**IN THE UNITED STATES BANKRUPTCY COURT**
**FOR THE DISTRICT OF DELAWARE**

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| In re | : | Chapter 11 |
| Handy Hardware Wholesale, Inc., | : | Case No. 13-10060 (MFW) |
| Debtor.[1] | : | **Related Docket Nos. 243, 244** |

# FIRST AMENDED DISCLOSURE STATEMENT IN SUPPORT OF THE FIRST AMENDED PLAN OF REORGANIZATION PURSUANT TO CHAPTER 11 OF THE UNITED STATES BANKRUPTCY CODE

ASHBY & GEDDES, P.A.
William P. Bowden (No. 2553)
Gregory A. Taylor (No. 4008)
Amanda Winfree Herrmann (No. 4615)
Stacy L. Newman (No. 5044)
500 Delaware Avenue, 8th Floor
P.O. Box 1150
Wilmington, DE 19899
Telephone: (302) 654-1888
Facsimile: (302) 654-2067

*Counsel to Debtor and Debtor-in-Possession*

Dated: ~~March 6~~May 31, 2013
Wilmington, Delaware

[1] The Debtor's EIN is 74-1381875. The Debtor's address for purposes of this chapter 11 case is 8300 Tewantin Drive, Houston, Texas 77061.

**THIS FIRST AMENDED DISCLOSURE STATEMENT HAS NOT YET BEEN APPROVED BY ORDER OF THE BANKRUPTCY COURT.**

**THE VOTING DEADLINE TO ACCEPT OR REJECT THE FIRST AMENDED PLAN IS 5:00 P.M. ON ~~MAY 6~~JULY 18, 2013 (PREVAILING EASTERN TIME), UNLESS THE DEBTOR EXTENDS THE VOTING DEADLINE. TO BE COUNTED, THE SOLICITATION AGENT MUST ACTUALLY RECEIVE YOUR BALLOT ON OR BEFORE THE VOTING DEADLINE.**

**CERTAIN INFORMATION CONTAINED IN THIS FIRST AMENDED DISCLOSURE STATEMENT, THE FIRST AMENDED PLAN, THE PLAN SUPPLEMENT AND ANY EXHIBITS ATTACHED THERETO IS SPECULATIVE, AND PERSONS SHOULD NOT RELY ON SUCH DOCUMENTS IN MAKING INVESTMENT DECISIONS WITH RESPECT TO (A) THE DEBTOR OR (B) ANY OTHER ENTITIES THAT MAY BE AFFECTED BY THE CHAPTER 11 CASE.**

HANDY HARDWARE WHOLESALE, INC. (THE "DEBTOR") IS PROVIDING THE INFORMATION IN THIS FIRST AMENDED DISCLOSURE STATEMENT (THE "DISCLOSURE STATEMENT") IN SUPPORT OF THE FIRST AMENDED PLAN OF REORGANIZATION UNDER CHAPTER 11 OF THE BANKRUPTCY CODE (THE "PLAN") TO HOLDERS OF CLAIMS FOR PURPOSES OF SOLICITING VOTES TO ACCEPT OR REJECT THE PLAN. YOU SHOULD NOT RELY UPON OR USE THE INFORMATION IN THIS DISCLOSURE STATEMENT FOR ANY OTHER PURPOSE.

THIS DISCLOSURE STATEMENT HAS BEEN PREPARED PURSUANT TO SECTION 1125 OF THE BANKRUPTCY CODE AND RULE 3016(b) OF THE FEDERAL RULES OF BANKRUPTCY PROCEDURE AND HAS NOT BEEN PREPARED IN ACCORDANCE WITH FEDERAL OR STATE SECURITIES LAWS OR OTHER SIMILAR LAWS. THIS DISCLOSURE STATEMENT WAS NOT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION (THE "SEC") OR ANY STATE AUTHORITY AND NEITHER THE SEC NOR ANY STATE AUTHORITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DISCLOSURE STATEMENT OR UPON THE MERITS OF THE PLAN.

THIS DISCLOSURE STATEMENT MAY CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS CONSIST OF ANY STATEMENT OTHER THAN A RECITATION OF HISTORICAL FACT AND CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "EXPECT," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. THE READER IS CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS ARE NECESSARILY

SPECULATIVE AND THERE ARE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE REFERRED TO IN SUCH FORWARD-LOOKING STATEMENTS. THE LIQUIDATION ANALYSIS, DISTRIBUTION PROJECTIONS AND OTHER INFORMATION CONTAINED HEREIN, ATTACHED HERETO AND CONTAINED IN THE PLAN SUPPLEMENT ARE ESTIMATES ONLY, AND THE TIMING AND AMOUNT OF ACTUAL DISTRIBUTIONS TO HOLDERS OF ALLOWED CLAIMS AGAINST THE DEBTOR MAY BE AFFECTED BY MANY FACTORS THAT CANNOT BE PREDICTED. THEREFORE, ANY ANALYSES, ESTIMATES OR RECOVERY PROJECTIONS MAY OR MAY NOT TURN OUT TO BE ACCURATE.

NO LEGAL OR TAX ADVICE IS PROVIDED TO YOU BY THIS DISCLOSURE STATEMENT. THE DEBTOR URGES EACH HOLDER OF A CLAIM AGAINST OR AN EQUITY INTEREST IN THE DEBTOR TO CONSULT WITH ITS OWN ADVISORS WITH RESPECT TO ANY LEGAL, FINANCIAL, SECURITIES, TAX OR BUSINESS ADVICE IN REVIEWING THIS DISCLOSURE STATEMENT, THE PLAN AND EACH OF THE PROPOSED TRANSACTIONS CONTEMPLATED THEREBY. FURTHERMORE, THE BANKRUPTCY COURT'S APPROVAL OF THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE THE BANKRUPTCY COURT'S APPROVAL OF THE MERITS OF THE PLAN.

IT IS THE POSITION OF THE DEBTOR THAT THIS DISCLOSURE STATEMENT DOES NOT CONSTITUTE, AND MAY NOT BE CONSTRUED AS, AN ADMISSION OF FACT, LIABILITY, STIPULATION OR WAIVER. RATHER, HOLDERS OF CLAIMS AGAINST AND EQUITY INTERESTS IN THE DEBTOR AND OTHER ENTITIES SHOULD CONSTRUE THIS DISCLOSURE STATEMENT AS A STATEMENT MADE IN SETTLEMENT NEGOTIATIONS RELATED TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER PENDING OR THREATENED LITIGATION OR ACTIONS.

NO RELIANCE SHOULD BE PLACED ON THE FACT THAT A PARTICULAR CAUSE OF ACTION, CLAIM OR PROJECTED OBJECTION TO A PARTICULAR CLAIM AGAINST THE DEBTOR IS, OR IS NOT, IDENTIFIED IN THE DISCLOSURE STATEMENT. THE DEBTOR MAY SEEK TO INVESTIGATE, FILE AND PROSECUTE CAUSES OF ACTION AND MAY OBJECT TO CLAIMS AFTER THE CONFIRMATION DATE OR THE EFFECTIVE DATE OF THE PLAN IRRESPECTIVE OF WHETHER THE DISCLOSURE STATEMENT IDENTIFIES ANY SUCH CLAIMS OR OBJECTIONS TO CLAIMS. THE PLAN RESERVES FOR THE DEBTOR THE RIGHT TO BRING CAUSES OF ACTION AGAINST ANY ENTITY OR PARTY IN INTEREST EXCEPT THOSE SPECIFICALLY RELEASED BY THE PLAN.

THIS DISCLOSURE STATEMENT CONTAINS, AMONG OTHER THINGS, SUMMARIES OF THE PLAN, CERTAIN STATUTORY PROVISIONS, CERTAIN EVENTS IN THE DEBTOR'S CHAPTER 11 CASE, AND CERTAIN DOCUMENTS RELATED TO THE PLAN THAT WILL BE INCLUDED IN THE PLAN SUPPLEMENT AND INCORPORATED HEREIN BY REFERENCE. ALTHOUGH THE DEBTOR BELIEVES THAT THESE SUMMARIES ARE FAIR AND ACCURATE, THESE SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY TO THE EXTENT THAT THE SUMMARIES DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS OR EVERY DETAIL OF SUCH EVENTS. IN THE EVENT OF ANY

INCONSISTENCY OR DISCREPANCY BETWEEN A DESCRIPTION IN THIS DISCLOSURE STATEMENT AND THE TERMS AND PROVISIONS OF THE PLAN OR ANY OTHER DOCUMENTS INCORPORATED HEREIN BY REFERENCE, THE PLAN OR SUCH OTHER DOCUMENTS WILL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTOR DOES NOT REPRESENT OR WARRANT THAT THE INFORMATION CONTAINED HEREIN OR ATTACHED HERETO IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

THE DEBTOR HAS REVIEWED THE FINANCIAL INFORMATION PROVIDED IN THIS DISCLOSURE STATEMENT. ALTHOUGH THE DEBTOR HAS USED REASONABLE BUSINESS JUDGMENT TO ENSURE THE ACCURACY OF THIS FINANCIAL INFORMATION, NO ENTITY HAS AUDITED THE FINANCIAL INFORMATION CONTAINED IN, OR INCORPORATED BY REFERENCE INTO, THIS DISCLOSURE STATEMENT.

