claim in Class 4 is secured, such claim is unimpaired. To the extent any part of an allowed claim in Class 4 is unsecured, such unsecured portion shall be treated as a general unsecured claim in Class 6.

E. CLASS 5 – Claims Secured by a Lien Against Equipment and Other Personal Property

Description. Class 5 consists of allowed secured claims secured by purchase money liens against various pieces of machinery, equipment, and titled trailers as identified in the Schedule D, UCC-1 liens filed with the Texas Secretary of State, and on certificates of title recorded with the Texas Department of Motor Vehicles.

There is one such holder of such claims, and the amount owed to this claimant along with the value of its collateral is shown in the table below:

Claimant	Collateral	Amount of Claim	Value of Collateral	Amount Oversecured or (Undersecured)
Wells Fargo Equipment Finance	Yale GLP050VX forklift	\$27,329.19	\$24,000.00	(\$3,329.19)

Treatment. Class 5 claims will be paid the lesser of: (a) the amount of the claim, or (b) the value of the collateral. Payments will be made monthly in accordance with the terms of the pre-petition contract between the Debtor and the respective creditor. To the extent the value of the collateral is less than the claim amount, leaving a portion of the claim as a general, unsecured claim, such undersecured portion of the claim shall be treated as a general unsecured claim in Class 6.

Claims in Class 5 are impaired.

F. CLASS 6 – Allowed General Unsecured Claims

Description. Class 6 consists of all allowed general unsecured claims, and any undersecured portion of a secured claim as described in Paragraphs D and E, *supra*. A summary of the general unsecured claims and the Debtor's position on the allowance of the claims is set forth in Exhibit B to this Disclosure Statement. The amounts in this summary are subject to change as the deadline for governmental units to file claims is October 2, 2017.

Treatment. Class 6 claims will be paid a *pro rata* share of their allowed claims in deferred cash payments after payment of allowed claims in Classes 1–5. Class 6 claims will be paid from the proceeds from the liquidation of the Debtor's assets under 11 U.S.C. § 363 or under the terms of the Plan. Deferred cash payments will be made, if cash is available, upon the effective date of the Plan and quarterly thereafter.

Creditors in Class 6 shall receive a minimum of 25.0% of their allowed claims over a period of five years starting from the Effective Date.

Class 6 claims are impaired.

G. CLASS 7 – Interests of the Debtor’s Shareholders

Description. Class 7 consists of the Interests of the Debtor’s Shareholders.

Treatment. The interests of the Debtor’s Shareholders shall continue in existence following the Effective Date. The Allowed Interests of the Debtor’s Shareholders are impaired and, except for distributions to its shareholders in Class 7 for the payment of federal income taxes attributable to the reorganized debtor, such shareholders shall receive no dividends or distributions with respect to such interests unless all claims in Classes 1 through 6 have been paid in full in accordance with a confirmed plan of reorganization.

Class 7 interests are impaired.

VII.

Means for Execution of the Plan

The Plan provides for the payment of its creditors primarily through its future earnings.

A. Future Earnings

At the Effective Date, the Debtor estimates it will initially have \$30,000 in available cash to pay claims in Classes 1–5. Every quarter thereafter, the Debtor believes it can pay a minimum of \$20,000 per quarter towards the satisfaction of claims in Classes 1–6 as shown in the payment schedule in **Exhibit D**, which is a “worst case” scenario for the projection of the Debtor’s future cash flows. Even under such a scenario, the Debtor should be able to pay all of the claims in Classes 1–4 within two years, and it should be able to pay 99 percent of all general, unsecured claims in Class 6 by the end of the 5th year of the plan.

In all likelihood, the Debtor’s cash flow will exceed a \$20,000 cash inflow per quarter.

B. Collection of Accounts Receivable

The Debtor shall continue collect all accounts receivable. The Debtor shall be further authorized, in his discretion, to pursue all legal remedies (*e.g.*, lawsuit or arbitration demand) to seek collection of any outstanding accounts receivable.

In the event the Debtor chooses to not to pursue a legal remedy to pursue collection of an account receivable, he shall have the discretion to sell any such account after providing notice. If no party in interest files an objection to the proposed sale within 14 days after such notice is filed, the pro-

posed sale shall be deemed approved without further order of the Court. If an objection to the sale is timely filed, the Debtor shall seek Court approval of such sale pursuant to Bankruptcy Rule 9014.

C. Preservation of Retained Claims

1. Retained Claims

Except as otherwise provided in the Plan, all causes of action that the Debtor and the Estate may hold against any person or entity shall be retained by the Bankruptcy Estate and shall be prosecuted the Debtor-in-Possession, after the Effective Date.

The Debtor specifically retains the right to investigate or pursue any avoidance actions authorized under 11 U.S.C. §§ 544–50, including, but not limited to, setting aside any preferences or fraudulent transfers.

2. Claims Objections & Subordination

Claims objections must be filed not later than 30 days after the Effective Date. This deadline may be extended by the Court, on motion by a party in interest. Any such motion must be filed not later than 30 days after the Effective Date.

The Debtor anticipates making the following objections to the following Proofs of Claim that are on file, nonetheless this list is not exhaustive:

Claimant	Nature of Objection
Alliance Industrial Commercial Services, LLC	Objection to the classification of the claim as a priority claim. The Debtor believes the claim should be classified as a general, unsecured claim.
Harris County (Taxing Units 40, 41, 43, 44)	Objection to the classification of part of said claim as a secured claim. These claimants claim a tax lien securing <i>ad valorem</i> taxes on real property that was foreclosed July 4, 2017. Following the foreclosure, Wallis State Bank paid the past-due taxes. If any debt remains due as to taxes on the real property, the Debtor believes such claim should be a priority claim for 2016 and 2017 taxes, and a general unsecured claim for 2015 and earlier years.
San Jacinto Community College District (Taxing Unit 47)	
City of Houston (Taxing Unit 61)	
Harris County Improvement Dist. #9	
Pasadena I.S.D.	

