

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

In re:) Chapter 11
)
HARTFORD COMPUTER HARDWARE,) Case No. 11-49744 (PSH)
INC., *et al.*,¹) (Jointly Administered)
)
Debtors.) Hon. Pamela S. Hollis

EXHIBITS IN SUPPORT OF DEBTORS’ MOTION FOR ORDER (I) APPROVING THE ADEQUACY OF THE DISCLOSURE STATEMENT, (II) ESTABLISHING PROCEDURES FOR SOLICITATION AND TABULATION OF VOTES TO ACCEPT OR REJECT THE PLAN, (III) FIXING THE BAR DATE FOR PROFESSIONAL FEE CLAIMS, (IV) FIXING THE DATE, TIME AND PLACE FOR CONFIRMATION HEARING, AND (V) ESTABLISHING PROCEDURES FOR REJECTION CLAIMS

The above-captioned debtors and debtors in possession hereby file the attached documents in support of their Motion for Order (I) Approving the Adequacy of the Disclosure Statement, (II) Establishing Procedures for Solicitation and Tabulation of Votes to Accept or Reject the Plan, (III) Fixing the Bar Date for Professional Fee Claims, (IV) Fixing the Date, Time and Place for Confirmation Hearing, and (V) Establishing Procedures for Rejection Claims:

1. Revised Proposed Order; and
2. Blackline version of Amended Disclosure Statement – reflecting changes made to

Disclosure Statement filed as Doc. No. 398.

¹ The Debtors are Hartford Computer Hardware, Inc. (FEIN 27-4297525), Old NS, LLC f/k/a Nexicore Services, LLC (FEIN 03-0489686), Hartford Computer Group, Inc. (FEIN 36-2973523), and Hartford Computer Government, Inc (FEIN 20-0845960).



Dated: August 6, 2012

Respectfully submitted,

By: /s/ Peter A. Siddiqui
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HARTFORD COMPUTER HARDWARE,) Case No. 11-49744 (PSH)
INC., *et al.*,¹) (Jointly Administered)
)
Debtors.) Hon. Pamela S. Hollis

**AMENDED DISCLOSURE STATEMENT FOR THE JOINT PLAN OF
LIQUIDATION OF THE DEBTORS AND THE CREDITORS' COMMITTEE**

Dated: ~~July 23,~~August 6, 2012

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Possession*

¹ The Debtors are Hartford Computer Hardware, Inc. (FEIN 27-4297525), Old NS, LLC f/k/a Nexicore Services, LLC (FEIN 03-0489686), Hartford Computer Group, Inc. (FEIN 36-2973523), and Hartford Computer Government, Inc (FEIN 20-0845960).

EXHIBITS

EXHIBIT A: Proposed Joint Plan

EXHIBIT B: Liquidation Analysis

THE DEBTORS HEREBY ADOPT AND INCORPORATE EACH EXHIBIT ATTACHED TO THIS DISCLOSURE STATEMENT BY REFERENCE AS THOUGH FULLY SET FORTH HEREIN.

PLEASE REVIEW THIS DOCUMENT FOR IMPORTANT INFORMATION REGARDING:

- * Description of the Debtors
- * Classification and Treatment of Claims and Interests
- * Distribution to Holders of Allowed General Unsecured Claims
- * Implementation and Execution of the Plan
- * Treatment of Contracts and Leases and Procedures to Assert and Resolve Rejection Claims

AND IMPORTANT DATES:

- * Date to Determine Record Holders of Claims and Interests – ~~July 24,~~August 7, 2012~~}~~
- * Deadline to Submit Ballots – ~~August 24,~~September 12, 2012~~}~~ at 5:00 p.m. (Pacific Time)
- * Deadline to Object to Plan Confirmation – ~~August 28,~~September 12, 2012~~}~~ at 5:00 p.m. (Central Time)
- * Hearing on Plan Confirmation– ~~September 11,~~20, 2012 at 11:00 a.m.~~}~~ (Central Time)

A COPY OF THIS DISCLOSURE STATEMENT AND THE DEBTORS' JOINT PLAN OF LIQUIDATION CAN BE FOUND AT <http://www.kccllc.net/Hartford>

1. **INTRODUCTION.**

1.1. **Purpose of the Disclosure Statement.**

Notice of this disclosure statement (as amended, modified or supplemented, the “**Disclosure Statement**”) is being provided by Hartford Computer Hardware, Inc., Hartford Computer Group, Inc., Hartford Computer Government, Inc., and Old NS, LLC f/k/a Nexicore Services, LLC (collectively, the “**Debtors**,” or, alternatively, the “**Proponents**”) to the Office of the United States Trustee, and to all of the Debtors’ known Creditors and stockholders pursuant to section 1125(b) of title 11 of the United States Code (the “**Bankruptcy Code**”) for the purpose of soliciting acceptances of the Debtors’ Joint Plan of Liquidation (the “**Plan**”). The Plan has been filed with the United States Bankruptcy Court for the Northern District of Illinois-Eastern Division (the “**Bankruptcy Court**”) and the summaries of the Plan contained herein shall not be relied upon for any purpose other than to make a judgment with respect to, and determine how to vote on, the Plan. A copy of the Plan is attached hereto as **Exhibit A**. All capitalized terms used within this Disclosure Statement which are not defined herein have the meanings set forth in the attached Plan. **The deadline to object to Plan Confirmation is ~~August 28,~~ September 12, 2012 at 5:00 p.m. (Central time).**

PLEASE NOTE THAT MUCH OF THE INFORMATION CONTAINED HEREIN HAS BEEN TAKEN, IN WHOLE OR IN PART, FROM INFORMATION CONTAINED IN THE DEBTORS’ BOOKS AND RECORDS AND PLEADINGS FILED BY THE DEBTORS. STATEMENTS MADE IN THE DISCLOSURE STATEMENT ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN. ALTHOUGH THE PROPONENTS HAVE ATTEMPTED TO BE ACCURATE IN ALL MATERIAL RESPECTS, THE PROPONENTS ARE UNABLE TO WARRANT OR REPRESENT THAT ALL OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS WITHOUT ERROR. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME AFTER THE DATE HEREOF.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED IN ACCORDANCE WITH SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(c) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND NOT IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER RULES GOVERNING DISCLOSURE OUTSIDE THE CONTEXT OF CHAPTER 11.

NO REPRESENTATION CONCERNING THE DEBTORS OR THE VALUE OF THE DEBTORS’ ASSETS HAS BEEN AUTHORIZED BY THE BANKRUPTCY COURT OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT OR ANY OTHER DISCLOSURE STATEMENT APPROVED BY THE BANKRUPTCY COURT. THE PROPONENTS ARE NOT RESPONSIBLE FOR ANY INFORMATION, REPRESENTATION OR INDUCEMENT MADE TO OBTAIN YOUR ACCEPTANCE, WHICH IS OTHER THAN, OR INCONSISTENT WITH, INFORMATION CONTAINED HEREIN AND IN THE PLAN.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, INCLUDING ALL POTENTIAL CHALLENGES (WITHIN THE MEANING OF THE FINAL DIP ORDER) TO THE CLAIMS OF DELAWARE STREET, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT OR LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS PURSUANT TO RULE 408 OF THE FEDERAL RULES OF EVIDENCE. THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING NOR SHALL IT BE CONSTRUED TO BE CONCLUSIVE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST OR EQUITY INTERESTS IN THE DEBTORS.

YOU ARE STRONGLY URGED TO CONSULT WITH YOUR FINANCIAL, LEGAL, AND TAX ADVISORS TO UNDERSTAND FULLY THE PLAN AND DISCLOSURE STATEMENT. THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS GIVEN AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFIED. THE DELIVERY OF THIS DISCLOSURE STATEMENT DOES NOT, UNDER ANY CIRCUMSTANCE, IMPLY THAT THERE HAS BEEN NO CHANGE IN THE FACTS SET FORTH HEREIN SINCE SUCH DATE. THIS DISCLOSURE STATEMENT IS INTENDED, AMONG OTHER THINGS, TO SUMMARIZE THE PLAN AND MUST BE READ IN CONJUNCTION WITH THE PLAN AND ITS EXHIBITS, IF ANY. IF ANY CONFLICTS EXIST BETWEEN THE PLAN AND DISCLOSURE STATEMENT, THE TERMS OF THE PLAN SHALL CONTROL.

IF A HOLDER OF A CLAIM WISHES TO CHALLENGE THE ALLOWANCE OR DISALLOWANCE OF A CLAIM FOR VOTING PURPOSES UNDER THE TABULATION RULES SET FORTH IN THE DISCLOSURE STATEMENT ORDER, SUCH ENTITY MUST FILE A MOTION, PURSUANT TO BANKRUPTCY RULE 3018(A), FOR AN ORDER TEMPORARILY ALLOWING SUCH CLAIM IN A DIFFERENT AMOUNT OR CLASSIFICATION FOR PURPOSES OF VOTING TO ACCEPT OR REJECT THE PLAN AND SERVE SUCH MOTION ON THE UNDERSIGNED COUNSEL TO THE DEBTORS SO THAT IT IS RECEIVED NO LATER THAN **5:00 P.M., PREVAILING CENTRAL TIME, ON ~~AUGUST 21, 2012~~ SEPTEMBER 5, 2012**. UNLESS THE COURT ORDERS OTHERWISE, SUCH CLAIM WILL NOT BE COUNTED FOR VOTING PURPOSES IN EXCESS OF THE AMOUNT DETERMINED IN ACCORDANCE WITH THE TABULATION RULES.

THE DEBTORS URGE ALL HOLDERS OF CLAIMS ENTITLED TO VOTE ON THE PLAN TO VOTE TO ACCEPT THE PLAN.

TREATMENT AND CLASSIFICATION OF CLAIMS AND INTERESTS; IMPAIRMENT

The categories of Claims and Interests listed below classify Claims and Interests for all purposes, including voting, Confirmation and Distribution pursuant hereto and pursuant to sections 1122 and 1123(a)(1) of the Bankruptcy Code.

