

Court File No. CV-11-9514-00CL

HARTFORD COMPUTER HARDWARE INC.

**FIRST REPORT TO THE COURT SUBMITTED BY
FTI CONSULTING CANADA INC., IN ITS CAPACITY AS
INFORMATION OFFICER**

January 30, 2012



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**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF CERTAIN PROCEEDINGS TAKEN IN THE
UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN
DISTRICT OF ILLINOIS EASTERN DIVISION WITH RESPECT TO THE
COMPANY LISTED ON SCHEDULE "A" HERETO ("HARTFORD" OR THE
"CHAPTER 11 DEBTORS")**

APPLICATION OF HARTFORD COMPUTER HARDWARE, INC.

**UNDER SECTION 46 OF THE
COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, c. C-36, AS AMENDED**

**FIRST REPORT TO THE COURT
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INTRODUCTION

1. On December 12, 2011, the Chapter 11 Debtors filed voluntary petitions under Chapter 11 of Title 11 of the United States Code (the "**Chapter 11 Proceedings**") in the United States Bankruptcy Court for the Northern District of Illinois Eastern Division (the "**US Bankruptcy Court**").

2. On December 13, 2011 Hartford Computer Hardware, Inc. (“**HCH**”) pending formal appointment by the US Bankruptcy Court as a foreign representative of the Chapter 11 Debtors (the “**Foreign Representative**”), commenced proceedings (the “**Recognition Proceedings**”) before this Honourable Court. As part of the Recognition Proceedings, the Foreign Representative sought and obtained an Order (the “**Interim Initial Order**”) granting certain limited interim relief including an interim stay of proceedings until a request for an Initial Recognition Order and a Supplemental Order (each as defined herein) could be heard.
3. On December 15, 2011, the US Bankruptcy Court made an order authorizing HCH to act as the Foreign Representative of the Chapter 11 Debtors.
4. On December 21, 2011, the Foreign Representative’s motion for the recognition of the Initial Recognition Order (the “**Initial Recognition Order**”) and the Supplemental Order (the “**Supplemental Order**”) under Part IV of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the “**CCAA**”) under Part IV of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the “**CCAA**”) was heard and The Initial Recognition Order and the Supplemental Order were granted by this Honourable Court.
5. In accordance with the terms of the Supplemental Order, FTI Consulting Canada Inc. (“**FTI Consulting**” or the “**Information Officer**”) was appointed as Information Officer. In its capacity as Information Officer, FTI Consulting is maintaining a website where documents relating to the Recognition Proceedings are being made available <http://cfcanada.fticonsulting.com/hartford>.
6. The purpose of this, the First Report of the Information Officer, is to inform the Court on the Foreign Representative’s request for recognition in respect of the following orders:
 - (a) The Final Post Petition Financing Order, (the “**Final DIP Facility Order**”);
 - (b) The Utilities Order, as defined herein; and

- (c) The Bidding Procedures Order, as defined herein.
7. In preparing this report, FTI Consulting has relied solely on information and documents provided by the Foreign Representative, the Chapter 11 Debtors and their counsel. FTI Consulting has not audited, reviewed or otherwise attempted to independently verify the accuracy of completeness of this information. Accordingly, FTI Consulting expresses no opinion or other form of assurance on the information contained herein.
 8. Unless otherwise stated, all monetary amounts contained herein are expressed in United States dollars.

THE FINAL DIP FACILITY ORDER

9. On January 26, 2012, the U.S. Bankruptcy Court granted the Final DIP Facility Order. The Final DIP Facility Order granted is substantially similar to the form of the Final DIP Facility Order attached as Exhibit “B” to the Interim DIP Facility Order recognized by the Court on December 21, 2012. Paragraph 6 of the Final DIP Facility Order contains a partial “rollup” provision wherein all Cash Collateral (as defined the Final DIP Facility Order) in the possession or control of the Chapter 11 Debtors on December 12, 2011 (the “**Petition Date**”) or coming into their possession or control after the Petition Date is deemed to be have been remitted to the Prepetition Secured Lender (as defined in the Final DIP Facility Order) for application to and repayment of the Prepetition Revolving Debt (as defined in the Final DIP Facility Order) with a corresponding borrowing under the DIP Facility.