3. Settlement of Retained Claims and Objections to Claims

After the Effective Date, the Debtor shall be authorized to settle and compromise any and all Retained Claims and any objections to Claims by filing a notice of settlement with the Bankruptcy Court and the applicable settlement entered into between the Debtor and a defendant or holder of a claim (a “*Settlement Notice*”). The Debtor shall serve a copy of the Settlement Notice on any parties requesting notice in the Debtor’s Bankruptcy case. If no party in interest files an objection to the Settlement Notice within 14 days after the Settlement Notice is filed, the proposed settlement shall be deemed approved without further order of the Court. If an objection to the Settlement Notice is timely filed, the Debtor shall file a motion for approval of the Settlement pursuant to Bankruptcy Rule 9019 and seek Court approval of the Settlement.

D. Treatment of Executory Contracts and Unexpired Leases

Under 11 U.S.C. § 365, the Debtor has the right, subject to Bankruptcy Court approval, to assume or reject any executory contracts or unexpired leases. If the Debtor rejects an executory contract or unexpired lease that was entered into before the Petition Date, it will be treated as if it had been breached on the date immediately preceding the Petition Date, and the other party to the agreement may assert a General Unsecured Claim in Class 6 for damages incurred as a result of the rejection. In the case of rejection of employment agreements and real property leases, damages are subject to certain limitations imposed by 11 U.S.C. §§ 365 and 502. In the case of assumption of an executory contract where there has been a default, the debtor-in-possession may not assume the contract unless it cures, or provides adequate assurance that it will promptly cure, such default; compensates, or provides adequate assurance that it will promptly compensate, the other parties to the contract for any actual pecuniary loss to such party resulting from such default; and provides adequate assurance of future performance under the contract.

With the exception of the Wells Fargo Financial National Bank–Bryant Heating & Cooling Systems Dealer Agreement Contract, dated January 31, 2004, the Plan constitutes a motion to reject any other executory contracts to which the Debtor is a party. If the rejection by the Debtor pursuant to the Plan or otherwise of an executory contract or unexpired lease results in a Claim that is not theretofore evidenced by a timely proof of Claim or a proof of Claim that is deemed to be filed timely under applicable law, then such Claim will be forever barred and unenforceable against the Debtor’s Bankruptcy Estate, unless a proof of Claim is filed with the clerk of the Court and served on counsel for the Debtor within thirty (30) days after entry the Confirmation Order.

The Debtor does not believe that it is a party to any other executory contracts or unexpired leases other than those described in this Disclosure Statement.

E. Vesting of Assets

All property of the Estate shall vest with the Reorganized Debtor upon Confirmation of the Plan. *See* 11 U.S.C. § 1141(b).

F. Employment of Professionals after the Effective Date

After the Effective Date, the Debtor shall be authorized to retain professionals such as attorneys and accountants to provide professional services to the Debtor in any post-confirmation matter, including, but not limited to the liquidation of the Estate and prosecuting any retained claims. The Debtor will have full authority to hire professionals without application to the Court. The Debtor shall be allowed to pay all professionals, for services provided after the Effective Date of the plan, from cash on hand, provided that, that notice of intent to pay professionals is served on all creditors holding allowed claims. If no person entitled to notice fails to object by filing an objection with the Court in 14 days, the fee shall be deemed allowed. If an objection is timely filed, the Court will consider the proposed payment under Bankruptcy Rule 9019.

VIII.

Modifications and Amendments

The Debtor may alter, amend, or modify the Plan or any Exhibits thereto under 11 U.S.C. § 1127(a) at any time prior to the Confirmation Date. After the Confirmation Date and prior to the earlier of (i) the Consummation Date; or (ii) Substantial Consummation of the Plan, the Debtor may, under 11 U.S.C. § 1127(b), institute proceedings in the Bankruptcy Court to remedy any defect or omission or reconcile any inconsistencies in the Plan, the Disclosure Statement approved with respect to the Plan, or the Confirmation Order, and such matters as may be necessary to carry out the purpose and effect of the Plan so long as such proceedings do not adversely affect the treatment of holders of Claims or Equity Interests under the Plan; provided, however that prior notice of such proceedings shall be served in accordance with the Bankruptcy Rules or order of the Bankruptcy Court.

IX.

Conditions Precedent to the Effective Date

The occurrence of each of the following events shall be a separate condition to the Effective Date.

A. Entry of Confirmation Order

The Confirmation Order shall have been signed by the Court and duly entered on the Court's docket in form and substance acceptable to the Debtor, and shall include, among other things, findings of fact and/or conclusions of law that:

1. Approve the terms of the Plan, as it may be amended or modified, and all other agreements contemplated by the Plan;

2. Provide that, except as otherwise expressly provided in the Plan, all entities who have held, hold or may hold Claims against, or Interest in, the Debtor's Bankruptcy Estate will be permanently enjoined, on and after the Confirmation Date, from (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim, (ii) the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtor or against the Debtor's Bankruptcy Estate on account of any such Claim, (iii) creating, perfecting or enforcing any encumbrance of any kind against Debtor or the Debtor's Bankruptcy Estate on account of any such Claim and (iv) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from Debtor or the Debtor's Bankruptcy Estate on account of any such Claim; provided however, notwithstanding any provision of the Plan to the contrary, each holder of a Claim shall be entitled to enforce his, her or its rights under the Plan;
3. Reserve the jurisdiction of the Bankruptcy Court in accordance with Section XIII, *infra*;
4. Terminate the automatic stay under 11 U.S.C. § 362; and
5. Provide, pursuant to 11 U.S.C. § 1125(e), that persons who have solicited acceptances or rejections of the Plan have acted in good faith and in compliance with the provisions, and are not liable on account of such solicitation or participation for violation of any applicable law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan.

B. Finality of Confirmation Order & Waiver

The Confirmation Order, in form and substance satisfactory to Debtor shall either have become a Final Order, or such condition shall have been waived by the Debtor.

X.

Confirmation of the Plan

A. Voting Procedures and Requirements

The Debtor is providing copies of this Disclosure Statement and Plan and Ballots to all known holders of Impaired Claims who are entitled to vote on the Plan.