Class & Description	Estimated Allowed Claims	Treatment	Estimated Recovery to Holders of Allowed Claims
Administrative Claims (excluding Professional Fee Claims)	Approximately \$100,000 – \$250,00	<i>Unimpaired.</i> Except to the extent that a Holder of an Allowed Administrative Claim agrees to a different treatment, each Holder of an Allowed Administrative Claim shall receive, in full satisfaction, settlement, and release of and in exchange for such Allowed Administrative Claim, Cash in an amount equal to such Allowed Administrative Claim, either (i) as soon as reasonably practicable after the Effective Date or (ii) if the Administrative Claim is not Allowed as of the Effective Date, thirty (30) days after the date on which such Administrative Claim becomes an Allowed Administrative Claim; <u>provided, however,</u> that Allowed Administrative Claims representing obligations incurred in the ordinary course of business of the Debtors may be paid by the Debtors in the ordinary course, consistent with past practice of the Debtors and in accordance with the terms and subject to the conditions of any agreements governing, instruments evidencing, or other documents relating to, such transactions, without further action by the Holders of such Administrative Claims or further approval by the Bankruptcy Court. If a Holder of a Claim under section 503(b)(9) is a defendant in an Avoidance Action with a count asserted under section 502(d) of the Bankruptcy Code, such Claim shall be deemed Disputed and shall become Allowed only after resolution of the Avoidance Action.	100%
Priority Tax Claims	Approximately \$100,000 – \$200,000	<i>Unimpaired.</i> Except to the extent that any governmental unit entitled to payment of any Allowed Priority Tax Claim has previously agreed or agrees to a different treatment by stipulation or otherwise, pursuant to section 1129(a)(9) of the Bankruptcy Code, each Holder of an Allowed Priority Tax Claim shall receive, in full satisfaction, settlement, and release of and in exchange for such Allowed Priority Tax Claim, Cash in an amount equal to such Allowed Priority Tax Claim, (i) as soon as reasonably practicable after the Effective Date or (ii) if the Priority Tax Claim is not Allowed as of the Effective Date, thirty (30) days after the date on which such Priority Tax Claim becomes an Allowed Priority Tax Claim.	100%
Priority Wage Claims	\$400,000 - \$800,000	<i>Unimpaired.</i> Except to the extent a Holder of an Allowed Priority Wage Claim has previously agreed or agrees to a different treatment by stipulation or otherwise, pursuant to section 1129(a)(9) of the Bankruptcy Code, each Holder of an Allowed Priority Wage Claim shall receive, in full satisfaction, settlement, and release of and in exchange for such Allowed Priority Wage Claim, Cash in an amount equal to such Allowed Priority Wage Claim, (i) as soon as reasonably practicable after the Effective Date or (ii) if the Priority Tax Claim is not Allowed as of the Effective Date, thirty (30) days after the date on which such Priority Wage Claim becomes an Allowed Priority Wage Claim.	100%

Class I: Secured Claims of Delaware Street Capital Master Fund, L.P.	\$61,497,313	<i>Impaired – Entitled to Vote.</i> The Holder of each Allowed Class I Secured Claim shall receive Cash distributed on the Effective Date in an amount equal to all proceeds of the Avnet Transaction, the right to the Earnout, except for the portion of the Earnout included in the Settlement Sum, all Excess Cash of the Debtors, and the DSC Assigned Causes of Action.	Approximately 30% - 62%
Class II: Subordinated Secured Claims	Approximately \$2,000,000	<i>Impaired – Deemed to Reject.</i> The Holder of each Allowed Class II Subordinated Secured Claims shall receive no Distributions through the Plan.	0%
Class III: General Unsecured Claims	Approximately \$2,500,000 - \$3,500,000	<i>Impaired – Entitled to Vote.</i> The Holders of Allowed General Unsecured Claims shall share, on a pro-rata basis, in the Hartford Trust Assets.	Approximately 25% - 40%
Class IV: Equity Interests		<i>Impaired – Deemed to Reject.</i> Shareholders of the Debtors will retain no ownership interests in the Debtors under the Plan and such Interests shall be cancelled effective as of the Effective Date.	0%

1.2. **Final Approval of the Disclosure Statement and Confirmation of the Plan.**

1.2.1. **Requirements.** The requirements for Confirmation of the Plan are set forth in section 1129 of the Bankruptcy Code. The requirements for the Disclosure Statement are set forth in section 1125 of the Bankruptcy Code.

1.2.2. **Approval of the Plan and Confirmation Hearing.** To confirm the Plan, the Bankruptcy Court must hold the Confirmation Hearing to determine whether the Plan meets the requirements of section 1129 of the Bankruptcy Code.

1.2.3. **Effect of Confirmation.** Except as otherwise provided in the Plan or in the Confirmation Order, confirmation will effect the continued administration of the Debtors’ remaining assets in accordance with the Plan and the Liquidating Trust Agreement and the dissolution of the Debtors. Confirmation serves to make the Plan binding upon the Debtors, all Creditors, Interest Holders, and other parties-in-interest, regardless of whether they cast a Ballot to accept or reject the Plan.

1.2.4. **Impaired Claims or Interests.** Pursuant to section 1126 of the Bankruptcy Code, only the Holders of Claims in Classes “Impaired” by the Plan and receiving a payment or distribution under the Plan may vote on the Plan. Pursuant to section 1124 of the Bankruptcy Code, a Class of Claims may be “Impaired” if the Plan alters the legal, equitable or contractual rights of the Holders of such Claims or Interests treated in such Class. The Holders of Claims not Impaired by the Plan are deemed to accept the Plan and do not have the right to vote on the Plan. The Holders of Claims or Interests in any Class which will not receive any payment or distribution or retain any property pursuant to the Plan

(Class IV – Equity Interests and Class II – Subordinated Secured Claims) are deemed to reject the Plan and do not have the right to vote.

1.2.5. **Eligibility to Vote on the Plan.** Unless otherwise ordered by the Bankruptcy Court, only Record Holders of Allowed Class I Claims and Allowed Class III Claims may vote on the Plan.

1.2.6. **Voting Procedure and Ballot Deadline.** To ensure your vote is counted you must (i) complete the Ballot, (ii) indicate your decision either to accept or reject the Plan in the boxes provided in Item 3 of the Ballot, and (iii) sign and return the Ballot to the address set forth on the Ballot (please note that envelopes and prepaid postage have not been included with the Ballot). **BALLOTS SENT BY FACSIMILE TRANSMISSION ARE NOT ALLOWED AND WILL NOT BE COUNTED.**

1.3. **Acceptance of the Plan.** As a Creditor, your acceptance of the Plan is important. In order for the Plan to be accepted by an Impaired Class of Claims, a majority in number and two-thirds in dollar amount of the Claims voting (of each Impaired Class of Claims) must vote to accept the Plan. At least one impaired Class of Creditors, excluding the votes of insiders, must actually vote to accept the Plan. **YOU ARE URGED TO COMPLETE, DATE, SIGN AND PROMPTLY MAIL THE BALLOT ATTACHED TO THE NOTICE. PLEASE BE SURE TO COMPLETE THE BALLOT PROPERLY AND LEGIBLY IDENTIFY THE EXACT AMOUNT OF YOUR CLAIM AND THE NAME OF THE CREDITOR.**

2. **THE DEBTORS.**

2.1. **Description of Debtors, Debtors' History, and Debtors' Business.** The Debtors consist of: Hartford Computer Group, Inc., a Delaware corporation ("Hartford Group"), Hartford Computer Hardware, Inc., an Illinois corporation ("Hardware"), Hartford Computer Government, Inc., an Illinois corporation ("HCGovernment"), and Old NS, LLC f/k/a Nexicore Services, LLC, a Delaware limited liability company ("Nexicore"). Hartford Group is the parent company and owns 100% of the outstanding equity interests of Hardware and Nexicore. Hardware owns 100% of the outstanding equity interests of HCGovernment. The Debtors were one of the leading providers of repair and installation services in North America for consumer electronics and computers. The Debtors operated in three complementary business lines: parts distribution and repair, depot repair, and onsite repair and installation. Products serviced include laptop and desktop computers, commercial computer systems, flat-screen television, consumer gaming units, printers, interactive whiteboards, peripherals, servers, POS devices, and other electronic devices. The Debtors also engaged in hardware sales.

The Debtors operated out of five locations: Schaumburg, Illinois, Simi Valley, California, Tampa, Florida, Columbia, Maryland, and Markham, Ontario, Canada. As of June 2011, the Debtors employed approximately 486 employees, including approximately 250 employees in California and 113 employees in Canada. The Debtors' senior management had almost 70 years of experience with the Debtors and included Brian Mittman, their president and chief executive officer, Ron Brinckerhoff, as vice president of sales, Randy Hodgson as vice president of onsite operations, Rich Levin, as vice president of procurement, Jo Lamoreaux, as

chief financial officer, John Nelson, as general manager in Canada, and Greg McDonald, as vice president of depot operations.

2.2. **Events Leading to the Commencement of the Chapter 11 Cases.** For the five years prior to the Petition Date, the Debtors had implemented various turnaround initiatives that focused on creating an efficient operation capable of delivering high-quality service. With the operational turnaround largely complete, the Debtors were achieving significant momentum in each of their business lines. During that period, the companies' total revenues had grown from \$55.1 million in 2006 to \$95.1 million and earnings had increased at an even larger degree.

In addition to operational initiatives, the Debtors also engaged in out-of-court restructuring efforts. Effective as of May 9, 2005, the Debtors entered into that certain Master Restructuring Agreement (the "Restructuring Agreement") with Delaware Street, MRR Venture LLC ("MRR"), ARG Investments ("ARG"), SKM Equity Fund II, L.P. ("SKM I"), and SKM Investment Fund II ("SKM II" and together with MRR, ARG and SKM I, the "Subordinated Lenders"), HCG Financial Services, Inc. (the "Financial PO Lender"), and Enable Systems, Inc. Pursuant to the Restructuring Agreements, the Debtors amended and restructured their agreements with their various stakeholders. Specifically, after the execution and effectiveness of the Restructuring Agreement, the Debtors' long-term, secured debt was as follows: (a) pursuant to that certain Amended and Restated Loan and Security Agreement dated as of December 17, 2004, among the Debtors and Delaware Street and various promissory notes and other documents (collectively, as may have been amended, supplemented, and modified, the "Senior Credit Agreement"), the Debtors were indebted to Delaware Street, as of the Petition Date, in the aggregate amount of \$70,573,615; (b) pursuant to that certain Substituted and Amended Subordinated Promissory Note dated May 9, 2005, made by Hartford Group in favor of MRR Venture LLC (the "Prepetition Subordinated Lender"), Hartford Group was indebted to Prepetition Subordinated Lender in the approximate amount of \$1,166,388.89; (c) pursuant to that certain Subordinated Promissory Note dated as of May 9, 2005, made by Hartford Group in favor of the Financial PO Lender, Hartford Group was indebted to the Financial PO Lender in the initial principal balance of \$869,000.00; and (d) pursuant to that certain Revolving Credit Agreement by and between IBM Credit LLC ("IBM"), Hardware and HCGovernment, dated as of May 5, 2005 (the "IBM Credit Agreement"), Hardware and HCGovernment were indebted to IBM in the amount of \$1,030,545. On December 9, 2011, the IBM Credit Agreement was paid off in fully through the use of cash collateral which secured a letter of credit that secured that facility.

As a result of the Restructuring Agreement, the Subordinated Lenders became holders of certain classes of preferred and common equity interests in Hartford Group, which is the sole shareholder and member of Hardware and Nexicore, respectively. The remaining equity interest holders of Hartford Group include Delaware Street and Brian Mittman. As set forth above, Hardware is the sole shareholder of HCGovernment.

Pursuant to the Senior Credit Agreement, Delaware Street made certain loans and other financial accommodations to or for the benefit of the Debtors. In connection with the Senior Credit Agreement, the Debtors entered into certain collateral and ancillary documentation with Delaware Street (such collateral and ancillary documentation collectively with the Prepetition Credit Agreement, the "Prepetition Credit Documents"). All obligations of the Debtors arising

under the Prepetition Credit Documents, including all loans, advances, debts, liabilities, principal, interest, fees, swap exposure, charges, expenses, indemnities, and obligations for the performance of covenants, tasks or duties, or for the payment of monetary amounts owing to Delaware Street by the Debtors, of any kind or nature, whether or not evidenced by any note, agreement or other instrument, shall hereinafter be referred to as the “Prepetition Obligations.”