THE DEBTOR IS MAKING THE STATEMENTS AND PROVIDING THE FINANCIAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT AS OF THE DATE HEREOF, UNLESS OTHERWISE SPECIFICALLY NOTED. ALTHOUGH THE DEBTOR MAY SUBSEQUENTLY UPDATE THE INFORMATION IN THIS DISCLOSURE STATEMENT, THE DEBTOR HAS NO AFFIRMATIVE DUTY TO DO SO. HOLDERS OF CLAIMS AND EQUITY INTERESTS REVIEWING THIS DISCLOSURE STATEMENT SHOULD NOT INFER THAT, AT THE TIME OF THEIR REVIEW, THE FACTS SET FORTH HEREIN HAVE NOT CHANGED SINCE THE DEBTOR FILED THIS DISCLOSURE STATEMENT. HOLDERS OF CLAIMS ENTITLED TO VOTE TO ACCEPT OR REJECT THE PLAN MUST RELY ON THEIR OWN EVALUATION OF THE DEBTOR AND THEIR OWN ANALYSIS OF THE TERMS OF THE PLAN, INCLUDING, WITHOUT LIMITATION, ANY RISK FACTORS CITED HEREIN, IN DECIDING WHETHER TO VOTE TO ACCEPT OR REJECT THE PLAN.

THE DEBTOR HAS NOT AUTHORIZED ANY ENTITY TO GIVE ANY INFORMATION ABOUT OR CONCERNING THE PLAN OTHER THAN THAT WHICH IS CONTAINED IN THIS DISCLOSURE STATEMENT. THE DEBTOR HAS NOT AUTHORIZED ANY REPRESENTATIONS CONCERNING THE DEBTOR OR THE VALUE OF ITS PROPERTY, OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

PRIOR TO DECIDING WHETHER AND HOW TO VOTE ON THE PLAN, EACH HOLDER OF A CLAIM IN CLASS ~~2, CLASS 4, CLASS 6, CLASS 7,~~1 AND CLASS ~~8~~5 SHOULD CONSIDER CAREFULLY ALL OF THE INFORMATION IN THIS DISCLOSURE STATEMENT, INCLUDING THE RISK FACTORS DESCRIBED HEREIN.

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## EXHIBITS

## I. SUMMARY

Pursuant to Section 1125 of the Bankruptcy Code,[2] the Debtor submits this Disclosure Statement to holders of Claims against and Equity Interests in the Debtor in connection with the solicitation of votes to accept or reject the Plan, and the Confirmation Hearing, which is currently scheduled to commence on ~~May 13~~**July 25, 2013 at** ~~10:30 a~~**1:00 p.m. (prevailing Eastern Time)**, subject to adjournment.

The following summary is qualified in its entirety by, and should be read in conjunction with, the Plan and the more detailed information and financial information appearing elsewhere in this Disclosure Statement.

### A. Summary of the Plan

On ~~March 6~~May 31, 2013, the Debtor filed the Plan with the Bankruptcy Court. A copy of the Plan is annexed hereto as **Exhibit A**. ~~The purpose of the Plan is to resolve all Claims and Equity Interests in the Debtor and reorganize the Debtor's business. The goal of the Plan is to enable the Debtor to right-size its operations, streamline its transportation service requirements, restructure its indebtedness to Capital One, National Association ("Capital One"), return to profitability, and emerge from chapter 11 with a new senior credit facility to be provided by Wells Fargo, National Association ("Wells Fargo") on the terms and conditions of its proposed Commitment Letter. The Plan contemplates or provides for, generally, the following:~~The premise of the Plan is a sale ("Sale") of substantially all of the Debtor's assets (the "Purchased Assets") (and assumption of certain of the Debtor's liabilities) to HH Acquisition LLC, a Delaware limited liability company ("Buyer"), which is an affiliate of Littlejohn Management Holdings, LLC ("Littlejohn Management" and together with Buyer, the "Littlejohn Parties"), pursuant to the Plan and the Purchase Agreement (to be filed as part of the Plan Supplement).

Pursuant to the proposed Sale, Handy will be owned by Buyer, which intends to operate as an independent distributor of hardware, maintain the Handy Hardware identity in the marketplace, and continue to provide the same cost savings and service to Handy's existing and future Members. As an incentive to Handy's Members to continue to do business with Buyer post-Effective Date, Buyer has proposed to eliminate the 2% warehouse fee which is currently charged to Members on certain purchases. Buyer has further proposed the establishment of a loyalty program for certain existing Members who continue to do business with Buyer post-Effective Date. Finally, the proposed Sale, pursuant to the proposed Plan, provides for payment or assumption of allowed administrative claims in full, including all allowed claims under Section 503(b)(9); (iii) funding of a significant contribution ($4,000,000) to provide a pro rata recovery to holders of general unsecured creditors and a budget for the wind-down of the

[2] Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Plan.

Debtor's estate; (iv) waiver of substantially all avoidance actions, except for certain parties that will be specifically identified as part of the Plan Supplement.

The Debtor believes that the proposed Sale and Plan will provide the best long-term outcome for the Debtor's Estate and its creditors. In connection with the Sale, Buyer will obtain a New Credit Facility to be provided by Wells Fargo, National Association ("Wells Fargo") or another lender, which will be an asset-based working capital credit facility for Buyer on terms and conditions acceptable to Buyer, including those set forth in the Plan. The Plan further contemplates or provides for, generally, the following:

- Payment in full, in Cash, ~~of the unclassified claims~~from the proceeds of the Littlejohn Administrative/503(b)(9) Contribution, to Holders of: Allowed Administrative Claims (including Allowed Section 503(b)(9) Claims), Allowed Professional Fee Claims and Committee Expense Claims, ~~Allowed DIP Facility Claims,~~ and Allowed Priority Tax Claims.

- ~~Payment in full, in Cash, of the Class 1 Wells Fargo Secured Claim.~~

- Assumption by Buyer of the Allowed DIP Facility Claim at the closing of the Sale in accordance with the Purchase Agreement.

- Treatment of ~~the Class 2~~ Capital One Secured ~~Claim~~Claims as follows:

  ~~(i) if (and only if) Capital One votes to accept the Plan, the Capital One Secured Claim shall be Allowed in the amount to be agreed upon with Capital One, and Capital One shall receive on the Effective Date and be treated as follows, or as soon thereafter as practicable, in full and final satisfaction of the Allowed Capital One Secured Claim and in partial consideration for the release of its lien on the Houston Facility and the Retained Capital One Equipment: (a) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One, and a bill of sale respecting any Abandoned Capital One Equipment; (b) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code; (c) a deed in lieu of foreclosure of the Houston Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One; (d) the rights and benefits to be provided pursuant to the Houston Facility Lease; (e) except as provided herein, Capital One shall release all of its Liens on the Debtor's assets (including, but not limited to, its second priority security interest in the "Wells Fargo First Lien Collateral", as defined in the Final Financing Order and its first priority security interests in the Retained Capital One Equipment and other assets located at the Houston Facility); and (f) in connection with this option, Capital One shall be required to deliver to Wells Fargo (i) an executed and acknowledged landlord's waiver and access agreement in form and substance acceptable to Wells Fargo with respect to the Houston Facility, and (ii) an executed and acknowledged Collateral Assignment of Lease with respect to the Houston Facility Lease, consenting to the assignment to Wells Fargo of such lease by the Debtor as~~

~~collateral for the Wells Fargo Exit Facility; or~~

~~(ii) if Capital One votes to reject the Plan, Capital One shall receive on the Effective Date or as soon thereafter as practicable, and shall be treated as follows, in full and final satisfaction of the Capital One Secured Claim: (a) the Restructured Capital One Secured Note (subject to the terms and conditions of the Intercreditor Agreement, as defined in the Final Financing Order); (b) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of all Improvements to the Meridian Facility, in form and substance mutually satisfactory to the Debtor and Capital One and a bill of sale respecting any Abandoned Capital One Equipment; and (c) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code; or~~

~~(iii) in the event Capital One timely elects to have the Capital One Claim treated pursuant to Section 1111(b) of the Bankruptcy Code, Capital One shall receive, in full and final satisfaction of the Capital One Claim: (a) the Alternative Restructured Capital One Secured Note (subject to the terms and conditions of the Intercreditor Agreement, as defined in the Final Financing Order); (b) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One and a bill of sale respecting any Abandoned Capital One Equipment; and (c) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code.~~

- As negotiated with Capital One, in full and final satisfaction, settlement, release and discharge of the Capital One Secured Claim, including all associated liens, encumbrances and interests and any other form or classification of claim by Capital One which could be asserted, Capital One shall receive (subject to existing liens in favor of Capital One and/or Hancock Bank) the Meridian Facility and the Houston Facility, by, among other things, transfer of deeds directly from the Debtor to Capital One on the Effective Date, with Capital One also receiving title to ten reach trucks (including all charging stations), six stretch wrap machines and all furniture currently in the Meridian Facility, as well as all fixtures and racking in both the Meridian Facility and the Houston Facility, and Capital One agrees to execute a lease with Buyer for Buyer's lease and full use of the Houston Facility with terms acceptable to the Littlejohn Parties and Capital One. Capital One will likewise receive a full release and discharge no less favorable than that provided to any other creditor in the Chapter 11 Case. If the Debtor, Capital One and the Littlejohn Parties are unable to reach agreement upon remaining terms necessary for the consensual treatment of the Allowed Capital One Secured Claim, such may prevent a condition precedent to the occurrence of the Effective Date of the Plan.