Pursuant to the provisions of the Bankruptcy Code, only Classes of Claims against the Debtor that are "Impaired" under the terms and provisions of the Plan and entitled to receive a Distribution thereunder are entitled to vote to accept or reject the Plan. Accordingly, Classes of Claims or Interests that are not Impaired under the terms and provision of the Plan are *not* entitled to vote on the Plan. In addition, Classes of Claims or Interests that are not entitled to a Distribution under the

terms and provisions of the Plan are deemed to have rejected the Plan and are not entitled to vote to accept or reject the Plan.

Under the Plan, holders of Claims in Classes 5 and 6 are Impaired, and, therefore, are entitled to vote to accept or reject the Plan. The following voting procedures (the “*Voting Procedures*”) have been established with respect to the amount and classification of Claims and Interests, and the determination of the validity of Ballots submitted, for voting purposes:

Unless otherwise provided below, a claim will be deemed temporarily allowed for voting purposes in an amount equal to:

1. If a timely filed proof of claim has not been filed, the amount of such claim as set forth in the schedules of assets and liabilities, filed by the Debtor, or
2. The amount of such claim as set forth in a timely filed proof of claim.

If a claim is deemed allowed in accordance with the Plan, such claim will be allowed for voting purposes in the deemed allowed amount set forth in the Plan.

If a claim has been estimated or otherwise allowed for voting purposes by order of the Court, such claim will be temporarily allowed for voting purposes in the amount so estimated or allowed by the Court.

Ballots that are otherwise validly executed but do not indicate either acceptance or rejection of the Plan will not be counted.

Only Ballots that are timely received with signatures will be counted. Unsigned ballots will not be counted.

Ballots postmarked prior to the Voting Deadline, but received after the Voting Deadline, will be counted.

Ballots that are illegible, or contain insufficient information to permit the identification of the creditor, will not be counted.

If a creditor simultaneously casts inconsistent duplicate ballots, with respect to the same claim, such ballots shall not be counted.

Unless otherwise ordered by the Court, questions as to the validity, form, eligibility (including time of receipt), acceptance, and revocation or withdrawal of ballots shall be determined by the Bankruptcy Court at the Confirmation Hearing.

IN ORDER TO BE COUNTED, EXCEPT TO THE EXTENT THE DEBTOR SO DETERMINE OR AS PERMITTED BY THE BANKRUPTCY COURT PURSUANT TO BANKRUPTCY RULE 3018, BALLOTS MUST BE SIGNED AND RETURNED SO THAT THEY ARE RECEIVED NO LATER THAN 5:00 P.M. CDT, ON **TBD AT THE FOLLOWING ADDRESS:**

William P. Haddock
Pendergraft & Simon, LLP
2777 Allen Parkway, Suite 800
Houston, TX 77019
Fax. 713-868-1267
E-mail. whaddock@pendergraftsimon.com

BALLOTS WILL BE ACCEPTED BY REGULAR MAIL, TELECOPY, OR E-MAIL.

As mentioned above, if your Ballot is not signed and returned as described, it will not be counted. If your Ballot is damaged or lost, or if you do not receive a Ballot, you may request a replacement by addressing a written request to Debtor's counsel at the above address by regular mail, facsimile or email. Please follow the directions contained on the Ballot carefully.

The process of soliciting acceptance of the Plan must be fair and open without outside influence in the form of representations, inducements or duress of any kind. To the extent that you believe solicitation of your vote from any party is being sought outside of the judicially-approved and statutorily-defined disclosure requirements and Voting Procedures, please contact counsel for the Debtor.

B. Acceptance

Acceptance of the Plan requires that each Impaired Class of Claims or Interests (as classified therein) accepts the Plan, with certain exceptions hereinafter discussed below. Thus, acceptance of the Plan requires acceptance by each of the Impaired Classes.

Classes of Claims and Interests that are Unimpaired under the Plan are deemed to have accepted the Plan. Acceptances of the Plan are being solicited only from those persons who hold Claims or Interests of Impaired Classes.

The Bankruptcy Code defines acceptance of the Plan by a Class of Claims as acceptance by the holders of at least two-thirds ($\frac{2}{3}$) in dollar amount and a majority in number of Claims of that class, but for that purpose, only those Claims, the holders of which actually vote to accept or reject the Plan, are counted.

C. Cramdown

Upon rejection of this Plan by any impaired class of claims, the Plan Proponent intends to, and hereby does, invoke the cramdown provisions of section 1129(b) of the Bankruptcy Code to obtain confirmation of the Plan.

D. Confirmation

To confirm the Plan, 11 U.S.C. § 1129 requires the Bankruptcy Court to make a series of determinations concerning the Plan, including, without limitation:

1. That the Plan has classified Claims and Interests in a permissible manner;
2. That the contents of the Plan complies with the technical requirements of the Bankruptcy Code;
3. That the Debtor has proposed the Plan in good faith; and
4. That the Debtor has made disclosures concerning the Plan which are adequate and include information concerning all payments made or promised in connection with the Plan and the UPD Global Resources, Inc. Bankruptcy Case.

The Bankruptcy Code requires that, unless the cramdown provisions of the Bankruptcy Code (as discussed below) are utilized, as a condition precedent to confirmation, the Plan be accepted by the requisite votes of each Class of Claims and Interests voting as separate Classes. Therefore, the Bankruptcy Court must find, in order to confirm the Plan, that the Plan has been duly accepted. In addition, the Bankruptcy Court must find that the Plan is feasible and that the Plan is in the “best interests” of all holders of Claims and Interests. Thus, even if holders of Claims were to accept the Plan by the requisite number of votes, the Bankruptcy Court is still required to make independent findings respecting the Plan’s feasibility and whether the Plan is in the best interests of holders of Claims and Interests before it can confirm the Plan.

The Debtor believes that all of these conditions have been or will be met with respect to the Plan as shown below.