As of December 1, 2011, the Prepetition Obligations, not including fees or interest, included:

- Revolver: \$9,076,302 (the “Prepetition Revolving Debt”);
- Term Loan A: \$27,482,409;
- Term Loan B: \$12,660,490;
- Term Loan C: \$5,748,432;
- Term Loan D: \$6,965,575; and
- Term Loan E: \$8,640,407 (collectively, the “Prepetition Term Debt”).

The documents evidencing and supporting the Financial PO Lender and the Prepetition Subordinated Lender contain subordination provisions that provide, among other things, that the Debtors shall not make any distributions on account of those claims unless and any until the Prepetition Obligations owing to Delaware Street are paid in full.

Given the Debtors’ prepetition performance, as well as its capital structure, the Debtors commenced an aggressive marketing and sales effort so as to take advantage of their improvements for the benefit of all their creditors. The Debtors, with the assistance of their advisors, actively marketed the company since late January 2011, focusing on a sale of substantially all of their assets as a going concern. Even before the Petition Date, the Debtors conducted a well-orchestrated sale process targeting the company’s universe of potential strategic and financial buyers in an effort to maximize the value of the Debtors’ assets.

Prior to the commencement of these Chapter 11 Cases, the Debtors retained Paragon Capital Partners, LLC (“Paragon”) to act in an advisory capacity to explore strategic alternatives. As part of this evaluation, the Debtors and Paragon aggressively pursued a potential sale of the Debtors’ assets. The Debtors and Paragon undertook exhaustive efforts to solicit interest in the Debtors from third parties with the potential to acquire all or a substantial portion of the Debtors’ assets.

At the outset of this process, the Debtors determined, in consultation with their advisors, to focus their sale efforts on locating a stalking horse bidder for substantially all of their assets. The Debtors believed that their businesses and assets had little value if liquidated separately (with the exception of Hardware and HCGovernment, which together constitute a discrete business unrelated to the other Debtors), and that a sale process that including a sale of substantially all of the assets of Hartford Group and Nexicore (the “Acquired Assets”) as a going concern would maximize value to the estates.

During the marketing process, the Debtors and Paragon identified and contacted approximately ninety-one potential strategic and financial counterparties. Approximately thirty-two of these parties executed confidentiality agreements and received a confidential information memorandum providing extensive information relating to the Debtors’ businesses, financial

performance and projections, customers, programs, technology, information systems, operations, facilities, management and employees. Approximately eleven companies received a detailed management presentation, either in-person or by phone, and were given the opportunity to speak extensively with the Debtors and their advisors. Of these, eight companies were strategic buyers (including five public companies with a median market capitalization in excess of \$4 billion), and three counterparties were major private equity firms with relevant portfolio companies and significant funds under management. Six of these parties submitted written indications of interest to acquire all of the Acquired Assets of the Debtors as a going concern (the Acquired Assets exclude the Debtors' hardware business). Five of these parties attended in-person management presentations conducted by the Debtors' senior management team, and conducted site visits with respect to the Acquired Assets. All of these parties were granted access to supplemental due diligence materials made available on an electronic data site. One of these parties, Avnet, Inc. ("Avnet"), submitted a preliminary proposal, and subsequently submitted a definitive agreement. As of November 3, 2011, Avnet had a market capitalization of approximately \$4.6 billion. For its most recent fiscal year ending July 2, 2011, Avnet reported total sales of \$26.5 billion and had cash on its balance sheet of \$675 million.

Avnet's offer was the basis for extensive discussions and negotiations with the Debtors, ongoing diligence and discussions with management, and visits to the Debtors' facilities. As a result, on December 12, 2011, Avnet and Avnet International (Canada) Ltd. (together, the "Purchaser") executed an Asset Purchase Agreement (the "Agreement"), pursuant to which, among other things, the Purchaser agreed to purchase, subject to higher and better bids and an order from the Bankruptcy Court, substantially all of the assets of Hartford Group and Nexicore. The purchase price under the Agreement consisted of an initial cash payment of \$35,500,000, subject to a working capital adjustment, plus a potential earn out, subject to certain adjustments described more fully below, plus the assumption of certain liabilities, including certain cure costs and certain post-petition administrative expenses. Avnet is a New York Stock Exchange-listed, Fortune 500 company engaged in, among other things, consumer electronic manufacture, repair, and distribution.

The Agreement contemplated chapter 11 filings by the Debtors and the approval of the Agreement through Bankruptcy Court-supervised sale process and auction pursuant to section 363 of the Bankruptcy Code. As of the Petition Date, the Purchaser's bid was the highest and best that the Debtors had received. As a result, as soon as practicable after the execution of the Agreement, the Debtors commenced these Chapter 11 Cases and commenced a sale process (described below).

The Purchaser was not interested in acquiring the assets related to the Debtors' hardware business, which is the business of Hardware and HCGovernment. The hardware business has two main customer groups: the public school universities in Maryland and Sears Brands, LLC. The former business is the sole operation of HCGovernment (the "Maryland Business"), and the later is that of Hardware, though Hardware owned certain assets useful to the Maryland Business.

On November 22, 2011, Hardware and HCGovernment entered into that Asset Purchase Agreement with HCGI-Hartford, Inc., pursuant to which Hardware and HCGovernment sold all assets used in connection with the Maryland Business. The purchase price was \$325,000, and

\$225,000 was paid upon closing; the remaining \$100,000 purchase price was paid on May 21, 2012. The portion of the proceeds received prepetition were transferred to Delaware Street in partial satisfaction of the obligations owing it. The portion of the proceeds that were received post-petition will constitute Excess Cash to be disbursed to Delaware Street under the Plan.

2.3. **Debtors' First Day Motions and Orders.** On the Petition Date, the Debtors filed certain motions requesting customary "first day" relief, as well as for authority to pay certain prepetition obligations. Those motions included:

(i) Administrative Motions: To facilitate a smooth and efficient administration of these Chapter 11 Cases and to reduce the administrative burden associated therewith, the Bankruptcy Court entered the following procedural orders: (a) authorizing the joint administration of the Debtors' Chapter 11 Cases [Motion Docket No. 10, Order Docket No. 43]; (b) granting the Debtors an extension of time to file their schedules of assets and liabilities and statement of financial affairs (collectively, the "Schedules and Statements") [Motion Docket No. 21, Order Docket No. 58]; and (c) authorizing the employment and retention of KCC as notice and claims agent [Motion Docket No. 12, Order Docket No. 51];

(ii) Debtors' Motion for An Order (i) Approving Continued Use of Existing Bank Accounts, Business Forms, and Cash Management System, and (ii) To Obtain Limited Waiver of the Requirements of 11 U.S.C. § 345(b): The Bankruptcy Court authorized the Debtors to continue using their cash management systems and their respective bank accounts and business forms, with the exception that the Debtors were required to close their prepetition accounts with the Royal Bank of Scotland in lieu of accounts at the Bank of Montreal [Motion Docket No. 13, Order Docket No. 61];

(iii) Motion to Pay Employee Wages and Benefits: The Bankruptcy Court entered its order on December 15, 2011, authorizing the Debtors to pay certain prepetition wages, salaries, and other compensation, taxes withholdings and reimbursable expenses of their employees, to pay and honor obligations relating to employee medical and other benefit programs, and to continue their employee benefits programs, including their paid time off programs, on a post-petition basis [Motion Docket No. 19, Order Docket No. 53];

(iv) Debtors' Motion for Entry of An Order Authorizing the Debtors to Pay Prepetition Sales, Use and Other Tax Obligations: The Debtors obtained authority to pay prepetition sales, use, and other withholding taxes [Motion Docket No. 31, Order Docket No. 57];

(v) Debtors' Motion for Entry of an Order (i) Authorizing the Payment of Certain Prepetition Shipping Charges and (ii) Granting Certain Related Relief: By order dated December 15, 2011, the Debtors received authority to pay a limited number of prepetition shipping charges to the Debtors' principal logistics provider [Motion Docket No. 33, Order Docket No. 56];

(vi) Debtors' Motion for Entry of an Order Authorizing Debtors to (A) Honor Certain Prepetition Obligations to Customers and (B) Continue Their Customer Programs

and Practices in the Ordinary Course of Business: By order dated December 15, 2011, the Debtors obtained authority from the Bankruptcy Court to honor warranty, rebate, and other prepetition customer programs necessary to sustain the Debtors' reputation among its customer and suppliers [Motion Docket No. 16, Order Docket No. 54];

(vii) Debtors' Motion for Order: Pursuant to Sections 105(a) and 363 of the Bankruptcy Code (I) Authorizing the Debtor to Honor Prepetition Insurance Policies and Renew Such Policies in the Ordinary Course of Business; and (II) Granting Related Relief: The Debtors obtained authority from the Bankruptcy Court to maintain their prepetition property, casualty, pension bond, customs bond, workers' compensation, and directors' and officers' liability policies and pay necessary premiums post-petition [Motion Docket No. 17, Order Docket No. 55];

(vii) Debtors' Motion for Interim and Final Orders (i) Prohibiting Utilities From Altering, Refusing or Discontinuing Services to, or Discriminating Against, the Debtors, (ii) Determining That the Utilities Are Adequately Assured of Future Payment; (iii) Establishing Procedures for Determining Requests for Additional Assurance; and (iv) Permitting Utility Companies to Opt Out of the Procedures Established Herein: By final order granted on January 26, 2012, the Bankruptcy Court established procedures for determining adequate assurance of payment for future utility service in recognition of the severe impact even a brief disruption of utility services would have on the Debtors [Motion Docket No. 32, Order Docket Nos. 62 and 133].

2.4. Debtor-In-Possession Financing Orders. On the Petition Date, the Debtors filed their Motion for Interim and Final Orders (i) Authorizing the Debtors to Obtain Post-Petition Financing Pursuant to 11 U.S.C. § 364, (ii) Authorizing the Use of Cash Collateral Pursuant to 11 U.S.C. § 363, (iii) Granting Adequate Protection to the Prepetition Senior Lender Pursuant to 11 U.S.C. §§ 361 and 363 and (iv) Scheduling a Final Hearing Pursuant to Bankruptcy Rule 4001, pursuant to which, among other things, the Debtors sought authority to borrow money from Delaware Street to fund their working capital needs in these Chapter 11 Cases. Despite efforts to find alternative and more borrower-friendly financing, the Debtors were unable to find any financing sources willing to compete with Delaware Street in connection with providing the Debtors with their necessary working capital needs. As a result, in order to promote the sale of the Debtors assets while at the same time providing liquidity sufficient to fund day-to-day cash needs, pursuant to a budget, the Bankruptcy Court entered interim [Docket No. 66] and final orders [Docket No. 120] authorizing the debtor in possession financing from Delaware Street. Specifically, those orders provided for a \$14,400,000 facility, \$2,750,000 of which could be borrowed prior to the entry of the final order, secured by all of the Debtors' pre- and post-petition assets by superpriority, priming, senior liens pursuant to 364(c)(1) of the Bankruptcy Code, as well as granting adequate protection liens and claims to Delaware Street, as the Debtors' prepetition lender pursuant to sections 361(a) and 363(c) of the Bankruptcy Code. Among other things, the final order provided for the Debtors to apply proceeds received from pre-petition collateral to the Prepetition Revolving Debt and reborrow such amounts as post-petition debtor in possession financing. Pursuant to the Sale Order (described in Section 2.7 below), upon the closing of the transactions approved by the Sale Order, the Debtors were required to remit a portion of the proceeds of the Sale sufficient to repay the debtor in possession loan. On April 2, 2012, Delaware Street sent a notice to the Debtors and the Creditors'

Committee that the debtor in possession obligations totaled \$12,182,664, consisting of \$12,076,302 of principal and \$106,362 of interest. These sums included funds borrowed to replace working capital used to repay the \$9,076,302 in Prepetition Revolving Debt. On April 6, 2012, the Debtors paid to Delaware Street \$12,182,644 in full satisfaction of the Delaware Street's DIP Loan claims.