- Alternatively, if Capital One elects to object to Confirmation of the Plan or vote against the Plan, Capital One may receive one or more, singularly or in combination, of the following, which election shall be with the Debtor (but only with the consent of the Littlejohn Parties): (i) receipt of or abandonment to Capital One of portions of its underlying collateral relating to its claims; (ii) the indubitable equivalent of the Allowed Capital One Secured Claim; (iii) reinstatement in accordance with the provisions of Bankruptcy Code 1142(2); (iv) treatment in accordance with Class 5; (v) treatment in accordance with Class 6; or (vi) such other treatment determined by the Bankruptcy Court to provide deferred Cash payments having a value, as of the Effective Date, equal to the Allowed Capital One Secured Claim.

- Payment in full, in Cash, to Holders of the Class ~~3~~2 Allowed Secured Tax Claims.

- Each ~~holder~~Holder of a Class 43 Allowed Other Secured Claim shall, at the Debtor's discretion: (i) have its Allowed Other Secured Claim reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code; (ii) receive Cash in an amount equal to the Allowed Amount of such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code; or (iii) receive collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code. The Debtor does not anticipate any Allowed Class 3 Claims.

- Payment in full, in Cash, ~~of~~from the ~~Class 5~~ proceeds of the Littlejohn Unsecured Contribution, to Holders of Class 4 Allowed Non-Tax Priority Claims.

- ~~The amount of the Class 6 Allowed Capital One Unsecured Claim shall be: (a) be in an amount agreed upon between the Debtor and Capital One; or (b) in an amount determined by the Bankruptcy Court. In full and final satisfaction, settlement, release, and discharge of and in exchange for the Allowed Capital One General Unsecured Claim, Capital One shall receive its Pro Rata share of the Net Cash Flow Available to Creditors each quarter following the Effective Date for a 3-year period commencing on the first day following the last Business Day of the first full quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is an event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holder of the Capital One Unsecured Claim to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents.~~

- ~~Payment of the Class 7 Allowed General Unsecured Claims by receipt of: (i) the Avoidance Action Release, and (ii) their Pro Rata share of the Net Cash Flow Available to Creditors each quarter following the Effective Date for a 3-year period commencing on the first day following the last Business Day of the first full quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is an event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holders of General Unsecured Claims in Class 7 to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents.~~

- ~~Payment of Class 8 Allowed Convenience Claims Cash in an amount equal to seventy five percent (75%) of the Allowed Amount of such Allowed Convenience Claims.~~

- ~~Cancellation of all Class 9 Equity Interests.~~

- Distribution to each Holder of Allowed General Unsecured Claims in Class 5 by receipt of Cash equal to the holder's Pro Rata share of the difference of $4.0 million minus (i) the amount necessary to pay in full the Allowed Claims in Class 4 and (ii) the Wind Down Costs. For the avoidance of doubt, Capital One shall not have a General Unsecured Claim.

- No distribution to Class ~~10~~6 Allowed Section 510(b) Claims.

- Cancellation of all Class 7 Equity Interests.

## B. Overview of Restructuring Transactions

As part of its reorganization efforts, the Debtor anticipates that it will have undertaken certain ~~restructuring~~ transactions upon its emergence from the Chapter 11 Case, as described below.

~~(1)~~(1) ***Letter of Intent for Acquisition by Littlejohn Management.*** On March 6, 2013, in accordance with certain milestones contained in the Final Financing Order, the Debtor filed its *Disclosure Statement in Support of the Plan of Reorganization Pursuant to Chapter 11 of the United States Bankruptcy Code* [Docket No. 244] (the "First Disclosure Statement"), along with a proposed plan of reorganization [Docket No. 243] (the "First Plan") and a motion to approve the form of Disclosure Statement and proposed plan solicitation procedures [Docket No. 245]. The hearing to consider approval of the First Disclosure Statement was scheduled for April 10, 2013. The First Disclosure Statement and the First Plan contemplated the Debtor's emergence from chapter 11 as a stand-alone company that would continue in existence post-confirmation as a cooperative under Subchapter T of the Internal Revenue Code. The First Plan envisioned the Debtor raising $3 million in capital from its Members by issuing new shares of common stock.

In the months following the filing of the First Disclosure Statement, and the First Plan, however, the Debtor experienced declines in both sales and trade credit, which combined to weaken the Debtor financially and called into question the Debtor's ability to remain in compliance with certain of the financial covenants contained in the Final Financing Order and the viability of the First Plan.

In light of the deterioration of its financial condition, the Debtor considered available alternatives including the expressions of interest it had received from certain parties regarding a restructuring transaction with the Debtor. With the approval of the Creditors' Committee, Members' Committee, and Wells Fargo, the Debtor adjourned the hearing on the First Disclosure Statement in order to allow time to explore additional restructuring options. Thereafter, the Debtor engaged in due diligence and arm's length discussions with the potential acquirers, including Littlejohn Management, a private equity firm, which has interests in the hardware industry.

The Debtor's discussions with Littlejohn Management proved fruitful. Following arm's length negotiations between the Debtor and Littlejohn Management, and initial due diligence, and in consultation with the Creditors' Committee, the Members' Committee, and Wells Fargo, the Debtor and Littlejohn Management entered into a non-binding Letter of Intent dated April 24, 2013 (the "Letter of Intent"), which set forth the outline of Littlejohn Management's proposal to acquire substantially all of the Debtor's assets, free and clear of all liens, claims, and interests. Pursuant to the Letter of Intent, Littlejohn Management proposed to enter into a plan support agreement and to support the Plan. Following the Letter of Intent, Littlejohn Management continued its due diligence and began negotiations with the Debtor, the Creditors' Committee, and other key constituents, on the framework for the contemplated transactions under a chapter 11 plan. The Debtor has since reached an agreement with Littlejohn on a form of plan support agreement to implement the consummation of the purchase of substantially all of the Debtor's assets through the Plan, which the Debtor believes represents the best path forward toward a successful conclusion of this chapter 11 case. As set forth in greater detail below, on May 31, 2013, the Debtor filed its *Motion for Order Authorizing Debtor to Enter Into Plan Support Agreement*, along with a motion to shorten notice, seeking a hearing on the Motion for June 19, 2013 at 11:30 a.m. (prevailing Eastern Time). The Debtor hopes to obtain the support of the Creditors' Committee prior to the hearing on this Motion.

Contemporaneously with signing the Letter of Intent, the Debtor issued a press release to its Members, relaying this important development in the Chapter 11 case and outlining some of the terms of the proposed acquisition. As noted therein, as result of the proposed Sale, Handy will be owned by Buyer, which intends to operate as an independent distributor of hardware and maintain its Handy Hardware identity in the marketplace. The Debtor believes that the proposed Sale will provide the best long-term outcome for the Debtor's Estate and its creditors.

**(2) *Cetus Participation.*** In connection with the proposed Sale, in contemplation of entering into the Plan Support Agreement, and in order to support the financing needs of the Debtor during the period prior to any closing, Littlejohn Management's affiliate, Cetus Captial II, LLC ("Cetus"), entered into that certain Last Out Participation Agreement with Wells Fargo (the "Loan Participation Agreement"). Pursuant to the Loan Participation Agreement, Cetus agreed to acquire from Wells Fargo a $4 million "last-out" loan participation. The loan

participation provided the Debtor with $4 million of additional availability under its DIP Credit Facility to supplement operating liquidity until such time as the proposed Sale has closed. On May 7, 2013, the Debtor filed its *Motion for Entry of an Order Approving Amendment to Debtor-in-Possession Credit Facility and the Entry of an Amended Final Financing Order* [Docket No. 470] (the "Motion to Amend"). On May 13, 2013, the Court entered an Order approving the Motion to Amend [Docket No. 499] (the "First Amended Final Financing Order"). Cetus' entry into the Loan Participation Agreement demonstrates Littlejohn Management's commitment to the proposed Sale and prevented the Debtor from continuing in default with respect to several of the covenants contained in the Final Financing Order.

**(3) *Plan Support Agreement.*** As noted above, in connection with the proposed Sale, the Debtor and the Littlejohn Parties have agreed to terms of a Plan Support Agreement, as outlined above. On May 31, 2013, the Debtor filed its *Motion for Order Authorizing Debtor to Enter Into Plan Support Agreement*, along with a motion to shorten notice, seeking a hearing on the Motion for June 19, 2013 at 11:30 a.m. (prevailing Eastern Time).

Under the proposed Plan Support Agreement, Littlejohn/Buyer will contribute or make available to the Debtor's estate, for the benefit of unsecured creditors, an amount equal to $4 million (the "Littlejohn Unsecured Contribution"), which will be used to fund recoveries to holders of Allowed Non-Tax Priority Claims and Allowed General Unsecured Claims and fund the wind down of the Debtor's estate. Littlejohn/Buyer will also assume portions of allowed Total Administrative/503(b)(9) Claims or otherwise transfer to the estate cash in the aggregate amount equal to the estimated amount of non-assumed and Allowed Total Administrative/503(b)(9) Claims (the "Littlejohn Administrative/503(b)(9) Contribution"), which will be used to fund payment in full to holders of Allowed Administrative Claims, Allowed 503(b)(9) Claims, Allowed Professional Fee Claims and Committee Expense Claims, and Allowed DIP Facility Claims. The Plan, as contemplated by the Plan Support Agreement, would provide for Buyer to establish a $3 million a loyalty program, subject to terms and conditions to be determined, in the aggregate amount of $3,000,000, for Members that meet certain criteria (the "Loyalty Program"). Additionally, the Plan would provide for the elimination of the 2% warehouse fee which is currently charged to Members on certain purchases, and the establishment of a loyalty program for existing Members who continue to do business with Buyer post-Effective Date. Additionally, Members would not be required to purchase equity in the reorganized Debtor, as contemplated in the Debtor's previous plan of reorganization.