1. Compliance with the applicable provisions of the Bankruptcy Code

A Plan must comply with the applicable provisions of the Bankruptcy Code. 11 U.S.C. § 1129(a)(1). As explained in this Disclosure Statement, the proposed Plan complies with all applicable provisions of the Bankruptcy Code.

2. Plan Proponent’s compliance with the Bankruptcy Code

The Plan Proponent must comply with the applicable provisions of the Bankruptcy Code. 11 U.S.C. § 1129(a)(2). As explained in this Disclosure Statement, the Plan Proponent has complied with all applicable provisions of the Bankruptcy Code.

3. Plan proposed in good faith

The Plan must be proposed in good faith and not by any means forbidden by law. 11 U.S.C. § 1129(a)(3). While no third party is adding value, the proposed plan leverages the Debtor’s expertise in its industry to provide more value to the Estate than what is likely in the case of a liquidation.

4. Payments subject to Court approval

The Plan must provide any payment made or to be made by the proponent, by the debtor, or by a person issuing securities or acquiring property under the plan, for services or for costs and expenses in or in connection with the case, or in connection with the plan and incident to the case, has been

approved by, or is subject to the approval of, the court as reasonable. 11 U.S.C. § 1129(a)(4). No payment can be made to a creditor or interest holder in any class until the Plan is confirmed after the Plan has been accepted and the Court holds a confirmation hearing. In addition, any administrative claims of professionals must be specifically approved by the Court.

5. Post-confirmation management is consistent with the interests of creditors, equity security holders, and public policy

The Plan Proponent must disclose:

- a. the identity and affiliations of any individual proposed to serve, after confirmation of the plan, as a director, officer, or voting trustee of the debtor, an affiliate of the debtor participating in a joint plan with the debtor, or a successor to the debtor under the plan; and
- b. the appointment to, or continuance in, such office of such individual, is consistent with the interests of creditors and equity security holders and with public policy.

The continued management of the Debtor under its current Director, Dario Ciriaco, is consistent with the interests of creditors, the Debtor's shareholders, and public policy.

6. Regulatory approval of rates and rate changes

The Plan must provide any governmental regulatory commission with jurisdiction, after confirmation of the plan, over the rates of the debtor has approved any rate change provided for in the plan, or such rate change is expressly conditioned on such approval. 11 U.S.C. § 1129(a)(6).

In its business, the Debtor is not subject to the jurisdiction of such a governmental body; therefore, this provision is inapplicable to the present case.

7. Impaired claims or interests

The Plan must provide, with respect to each impaired class of claims or interests:

1. Each holder of a claim or interest of such class has either accepted the plan or will receive or retain under the plan on account of such claim or interest property of a value, as of the effective date of the plan, that is not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of this title on such date; or
2. If Section 1111(b)(2) applies to the claims of such class, each holder of a claim of such class will receive or retain under the plan on account of such claim property of a value, as of the effective date of the plan, that is not less than the value of such holder's interest in the estate's interest in the property that secures such claims.

11 U.S.C. § 1129(a)(7).

As discussed more fully in Section VI, the Plan complies with 11 U.S.C. § 1129(a)(7). Whether impaired classes will vote to accept the proposed Plan is an open question.

8. All claims or interests

The Plan must provide, with respect to each class of claims or interests:

1. Such class has accepted the plan; or
2. Such class is not impaired under the plan.

11 U.S.C. § 1129(a)(8).

As discussed in Section VI, Classes 1 through 4 are not impaired. Classes 5 through 7 are impaired, and whether they vote to accept the proposed Plan is an open question.

9. Certain priority claims

Except to the extent a holder of a particular claim has agreed to a different treatment of such claim, the Plan must provide:

1. With respect to a claim of a kind specified in Section 507(a)(2) or 507(a)(3) of this title, on the effective date of the plan, the holder of such claim will receive on account of such claim cash equal to the allowed amount of such claim;
2. With respect to a class of claims of a kind specified in Section 507(a)(1), 507(a)(4), 507(a)(5), 507(a)(6), or 507(a)(7) of this title, each holder of a claim of such class will receive—
 - a. if such class has accepted the plan, deferred cash payments of a value, as of the effective date of the plan, equal to the allowed amount of such claim; or
 - b. if such class has not accepted the plan, cash on the effective date of the plan equal to the allowed amount of such claim;
3. With respect to a claim of a kind specified in Section 507(a)(8) of this title, the holder of such claim will receive on account of such claim regular installment payments in cash—
 - a. of a total value, as of the effective date of the plan, equal to the allowed amount of such claim;
 - b. over a period ending not later than 5 years after the date of the order for relief under Section 301, 302, or 303; and

- c. in a manner not less favorable than the most favored nonpriority unsecured claim provided for by the plan (other than cash payments made to a class of creditors under Section 1122(b)); and
4. With respect to a secured claim which would otherwise meet the description of an unsecured claim of a governmental unit under Section 507(a)(8), but for the secured status of that claim, the holder of that claim will receive on account of that claim, cash payments, in the same manner and over the same period, as prescribed in subparagraph (C).

11 U.S.C. § 1129(a)(9).

As discussed in Section VI, all administrative claims under 11 U.S.C. § 507(a)(2) are being paid in full on the effective date of the Plan, subject to professionals having to submit fee applications for Court approval. In this case, there are no claims under 11 U.S.C. § 507(a)(3).

As discussed in Section VI, all priority tax claims under 11 U.S.C. § 507(a)(8), if any, will be paid in full, most likely at the Effective Date of the Plan, and such payment will be made before any payments of general unsecured claims in Class 6.

There are no wage claims under 11 U.S.C. § 507(a)(4).

10. Acceptance of plan by at least one impaired class

If a class of claims is impaired under the Plan, a Plan must be accepted by at least one class of claims that is impaired, not including any acceptance by an insider. 11 U.S.C. § 1129(a)(10). It is anticipated that creditors in Class 5 and/or Class 6 will vote to accept the Plan. No insider has claims in Class 5 or 6.

11. Confirmation not likely to be followed by liquidation or further reorganization

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. 11 U.S.C. § 1129(a)(11).