10. In making the Final DIP Facility Order, the U.S. Bankruptcy Court found that good cause had been shown for entry of the Final DIP Facility Order, as the Chapter 11 Debtors' ability to continue to use Cash Collateral was necessary to (i) avoid immediate and irreparable harm to the Chapter 11 Debtors and their estates, (ii) was in the best interests of the Chapter 11 Debtors, their estates and creditors, (iii) was fair and reasonable in the circumstances, (iv) reflected the Chapter 11 Debtors' exercise of prudent business judgment consistent with their fiduciary duties, and (v) was supported by reasonably equivalent value and fair consideration.
11. The Final DIP Facility Order was supported to by the Unsecured Creditors Committee. Objections were filed by certain shareholders but the Final DIP Facility Order was granted after hearing these objections. The Canadian unsecured creditors will be treated no less favourably than U.S. unsecured creditors. In fact since a number of the Canadian unsecured creditors are employees of the Chapter 11 Debtors these creditors benefit from certain priority claims which they would not be entitled to under Canadian insolvency proceedings.
12. In proceedings under the CCAA, a partial "rollup" provision such as is contained in the Final DIP Facility Order would not be permissible as a result of section 11.2 of the CCAA which expressly provides that a DIP charge may not secure an obligation that exists before the initial order is made. However, section 49 of the CCAA provides that in recognizing an order of a foreign court, the Court may make any order that it considers appropriate, provided the court is satisfied that it is necessary for the protection of the debtor company's property or the interests of a creditor or creditors. The recognition order sought herein does not conflict with any order made under the CCAA in this case.

13. As appears from the affidavit of Brian Mittman sworn January 27, 2012 in support of the Chapter 11 Debtors' motion for recognition of various orders, by the date of the Final DIP Facility Order, the advances under the DIP exceeding the amount of Cash Collateral deemed to be "rolled up", and so notwithstanding that the concept of a "roll-up" appears in the Final Dip Facility Order, there appears to have been little if any practical effect in the facts of this case.
14. The Information Officer is of the view that in the circumstances there will be no material prejudice to Canadian creditors if this Court recognizes the Final DIP Facility Order, and that nothing is being done that is contrary to the applicable provisions of the CCAA. As such, the Information Officer believes that recognition of the Final DIP Facility Order is appropriate in the circumstances.

THE UTILITIES ORDER

15. On January 26, 2012 the Chapter 11 Debtors were granted an Order (the "**Utilities Order**") which is an order:
 - (a) prohibiting utility providers from altering, refusing or discontinuing service to, or discriminating against the Chapter 11 Debtors;
 - (b) determining that the utilities are adequately assured of future payments;
 - (c) establishing procedures for determining requests for additional assurance; and
 - (d) permitting utility companies to opt out of these procedures.
16. The Utilities Order is designed to provide protection to the Chapter 11 Debtors with respect to continued services and at the same time provide adequate assurance to the utilities companies that they will receive payments for services provided.

17. An Interim Utilities Order was recognized pursuant to the Supplemental Order. The Information Officer is of the view that the recognition of this order would be fair and appropriate in the circumstances.

THE BIDDING PROCEDURES ORDER

18. As described in the Proposed Information Officer's pre-filing report, the Chapter 11 Debtors have entered into an asset purchase agreement (the "**Stalking Horse Agreement**") with Avnet Inc. and Avnet International (Canada) Ltd. (together "**Avnet**" or the "**Purchaser**") for the sale of substantially all of the Chapter 11 Debtors' assets and the assumption of certain liabilities (the "**Acquired Assets**") by Avnet. The Chapter 11 Debtors intend that the Stalking Horse Agreement will be used as the basis for concluding the sales process (the "**Sales Process**") subject to achieving the highest and best offer for the assets of the Chapter 11 Debtors.
19. The Stalking Horse Agreement was executed on December 12, 2012 for the purchase of the Acquired Assets for:
 - (a) an aggregate price of \$35 million; plus
 - (b) a working capital adjustment and potential earnout; and
 - (c) the assumption of certain liabilities, including certain cure costs and post-petition administrative expenses.
20. On January 26, 2012, the Chapter 11 Debtors obtained an order from the US Bankruptcy Court approving the bidding procedures, outlining the key bid protections and bid procedures and setting the sale hearing date (the "**Bidding Procedures Order**"). The Bidding Procedures Order includes the following timeline for the sale of the Acquired Assets:¹
 - (a) January 26, 2012 – Bidding Procedures Order Hearing