The Debtor believes the Plan provides greater benefits to its constituents than the First Plan or any other alternatives. In light of the recent developments in the Debtor's chapter 11 case described above, the Debtor has prepared this amended Disclosure Statement and Plan. Subject to the availability and approval of the Bankruptcy Court, the Debtor intends to seek approval of this Disclosure Statement at the hearing currently scheduled for **June 19, 2013, at 10:30 a.m. (prevailing Eastern Time)**. Subject to the availability and approval of the Bankruptcy Court, the Debtor intends to commence the hearing on confirmation of the Plan on **July 25, 2013 at 1:00 p.m. (prevailing Eastern Time)**.

**(4) *Meridian Facility.*** As of February 28, 2013, the Debtor had vacated the Meridian Facility and transferred all remaining inventory and equipment to the Houston Facility (with the

exception of 10 reach trucks, certain conveyor system, racks, and fixtures). The Meridian Facility was locked, alarmed, and vacated, and insurance on the building remains in place. Elimination of all other costs associated with the Meridian Facility will assist the Debtor's efforts to return to profitability. ~~The Debtor~~The Debtor has not utilized the Meridian Facility since February 28, 2013, and does not anticipate utilizing the Meridian Facility in the conduct of the Debtor's business on and after the Effective Date of the Plan.

~~(2~~ On April 10, 2013, the Bankruptcy Court entered an Order [Docket No. 388] authorizing the Debtor to enter into a short-term lease agreement with Avery Dennison Office Products Company ("Avery Dennison"), pursuant to which Avery Dennison will lease 100,000 square feet of warehouse space in the Meridian Facility. Pursuant to the terms of the lease, Avery Dennison will vacate the Meridian Facility not later than August 16, 2013.

**(5)** ***Houston Facility.*** The Debtor will remain in the Houston Facility and continue to service its ~~Members~~customers out of the Houston Facility following the Effective Date of the Plan.

**(~~3~~6)** ***Transportation Services.*** The Debtor intends to restructure its transportation services agreement(s) to reduce overall transportation costs to the Debtor by: (i) ~~reducing~~rejecting its transportation services agreement with Trans Power Corporation ("Trans Power"); and (ii) modifying and assuming its transportation services agreement with Averitt Express, Inc. ("Averitt"). On March 20, 2013, the Debtor filed its motion to modify and assume its contract with Averitt [Docket No. 293]. The proposed modifications will allow Averitt to serve as the Debtor's exclusive transportation services provider; reduce necessary equipment and associated fixed weekly costs; (ii) ~~implementing~~implement better practices in route management; and ~~(iii) working~~ require Averitt to work collaboratively with ~~each transportation services provider~~ the Debtor to identify and implement additional savings opportunities.

~~(5) ***Reorganized Debtor Charter and the Reorganized Debtor Bylaws.*** The Debtor will adopt and file its Amended and Restated Certificate of Incorporation (the "Reorganized~~ On April 10, 2013, the Court entered an order authorizing the rejection of the Debtor's transportation services agreement with Trans Power [Docket No. 387]. The hearing on the motion to modify and assume the Averitt contract has been adjourned to permit additional discussions between and among Averitt, the Debtor ~~Charter"~~) ~~and its Third Amended and Restated Bylaws (the "Reorganized Debtor Bylaws"), both of which will be filed as part of the Plan Supplement~~, Littlejohn Management, the Creditors' Committee, and the Members' Committee, including regarding the status of transportation services and the Averitt contract in light of the contemplated transactions with Littlejohn.

~~(6) ***Board Selection.*** The Debtor will appoint a new board of directors (the "New Board"), the members of which will be disclosed in the Plan Supplement. On the Effective Date, the term of the current members of the board of directors of the Debtor shall expire or otherwise terminate, and the New Board shall be appointed. On and after the Effective Date, each director or officer of Reorganized Debtor shall serve pursuant to the terms of the Reorganized Debtor Charter and Reorganized Debtor Bylaws, or other constituent documents, and applicable state corporation law. The business and affairs of the Reorganized Debtor will be managed by or under the direction of the Board of Directors. As will be set forth in detail in the Reorganized Debtor~~

~~By-Laws, and as summarized briefly below, the Board of Directors will consist of not less than nine (9) or more than twelve (12) members, which number may be determined from time to time by the Board of Directors in the manner provided in the Reorganized Debtor By-Laws to serve for terms as set forth in the Bylaws.~~

~~The Board of Directors will be divided into three classes, as nearly equal in number as possible, designated: Class I, Class II and Class III. In case of any increase or decrease, from time to time, in the number of directors, the number of directors in each class will be apportioned as nearly equal as possible. No decrease in the number of directors will shorten the term of any incumbent director. Each director will serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each director initially appointed to Class I pursuant to the Plan will serve for an initial term expiring at the Corporation's first annual meeting of stockholders following the Effective Date (as defined in the Plan), each director initially appointed to Class II will serve for an initial term expiring at the Corporation's second annual meeting of stockholders following the Effective Date; and each director initially appointed to Class III will serve for an initial term expiring at the Corporation's third annual meeting of stockholders following the Effective Date; provided further, that the term of each director will continue until the election and qualification of a successor and be subject to such director's earlier death, resignation or removal. The powers and responsibilities of the New Board shall be set forth in the Reorganized Debtor Bylaws.~~

~~(7)~~ ***Seeking New CEO/President.*** On April 19, 2013, the Debtor filed the *Debtor's Motion Pursuant to Sections 105(a) and 363(b) of the Bankruptcy Code for Entry of an Order Authorizing the Employment and Retention of Lucas Group as the Debtor's Executive Search Advisor* [Docket No. 429]. On May 9, 2013, the Court entered an Order approving this motion [Docket No. 482]. The Debtor is currently working with Lucas Group and Littlejohn to identify and evaluate potential candidates for this position.

**(8)** ***~~Exit~~New Credit Facility.*** On the Effective Date, the Wells Fargo Secured Claim/DIP Facility Claim ~~will~~would be refinanced through ~~an Exit Facility contemplated to be provided by Wells Fargo. The Exit Facility would be a secured revolving~~a New Credit Facility, which will be an asset based working capital credit facility ~~in the amount of approximately $30 million, secured by a first priority lien on and security~~for Buyer on terms and conditions acceptable to Buyer including the following terms and conditions: (i) reasonable interest ~~in all of the Reorganized Debtor's assets.~~

~~(9) *New Class A Common Stock.* The Debtor's shares of Class A, Class B, and Class C Shares will be cancelled~~ rates, (ii) market advance rates for inventory and receivables, and (iii) sufficient availability on the Effective Date. ~~The Debtor will authorize and issue New Class A Common Stock. Members of the Debtor as of the Petition Date will have the right, but not the obligation, to become a Member of the Reorganized Debtor by purchasing 30 shares of New Class A Common Stock in the Reorganized Debtor (par value of $100 per share) for $3,000 (the "Purchase Price").[3] Affiliated entities (*i.e.*, under common ownership) will be considered a~~

~~[3] The New Class A Common Stock is not transferable, except as provided in the Reorganized Debtor Bylaws. Any attempted transfer will be null and void. In addition, the New Class A Common Stock will~~

~~single Member and only be required to purchase 30 New Class A Shares, regardless of the number of stores. The Debtor anticipates the Members' purchase of shares of New Class A Common Stock will generate approximately $3 million which the Reorganized Debtor may use to fund its reorganization.~~

~~The Debtor will solicit purchases of the New Class A Common Stock from Members by delivering an Election Form to each Member in accordance with the procedures approved by the Bankruptcy Court and which shall be set forth in the Solicitation Procedures Order. Any Member who wishes to purchase New Class A Common Stock must, in accordance with the terms set forth in the Election Form, complete and return an Election Form along with the Purchase Price by the Election Purchase Deadline.~~[4]

~~The Purchase Price is payable as follows at each Member's election: (i) $3,000 to be paid on or before May 6, 2013 (the "Election/Purchase Deadline") to be held in escrow by Donlin Recano & Company, Inc ("DRC" or "Solicitation Agent"), in its capacity as escrow agent (the "Escrow Agent"), until the Effective Date; **or** (ii) pay a minimum of $1,000 to be paid on or before the Election/Purchase Deadline to be held in escrow by DRC, in its capacity as Escrow Agent, until the Effective Date. The $2,000 balance of the Purchase Price will be paid **and** the Reorganized Debtor will finance the balance of the amounts owed by the Members for the remaining amount, with no interest (the "Deferred Purchase Price") due for the purchase of their New Class A Common Stock. In such case, the Deferred Purchase Price will be invoiced weekly and paid at the rate of 1.5% fee (the "Stock Purchase Payment") based on all warehouse purchases for such Member's stores for the applicable invoice period, commencing with the warehouse purchases on or after the Effective Date and continuing thereafter until paid in full, with any unpaid balance due and payable in full on the second anniversary of the Effective Date. The 1.5% Deferred Purchase Price charge shall be added to the individual Member's invoices for warehouse purchases and shall be payable in accordance with the payment terms of such invoice.~~[5]