This provision determines the overall feasibility of the Plan. As shown in **Exhibit D**, the worst-case financial projections of the Debtor call for its debts to be paid from future cash inflows at the rate of \$20,000 per quarter. Based upon the Debtor's post-petition financial performance, these modest financial goals are clearly achievable, and it is likely that the Debtor will be able to exceed these goals, making it unlikely that the Debtor will default on its plan.

12. Payment of fees

A Plan may not be confirmed unless all fees payable under 28 U.S.C. § 1930 have been paid or the plan provides for payment of such fees on the effective date of the plan. 11 U.S.C. § 1129(a)(12).

The Proposed Plan satisfies this requirement.

13. Retiree benefits

The plan must provides for the continuation, after its effective date, of payment of all retiree benefits, as that term is defined in Section 1114 of the Bankruptcy Code at the level established pursuant to 11 U.S.C. §§ 1114(e)(1)(B) and 1114(g)s at any time prior to confirmation of the plan, for the duration of the period the debtor has obligated itself to provide such benefits. 11 U.S.C. § 1129(a)(13).

The Debtor has never maintained a retiree benefit program; therefore, this provision is inapplicable to the present case.

14. Domestic support obligations

If the debtor is required by a judicial or administrative order, or by statute, to pay a domestic support obligation, the debtor has paid all amounts payable under such order or such statute for such obligation that first become payable after the date of the filing of the petition. 11 U.S.C. § 1129(a)(14).

This provision is inapplicable to the present case.

15. Disposable net income test

Section 1129(a)(15) contains provisions regarding the disposable income of individuals in a Chapter 11 case.

This provision is inapplicable to the present case.

16. Transfers of property under the plan

All transfers of property under the plan shall be made in accordance with any applicable provisions of nonbankruptcy law that govern the transfer of property by a corporation or trust that is not a moneyed, business, or commercial corporation or trust. 11 U.S.C. § 1129(a)(16).

The Proposed Plan satisfies this requirement.

E. The Best Interests Test

Whether or not the Plan is accepted by each Impaired Class of Claims entitled to vote on the Plan, in order to confirm the Plan the Bankruptcy Court must independently determine, pursuant to 11 U.S.C. § 1129(a)(7), that the Plan is in the best interests of each holder of an Impaired Claim or Interest that has not voted to accept the Plan. This requirement is satisfied if the Plan provides each non-accepting holder of a Claim or Interest in such Impaired Class a recovery on account of such holder's Claim or Interest that has a value, as of the Effective Date, at least equal to the value of the Distribution each such holder would receive in a liquidation of the Debtor under Chapter 7.

To determine the value that holders of Impaired Claims and Interests would receive if the Debtor was liquidated under Chapter 7, the Bankruptcy Court must determine that the dollar amount which would be generated from the liquidation of the assets in the context of Chapter 7 liquidation

is not more than the present value of the funds to be distributed under the Plan. The cash amount that would be available would consist of the proceeds resulting from the disposition of the unencumbered assets of the Debtor, reduced by the costs and expenses of the liquidation and by such additional administrative and priority expenses that may result.

The costs of liquidation under Chapter 7 would include the fees payable to the trustee appointed in the Chapter 7 case, as well as those that might be payable to additional attorneys and other professionals that the trustee might engage. Costs of liquidation would also include any unpaid expenses incurred by the Debtor during the Chapter 11 case, such as compensation for attorneys, appraisers, and accountants and costs and expenses of operations, which remained unpaid. In addition, Claims may arise by reason of the rejection of obligations incurred and contracts entered into by the Debtor in Possession during the pendency of the Chapter 11 case.

To determine if the Plan is in the best interests of the members of Classes 5, 6 and 7, the present value of the distributions from the proceeds of the liquidation of all the Debtor's assets and properties (after subtracting the amounts attributable to the claims described above) are then compared with the present value offered to each of the members of Classes 5, 6 and 7 under the Plan. It is the Debtor's opinion that if a Chapter 7 liquidation were to occur, creditors with general unsecured claims, including the amounts by those creditors' secured claims that are undersecured, will receive approximately 9.3 percent of such claims.

F. Fair and Equitable Test

If any impaired class of claims does not accept the Plan, the Bankruptcy Court may still confirm the Plan at the request of the Proponent pursuant to the cram-down provisions of section 1129(b) if, as to such impaired class, the Plan "does not discriminate unfairly" and is "fair and equitable" with respect to that class. A plan does not discriminate unfairly if no class receives more than it is legally entitled to receive for its claims or equity interests. "Fair and equitable" has different meanings for secured claims, unsecured claims and interests.

With respect to a secured claim, "fair and equitable" means that either:

1. The impaired secured creditor retains its liens to the extent of its allowed secured claims and receives deferred cash payments at least equal to the allowed amount of its claim with a present value as of the effective date of the plan at least equal to the value of the creditor's interest in the property securing its liens,
2. Property subject to the lien of an impaired secured creditor is sold free and clear of the lien, with the lien attaching to the proceeds of the sale, or
3. The impaired secured creditor realizes the "indubitable equivalent" of its claims under the Plan.

With respect to an unsecured claim, "fair and equitable" means that either:

1. Each impaired unsecured creditor receives or retains property of a value equal to the amount of its Allowed Claim or
2. The holders of claims and interests that are junior to the claims of the dissenting class will not receive any property under the Plan in exchange for such claims or interest held prior to the filing.

The Bankruptcy Court must determine at the Confirmation Hearing whether the Plan is fair and equitable and does not discriminate unfairly against any impaired class of Claims.

G. Absolute Priority Rule

Section 1129(b)(2)(B)(ii) controls the payment of senior and junior classes of claims or interests in the event that all of the applicable requirements of Section 1129(a), other than paragraph (8), are met with respect to a plan. Under the Debtor's Plan, no junior classes of claims or interests are to receive more than senior classes of claims. Moreover, since creditors are entitled to be paid in full before junior classes of claims or interests receive any payments, the Debtor's Plan provides that no holder of any claim or equity interest that is junior to the claims of such senior claimants shall receive any payment on account of such junior claim or interest.