2.5. Canadian Proceedings. On the Petition Date, the Debtors filed their Motion Pursuant to Section 1505 of the Bankruptcy Code for Authorization of Hardware to Act as the Debtors' Foreign Representative in an ancillary proceeding commenced under Part IV of the Companies' Creditors Arrangement Act in the Ontario Superior Court of Justice (Commercial List) in order to seek recognition of these Chapter 11 Cases and certain orders entered in these Chapter 11 Cases. The Bankruptcy Court granted the motion, and appointed Hardware as the Debtors' foreign representative on December 15, 2011 [Motion Docket No. 11, Order Docket No. 52]. The Debtors' thereafter commenced the ancillary proceeding and orders entered in these Chapter 11 Cases have been recognized therein, as necessary.

2.6. Appointment of Creditors' Committee. On December 28, 2011, the United States Trustee appointed an Official Committee of Unsecured Creditors (the "Creditors' Committee") pursuant to 11 U.S.C. § 1102(a)(1) [Docket No. 73]. The Creditors' Committee is comprised of the following unsecured creditors of the Debtors: C&K Industrial Painting, Inc., RipplePak and Select Staffing. The Creditors' Committee employed legal counsel, Levenfeld Pearlstein LLC, and financial advisors, Crowe Horwath LLP, to represent and advise it in these Chapter 11 Cases.

2.7. Sale Related Motions and Orders. On the Petition Date, the Debtors filed a Motion Pursuant to 11 U.S.C. §§ 105(a), 363, 365 and Fed. R. Bankr. P. 2002, 6004, 6006 for (I) Entry of an Order (A) Approving Bidding Procedures; (B) Granting Certain Bid Protections; (C) Approving Form and Manner of Sale Notices; (D) Setting Sale Hearing Date in Connection With Sale of Substantially All of Debtors' Assets; and (II) Entry of an Order (A) Approving the Sale of Debtors' Assets Free and Clear of All Liens, Claims, Encumbrances and Interests; (B) Authorizing the Assumption And Assignment of Certain Executory Contracts and Unexpired Leases; (C) the Assumption of Certain Liabilities; and (D) Granting Certain Related Relief [Docket No. 33]. On January 26, 2012, the Bankruptcy Court entered an order approving the bidding procedures and setting a sale hearing [Docket No. 128]. Debtors thereafter conducted a sale process at the conclusion of which, the Purchaser's bid for the Debtors' assets was highest and best. The Debtors filed pleadings with the Bankruptcy Court setting forth the executory contracts and unexpired leases that the Debtors intended to assume and assign to the Purchaser [Docket Nos. 152 and 214]. On February 28, 2012, the Bankruptcy Court entered an order approving the sale of the assets to the Purchaser [Docket No. 208]. The sale transaction closed effective 11:59 p.m. on April 2, 2012. As set forth above, the sale order has been recognized by the Canadian court in the Canadian proceeding. Debtors have also filed a motion to reject all contracts that were not assumed and assigned to the Purchaser [Docket No. 236].

2.8. Sale of the Debtors' Assets. Pursuant to the APA, the purchase price due and payable at closing was \$35,500,000 in cash. The purchase price was also subject to adjustment subsequent to the closing based upon a working capital adjustment and an Earnout based on the operating income of the business in calendar years 2012 and 2013. The Debtors submitted a

working capital adjustment of \$3,563,639 to the Purchaser. Pursuant to the Agreement, a final determination of the Working Capital Adjustment was to be made within 60 days following the closing (since extended).

2.8.1. **Sale Escrows.** Pursuant to the APA, the Debtors and the Purchaser established two escrows to hold sale proceeds in reserve pending certain events. The first escrow was deposited with Wells Fargo Bank and was established to address any net Working Capital Adjustment to the purchase price (the "**Wells Escrow**"). The Debtors are obligated to deliver to the Purchaser a closing working capital statement within 60 days following the closing date of the Avnet Transaction (which date has now been extended to June 29, 2012). Within 20 days following the delivery of the closing working capital statement, the Purchaser shall notify the Debtors whether the closing working capital adjustment is accepted or objectionable. The APA contains a dispute resolution mechanism in the event the parties are unable to agree on what the final purchase price adjustment should be. If, as a result of the closing working capital statement, the purchase price goes up, the Purchaser will pay the increased amount and the funds held in the Wells Escrow will be turned over to the Debtors. If, on the other hand, the purchase price decreases as a result of the closing working capital statement, the funds in the Wells Escrow will be turned over to the Purchaser to the extent of the purchase price decrease, with the rest of the funds in the Wells Escrow, if any, being turned over to the Debtors. If the purchase price decrease exceeds the funds in the Wells Escrow, all funds in the Wells Escrow will be transferred to the Purchaser, and the Purchaser has the ability to offset the payment of the Earnout for any excess. The Debtors are hopeful that the full amount of the Wells Escrow will be transferred to the Debtors, but the Debtors cannot predict what the final outcome might be.

The Debtors also established an escrow with the Purchaser's Canadian counsel, Fraser Milner Casgrain (the "**Canadian Tax Escrow**"). A total of 5,000,000 Canadian Dollars of the purchase price under the APA were deposited in the Canadian Tax Escrow. Under Canadian law, when a non-Canadian sells assets in Canada, the seller is required to obtain and deliver to the buyer a certificate of compliance issued by the Minister of National Revenue (Canada) under subsections 116(2) and 116(5.2) of the Income Tax Act (Canada), in each case with a certificate limit in an amount not less than the Canadian dollar equivalent of the portion of the purchase price allocated to the applicable Canadian assets being sold (the "**116 Certificate**"). Under Canadian law, a buyer of Canadian assets from a non-Canadian seller may be liable for certain Canadian taxes arising from the sale and that amount is reflected on the 116 Certificate.

As of closing, the Debtors had not received the 116 Certificate from the Canadian taxing authorities. Pursuant to section 9.5(g) of the APA, the Debtors and the Purchaser agreed that the maximum potential tax liability arising from the Canadian components of the Avnet Transaction would be deposited in the Canadian Tax Escrow. Following the receipt of the 116 Certificate, which is expected in June or July 2012, an amount equal to the certificate limit (i.e., the anticipated tax owing by the Debtors) will be remitted from the Canadian Tax Escrow to the Canadian taxing authorities. Any funds remaining in the Canadian Tax Escrow will be remitted to the Debtors. While the Debtors expect that a substantial portion of the Canadian Tax Escrow will be remitted back to the Debtors, the

Debtors cannot predict what the final outcome might be. In addition, the Debtors expect that any Canadian taxes required to be paid will be recoverable as a refund after the Debtors file their Canadian tax returns for 2012.

2.8.2. **Earnout.** Pursuant to section 3.5 of the APA, the Debtors may be entitled to an Earnout as additional purchase price. The Earnout is calculated using the operating income in 2012 and 2013 derived from the acquisition of the acquired assets under the Avnet Transaction, less certain costs and offsets, all of which are more fully set forth in the APA. The Earnout is payable, if at all, approximately 4 months following the end of the year in which the operating income is measured (e.g., the Earnout based on 2012's operating income would be payable in approximately April of 2013). The APA sets forth the manner in which the proposed Earnout amount is to be calculated, conveyed by the Purchaser to the Debtors, and challenged by the Debtors, if necessary. Pursuant to the section 3.5(c) of the APA, the Earnout has a maximum cap for each year in which an Earnout would be calculated. Though the Debtors expect the Earnout will be collected in both 2013 and 2014, the Debtors cannot predict what the final outcome might be.

2.9. **Chief Restructuring Officer Appointment.** Following the closing of the sale of the Acquired Assets to the Purchaser, nearly all of the Debtors' employees, including all of the Debtors' officers, ceased working for the Debtors and were hired by the Purchaser. As a result, on March 29, 2012, the Debtors filed a motion for appointment of Silverman Consulting and Steven Nerger as Chief Restructuring Officer as of April 3, 2012 [Docket No. 229]. The Chief Restructuring Officer has and will continue to act as an estate representative for the Debtors through the Effective Date.

2.10. **Investigation by Creditors' Committee of Delaware Street and Settlement.** Pursuant to the final debtor-in-possession financing order, the Creditors' Creditors' Committee was granted until June 11, 2012,² to investigate the pre-petition liens and claims of Delaware Street as well as potential claims of the Debtors against Delaware Street. The Creditors' Creditors' Committee commenced its investigation and requested documents from and depositions of officers of the Debtors, Delaware Street and the Debtors' other secured creditors. Such parties responded to the Creditors' Creditors' Committee's requests and cooperated with the Creditors' Creditors' Committee in its investigation.

The Committee served approximately 20 subpoena requests for documents from Delaware Street, the Debtors, and the Debtors' present and former officers, directors, and shareholders. These document requests were broadly drafted, comprehensive in scope, and sought, among other things, the following categories of documents generated between November 2004 and the Petition Date:

² Under the final financing order entered by the Bankruptcy Court on January 30, 2012 [Docket No. 137], the investigation period expired on April 25, 2012. The Bankruptcy Court subsequent extended that expiration date to June 11, 2012, by an order entered on April 12, 2012 [Docket No. 265].

- Documents reflecting monies advanced to or received from any of the Debtors by any Delaware Street entity;
- Documents reflecting any agreements between any Delaware Street entity and the Debtors;
- Documents relating to negotiations of loan agreements between the Debtors and Delaware Street and the Debtors' performance and defaults under those agreements;
- Documents reflecting meetings of the Debtors' board of directors or shareholders;
- All communications between any Delaware Street entity and the Debtors;
- Financial statements, tax returns, and business plans of the Debtors;
- Documents relating to the evaluation of Debtors' management;
- Documents relating to all potential alternative financing arrangements, refinancings, or restructuring efforts by or on behalf of the Debtors; and
- Documents relating to potential acquisitions of the Debtors.