~~(10) ***Subordinated Term Lender and Subordinated Term Note.***~~

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~~be non-redeemable until one year after all payments required by the Plan have been made or provided for. At that time, New Class A Common Stock will be redeemable upon 60 days' prior written notice and payable, in the discretion of the Board of Directors of the Reorganized Debtor, in cash by the Reorganized Debtor or with cash and an unsecured note bearing 5% interest over three (3) years at the lesser of: (i) the par value; or (ii) the amount paid towards the Purchase Price at the time a redemption is requested. The Reorganized Debtor may suspend redemptions of New Class A Common Stock in the business judgment of the Board of Directors at any time based on the financial condition, financial needs of the Reorganized Debtor, or its availability under the Wells Fargo Exit Facility, or if redemption would result in a violation of applicable law.~~

~~[4] Any questions regarding the New Class A Common Stock Offering and Election Form may be directed to DRC at the following email address: securitiesinfo@donlinrecano.com.~~

~~[5] The Stock Purchase Payment is a wholly different charge than the 2% Warehouse Service fee (the "Warehouse Service Fee"), which will be charged to the individual Members on account of services provided by Reorganized Debtor to the Member. Members have no right to offset any claims that they may assert against Reorganized Debtor and must promptly pay the Warehouse Service Fee each month to the Reorganized Debtor.~~

~~A new special purpose entity (the "Subordinated Term Lender") will be formed prior to the Effective Date of the Plan for the purpose of providing the Reorganized Debtor on the Effective Date with an unsecured loan in an amount, if any, to fund the difference between what is received in cash from the sale of the New Class A Common Stock and the $3 million total equity contribution required on the Effective Date, which unsecured loan shall be evidenced by the Subordinated Term Note and subject to the Subordination Agreement. The Reorganized Debtor shall issue to the Subordinated Term Lender the Subordinated Term Note in an amount equal to, but not less than, the difference between what is received in cash from the sale of New Class A Common Stock and the required $3 million total equity contribution. The Debtor anticipates that Subordinated Term Note will be approximately $2 million. Any New Handy Member that is an Accredited Investor (as that term is defined in the Securities Act) will be afforded the opportunity to subscribe to an interest in the Subordinated Term Lender.~~

a. ~~The Subordinated Term Lender will agree that its loan will be subject to the terms and conditions of a subordination agreement, in form and substance acceptable to Wells Fargo and reflecting the terms described below.~~

b. ~~The Wells Fargo Exit Loan Documents will~~ to repay in full the amount of the DIP Facility Claim and provide ~~that the Reorganized Debtor may make payments (the "Permitted Payments"), subject to the Permitted Payment Conditions (as defined below), of the 1.5% Deferred Purchase Price to the Subordinated Term Lender from time to time but not more frequently than weekly; provided, that each of the following conditions is satisfied: (i) there is no default or event of default under the Wells Fargo Exit Loan Documents; (ii) Reorganized Debtor has Excess Availability (as defined in the Wells Fargo Exit Facility Loan Documents) in an amount at least equal to 105% of the amount of the required Availability Block (as defined in the Wells Fargo Exit Facility Loan Documents) both immediately before and after giving effect to each payment to Subordinated Term Lender and any other payments of subordinated indebtedness contemplated to be paid on such date; and (iii) such payments shall be limited, as of any date, to an amount equal to the amount of Stock Purchase Payments received by Reorganized Debtor and applied to the indebtedness under the Wells Fargo Exit Facility *less* all payments to Subordinated Term Lender funded by Wells Fargo (collectively, the "Permitted Payment Conditions"). To the extent any payments are deferred due to a lack of availability under the Wells Fargo Exit Facility, such payments may be "caught up" in subsequent months subject to the foregoing limits (*i.e.*~~reasonable excess availability~~, no defaults and receipt of a requisite level of Stock Purchase Payments).~~

c. ~~Until all Plan payments are made, it is contemplated that the debt owed to the Subordinated Term Lender (the "Subordinated Term Debt") will be satisfied solely through the Permitted Payments funded from the Reorganized Debtor; provided, however, in the event that there is not sufficient Excess Availability under the Wells Fargo Exit Loan Documents to allow an otherwise scheduled Permitted Payment, the Reorganized Debtor may either (i) defer billing Members the Stock Purchase Payment, or (ii) send separate invoices for just the applicable Stock Purchase Payments to Members (*i.e.* not containing any other charges, fees~~

~~or assessments from the Reorganized Debtor) ("Separate Invoices"). The Reorganized Debtor and the Subordinated Term Lender agree to provide written notice to Wells Fargo in the event Separate Invoices have been initiated.~~

~~d. It is contemplated that Wells Fargo would agree that Separate Invoices may be collected by the Reorganized Debtor outside the existing Wells Fargo lockbox (including by direct remittance to Subordinated Term Lender) and that the Reorganized Debtor may remit these payments to Subordinated Term Lender in a way that it has no impact on the line of credit, the Reorganized Debtor's borrowing base, or Wells Fargo's collateral (other than the Separate Invoices). If Separate Invoices are issued, Wells Fargo would not assert any senior lien on, or otherwise prevent payment to the Subordinated Term Lender of, the accounts receivable evidenced by such Separate Invoices to prevent payments to the Subordinated Term Lender; *however*, any amounts actually received by Wells Fargo through its lockbox may be applied to the Wells Fargo debt and will be subject to disbursement only as Permitted Payments.~~

~~e. Assuming 1,000 Members pay only the minimum $1,000 by the Election Deadline, the Reorganized Debtor would receive $1 million from Members on the initial equity payment and $2 million in Subordinated Term Debt.~~

~~f. All Excess Availability under the Wells Fargo Exit Facility will be calculated based on concurrent payments of all obligations of the Reorganized Debtor then due or payable (which may include other payments under the Plan).~~

~~g. To the extent that the Subordinated Term Debt is not satisfied within two (2) years of the Effective Date, the unpaid amount of the Subordinated Term Debt shall accrue interest at the rate of 7% per annum and shall not be satisfied until all Plan payments are made under the Plan to creditors and Wells Fargo either has been indefeasibly paid in full in cash on its Wells Fargo Exit Facility or Wells Fargo consents in writing to the payment of the remaining unpaid balance of the Subordinated Term Debt.~~

~~The Reorganized Debtor would use the funds raised through the issuance of the New Class A Common Stock to fund operations from and after the Effective Date~~ on such date.

The Debtor believes the Plan provides the best recoveries possible for holders of Allowed Claims against the Debtor and strongly recommends that~~, if such~~ holders who are entitled to vote,~~ they~~ vote to accept the Plan.

### C. Treatment of Claims and Equity Interests

THE FOLLOWING CHART IS A SUMMARY OF THE CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS AND THE POTENTIAL DISTRIBUTIONS UNDER THE PLAN. THE AMOUNTS SET FORTH BELOW ARE ESTIMATES ONLY. REFERENCE SHOULD BE MADE TO THE ENTIRE DISCLOSURE STATEMENT AND THE PLAN FOR A COMPLETE DESCRIPTION OF THE CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS. THE RECOVERIES SET FORTH BELOW ARE PROJECTED RECOVERIES AND ARE

THEREFORE SUBJECT TO CHANGE. THE ALLOWANCE OF CLAIMS AGAINST THE DEBTOR MAY BE SUBJECT TO LITIGATION OR OTHER ADJUSTMENTS, AND ACTUAL ALLOWED CLAIM AMOUNTS MAY DIFFER MATERIALLY FROM THESE ESTIMATED AMOUNTS.

Except for unclassified Administrative Claims, Professional Fee Claims and Committee Expense Claims, DIP Facility Claim, and Priority Tax Claims, the holders of which are not entitled to vote to accept or reject the Plan, the Plan divides all Claims against and Equity Interests in the Debtor into various Classes. The table set forth below summarizes the Classes of Claims and Equity Interests under the Plan, the treatment and projected recovery of such Classes under the Plan and the holders of Claims' entitlement to vote on the Plan.