H. New Value Exception

In the event that any impaired class (that is not an "insider", as defined in 11 U.S.C. § 101(31)) rejects the Plan, the equity interest holders (or other interests junior to unsecured creditors) may retain their interest in the reorganized Debtor in return for capital contributions infused into the reorganized Debtor so long as the contribution is: (1) new; (2) substantial; (3) reasonably equivalent to the value received by the equity interest holder; (4) necessary to the effective reorganization of the Debtor; and (5) in the form of money or money's worth. *Bank of Am. Nat. Trust & Sav. Ass'n v. 203 N. LaSalle St. P'ship*, 526 U.S. 434, 445 (1999). The assessment of the required capital contribution amounts for the equity interest holders (or other interests junior to unsecured creditors) is to be made in the event that any impaired class (that is not an "insider") rejects the Plan.

I. Risk Factors

Certain substantial risk factors are inherent in most Chapter 11 cases. There are risks, which all creditors should be aware of with respect to this Plan.

First, there is a risk that the market in which the Debtor operates will decline, thereby increasing Debtor's inability to pay its creditors pursuant to the confirmed Plan of Reorganization. While the Debtor does not believe that its market will decline, this possibility must be recognized.

All creditors should be aware that the inability to confirm this Plan might be detrimental to all creditors of the Debtor's estate. If this Plan is not confirmed, and the case is converted to Chapter 7, it is highly likely that the unsecured creditors will receive greatly decreased distributions from the Debtor's Estate. This is because the Debtor's management knows the industry it competes in and is able to sell its assets for a greater value than a Chapter 7 Trustee who would likely lack specialized

knowledge of the Debtor's industry. Similarly, the Debtor will be able to recover a larger net amount of its outstanding receivables based upon its relationships with its customers versus a Chapter 7 Trustee who will only be able to collect these accounts based on coercion, most likely having to also expend funds of the Estate on professionals, including, but not limited to, attorneys. The assets would be significantly diminished and there would be additional Trustee's fees (unknown amount), plus Trustee's professionals' fees (unknown amount).

J. Objections to Confirmation

The Court will schedule a hearing to consider objections by parties in interest to confirmation of the Plan. The hearing may be adjourned from time to time by the Court without further notice except for an announcement made at the hearing. While the Plan Proponent expects that any hearing to consider objections to the confirmation of the Plan will be held in conjunction with the Confirmation Hearing, there can be no assurance that such will be the case.

Objections to confirmation of the Plan are governed by Bankruptcy Rule 9014. **Unless an objection to confirmation is timely made, it may not be considered by the Court.**

K. Alternative Plans of Reorganization

If the Plan is not confirmed, the Debtor or some other party in interest in the Bankruptcy case could attempt to formulate and propose a different plan or plans. After a thorough review and analysis of the course of action set forth in the proposed Plan, the Debtor has concluded that the Plan as proposed provides the Holders of impaired claims and equity interests with the optimal opportunity for the maximum recovery such that the interests of each will thereby be best served.

XI.

Effect of Confirmation

A. Binding Effect

The Plan shall be binding on all present and former holders of Claims and Interests in their respective successors and assigns.

B. Moratorium, Injunction, and Limitation of Recourse for Payment

1. In General

Except as otherwise expressly provided in the Plan, all entities who have held, hold or may hold Claims against, or Interest in, the Debtor's Bankruptcy Estate or the Debtor will be permanently enjoined, on and after the Consummation Date, from (i) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Claim, (ii), the enforcement, attachment, collection or recovery by any manner or means of any judgment, award, decree or order against the Debtor or the Debtor's Bankruptcy Estate, (iii) creating, perfecting or enforcing any

encumbrance of any kind against the Debtor or the Debtor's Bankruptcy Estate on account of any such Claim and (iv) asserting any right of setoff, subrogation or recoupment of any kind against any obligation due from the Debtor or the Debtor's Bankruptcy Estate on account of any such Claim; provided, however, notwithstanding any provision of the Plan to the contrary, each holder of a Claim shall be entitled to enforce his, her or its rights under the Plan and Plan Documents.

2. Injunctions related to Debtor's shareholders

The shareholders comprising the interest holders in Class 7 are prohibited from making any changes to the management of the Debtor until all provisions of the Confirmed Plan have been satisfied.

If a distribution is made to a shareholder for the purpose of paying the Debtor's federal income taxes, the Debtor shall file a notice of such proposed distribution, including the amount of such proposed distribution and a copy of the applicable IRS Form K-1s with the Court and serve a copy on those creditors entitled to notice under Bankruptcy Rule 9013 and applicable Bankruptcy Local Rules. If no objection is made within 14 days, such distribution shall be allowed without further Order of the Court.

C. Vesting of Assets

All property of the Estate shall vest with the Reorganized Debtor upon Confirmation of the Plan.

D. Retention and Enforcement of Causes of Action.

As discussed more extensively in Section VII(C), all claims and causes of action of the Debtor shall be retained.

E. Exculpation and Limitation of Liability

Neither the Debtor's Bankruptcy Estate, nor the Debtor, nor any present or former employees, advisors, attorneys, or agents will have or incur any liability to any holder of a Claim or an Interest, or any other party in interest, or any of their respective agents, employees, representatives, financial advisors, attorneys, or affiliates, or any of their successors or assigns, for any act or omission in connection with, relating to, or arising out of, the solicitation of votes to accept the Plan, the Debtor's Bankruptcy Case, the pursuit of confirmation of the Plan, the consummation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except for their willful misconduct or as provided by the Plan or the Plan Documents, and in all respects shall be entitled to reasonably rely upon the advice of counsel with respect to their duties and responsibilities under the Plan.

No holder of a Claim or Interest, no other party in interest, none of their respective agents, employees, representatives, financial advisors, attorneys, or affiliates, and no successors or assigns of the foregoing, will have any right of action against the Debtor's Bankruptcy Estate or the Debtor, or any of their respective present or former directors, officers, employees, advisors, attorneys, or agents, for any act or omission in connection with, relating to, or arising out of the solicitation of

votes to accept the Plan, or the pursuit of confirmation of the Plan, or the administration of the Plan or the property to be distributed under the Plan, except as provided by the Plan or by law.