These subpoena requests yielded approximately 33,000 documents, representing over 400,000 individual images. Of these, approximately 1,700 documents were isolated and coded as being most relevant to potential causes of action against Delaware Street or its principals. From these, the Committee's professionals developed a detailed 50 page, single spaced chronology of facts relevant to consideration of potential causes of action against Delaware Street and its principals. All documents were hosted on a private vendor's "Relativity"® e-discovery review platform, through which full conditional keyword, text, date-range, and other refined searches could be conducted across the entire repository of data to isolate and interlink documents relevant to the investigation. The Committee's professionals also conducted extensive interviews of representatives from the entities that had commenced the Shareholder Suit and discussed, reviewed, developed, and tested preliminary findings and theories of liability.

Through the course of the Committee's investigation, the Committee was advised by its financial advisors at Crowe Horwath LLP, who undertook their own independent assessment of the Delaware Street loans from inception to date, including a review of monthly general ledger data, of historical financial information, of monies advanced and received, and of interest paid and accrued. They also conducted detailed sensitivity analyses showing the impact on Delaware Street loan balances of changes in interest rates and methods by which interest on the loans could accrue.

The Committee's professionals then reviewed the facts gathered and analyses performed in light of potential causes of action challenging the validity, extent, and priority of the Delaware Street loans or for possible inequitable conduct by Delaware Street, its principals, and members of the Debtors' management. Among the causes of action considered were the following: recharacterization of debt to equity; readjustment of interest rate accruals; equitable

subordination; fraudulent transfer; preferential transfer; illegal dividend; and breach of fiduciary duty. In all, the Committee's professionals expended nearly 1,200 hours in its investigation and analysis of potential causes of action against Delaware Street and its principals.

Following this extensive analysis, on May 8, 2012, the Committee's chairman (Peter Kravitz) and the Committee's professionals met with representatives of Delaware Street and the Debtors to discuss the Committee's analysis of its potential causes of action and the possibility of settlement. After lengthy discussion among the parties about the perceived strengths and weaknesses of potential derivative actions against Delaware Street and its principals and the range of possible litigation outcomes, the Committee, Delaware Street and the Debtors reached agreement on the key terms of the settlement that is incorporated into the Plan. The key terms of this settlement were as follows:

- Delaware Street shall consent to the Debtors use of its cash collateral pursuant to a budget and a form of cash collateral order, both in form and substance acceptable to Delaware Street, necessary for the Debtors and the Creditors' Committee to file, confirm and consummate the Plan.

- On and subject to the Effective Date of the Plan, Delaware Street shall carve out from its liens the Settlement Sum for the benefit of all General Unsecured Creditors holding Allowed Unsecured Claims as set forth as follows: (a) cash in the sum of \$333,000, (b) the first dollars of any Earnout payable to the Debtors by the Buyers for the calendar year ending December 31, 2012 in an amount not exceeding \$450,000, and (c) the first dollars of any Earnout payable to the Debtors by the Buyers for the calendar year ending December 31, 2013 in an amount not exceeding \$667,000 less any amount recovered by the General Unsecured Creditors under subpart (b) hereof. The Settlement Sum will fund the Hartford Liquidating Trust. The assets of the Hartford Liquidating Trust will be used to fund Distributions to the General Unsecured Creditors. Delaware Street shall waive its share of the General Unsecured Claims entitled to payment from the Hartford Trust Assets.

- Delaware Street shall consent to the use of its cash collateral in an amount necessary to pay all Administrative Expense Claims, Priority Tax Claims, and Priority Wage Claims, in an amount set forth in the Cash Collateral Budget plus up to an additional \$300,000.

- Subject to the Settlement Sum, all rights to collect any Earnouts payable by the Buyers shall be assigned to Delaware Street on the Effective Date.

- The claims set forth in the Shareholder Suit shall be deemed settled, released, and dismissed with prejudice as of the Effective Date and all other claims of the Debtors against Delaware Street shall be deemed released as of the Effective Date.

- Delaware Street will waive any deficiency claim and will not participate in any distributions to General Unsecured Creditors.

- All parties in interest will be permanently enjoined from prosecuting any claims relating to the Debtors against Delaware Street. The DSC Assigned Causes of Action, which include claims against directors, officers, employees and agents of the Debtors (including

Avoidance Actions) will be assigned to Delaware Street, and Delaware Street shall have exclusive standing to pursue such claims; provided, however, that if and to the extent that a director or officer of the Debtors files a non-administrative, non-priority claim against the Debtors which, if allowed, would be a General Unsecured Creditor, the Hartford Liquidating Trust may bring an avoidance action against such director or officer solely for purposes of offsetting against the amount of such non-administrative, non-priority claim, but may not seek affirmative recovery from such director or officer.

A significant factor in the decision to settle on the foregoing terms was based on an analysis of the potential impact of the most likely successful outcome under the most draconian of remedies, that of recharacterization of Delaware Street's debt to equity. The Committee viewed the most likely candidates for recharacterization of all the Delaware Street loans to be the so-called Term Loans "C," "D" and "E" that were made in 2005 after Delaware Street had taken a controlling position on the Debtor's board and thereby had become an insider of the Debtor. Because Delaware Street's approximately \$41 million in "A" and "B" loans were initiated before Delaware Street became an insider of the Debtors, and based on other significant factors (including Delaware Street's apparent intent—as reflected in documents generated at the time—that these advances be characterized as loans), the parties significantly discounted the likelihood that the Committee would succeed in efforts to recharacterize these Term Loans "A" and "B". Even complete recharacterization of Term Loans "C," "D" and "E" as equity eliminated only \$24 million of the \$65 million in outstanding unavoidable obligations owed to Delaware Street as of the Petition Date. With maximum resultant sale proceeds from the Avnet sale of only \$34 million available for distribution in a Plan, however, even such complete recharacterization would have left nothing for unsecured creditors.

The Committee considered its best next theory of attack a characterization of the interest charged under the "A" and "B" as fraudulent transfers to the extent they were accruing at above market rates. Such a cause of action, however, would necessarily be limited by statute to amounts accruing within four years of the Petition Date (and not the inception of the loan). Based on the sensitivity analyses performed by the Crowe Horwath, excessive interest accruing on the Delaware Street revolver and the "A" and "B" loans was projected at approximately \$10.6 million. Adding this amount to the \$24 million of potential recharacterized debt under Term Loans "C," "D" and "E" described above brought the total potential disallowance of Delaware Street's aggregate claim to \$34.6 million, leaving Delaware Street with a resultant potential allowable claim of approximately \$31.4 million. When compared to approximately \$34 million of sale proceeds available for distribution to creditors of the Debtors' estate, and accounting for (A) up to \$600,000 in administrative and priority claims that would take priority over unsecured creditors and reduce litigation recoveries but for Delaware Street's agreement to continued use of cash collateral and to fund payments of these amounts in the Plan, (B) projected legal and expert fees that would be incurred if the Committee were entirely successful in its case against Delaware Street (including up to \$500,000 in potential out-of-pocket costs for experts, pre-trial, and trial costs) and contingency legal fees equal to at least 33% of recovered amounts (and possibly as high as 40% if the matter went to trial), which would further reduce potential recoveries to unsecured creditors by between \$2.0-2.5 million, (C) uncertainty in outcome in the litigation, (D) years of litigation delays, and (E) the Debtors' projections of a total unsecured creditor pool of only approximately \$2.5 million to \$3.5 million.

In order for the Class III General Unsecured Creditors to obtain the benefits of this proposed settlement, Delaware Street insisted that the Committee release all derivative claims brought or that could have been brought by or through the Debtors (including all claims asserted in the Shareholder Suit, which the Debtors, the Committee and Delaware Street believe are entirely derivative in nature), dismissal of the Shareholder Suit with prejudice on the Effective Date, and release by the Debtors, the Committee, and other parties affected by the Plan of all claims or actions in any way related to the Debtors that were or could have been asserted prior to the Effective Date against Delaware Street and its affiliates, partners, members, officers, directors, employees, and agents. The Committee determined that the proposed settlement outlined above (\$1 million cash plus non-insider avoidance actions and funding of administrative and priority claims by Delaware Street in the amounts set forth in the Cash Collateral Budget plus up to an additional \$300,000) was well within the range of reasonably expected outcomes and offered a measure of certainty that was clearly in the best interests of Class III General Unsecured Creditors to accept.

The Committee's investigation also considered the primary allegations contained in the Shareholder Suit against Delaware Street, its principals, and certain of the Debtors' officers and directors that Delaware Street and its principals (i) devised a plan to withhold principal and interest payments of its debt in order to drive the Debtors into bankruptcy and recoup its initial investment and approximately \$35 million in interest while depriving lesser priority claimants and equity interest holders from any recoveries and (ii) breached their fiduciary duties by not attempting to pay down, renegotiate, or refinance the Delaware Street debt despite the high interest rates being charged and the favorable investment climate for refinancing loans between 2006 and 2008.

The Committee's investigation did not reveal sufficient facts, supported by verifiable documentary evidence, that would support rejecting the proposed favorable settlement in favor of pursuing a hotly contested, fact-intensive litigation that would more likely than not have an unfavorable outcome for the Committee (assuming the costs alone could be adequately funded). Significant to the Committee in this regard was the fact that the Debtors themselves were losing significant money from operations until 2008-2009 and had serious, documented operational and internal control weaknesses at the time Delaware Street made loans to the Debtors. As a result, it is likely that the Debtors would have defaulted under any refinancing attempted with any third-party lender, potentially dooming the entire operation to the detriment of all involved. In addition, the general ledger data reviewed by the Committee's professionals, along with documents received from Delaware Street, support the contention that in the four years preceding the Petition Date, Delaware Street accrued interest on at least one-half of the interest due on Term Loans "A", "B" and "C", received no interest on Term Loans "D" and "E", advanced approximately \$4.1 million in additional loans on which principal appears not to have been paid, and were paid only approximately \$144,000 in accrued interest monthly on the outstanding revolver and Term Loan "A", "B", and "C" balances that aggregated at least approximately \$21.8 million (or approximately 8% simple interest).

The investigation also did not suggest to the Committee that Delaware Street or its principals were operating the Debtors with any intent to profit at the expense of unsecured creditors. Rather, it appears that once the operational and internal control weaknesses were stabilized, the Debtors' operations began to turn around such that they actually earned profits and

were experiencing significant revenue growth during the challenging economic period of 2008 and 2009. This favorable period of revenue and earnings growth was seized upon by the Debtors and Delaware Street as an opportunity to maximize and realize full enterprise value for the Debtors' operations through a possible sale. In the end, by virtue of the sale to Avnet as approved by the Bankruptcy Court, the value of the Debtors appears to have been maximized at a price that did not seem achievable in previous years. The Committee further notes in this regard that the Debtors were relatively current with their creditor/vendor base and that the total general unsecured claims pool of approximately \$3.5-\$4 million is relatively modest compared to the Debtors' approximately \$60 million of annual operating costs and \$22 million in annual SG&A expense in the year preceding the Petition Date.