- (b) February 20, 2012, 5:00pm Chicago Time – Submission Deadline for Qualified Bids, as described in greater detail below;
 - (c) February 23, 2012 – Proposed Auction Date; and
 - (d) February 28, 2012 – Proposed Sale Hearing
21. To be a (“**Qualified Bid**”) a bid must meet the following requirements:
- (a) The bid must provide for consideration greater than the purchase price plus the break up fee of \$1,242,500.00 plus a minimum overbid increment of \$100,000.00;
 - (b) The bid must be accompanied by a refundable deposit of no less than 10% of the proposed purchase price, as well as indicia of the ability of the purchaser to immediately close the transaction;
 - (c) The bid must be on terms more favourable and not more burdensome or conditional in any material respect than that contemplated by the Stalking Horse Agreement; and
 - (d) The bid must include an instrument of irrevocable commitment to the terms of the bid.
22. If the Chapter 11 Debtors receive one or more bids which are Qualified Bids, an auction will be held on February 23, 2012, (the “**Proposed Auction Date**”) in accordance with the terms of the Bidding Procedures Order. If the Chapter 11 Debtors do not receive any Qualifying Bids, the Chapter 11 Debtors will not conduct the auction and may recommend the approval of the Purchaser’s bid at the Sale Hearing.

¹ The Chapter 11 Debtors, in the exercise of their business judgment, reserve their right to change these sale-related dates in order to achieve the maximum value for the Acquired Assets, while cognizant of the deadlines set forth in the Agreement.

23. The Foreign Representative has filed a motion for recognition of the Bidding Procedures Order. The Bidding Procedures are designed with a view to identifying the highest and best bid for the assets of the Chapter 11 Debtors for the benefit of their stakeholders. The Information Officer recommends that the Honourable Court grant the order requested by the Foreign Representative to recognize the Bidding Procedures Order.

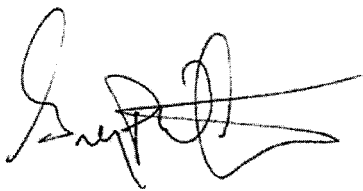
SUMMARY

24. In considering the information that has been made available to the Information Officer, the Information Officer is of the view that it is fair and appropriate for this Honourable Court to grant an order recognizing the three Orders described herein issued in the Chapter 11 Proceeding.

The Information Officer respectfully submits to the Court this First Report.

Dated this 30th day of January, 2012.

FTI Consulting Canada Inc.
The Information Officer of
Hartford Computer Hardware, Inc.



Greg Watson
Senior Managing Director



Toni Vanderlaan
Managing Director

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C 36, AS AMENDED
APPLICATION OF HARTFORD COMPUTER HARDWARE, INC. UNDER SECTION 46 OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
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AND IN THE MATTER OF CERTAIN PROCEEDINGS TAKEN IN THE UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN DISTRICT
OF ILLINOIS EASTERN DIVISION WITH RESPECT TO HARTFORD COMPUTER HARDWARE, INC., NEXICORE SERVICES, LLC, HARTFORD
COMPUTER GROUP, INC. AND HARTFORD COMPUTER GOVERNMENT, INC. (COLLECTIVELY, THE "CHAPTER 11 DEBTORS")

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ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

1st Report of the Information Officer
(January 30, 2012)

Norton Rose Canada LLP
Royal Bank Plaza, South Tower
Suite 3800, 200 Bay Street
Toronto, Ontario M5J 2Z4

Mario J. Forte (LSUC #27293F)
Tel: 416-216-4870
Fax: 416-216-3930
Email: mario.forte@nortonrose.com

Adrienne Glen (LSUC# 57116D)
Tel: 416-216-4082
Fax: 416-216-3930
Email: adrienne.glen@nortonrose.com

Lawyers for the Information Officer, FTI Consulting Canada
Inc.