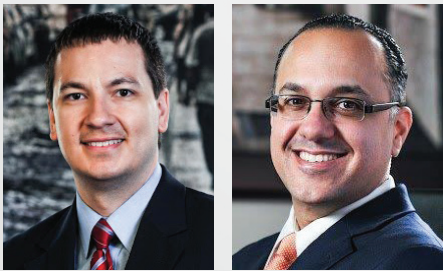


# Turnaround and Restructuring

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Paul Hammer, Director of Restructuring and Bankruptcy Practice, and Pedro Barcelo, Director of Corporate Practice, are Members at Estrella, LLC, one of Puerto Rico's premier law firms and the largest in the Island's historic Old San Juan district. Here they talk to *Finance Monthly* about Puerto Rico's current economic climate and the distinctive things about operating a business in Puerto Rico

**When it comes to bankruptcy and restructuring, Estrella, LLC offers a very broad range of services. Please elaborate further.**

We undertake insolvency and restructuring work in Chapter 7 liquidations and Chapter 11 restructurings on behalf of all affected constituents in Puerto Rico and the U.S. Virgin Islands. This includes corporate debtors, secured creditors, financial institutions and third party investors seeking to purchase distressed assets at great discounts. How does this help our clients? No matter what side of the table they are on, we understand the needs, motivations, strategies and techniques used by all other parties. Also, solutions to financial crises are growing increasingly complex, particularly in Puerto Rico due to the ongoing historic economic collapse and looming Chapter 9 bankruptcy filing, and often require skilled negotiation and close cooperation among the various parties to result in the best financial return for all. Our experience in representing all sides in insolvencies and restructurings means that such negotiations can go faster and more smoothly. And, should a matter require litigation, our group includes a team of seasoned trial lawyers with a wealth of experience in bankruptcy and other complex commercial litigation.

**Please shed light on Puerto Rico's current economic crisis, and how this will effect businesses and companies, both on the Island and abroad?**

Puerto Rico has over 72 billion (USD) of debt, the majority of which has been incurred by its energy,

utilities, water and highway public bodies. Island government has defaulted recently on payments to bondholders, thus intensifying the spotlight on the fiscal crisis and the need for restructuring relief via Chapter 9 of the Bankruptcy Code. Local businesses have been affected as the Island's Treasury Department has increased efforts to collect unpaid taxes and threatened shut-down to those deemed to be in non-compliance. The shortage of cash flow to fund government operations has also led to a snow ball effect in the form of numerous defaults with parties doing business with the Island and that depend on these government contracts to ensure the survival of their respective businesses, such as contractors, suppliers, vendors and lenders, many of which are faced with having to file for bankruptcy protection of their own under Chapters 7 or 11.

**What are some of the unique features that come with operating a business in Puerto Rico?**

Being a foreign jurisdiction for US tax purposes, certainly the most unique features are the available tax incentives laws enacted to boost Puerto Rico's economic development, specifically Act 73 2008 (industrial incentives) and Act 20-2012 (exportation of services incentives). If eligible under these, businesses can enjoy 100% of tax exemption on distributions from income generated, a 4% flat income tax rate, as well as 90% tax exemption for personal property and real estate taxes among various tax credits. There are also industry specific tax incentive statutes, like Act 83-2010 (renewable energy incentives), Act 273-2012 (international

financial institutions) and Act 185-2014 (private equity fund incentives), just to name a few. Moreover, these incentives grants may further be combined individual tax incentives, namely Act 22-2012 to promote the relocation of individual investors, which offers non-resident 100% tax exemption on all interest, dividends and long-term capital gains, provided a 183-days presence in Puerto Rico is established.

**What corporate services does Estrella, LLC offer in view of Puerto Rico's ongoing economic crisis?**

Aside from services related to the application and execution of eligible tax incentive grants, our firm offers comprehensive middle market M&A (buy and sell-side) advisory and legal services, as well as services for structuring cross-border commercial and joint venture agreements. The economic crisis has also spurred the market for private equity, venture capital and angel investment in alignment with the entrepreneurship surge in the Island. Our Firm offers effective, integrated services and strategies for both entrepreneurs and investors.