The Prepetition Subordinated Lender and the Financial PO Lender (collectively, the "Noteholders") believe that the Committee has undervalued both available Avoidance Actions against the Debtors' insiders as well as the causes of action set forth in Shareholder Suit. The Noteholders assert that the Debtors' insiders received several million dollars in potential Avoidance Actions and believe that actions to recover such Avoidance Actions on behalf of the Debtors' estates have meaningful value on their own, let alone in combination with the other causes of action set forth in the Shareholder Suit. The Noteholders believe that the settlement of the claims of the Debtors' and their estates that is set forth in the Plan greatly undervalues such claims and, as such, the Noteholders believe that a far greater recovery for General Unsecured Creditors can be achieved by pursuing the causes of action in the Shareholder Suit and Avoidance Actions against the Debtors' insiders. In addition to evaluating the claims set forth in the Shareholder Suit as discussed above, in connection with entering into the proposed settlement the Committee also evaluated all transfers to the Debtors insiders for potential avoidability. The Committee believes the Noteholders' contentions exaggerate both the dollar amount of the transfers at issue, and the potential recoveries therefrom, and that the proposed settlement remains advantageous to unsecured creditors relative to any possible recovery from such Avoidance Actions.

2.11. **Shareholder Suit.** Prior to the Petition Date, several entities filed the Shareholder Suit, a lawsuit in Delaware state court against Delaware Street, certain of its officers, Hartford Group and certain of its officers seeking, inter alia, to challenge Delaware Street's claims in these Chapter 11 Cases. The Shareholder Suit was stayed by the Debtors' bankruptcy filing. On March 9, 2012, the Debtors removed the state court lawsuit to the United States District Court for the District of Delaware and have subsequently filed a motion to transfer venue to the Bankruptcy Court. Their motion to transfer venue is pending at this time. As set forth above, pursuant to the Creditors' Committee/Delaware Street Settlement, the claims set forth in the Shareholder Suit will be deemed settled, released and dismissed with prejudice as of the Effective Date.

3. **SUMMARY OF THE PLAN.**

3.1. **Purpose of the Plan.** The Debtors proposed the Plan, in consultation with the Creditors' Committee and Delaware Street, over the alternative of converting the Debtors' bankruptcy cases to chapter 7 of the Bankruptcy Code because the Debtors believe that the Plan: (i) provides a more orderly liquidation and a greater recovery to creditors than a chapter 7

liquidation, (ii) consummates a settlement between the Debtors, the Creditors' Committee, and Delaware Street that results in the funding of the Plan and the full payment of Chapter 11 administrative expenses, and (iii) avoids unnecessary costs to the Debtors' estates which would accrue should the Debtors' bankruptcy cases be converted to chapter 7 of the Bankruptcy Code.

3.2. **Classification of Claims and Interests under the Plan.** All Allowed Claims and Interests, except the Allowed Unclassified Claims, are placed in the Classes set forth in Article III of the Plan. In accordance with section 1123(a)(1) of the Bankruptcy Code, Administrative Claims (including Professional Fee Claims), Allowed Priority Wage Claims, and Priority Tax Claims have not been classified. A Claim or Interest is classified in a particular Class only to the extent that the Claim or Interest qualifies within the description of that Class and is classified in other Classes to the extent that any remainder of the Claim or Interest qualifies within the description of such other Classes.

3.3. **Treatment of Allowed Claims under the Plan.** As set forth in Article III of the Plan, the Record Holders of Allowed Claims shall be treated as follows:

3.3.1. **Allowed Class I Secured Claims.** The only Holder of Class I Claims is Delaware Street, and pursuant to the settlement set forth herein, Delaware Street has an Allowed Class I Claim secured by substantially all of the Debtors' assets in the amount of \$61,497,313. The Holder of each Allowed Class I Secured Claim shall receive Cash distributed on the Effective Date in an amount equal to all remaining proceeds of the Avnet Transaction, and all Excess Cash, less Cash portion of the Settlement Sum, which shall be paid by the Debtors to the Hartford Liquidating Trust. In addition, on the Effective Date, Delaware Street shall be assigned the right to receive the Earnout (subject to the requirement that any amount thereof included in the Settlement Sum be turned over to the Hartford Liquidating Trust), any interest of the Debtors in any tax refund, or any deposit, deposit account, certificate of deposit, bank, brokerage or similar account, trust account, reserve account, escrow account or the like, and the DSC Assigned Causes of Action.

~~3.3.2. **Allowed Class II Claims.** The Holders of Allowed Class II Subordinated Secured Claims shall receive no Distributions through the Plan~~

3.3.2. **Allowed Class II Claims.** The Holders of Allowed Class II Subordinated Secured Claims shall receive no Distributions through the Plan. The Noteholders have informed the Debtors that the Noteholders intend to challenge this aspect of the Plan. Specifically, the Noteholders intend to bring an action in this Court in order to void the subordination provisions in the Restructuring Agreement as a result of what the Noteholders allege constitutes inequitable conduct of Delaware Street. The Debtors believe that the Noteholders' claims may be separately classified as Class II Subordinate Secured Claims rather than as Class III General Unsecured Claims pursuant to the Restructuring Agreement. The Noteholders believe that they will be successful in their challenge to the subordination provisions of the Restructuring Agreement and, as a result, there will no longer be a justification for the separate classification of the Noteholders' claims as Class II Subordinate Secured Claims rather than as Class III General Unsecured Claims and, once reclassified as Class III General Unsecured Claims, the Noteholders will share, on a pro-rata basis with the rest of the General Unsecured Creditors, in the

Harford Trust Assets. The Noteholders estimate that the inclusion of their claims as Class III General Unsecured Claims will dilute the recovery available to the other General Unsecured Creditors between forty-seven percent (47%) and fifty-five percent (55%). The Committee and the Debtors disagree with the Noteholders' position because, among other things, (a) Section 510(a) of the Bankruptcy Code provides that "[a] subordination agreement is enforceable in a case under this title to the same extent that such agreement is enforceable under applicable non-bankruptcy law", and (b) the Noteholders have never articulated, nor has the Committee's investigation yielded, facts sufficient or a legal basis to disregard the enforceable subordination provisions mandating the subordination of the Class II Claims.

3.3.3. **Allowed Class III Claims.** Pursuant to the terms of the Hartford Liquidating Trust Agreement, the Record Holders of Allowed General Unsecured Claims (excluding any deficiency claim of Delaware Street under Section 506(a) of the Bankruptcy Code) shall become beneficiaries of the Hartford Liquidating Trust, and shall share pro rata in Distributions of the Hartford Trust Assets in the manner provided in the Hartford Liquidating Trust Agreement.

3.4. **Implementation and Execution of the Plan.**

3.4.1. **Effective Date.** The Plan shall become effective on the date which is the first Business Day on which each condition set forth in Article V of the Plan has been satisfied or waived as set forth therein.

3.5. **The Hartford Liquidating Trust.**

3.5.1. **Establishment of Hartford Liquidating Trust.** The Debtors shall transfer all of the Hartford Trust Assets to the Hartford Liquidating Trust on the Effective Date. Such transfer of assets shall be free and clear of all liens, claims, and encumbrances.

3.5.2. **Execution of Hartford Liquidating Trust Agreement.** On the Effective Date, the Hartford Liquidating Trust Agreement, in a form consistent with the Plan, shall be executed, and all other necessary steps shall be taken to establish the Hartford Liquidating Trust.

3.5.3. **Authority and Role of the Hartford Liquidating Trustee.** The Hartford Liquidating Trustee shall be Peter Kravitz, who is serving as the chairperson of the Creditors' Committee. In furtherance of and consistent with the purpose of the Hartford Liquidating Trust and the Plan, the Hartford Liquidating Trustee shall be deemed to be a judicial substitute for each of the Debtors as the party-in-interest in these Bankruptcy Cases, under the Plan or in any judicial proceeding or appeal to which the Debtor is a party, consistent with section 1123(b)(3)(B) of the Bankruptcy Code and section 303 of the Delaware General Corporation Law, and is appointed as the representative of the Estates for all purposes, including for the retention and enforcement of all claims and rights, known and

unknown, which arose prior to the Effective Date, except as provided for in the Plan and the Hartford Liquidating Trust Agreement. On the Effective Date or the Outside Date, which ever is later, the current officers and directors of each of the Debtors, including, without limitation, the Chief Restructuring Officer, shall be deemed to have resigned and shall be fully discharged from their responsibilities and duties as officers and directors of the Debtors.

- 3.5.4. **Authorization.** The Hartford Liquidating Trustee shall be empowered and authorized to, among other things: (a) liquidate the Hartford Trust Assets; (b) make one or more Distributions after the Effective Date of Hartford Trust Assets pursuant to his reasonable business judgment and in accordance with the Hartford Liquidating Trust Agreement; (c) pursue, in accordance with his reasonable business judgment, Identified Avoidance Actions; (d) after December 1, 2013 pursue, in accordance with his reasonable business judgment, Avoidance Actions against any Person (except DSC Assigned Causes of Action and any Cause of Action released pursuant to the Plan); (e) retain and/or employ professionals; (f) after the Outside Date, exercise all power and authority that may be exercised by any officer, director or Holder of an Interest in such Debtor with like effect as if authorized, exercised and taken by unanimous consent of such officers, directors or Holders of Interests; (g) pursue objections to, and estimations and settlements of, Class III Claims; (h) prosecute any Causes of Action of the Estates, except the DSC Assigned Causes of Action and Causes of Action released pursuant to the Plan; provided, however, that, as set forth in the Hartford Liquidating Trust Agreement, prior to December 1, 2013, the Hartford Liquidating Trustee may only commence Avoidance Actions that constitute Indentified Avoidance Actions; (i) calculate and implement all Distributions to be made under this Plan to Creditors holding Allowed Class III Claims pursuant to the Hartford Liquidating Trust Agreement; (j) market, sell, lease, or otherwise dispose of or realize the value of all Hartford Liquidating Trust Assets; (k) file all required tax returns and pay taxes and all other obligations on behalf of the Hartford Liquidating Trust; (l) file required operating reports and quarterly reports relating to the Hartford Liquidating Trust; and/or (m) take all other actions to complete the liquidation, dissolution and wind-up of the Hartford Liquidating Trust in accordance with applicable non-bankruptcy law. The Hartford Liquidating Trustee shall serve as the disbursing agent for holders of Allowed Class III Claims. The Hartford Liquidating Trustee shall also be authorized and directed to review, object to, prosecute, negotiate, settle or otherwise compromise any Disputed Class III Claims, pending Causes of Action or other Avoidance Actions (but specifically excluding the DSC Assigned Causes of Action and Causes of Action released pursuant to the Plan), in each case in accordance with Bankruptcy Rule 9019; provided, however, that any Disputed Class III Claim may be settled by the Hartford Liquidating Trustee in an amount less than \$50,000 without the need for Bankruptcy Court approval under Bankruptcy Rule

9019 or otherwise. The powers granted to the Hartford Liquidating Trustee shall be exercisable without further approval of the Court.