F. Discharge

Pursuant to 11 U.S.C. § 1141(d), the entry of a Confirmation Order shall operate as a discharge of all pre-petition debts. The Debtor's only obligation towards the repayment of such pre-petition debts shall be governed solely by the Confirmation Order and the Plan. The provisions of the Confirmed Plan shall be binding on the Debtor and all creditors, equity security holders, whether or not such creditor or equity security holder is impaired under the plan or has accepted the plan.

XII.

Federal Income Tax Consequences of the Plan

The purpose of this provision to provide a discussion of the potential material Federal income tax consequences of the plan to Debtor and a hypothetical of the holders of claims or interests in the case that would enable such a hypothetical investor to make an informed judgment about the Plan, as contemplated in 11 U.S.C. § 1125(a)(1). The Federal income tax consequences discussed herein are those arising under the Internal Revenue Code of 1986, as amended (the "Tax Code") and the income tax regulations promulgated thereunder (the "Regulations"), and case law, revenue rulings, revenue procedure and other authority interpreting the relevant sections of the Tax Code and the Regulations.

This summary does not address foreign, state or local tax law, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as taxpayers who are not United States domestic corporations or citizens or residents of the United States, S corporations, banks, mutual funds, insurance companies, financial institutions, regulated investment companies, broker-dealers, non-profit entities or foundations, small business investment companies, persons that hold Claims or Equity Interests as part of a straddle or conversion transaction and tax-exempt organizations).

No administrative rulings will be sought from the Internal Revenue Service ("IRS") with respect to any of the federal income tax aspects of the Plan. Consequently, there can be no assurance that the treatment described in this Disclosure Statement will be accepted by the IRS. No opinion of counsel has either been sought or obtained with respect to the federal income tax aspects of the Plan.

The information set forth in this Disclosure Statement is included for general information only. All creditors and equity holders should consult their own tax advisors regarding the federal income tax consequences contemplated under or in connection with the Plan, as well as state and local tax consequences and federal estate and gift taxes.

A. Federal Income Tax Consequences to Debtor

The Plan contemplates that all known creditors of Debtor will be paid at least in part, if not in full. Therefore, the federal income tax issues associated with the cancellation of debt are subject to the provisions of the 1980 Bankruptcy Tax Act as set forth in Section 108 of the Internal Revenue Code.

Debtor files Form 1120S (U.S. Income Tax Return for an S Corporation) for Federal income tax purposes. This means each Shareholder of the Debtor receives a Schedule K-1. Debtor files returns of income, but is not liable for federal income tax. Instead, the Shareholders report all items of income, gain, loss, deduction and credit on their individual returns and that Debtor has no federal income tax.

Debtor does not have any tax liability for taxable income. Net income or loss is passed through to the Debtor's Members on a Schedule K.

B. Federal Income Tax Consequences to Creditors

1. General

As to all debts being paid in full and in cash and since none of the Creditors, in its or their capacity as a Creditor are receiving any security in Debtor, a Creditor who receives cash in full satisfaction of a Claim will classify the payment in the same way it would have classified that payment had it been made by Debtor if it were not in bankruptcy. Therefore, each Creditor should consult its own tax advisor.

2. Backup Withholding

Under current tax law, interest, dividends and other "reportable payments" may, under certain circumstances, be subject to "backup withholding" taxes. Withholding generally applies if the holder: (i) fails to furnish his social security number or other taxpayer identification number (hereinafter "TIN"), (ii) furnishes an incorrect TIN, (iii) fails properly to report interest or dividends, or (iv) under certain circumstances, fails to provide a certified statement, signed under penalty of perjury, that the TIN provided is his correct number and that he is not subject to backup withholding.

XIII.

Retention of Jurisdiction

Under 11 U.S.C. §§ 105(a) and 1142, and notwithstanding entry of the Confirmation Order and passage of the Consummation Date, the Court shall retain exclusive jurisdiction over all matters arising out of, and related to, the Chapter 11 Case and the Plan to the fullest extent permitted by law, including, among other things, jurisdiction to:

- a. Allow, disallow, determine, liquidate, classify, estimate or establish the priority or secured or unsecured status of any Claim or Interest, including the resolution of any request for payment of any Administrative Claim or Priority Claim or the resolution of any objections to the allowance or priority of Claims or Interest;
- b. Hear and determine all applications for compensation and reimbursement of expenses of Administrative Claims or Priority Claims;
- c. Hear and determine all matters with respect to the assumption or rejection of any executory contract or unexpired lease to which the Debtor is a party or with respect to which the Debtor may be liable, including, if necessary, the liquidation or allowance of any Claims arising therefrom;
- d. Effectuate performance of and payments under the provisions of the Plan;
- e. Enter such orders as may be necessary or appropriate to execute, implement, or consummate the provisions of the Plan, and all contracts, instruments, releases, and other agreements or documents created in connection with the Plan, the Disclosure Statement or the Confirmation Order;
- f. Hear and determine disputes arising in connection with the interpretation, implementation, consummation, or enforcement of the Plan, including disputes arising under agreements, documents or instruments executed in connection with the Plan;
- g. Consider any modifications of the Plan, cure any defect or omission, or reconcile any inconsistency in any order of the Bankruptcy Court, including, without limitation, the Confirmation Order;
- h. Issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any entity with implementation, consummation, or enforcement of the Plan or the Confirmation Order;
- i. Enter and implement such orders as may be necessary or appropriate if the Confirmation Order is for any reason reversed, stayed, revoked, modified, or vacated;
- j. Hear and determine any matters arising in connection with or relating to the Plan, the Disclosure Statement, the Confirmation Order or any contract, instrument, release, or other agreement or document created in connection with the Plan, the Disclosure Statement or the Confirmation Order;
- k. Enforce all orders, judgments, injunctions, releases, exculpations, indemnifications and rulings entered in connection with the Debtor's Bankruptcy Case;

- l. Hear and determine matters concerning state, local, and federal taxes in accordance with 11 U.S.C. §§ 346, 505, and 1146;
- m. Hear and determine all matters related to the property of the Debtor's Bankruptcy Estate from and after the Consummation Date;
- n. Hear and determine such other matters as may be provided in the Confirmation Order and as may be authorized under the provisions of the Bankruptcy Code; and
- o. Enter a final decree closing the Debtor's Bankruptcy Case.