| Claim | Plan Treatment |
|---|---|
| Administrative Claims | Any request for allowance and payment of any Administrative Claim, other than a Professional Fee Claim, ~~or 503(b)(9) Claim~~a Committee Expense Claim, 503(b)(9) Claim, the DIP Facility Claim, a U.S. Trustee Fee Claim, or an Administrative Expense Claim incurred by the Debtor in the ordinary course of business, accruing between the Administrative Claims Bar Date and the Effective Date, shall be filed no later than thirty (30) days after the Effective Date. Unless otherwise agreed to by the holder of an Allowed Administrative Claim and the Debtor ~~or Reorganized Debtor, as applicable,~~ each holder of an Allowed Administrative Claim (other than of a Professional Fee Claim), will receive from the Littlejohn Administrative/503(b)(9) Contribution in full and final satisfaction of its Administrative Claim an amount of Cash equal to the amount of such Allowed Administrative Claim either: (1) on the Effective Date, or as soon as practicable thereafter, or (2) if the Administrative Claim is not Allowed as of the Effective Date, no later than 30 days after the date on which an order Allowing such Administrative Claim becomes a Final Order, or as soon as reasonably practicable thereafter~~, or (3) if the~~; provided however that Allowed Administrative ~~Claim is based on~~Claims representing liabilities incurred ~~by the Debtor~~ in the ordinary course of ~~their business after~~business of the Debtor shall be paid in full and performed by the Debtor or Buyer in the ~~Petition Date, pursuant to the~~ ordinary course of business and in accordance with the terms and subject to the conditions of ~~the particular~~ any agreements governing, instruments evidencing, or other documents relating to such transaction~~giving rise to such Allowed Administrative Claims, without any further action by the holder of~~, including any agreements between Buyer and such ~~Allowed Administrative Claim.~~ Creditor. |
| Professional Fee Claims and Committee Expense Claims | On the Effective Date, the Debtor shall establish and fund from the Littlejohn Administrative/503(b)(9) Contribution, for the benefit of Professionals and Committee Members, the Professional Fee Escrow Account with Cash equal to the aggregate Professional Fee Reserve Amount. All final requests for allowance and payment of Professional Fee Claims, Committee Expense Claims, claims for reimbursement of actual, necessary expenses or reasonable compensation pursuant to sections 503(b)(3) or (4) of the Bankruptcy Code, or otherwise seeking reimbursement of expenses or compensation from the Estate (except for Wells Fargo, as provided under the Final Financing Order) shall be filed no later than sixty (60) days after the Effective Date. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and any prior Bankruptcy Court orders, the Allowed amounts of such Professional Fee Claims and Committee Expense Claims shall be determined by the Bankruptcy Court. Subject to Section 2.2.2 and 2.2.3 of the Plan and the terms and conditions of the Final Financing Order, Allowed Professional Fee Claims and Allowed Committee Expense Claims shall be paid in Cash from the Professional Fee Escrow Account in an amount equal to the Allowed Amount of such Allowed Professional Fee Claim or Allowed Committee Expense Claim when such Claims are Allowed by a Final Order or as soon as practicable thereafter. |
| Wells Fargo Secured Claim and | In accordance with the terms of the Final Financing Order, and by virtue of no challenge having been asserted with respect to the Wells Fargo Secured Claim, |

| | |
|---|---|
| the DIP Facility Claim | the Wells Fargo Secured Claim is deemed an Allowed fully secured and unavoidable Claim on a final basis. Furthermore, the Wells Fargo Secured Claim has been indefeasibly paid in full in accordance with the provisions of the Final Financing Order. The Wells Fargo Secured Claim, therefore, is not classified pursuant to the Plan and will not receive any Distribution pursuant to the Plan. The holder of the DIP Facility Claim, which is a secured Administrative Claim, shall be entitled to all of the Liens, protections, benefits, and priorities granted under the Final Financing Order, which shall continue until the DIP Facility Claim is ~~indefeasibly paid in full Cash from the proceeds~~fully and finally assumed by Buyer at the closing of the ~~Wells Fargo Exit Facility~~Sale in accordance with the Purchase Agreement, which secured Allowed Administrative Claim, by reason of the Final Financing Order and the Confirmation Order, (a) shall be allowed and payable in its entirety, (b) includes principal, accrued but unpaid interest, and attorneys' fees, costs, and expenses through the date of the full and indefeasible payment in Cash of the DIP Facility Claim (subject to the terms and conditions in the Final Financing Order regarding attorneys' fees, costs, and expenses), and (c) is secured by the valid, unavoidable and perfected Liens and security interests granted under, or in connection with the DIP Credit Agreement (and loan documents related thereto) and authorized by the Final Financing Order. All sums owing with respect to, and all payments made in reduction of, the DIP Facility Claim through the date of the full payment in Cash of the DIP Facility Claim shall be deemed indefeasibly paid in full in Cash on the closing ~~and funding~~ of the ~~Wells Fargo Exit Facility~~Sale on the Effective Date. |
| Priority Tax Claims | Each holder of an Allowed Priority Tax Claim due and payable on or before the Effective Date shall receive~~, at~~ from the ~~Reorganized~~Littlejohn Administrative/503(b)(9) Contribution, at the Debtor's option in its sole and absolute discretion (in consultation with the Creditors' Committee, Littlejohn Management, and Wells Fargo) one of the following treatments on account of such Claim (1) Cash in an amount equal to the amount of such Allowed Priority Tax Claim, (2) Cash in an amount agreed to by the Debtor ~~or Reorganized Debtor, as applicable,~~ and such holder, provided, however, that such parties may further agree for the payment of such Allowed Priority Tax Claim to occur at a later date, or (3) at the option of the Debtor, Cash in the aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period not more than five years after the Petition Date pursuant to section 1129(a)(9)(C) of the Bankruptcy Code. To the extent any Allowed Priority Tax Claim is not due and owing on the Effective Date, such Claim shall be paid in full in Cash in accordance with the terms of any agreement between the Debtor and the holder of such Claim, or as may be due and payable under applicable non-bankruptcy law or in the ordinary course of business. |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| ~~1~~ | ~~Wells Fargo Secured Claim~~ | ~~On the Effective Date, the Allowed Wells Fargo Secured Claim shall be indefeasibly paid in full in Cash from amounts previously received from collateral proceeds consistent with the Final Financing Order; and to the extent not previously paid, such Claim shall be paid from proceeds of the Wells Fargo Exit Facility.~~ | ~~Unimpaired~~ | ~~Deemed to Accept~~ | ~~100%~~ |
| ~~2~~1 | Capital One Secured Claim | ~~Except to the extent that Capital One and the Debtor agree to less favorable treatment, in full and final satisfaction, settlement, release and discharge of and in exchange for the Capital One Secured Claim:~~<br><br>~~(i) If (and only if) Capital One votes to accept the Plan, the Capital One Secured Claim shall be Allowed in the amount to be agreed upon with Capital One, and Capital One shall receive on the Effective Date and be treated as follows, or as soon thereafter as practicable, in full and final satisfaction of the Allowed Capital One Secured Claim and in partial consideration for the release of its lien on the Houston Facility and the Retained Capital One Equipment: (a) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One, and a bill of sale respecting any Abandoned Capital One Equipment; (b) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code; (c) a deed in lieu of foreclosure, including a transfer of all the Houston Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One; (d) the rights and benefits to be provided pursuant to the Houston Facility Lease; (e) except as provided herein, Capital One shall release all of its Liens on the Debtor's assets (including, but not limited to, its second-~~ | Impaired | Entitled to Vote | ~~[ __%]~~[To be determined] |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | ~~priority security interest in the "Wells Fargo First Lien Collateral", as defined in the Final Financing Order and its first priority security interests in the Retained Capital One Equipment and other assets located at the Houston Facility); (f) a release by the Debtor and the Estate of any and all Causes of Action against Capital One; and (g) in connection with this option, Capital One shall be required to deliver to Wells Fargo (i) an executed and acknowledged landlord's waiver and access agreement in form and substance acceptable to Wells Fargo with respect to the Houston Facility and (ii) an executed and acknowledged Collateral Assignment of Lease with respect to the Houston Facility Lease, consenting to the assignment to Wells Fargo of such lease by the Debtor as collateral for the Wells Fargo Exit Facility.~~<br><br>~~OR,~~<br><br>~~(ii) if Capital One votes to reject the Plan, Capital One shall receive on the Effective Date or as soon thereafter as practicable, and shall be treated as follows, in full and final satisfaction of the Capital One Secured Claim: (a) the Restructured Capital One Secured Note (subject to the terms and conditions of the Intercreditor Agreement, as defined in the Final Financing Order); (b) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One and a bill of sale respecting and Abandoned Capital One Equipment; and (c) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code.~~<br><br>~~OR,~~ | | | |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | ~~(iii) in the event Capital One timely elects to have the Capital One Claim treated pursuant to Section 1111(b) of the Bankruptcy Code, Capital One shall receive, in full and final satisfaction of the Capital One Claim: (a) the Alternative Restructured Capital One Secured Note (subject to the terms of the Intercreditor Agreement, as defined in the Final Financing Order); (b) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One and a bill of sale respecting any Abandoned Capital One Equipment; and (c) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code.~~As negotiated with Capital One, in full and final satisfaction, settlement, release and discharge of the Capital One Secured Claim, including all associated liens, encumbrances and interests and any other form or classification of claim by Capital One which could be asserted, Capital One shall receive (subject to existing liens in favor of Capital One and/or Hancock Bank) the Meridian Facility and the Houston Facility, by, among other things, transfer of deeds directly from the Debtor to Capital One on the Effective Date, with Capital One also receiving title to ten reach trucks (including all charging stations), six stretch wrap machines and all furniture currently in the Meridian Facility, as well as all fixtures and racking in both the Meridian Facility and the Houston Facility, and Capital One agrees to execute a lease with Buyer for Buyer's lease and full use of | | | |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | the Houston Facility with terms acceptable to the Littlejohn Parties and Capital One. Capital One will likewise receive a full release and discharge no less favorable than that provided to any other creditor in the Chapter 11 Case. If the Debtor, Capital One and the Littlejohn Parties are unable to reach agreement upon remaining terms necessary for the consensual treatment of the Allowed Capital One Secured Claim, such may prevent a condition precedent to the occurrence of the Effective Date of the Plan.<br><br>Alternatively, if Capital One elects to object to Confirmation of the Plan or vote against the Plan, Capital One may receive one or more, singularly or in combination, of the following, which election shall be with the Debtor (but only with the consent of the Littlejohn Parties): (i) receipt of or abandonment to Capital One of portions of its underlying collateral relating to its claims; (ii) the indubitable equivalent of the Allowed Capital One Secured Claim; (iii) reinstatement in accordance with the provisions of Bankruptcy Code 1142(2); (iv) treatment in accordance with Class 5; (v) treatment in accordance with Class 6; or (vi) such other treatment determined by the Bankruptcy Court to provide deferred Cash payments having a value, as of the Effective Date, equal to the Allowed Capital One Secured Claim. | | | |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| ~~3~~2 | Secured Tax Claims | Except to the extent that a holder of an Allowed Secured Tax Claim agrees to ~~a less favorable~~different treatment, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed Secured Tax Claim, each such holder of an Allowed Secured Tax Claim shall receive, at the sole option of the Debtor ~~or the Reorganized Debtor, as applicable~~with the express written permission of the Littlejohn Parties: (i) Cash on the Effective Date, or as soon as practicable thereafter, in an amount equal to such Allowed Secured Tax Claim; or (ii) commencing on the Effective Date and continuing over a period not exceeding five (5) years from the Petition Date, equal semi-annual Cash payments in an aggregate amount equal to the Allowed Secured Tax Claim, together with interest at the applicable non-default statutory rate under non-bankruptcy law, subject to the sole option of the Debtor ~~or the Reorganized Debtor~~ to prepay the entire Allowed Secured Tax Claim; or (iii) regular Cash payments in the aggregate amount equal to the Allowed Secured Tax Claim in a manner not less favorable than the most favored non-priority unsecured Claim provided for by the Plan. | Unimpaired | Deemed to Accept | 100% |
| ~~4~~3 | Other Secured Claims | Except to the extent that a holder of an Allowed Other Secured Claim agrees to a ~~less favorable~~different treatment, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed Other Secured Claim, each such holder of an Allowed Other Secured Claim shall, at the sole option of the Debtor ~~or the Reorganized Debtor, as applicable~~: (i) have its Allowed Other Secured Claim reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code, notwithstanding any contractual provision or applicable non- | Unimpaired ~~Impaired~~ | ~~Entitled~~Deemed to ~~Vote~~Accept | ~~[~~ ~~%]~~100 % |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | bankruptcy law that entitles the holder of an Allowed Other Secured Claim to demand or receive payment of such Allowed Other Secured Claim prior to the stated maturity of such Allowed Other Secured Claim from and after the occurrence of a default; or (ii) receive Cash in an amount equal to the Allowed Amount of such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code, on the later of the Effective Date and the date such Allowed Other Secured Claim becomes an Allowed Other Secured Claim, or as soon as practicable thereafter; or (iii) receive the collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code. | | | |
| ~~5~~4 | Non-Tax Priority Claims | The Plan will not alter any of the legal, equitable and contractual rights of the holders of Non-Tax Priority Claims. Each holder of an Allowed Non-Tax Priority Claim shall receive from the Littlejohn Unsecured Contribution, in full and final satisfaction, settlement, release and discharge of an in exchange for each and every Allowed Non-Tax Priority Claim, Cash in an amount equal to the Allowed Amount of such Allowed Non-Tax Priority Claim on the Effective Date, or as soon thereafter as is practical. | Unimpaired | Deemed to Accept | 100% |
| ~~6~~ | ~~Capital One Unsecured Claim~~ | ~~The amount of the Allowed Capital One Unsecured Claim shall: (a) be in an amount agreed upon between the Debtor and Capital One; or (b) in an amount determined by the Bankruptcy Court. In full and final satisfaction, settlement, release, and discharge of and in exchange for the Allowed Capital One General Unsecured~~ | ~~Impaired~~ | ~~Entitled to Vote~~ | ~~[__%]~~ |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | ~~Claim, Capital One shall receive its Pro Rata share of the Net Cash Flow Available to Creditors each quarter following the Effective Date for a 3-year period commencing on the first day following the last Business Day of the first full quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is a default or event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, or there is no Excess Availability for such payments, as may be fully described in the Plan Documents, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holder of the Capital One Unsecured Claim to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents.~~ | | | |
| ~~7~~5 | General Unsecured Claims | Holders of Allowed General Unsecured Claims in Class ~~7~~5 shall receive, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed General Unsecured Claim~~, including interest at the appropriate contract rate, if applicable: (i) the Avoidance Action Release, and (ii)~~ : Cash equal to their Pro Rata share of ~~the Net Cash Flow Available to Creditors each quarter following the Effective Date for a 3-year period commencing on the first day following the last Business Day of the first~~ $4 million, minus (i) the amount necessary to pay in full ~~quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is a default~~ | Impaired | Entitled to Vote | ~~6.~~8-12% |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| | | ~~or event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, or there is no Excess Availability for such payments, as may be fully described in the Plan Documents, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holders of General Unsecured~~the Allowed Claims in Class ~~7 to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents~~4 and (ii) the Wind Down Costs. | | | |
| ~~8~~6 | ~~Con-venience~~Section 510(b) Claims | Holders of Allowed ~~Convenience~~Section 510(b) Claims ~~in Class 7~~ shall not receive~~, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed Convenience Claim, within ninety days following~~ any Distributions on account of such Allowed Section 510(b) Claims. On the Effective Date, ~~Cash in an amount equal to seventy-five percent (75%) of the~~all Allowed ~~Amount of such Allowed Convenience~~Section 510(b) Claims shall be discharged. | Impaired | ~~Entitled~~Deemed to ~~Vote~~Reject | ~~75%~~None |
| ~~9~~7 | Equity Interests (Class A Shares, Class B Shares, and Class C Shares) | On the Effective Date, all Allowed Equity Interests will be cancelled. A Member will not receive any Distribution of any kind under the Plan on account of its Class A Shares or Class B ~~Shares; provided however, that a Member may elect to become a member of the Reorganized Debtor by purchasing New Class A Common Stock in accordance with Article VI of the Plan~~or Class C Shares or any other equity security held by such party. | Impaired | Deemed to Reject | None |