- 3.5.5. **Liquidation of Assets.** The Debtors shall pursue the recovery and liquidation of any remaining miscellaneous Assets, other than the Hartford Trust Assets, the DSC Assigned Causes of Action, and any Claims or Causes of Action released by this Plan, in a commercially reasonable manner. The Hartford Liquidating Trustee shall pursue recovery of Hartford Liquidating Trust Assets in accordance with the terms of the Hartford Liquidating Trust Agreement.
- 3.5.6. **Compensation of the Hartford Liquidating Trustee and the Hartford Liquidating Trustee's Professionals.** The Hartford Liquidating Trustee shall be entitled to reasonable compensation in an amount consistent with that of similar professionals in similar types of bankruptcy proceedings. The costs and expenses of the Hartford Liquidating Trustee, including the fees and expenses of the Hartford Liquidating Trustee and his retained professionals, shall be paid out of the Hartford Trust Assets and shall be paid without further Bankruptcy Court approval and in the Hartford Liquidating Trustee's reasonable business judgment. The Hartford Liquidating Trustee shall maintain appropriate reserves to fund administrative expenses and operating expenses during the implementation of the Plan. Such reserves shall be established by the Hartford Liquidating Trustee in accordance with his reasonable business judgment.
- 3.5.7. **Execution of Documents.** The Debtors and Hartford Liquidating Trustee, as applicable, may execute any and all documents and instruments necessary to effectuate the Plan.
- 3.5.8. **Cash.** The Hartford Liquidating Trustee may invest Cash of the Hartford Liquidating Trust (including any earnings thereon); provided, however, that such investments are investments permitted to be made by a liquidating trust within the meaning of Treasury Regulation section 301.7701-4(d), as reflected therein, or under applicable Internal Revenue Service guidelines, rulings, or other controlling authorities.
- 3.5.9. **Retention of Professionals by the Hartford Liquidating Trustee.** The Hartford Liquidating Trustee may retain and reasonably compensate counsel and other professionals to assist in his or her duties on such terms as the Hartford Liquidating Trustee deems appropriate without Bankruptcy Court approval. The Hartford Liquidating Trustee may retain any professional who represented parties in interest in the Cases.
- 3.6. **Description of Projected Recoveries and Assets Available for Distribution.**

The Holders of Allowed General Unsecured Claims shall share, on a pro-rata basis, in the Hartford Trust Assets. The Hartford Trust Assets available to Holders of Allowed General Unsecured Claims will consist primarily of the Settlement Sum and the proceeds of the Causes of Action.

As referenced in the Debtors' chart of ranges of recoveries, the Debtors estimate that there will be approximately \$1,000,000 available for distribution to General Unsecured Creditors from the proceeds of the Hartford Trust Assets. However, the amount available for distribution to General Unsecured Creditors cannot be determined with certainty. There can be no assurance that the Debtors' estate will recover the estimates below from recoveries of Avoidance Actions. The Hartford Liquidating Trustee will commence approximately 25 Avoidance Actions seeking to avoid and recover transfers under sections 547 and 550 of the Bankruptcy Code. The Debtors estimate that they will recover approximately \$250,000 for the Avoidance Actions, net of costs.

The Noteholders assert that the Debtors' insiders received several million dollars in potential Avoidance Actions and believe that actions to recover such Avoidance Actions on behalf of the Debtors' estates have meaningful value on their own, let alone in combination with the other causes of action set forth in the Shareholder Suit. The Noteholders believe that the settlement of the claims of the Debtors' and their estates that is set forth in the Plan greatly undervalues such claims and, as such, the Noteholders believe that a far greater recovery for General Unsecured Creditors can be achieved by pursuing the causes of action in the Shareholder Suit and Avoidance Actions against the Debtors' insiders. In addition to evaluating the claims set forth in the Shareholder Suit as discussed above, in connection with entering into the proposed settlement the Committee also evaluated all transfers to the Debtors insiders for potential avoidability. The Committee believes the Noteholders' contentions exaggerate both the dollar amount of the transfers at issue, and the potential recoveries therefrom, and that the proposed settlement remains advantageous to unsecured creditors relative to any possible recovery from such Avoidance Actions.

3.6.1. Delivery of Distribution. Any Distribution shall be made to Record Holders of Allowed Claims: (i) at the address set forth on the proof of claim Filed by such Holder, (ii) at the address set forth in any written notices of address change Filed by such Holder, (iii) at the addresses reflected in the Schedules if neither a proof of claim nor a written notice of address change has been Filed, or (iv) if the Holder's address is not listed in the Schedules, at the last known address of such Holder according to the Debtors' books and records. Except as otherwise provided for herein, ordered by the Bankruptcy Court, or otherwise, Distributions under the Plan shall be made as soon as is practicable on the later to occur of (a) the Effective Date, (b) when a Claim becomes an Allowed Claim, or (c) when sufficient Cash is available for a Distribution to a particular Class pursuant to the treatment of such Class under the Plan, as determined by the Debtors (in respect of Allowed Administrative Claims, Priority Tax Claims and Priority Wage Claims) and the Hartford Liquidating Trustee (in respect of Allowed Class III Claims) in accordance with their respective reasonable business judgment. The Debtors shall make all Distributions to Holders of Allowed Administrative Claims, Priority Tax Claims, and Priority Wage Claims due and payable on the Effective Date or the Outside Date, as appropriate. The Hartford Liquidating Trustee shall make all Distributions payable to Holders of Allowed Class III Claims.

In accordance with the provisions of the Hartford Liquidating Trust Agreement, the Hartford Liquidating Trustee shall establish a reserve of Cash that he estimates to be sufficient to satisfy incurred and anticipated post-Effective Date Claims to be incurred by the Hartford Liquidating Trustee and to fund the Distribution Reserve. The Hartford Liquidating Trustee may make any additional Distribution after the initial Distribution is made on or about the Effective Date as provided in the Hartford Liquidating Trust Agreement. Such additional Distribution may be made at such time(s) and in such amount(s) as are consistent with the Hartford Liquidating Trust Agreement.

3.7. **Procedures for Treating and Resolving Disputed Claims.** No payments or Distributions will be made with respect to all or any portion of a Disputed Claim unless and until all objections to such Disputed Claim have been settled or withdrawn or have been determined by a Final Order, and the Disputed Claim has become an Allowed Claim. All objections to Claims must be filed by the Hartford Liquidating Trustee or any other party in interest entitled to object under the Bankruptcy Code and/or Bankruptcy Rules on or before the Claims Objection Deadline. The Claims Objection Deadline may be extended by the Bankruptcy Court for cause shown. The filing of a motion to extend the Claims Objection Deadline shall automatically extend the Claims Objection Deadline until a Final Order is entered on such motion. In the event that such motion is denied, the Claims Objection Deadline shall be the later of the current Claims Objection Deadline (as previously extended, if applicable) or 30 days after the Bankruptcy Court's entry of an order denying the motion to extend the Claims Objection Deadline. Following the Effective Date, the Hartford Liquidating Trustee shall have the exclusive authority to object to Class III Claims.

3.7.1. **Distribution Reserve.** The Hartford Liquidating Trustee will withhold the Distribution Reserve from the property to be distributed to Holders of Allowed Class III Claims. The Hartford Liquidating Trustee may request that the Bankruptcy Court estimate for purposes of allowance any Disputed Class III Claim, and the Hartford Liquidating Trustee will withhold the Distribution Reserve based upon the estimated amount of each such Disputed Class III Claim as determined by Final Order of the Bankruptcy Court. If the Hartford Liquidating Trustee elects not to request such estimation from the Bankruptcy Court with respect to a Disputed Class III Claim that is contingent or unliquidated, the Hartford Liquidating Trustee will withhold the Distribution Reserve based upon the appropriate pro rata percentage distribution of the Face Amount of such Claim. The Distribution Reserve shall be closed and extinguished by the Hartford Liquidating Trustee when all distributions and other dispositions of Cash or other property required to be made therefrom under the Hartford Liquidating Trust have been made. Upon closure of the Distribution Reserve, all Cash and other property held therein shall become part of the general Hartford Trust Assets.

3.7.2. **Distributions After Allowance.** Payments and Distributions on account of a Disputed Claim, to the extent that such Disputed Claim ultimately becomes an Allowed Claim, will be made in accordance with provisions of the Plan that govern the Class in which such Claim is classified.

Distributions on account of Disputed Class III Claims shall be made in accordance with the terms of the Hartford Liquidating Trust Agreement. All Distributions made under this Section of the Plan on account of an Allowed Claim shall be made as if such Claim had been an Allowed Claim on the dates Distributions were previously made to Allowed Claims.

3.8. **Substantive Consolidation.** For the purposes of the Cases and the Plan only, all Assets of and Claims against the Debtors will be deemed to be substantively consolidated. As a result, Claims filed against multiple Debtors seeking recovery of the same debt shall be treated as one Claim against the consolidated Debtors' estates to the extent such Claim is an Allowed Claim. Claims of Debtors against other Debtors will be disregarded for both voting and Distribution purposes.

3.9. **The Hartford Liquidating Trustees' Abandonment, Disposal and/or Destruction of the Records.** Pursuant to section 554 of the Bankruptcy Code, the Hartford Liquidating Trustee shall be authorized to abandon all originals and/or copies of documents and business records upon order of the Bankruptcy Court obtained on motion on twenty days negative notice to the Debtors' Bankruptcy Rule 2002 service list.

3.10. **Executory Contracts and Unexpired Leases.** As stated in Article IV of the Plan, the Debtors believe that all executory contracts and unexpired leases of the Debtors were assumed and assigned, or rejected, during the Cases. Accordingly, Article IV of the Plan is included out of an abundance of caution and (i) provides that all executory contracts and unexpired leases of the Debtors which are not assumed and assigned, or rejected, prior to the Confirmation Date, if any, shall be deemed rejected and (ii) sets forth procedures for asserting and resolving Rejection Claims, if any.

3.11. **Assignments to Delaware Street.**

3.11.1. **Earnouts.** As of the Effective Date, subject to the Settlement Sum, all rights to collect the Earnout shall be assigned to Delaware Street.

3.11.2. **DSC Assigned Causes of Action.** As of the Effective Date, the DSC Assigned Causes of Action shall be assigned to Delaware Street and/or released by the Debtors and the Hartford Liquidating Trust. Upon the Effective Date, Delaware Street shall have exclusive standing to bring the DSC Assigned Causes of Action; provided, however, that if and to the extent that a director or officer of the Debtors files a claim against the Debtors (other than a claim scheduled by the Debtors and not scheduled as disputed, unliquidated or contingent) which, if allowed, would be a beneficiary of the Hartford Liquidating Trust, the Hartford Liquidating Trust may bring an Avoidance Action against such director or officer solely for purposes of offsetting against the amount of such claim, but may not seek affirmative recovery from such director or officer.