XIV.

Miscellaneous Provisions

Payment of Statutory Fees. All fees payable under 28 U.S.C. § 1930 shall be paid on or as soon after the Consummation Date as is practicable by the Debtor.

Severability of Plan Provisions. If, prior to Confirmation, any term or provision of the Plan is held by the Court to be invalid, void or unenforceable, the Court, at the request of a party in interest, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration or interpretation, the remainder of the terms and provisions of the Plan shall remain in full force and effect and shall in no way be affected, impaired or invalidated by such holding, alteration or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may be altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

Successors and Assigns. The rights, benefits and obligations of any entity named or referred to in the Plan shall be binding on, and shall inure to the benefit of, any heir, executor, administrator, successor or assign of such entity,

Consummation of Plan. The Confirmation Order shall include (a) a finding by the Bankruptcy Court that Fed. R. Civ. P. 62(a) shall not apply to the Confirmation Order; and (b) the Bankruptcy Court's authorization for the Debtor to consummate the Plan immediately after entry of the Confirmation Order.

Governing Law. Unless a rule of law or procedure is supplied by federal law, including the Bankruptcy Code and Bankruptcy Rules, (i) the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan, and (ii) corporate governance matters shall be governed by the laws of the state of incorporation, without giving effect to the principles of conflicts of law thereof.

XV.

Disclaimers

Federal and State Securities Laws. This Disclosure Statement and Plan has been prepared in accordance with 11 U.S.C. § 1125 and not in accordance with federal or state securities laws or other applicable non-bankruptcy law. Entities holding or trading in or otherwise purchasing, selling or transferring Claims against, Interests in or securities of, the Debtor should evaluate this Disclosure Statement and Plan only in light of the purpose for which it was prepared.

This Disclosure Statement and Plan has not been approved or disapproved by the Securities and Exchange Commission, the Texas State Securities Board, or by any similar public, governmental or regulatory authority, and neither such Commission, Board, nor any such authority has passed upon the accuracy or adequacy of the statements contained herein.

No Regulatory Agency Approval. No governmental or other regulatory agency approvals have been obtained as of the date of the mailing of the Plan and Disclosure Statement and Plan. Please note, however, that such approvals are a condition to the Plan's Effective Date.

Forward Looking Statements. With the exception of historical information, some matters discussed herein, including the projections and valuation analysis described herein are "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. *See* 15 U.S.C. § 78u-5(i)(1). Such forward looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed or implied by such forward looking statements.

The Debtor has No Duty to Update. The statements contained in this Disclosure Statement and Plan are made by the Debtor as of the date hereof, unless otherwise specified herein, and the delivery of this Disclosure Statement and Plan after that date does not imply that there has been no change in the information set forth herein since that date. The Debtor has no duty to update this Disclosure Statement and Plan unless otherwise ordered to do so by the Bankruptcy Court.

Source of Information. Counsel for Debtor has relied upon information provided by the Debtor in connection with the preparation of this Disclosure Statement and Plan. Although counsel for the Debtor has performed certain limited due diligence in connection with preparing this Disclosure Statement and Plan, he has not verified independently the information contained herein.

No party is authorized by the Debtor to give any information or make any representations with respect to the Disclosure Statement and Plan other than that which is contained herein. No representation or information concerning the Debtor, its business or the value of its properties has been authorized by the Debtor, other than as set forth herein. Any information or representation given to obtain your acceptance or rejection of the Plan that is different from or inconsistent with the information or representations contained herein should not be relied upon by any holders of Claims or Interests in voting on the Plan proposed by the Debtor.

No Legal or Tax Advice Provided. The contents of this Disclosure Statement and Plan should not be construed as legal, business or tax advice. Each creditor or holder of an Interest should consult his, her, or its own legal counsel and accountant as to legal, tax and other matters concerning his, her, or its Claim or Interest. This Disclosure Statement and Plan is not legal advice to you. This Disclosure Statement and Plan may not be relied upon for any purpose other than to determine how to vote on the Plan or object to confirmation of the Plan.

No Admission Made. Nothing contained herein shall constitute an admission of any fact or liability by any party (including, without limitation, the Debtor) or be deemed evidence of the tax or other legal effects of the Plan on the Debtor or on holders of Claims or Interests.

With respect to contested matters, adversary proceedings, and other pending or threatened actions—whether or not pending—this Disclosure Statement and Plan and the information contained herein shall not be construed as an admission or stipulation by any Entity, but rather as statements made in settlement negotiations governed by Rule 408 of the Federal Rules of Evidence and any other rule or statute of similar import.

XVI.

Conclusion & Recommendation

The Debtor believes that Confirmation of the Plan is desirable and in the best interests of all holders of Claims and Interests. The Debtor therefore urges you to vote to accept the Plan and to evidence such acceptance by returning the Ballot(s) so they will be *received* by the Balloting Deadline.

DATED: September 18, 2017

/s/ Dario Ciriaco

Dario Ciriaco
Director, Valderrama A/C Refrigeration,
Inc.

/s/ William P. Haddock

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Index of Exhibits

Description	Exhibit
Valderrama A/C Refrigeration, Inc.'s Plan of Reorganization	A
Summary of General Unsecured Claims & Plan Proponent's Position on Allowance	B
Liquidation Analysis	C
Worst-Case Financial Projections.....	D
Chapter 13 Plan Summary and Statistical Cover Sheet for Proposed Plan, dated Jul. 31, 2017 for <i>In re Jose Manuel Soto and Sonia A Feliz</i> , No. 17-33786, in the United States Bankruptcy Court, Southern District of Texas, Houston Division.....	E