| Class | Claim | Plan Treatment | Status | Voting Rights | Estimated Recovery |
|---|---|---|---|---|---|
| ~~10~~ | ~~Section 510(b) Claims~~ | ~~Holders of Allowed Section 510(b) Claims shall not receive any Distributions on account of such Allowed Section 510(b) Claims. On the Effective Date, all Allowed Section 510(b) Claims shall be discharged.~~ | ~~Impaired~~ | ~~Deemed to Reject~~ | ~~None~~ |

**D. Releases**

BY VOTING TO ACCEPT THE PLAN, YOU ARE ALSO VOTING TO ACCEPT THE RELEASES, AS SET FORTH IN ARTICLE X OF THE PLAN, BY YOU OF THE DEBTOR, ~~THE REORGANIZED DEBTOR,~~ CURRENT AND FORMER OFFICERS AND DIRECTORS OF THE DEBTOR, THE DIP FACILITY LENDER, THE CREDITORS' COMMITTEE, THE MEMBERS' COMMITTEE, THE LITTLEJOHN PARTIES, AND EACH OF THEIR RESPECTIVE REPRESENTATIVES, ATTORNEYS, EMPLOYEES, AGENTS, OFFICERS, PARTNERS, MEMBERS, OR AFFILIATES.

**E. Voting and Confirmation**

**The Record Date is ~~April 9~~June 10, 2013 at 4:00 p.m. (prevailing Eastern Time).** The Record Date is the date on which the holders of Class ~~2, Class 4, Class 6, Class 7,~~1 and Class ~~8~~5 Claims that are entitled to vote to accept or reject the Plan will be determined.

**The Voting Deadline is ~~May 6~~July 18, 2013 at 5:00 p.m. (prevailing Eastern Time).** To ensure that a vote is counted, holders of Class ~~2, Class 4, Class 6, Class 7,~~1 and Class ~~8~~5 Claims must: (a) complete the Ballot; (b) indicate a decision either to accept or reject the Plan; and (c) sign and return the Ballot to the address set forth on the enclosed pre-addressed envelope provided in the Solicitation Package described below or by delivery by first-class mail, overnight courier or personal delivery, so that all Ballots are actually received no later than the Voting Deadline, by DRC at the address below:

**BALLOTS**

Ballots must be **actually received** by the Voting Deadline at the following address:

**If Sent by Mail:**
Donlin, Recano & Company, Inc.
Re: Handy Hardware Wholesale, Inc.
P.O. Box 2054, Murray Hill Station
New York, NY 10156

**If Sent by Hand Delivery or Overnight Courier:**
Donlin, Recano & Company, Inc.
Re: Handy Hardware Wholesale, Inc.
419 Park Avenue South, Suite 1206
New York, NY 10016

If you have any questions on the procedures for voting on the Plan, please contact the Debtor's attorneys, William P. Bowden, Esq., Gregory A. Taylor, Esq., Amanda Winfree Herrmann, Esq., or Stacy L. Newman, Esq., ASHBY & GEDDES, P.A., at the following telephone number: (302) 654-1888.