3.12. **Debtors' Duties and Rights.**

- 3.12.1. **Tax Returns.** The Debtors shall be responsive for filing their own tax returns for periods prior to the Effective Date.
- 3.12.2. **Dissolution of the Debtors.** On later of the Effective Date or the Outside Date, or as soon thereafter as is reasonably practicable, the Debtors shall be authorized to take all actions necessary to effect the dissolution of any of the Debtors as corporate entities without the need for any further action or approval; provided, however, that the entry of the Final Decree in these Cases shall effect such dissolution of all remaining Debtors to the extent permissible under applicable law.
- 3.12.3. **Administrative Claims and Priority Claims.**
- 3.12.3.1. **Reconciliation and Allowance.** Before and after the Effective Date, and until the Outside Date, the Debtors shall be responsible for and empowered to review, adjudicate and/or settle any and all Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Priority Wage Claims.
- 3.12.3.2. **Administrative and Priority Reserve.** On the Effective Date, the Debtors will establish and maintain a reserve of Cash in an amount to be agreed upon by the Debtors and Delaware Street for the payment of Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Priority Wage Claims that are disputed.
- 3.12.3.3. **Distributions After Allowance.** Payments from the reserve on account of disputed Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Priority Wage Claims, to the extent that such disputed Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Priority Wage Claims ultimately become Allowed Claims, will be made within thirty (30) days after the date when the order or judgment of the Bankruptcy Court allowing all or part of such Administrative Claims, Professional Fee Claims, Priority Tax Claims, and Priority Wage Claims.
- 3.12.3.4. **Return of Excess Reserve to Delaware Street.** After the adjudication of all Disputed Administrative Claims, Priority Tax Claims, Professional Fee Claims, and Priority Wage Claims and payment of the Allowed amounts thereof, any remaining Cash in the reserve established pursuant to Section 2.15.2 hereof shall become Excess Cash and shall be distributed to Delaware Street pursuant to the Plan.

3.13. **Conditions Precedent to Confirmation and Consummation of the Plan.** Article V of the Plan sets forth the conditions that must occur prior to both Confirmation of the Plan and the occurrence of the Effective Date. Article V also describes the ability of the Debtors, the Creditors' Committee, and Delaware Street to waive such conditions, as well as the effect of non-occurrence of the conditions to the Effective Date, including the vacation of the Confirmation Order. If the Confirmation Order is vacated pursuant to section 5.3 of the Plan, (i) the Plan shall be null and void in all respects; and (ii) nothing contained in the Plan shall (a) constitute a waiver or release of any Claims by or against, or any Interest in, the Debtors or (b) prejudice in any manner the rights of the Debtors or any other party in interest.

3.14. **Miscellaneous Provisions.** Article VI of the Plan contains several miscellaneous provisions, including: (i) the retention of jurisdiction by the Bankruptcy Court over certain matters following the Confirmation Date; (ii) the payment of statutory fees pursuant to 28 U.S.C. section 1930; (iii) the dissolution of the Creditors' Committee; and (iv) the termination of Kurtzman Carson Consultants LLC in its capacity as claims, noticing and balloting agent.

3.15. **The Professional Fee Claims Bar Date.** Any and all applications for the final allowance of Professional Fee Claims shall be Filed and served upon counsel to the Debtors, counsel to the Creditors' Committee, the United States Trustee, and all Persons on the Debtors' Bankruptcy Rule 2002 service list on or before the Professional Fee Claim Bar Date.

3.16. **Final Fee Hearing.** A hearing on final allowance of Professional Fee Claims shall be held as soon as practicable after the Professional Fee Claim Bar Date. The Debtors' counsel shall File a notice of the Final Fee Hearing. Such notice shall be posted on the Noticing Agent Website, and served upon counsel for the Creditors' Committee, all Professionals, the United States Trustee and all parties on the Debtors' Bankruptcy Rule 2002 service list. No professional fees in excess of the amounts allocated in the Cash Collateral Order shall be Allowed Professional Fees payable by the Debtors or from the reserves created under the Plan, but all Professional Fee Claims of the professionals for the Creditors' Committee that were not paid from funds allocated to them pursuant to the Cash Collateral Order shall be paid from the Hartford Trust Assets, as provided in the Hartford Liquidating Trust Agreement.

3.17. ADDITIONALLY, PLEASE NOTE THAT SECTIONS 6.13, 6.14, AND 6.15 OF THE PLAN GOVERN THE EXCULPATION AND LIMITATION OF LIABILITY OF CERTAIN PARTIES WITH RESPECT TO THE CASES, INCLUDING RELEASES INVOLVING DELAWARE STREET. PLEASE REVIEW THOSE PROVISIONS CAREFULLY.

4. **FEASIBILITY.**

4.1. **Financial Feasibility Analysis.**

4.1.1. **Bankruptcy Code Standard.** The Bankruptcy Code requires that, in order to confirm a plan, the Bankruptcy Court must find that confirmation of such plan is not likely to be followed by the liquidation or the need for further financial reorganization of the debtor(s) unless contemplated by the plan.

4.1.2. **No Need for Further Reorganization of Debtors.** The Plan provides for the liquidation and distribution of all of the Debtors' Assets. Accordingly, the Debtors believe that all Plan obligations will be satisfied without the need for further reorganization of the Debtors.

5. **BEST INTERESTS OF CREDITORS AND ALTERNATIVES TO PLAN.**

5.1. **Chapter 7 Liquidation.**

5.1.1. **Plan is in the Best Interests of Creditors.** Notwithstanding acceptance of the Plan by a voting Impaired Class, in order to confirm the Plan, the Bankruptcy Court must determine that the Plan is in the best interests of each Holder of a Claim or Interest in any such Impaired Class which has not voted to accept the Plan. Accordingly, if an Impaired Class does not vote unanimously to accept the Plan, the best interests test requires the Bankruptcy Court to find that the Plan provides to each member of such Impaired Class a recovery on account of the Class member's Claim or Interest that has a value, as of the Effective Date, at least equal to the value of the recovery that each such Class member would receive if the Debtors were liquidated under chapter 7.

The Debtors believe that the Plan satisfies the best interests test, because, among other things, the recoveries expected to be available to Holders of Allowed Claims under the Plan will be greater than the recoveries expected to be available in a chapter 7 liquidation.

In a typical chapter 7 case, a trustee is elected or appointed to liquidate a debtor's assets for distribution to creditors in accordance with the priorities set forth in the Bankruptcy Code. Generally, secured creditors are paid first from the proceeds of sales of the properties securing their liens. If any assets are remaining in the bankruptcy estate after satisfaction of secured creditors' claims from their collateral, administrative expenses are next to receive payment. Unsecured creditors are paid from any remaining sales proceeds, according to their respective priorities. Unsecured creditors with the same priority share in proportion to the amount of their allowed claims in relationship to the total amount of allowed claims held by all unsecured creditors with the same priority. Finally, equity interests are cancelled.

Substantially all of the Debtors' Assets have already been liquidated during the Cases through the sale consummated by the Debtors pursuant to the Sale Order. All of the proceeds of the sale and all of the Debtors other assets, other than Avoidance Actions, constitute collateral of Delaware Street. In light of this, the Proponents believe that the Plan provides the best source of recovery to Holders of Allowed General Unsecured Claims. Because all of the proceeds constitute collateral of Delaware Street and the Debtors' belief that the Settlement Sum would not be made available in a chapter 7 scenario, a chapter 7 would not provide a timely Distribution to Holders of Class III Claims and would likely not provide a Distribution to Holders of such Claims at all because of the lack of

unencumbered funds available. The Proponents believe that, absent the Plan, it is not even likely that administrative or priority claims could be paid in full in a Chapter 7 scenario. The fees and expenses that would be incurred during a chapter 7 liquidation, including potential added time and expense incurred by the Trustee and any retained professionals in familiarizing themselves with the Cases, would only further diminish the likelihood of any recovery by Class III Claims, and reduce the recoveries that might be available to Allowed Administrative and Priority Claims from recoveries from Avoidance Actions, which constitute the only unencumbered assets of the estates. Attached as Exhibit B to this Disclosure Statement is a liquidation analysis performed by the Debtors which substantiates the Debtors' view that the Debtors' Plan provides greater recoveries to creditors than a chapter 7 liquidation.

Accordingly, the Debtors believe that the Plan is in the best interests of Creditors.

5.2 **Alternative Plan(s).** The Debtors do not believe that there are any alternative plans. The Debtors believe that the Plan, as described herein, enables Holders of Claims to realize the greatest possible value under the circumstances, and that, compared to any alternative plan, the Plan has the greatest chance to be confirmed and consummated.

6. **RISK FACTORS.**

Holders of Claims who are entitled to vote on the Plan should read and carefully consider the following factors, as well as the other information set forth in this Disclosure Statement and the Plan, before deciding whether to vote to accept or reject the Plan.

6.1. **Certain Bankruptcy Considerations.**

Even if the Impaired Voting Class votes to accept the Plan, the Court may exercise substantial discretion and may choose not to confirm the Plan. Section 1129 of the Bankruptcy Code requires, among other things, that the value of Distributions to dissenting Holders of Claims or Interests may not be less than the value such Holders would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code. Although the Proponents believe that the Plan will meet such requirement, there can be no assurance that the Court will reach the same conclusion.

6.2. **Claims Estimation.**

There can be no assurance that the estimated amount of Claims set forth in the Plan is correct, and the actual allowed amounts of Claims may differ from the estimates. The Debtors are in process of reconciling Claims, including tax Claims. Any value given as to the Claims against and the Assets of the Debtors is based upon an estimation of such value.

6.3 **Additional Recoveries.**

There can be no assurance by the Debtors that any additional liquidation proceeds will be generated from the liquidation of the Hartford Trust Assets for distribution to Holders of Allowed General Unsecured Claims.

7. **TAX CONSEQUENCES OF THE PLAN.**

THE DEBTORS HAVE NOT REQUESTED A RULING FROM THE IRS OR AN OPINION OF COUNSEL WITH RESPECT TO ANY OF THE TAX ASPECTS OF THE PLAN. THUS, NO ASSURANCE CAN BE GIVEN AS TO THE TAX CONSEQUENCES OF THE PLAN. EACH HOLDER OF A CLAIM OR EQUITY INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISOR FOR THE FEDERAL, STATE, LOCAL AND OTHER TAX CONSEQUENCES APPLICABLE UNDER THE PLAN.

NO STATEMENT IN THIS DISCLOSURE STATEMENT SHOULD BE CONSTRUED AS LEGAL OR TAX ADVICE. THE DEBTORS AND THEIR PROFESSIONALS DO NOT ASSUME ANY RESPONSIBILITY OR LIABILITY FOR THE TAX CONSEQUENCES THE HOLDER OF A CLAIM MAY INCUR AS A RESULT OF THE TREATMENT AFFORDED ITS CLAIM UNDER THE PLAN AND DO NOT REPRESENT WHETHER THERE COULD BE ADDITIONAL TAX EXPOSURE TO THEMSELVES OR THEIR NON-DEBTOR AFFILIATES AS A RESULT OF THIS PLAN.

8. **CONCLUSION.**

It is important that you exercise your right to vote on the Plan. It is the Proponents' belief and recommendation that the Plan fairly and equitably provides for the treatment of all Claims against and Interests in the Debtors.

IN WITNESS WHEREOF, the Debtors have executed this Disclosure Statement this ~~23rd~~6th day of ~~July~~August, 2012.

Hartford Computer Hardware, Inc.
Hartford Computer Group, Inc.
Hartford Computer Government, Inc.
Old NS, LLC f/k/a Nexicore Services, LLC

By: _____

Name: Steven Nerger
Title: Chief Restructuring Officer

DISCLOSURE STATEMENT EXHIBIT A

[\[Joint Proposed Plan\]](#)

[\[Filed On July 23, 2012, Docket No. 399\]](#)

DISCLOSURE STATEMENT EXHIBIT B

[Liquidation Analysis]

[~~To Be~~ Filed [on July 17, 2012, Docket No. 385](#)]