If you have any questions that you wish to discuss with counsel for the Creditors' Committee, please contact the Creditors' Committee's attorneys, Sharon L. Levine, Esq., Jeffrey D. Prol, Esq., Bruce S. Nathan, Esq., LOWENSTEIN SANDLER LLP, at the following telephone number: (973) 597-2374; or Frederick B. Rosner, Esq., THE ROSNER LAW GROUP LLC, at the following telephone number: (302) 319-6300.

If you have any questions that you wish to discuss with counsel for the Members' Committee, please contact the Members' Committee's proposed counsel, Mike Busenkell, GELLERT SCALI BUSENKELL & BROWN, LLC, at the following telephone number: (302) 425-5812.

**ANY CLASS ~~2, CLASS 4, CLASS 6, CLASS 7,~~1 OR CLASS ~~8~~5 BALLOT THAT IS PROPERLY EXECUTED BUT THAT DOES NOT CLEARLY INDICATE AN ACCEPTANCE OR REJECTION OF THE PLAN OR INDICATES BOTH AN ACCEPTANCE AND A REJECTION OF THE PLAN WILL NOT BE COUNTED. EACH HOLDER OF A CLAIM AGAINST THE DEBTOR MUST VOTE ALL OF ITS CLAIM WITHIN A PARTICULAR CLASS EITHER TO ACCEPT OR REJECT THE PLAN AND MAY NOT SPLIT SUCH VOTES. IF YOU CAST MORE THAN ONE BALLOT VOTING THE SAME CLAIM ON OR BEFORE THE VOTING DEADLINE, THE LAST BALLOT RECEIVED BEFORE THE VOTING DEADLINE WILL BE DEEMED TO REFLECT YOUR INTENT AND THUS WILL SUPERSEDE ANY PRIOR BALLOTS. IF A BALLOT IS RECEIVED AFTER THE VOTING DEADLINE, IT WILL NOT BE COUNTED UNLESS THE DEBTOR DETERMINES OTHERWISE.**

### F. Entities Entitled to Vote on the Plan

Under the provisions of the Bankruptcy Code, not all holders of claims against and interests in a debtor are entitled to vote on a chapter 11 plan. Holders of unclassified claims are not entitled to vote. Holders of claims that are not impaired by the Plan are deemed to accept the Plan under section 1126(f) of the Bankruptcy Code and therefore are not entitled to vote on the

Plan. Holders of claims that will not receive a distribution under the Plan are deemed to conclusively reject the Plan and therefore are not entitled to vote on the Plan.

Claims against and Equity Interests in the Debtor are classified for all purposes, including voting, confirmation and Distribution pursuant to the Plan and sections 1122 and 1123(a)(1) of the Bankruptcy Code. The Plan deems a Claim or an Equity Interest to be classified in a particular Class only to the extent that the Claim or the Equity Interest qualifies within the description of that Class and will be deemed classified in a different Class to the extent that any remainder of the Claim or Equity Interest qualifies within the description of a different Class.

**SUMMARY OF STATUS AND VOTING RIGHTS**

| Class | Claim | Status | Voting Rights |
|---|---|---|---|
| ~~1~~ | ~~Wells Fargo Secured Claim~~ | ~~Unimpaired~~ | ~~Not Entitled to Vote; Deemed to Accept~~ |
| ~~2~~1 | Capital One Secured Claim | Impaired | Entitled to Vote |
| ~~3~~2 | Secured Tax Claims | Unimpaired | Not Entitled to Vote; Deemed to Accept |
| 43 | Other Secured Claims | Unimpaired ~~Impaired~~ | Not Entitled to Vote; Deemed to Accept |
| ~~5~~4 | Non-Tax Priority Claims | Unimpaired | Not Entitled to Vote; Deemed to Accept |
| ~~6~~ | ~~Capital One Unsecured Claim~~ | ~~Impaired~~ | ~~Entitled to Vote~~ |
| ~~7~~5 | General Unsecured Claims | Impaired | Entitled to Vote |
| ~~8~~6 | ~~Convenience~~Section 510(b) Claims | Impaired | Not Entitled to Vote-; Deemed to Reject |
| ~~9~~7 | Equity Interests (Class A Shares, Class B Shares, and Class C Shares) | Impaired | Not Entitled to Vote; Deemed to Reject |
| ~~10~~ | ~~Section 510(b) Claims~~ | ~~Impaired~~ | ~~Not Entitled to Vote; Deemed to Reject~~ |

The following sets forth the Classes that are entitled to vote on the Plan and the Classes that are not entitled to vote on the Plan:

- The Debtor is **NOT** soliciting votes to accept or reject the Plan from holders of Claims against the Debtor in Class ~~1 (Wells Fargo Secured Claim), Class 3 (~~2 (Secured Tax Claims), Class 3 (Other Secured Claims),

or Class ~~5~~4 (Non-Tax Priority Claims), because those Classes, and the Claims of any holders in those Classes, are unimpaired under the Plan and are deemed to accept the Plan.

- The Debtor **IS** soliciting votes to accept or reject the Plan from holders of Claims against the Debtor in Class ~~2~~1 (Capital One Secured Claim~~), Class 4 (Other Secured Claims), Class 6 (Capital One Unsecured Claim), Class 7~~) and Class 5 (General Unsecured Claims~~), and Class 8 (Convenience Claims),~~) because such Claims are impaired under the Plan and will receive Distributions under the Plan. Accordingly, the holders of Claims in Class ~~2, Class 4, Class 6, Class, 7,~~1 and Class ~~8~~5 have the right to vote to accept or reject the Plan.

- The Debtor is **NOT** soliciting votes from the holders of ~~Class 9~~Claims in Class 6 (Section 501(b) Claims) or Class 7 Equity Interests (Class A Shares, Class B Shares, and Class C Shares~~) or the holders of Claims in Class 10 (Section 510(b) Claims).~~). Class ~~9~~6 and Class ~~10~~7, and the Claims or Equity Interests of any holders in those Classes, are impaired and will receive no Distribution under the Plan and are deemed to reject the Plan.

## G. Solicitation Process

The following documents and materials will constitute the Solicitation Package and will be distributed by first class mail:

- Plan;
- Disclosure Statement;
- Order approving the Disclosure Statement and related solicitation procedures ("Solicitation Procedures Order");
- Notice of the hearing at which confirmation of the Plan will be considered ("Confirmation Hearing Notice");
- Appropriate Ballot and voting instructions.

The Debtor intends to distribute the Solicitation Packages no fewer than 24 calendar days before the Voting Deadline or on such other schedule as is approved by the Bankruptcy Court.

The Solicitation Package will be distributed to holders of Claims in Class ~~2, Class 4, Class 6, Class 7,~~1 and Class ~~8~~5 as of the Record Date and in accordance with the Solicitation Procedures approved by the Bankruptcy Court pursuant to the Solicitation Procedures Order. The Solicitation Package may also be obtained: (i) by writing (sent via first class mail) to the Solicitation Agent, DRC, re: Handy Hardware Wholesale, Inc., P.O. Box 2054, Murray Hill Station, New York, NY 10156; (ii) by calling DRC at (212) 771-1128; (iii) by emailing balloting@donlinrecano.com. Other parties entitled to receive the Solicitation Packages, including the Internal Revenue Service (the "IRS"), will be served with paper copies of same.

For purposes of calculating the number of Allowed Claims in a Class of Claims that have voted to accept or reject the Plan under section 1126(c) of the Bankruptcy Code, all Allowed Claims in such Class held by one Entity or any Affiliate thereof shall be aggregated and treated as one Allowed Claim against the Debtor in such Class. For purposes of any Claim in an impaired Class that is Disputed as to its amount only, the holder of such Claim shall be entitled to vote on the Plan as if such holder held an Allowed Claim in an amount equal to the undisputed portion of such Claim.

If the holders of Class ~~2, Class 4, Class 6, Class 7,~~1 and Class ~~8~~5 Claims entitled to vote shall not accept the Plan by the requisite statutory majorities provided in section 1126(c) of the Bankruptcy Code, the Debtor reserves its rights to amend the Plan in accordance with Section 4.4 of the Plan or request that the Bankruptcy Court confirm the Plan under section 1129(b) of the Bankruptcy Code or both. With respect to the impaired ~~Class~~Classes of 510(b) Claims and of Equity Interests ~~that is~~thatare deemed to reject the Plan, the Debtor shall request the Bankruptcy Court to confirm the Plan under section 1129(b) of the Bankruptcy Code.

If a Class contains Claims eligible to vote and no holders of Claims eligible to vote in such Class vote to accept or reject the Plan, the Plan shall be deemed accepted by the holders of such Claims in such Class. In the event the Bankruptcy Court determines that a Claim entitled to vote to accept or reject the Plan was classified and voted in an improper Class, the Debtor (with the consent of the Creditors' Committee) may request that the Bankruptcy Court deem such Claim to have been voted and counted for purposes of determining acceptance or rejection of the Plan in the Class deemed proper by the Bankruptcy Court without having to resolicit the vote of the holder of such Claim.

The solicitation of votes on the Plan shall be deemed a solicitation for the approval of the Plan Documents and all transactions contemplated hereunder. Entry of the Confirmation Order shall constitute approval of the Plan Documents and such transactions. On the Effective Date, the Debtor shall be authorized to enter into, file, execute and/or deliver each of the Plan Documents and any other agreement or instrument issued in connection with any Plan Document without the necessity of any further corporate, board or shareholder action.

## H. Confirmation Hearing

Section 1128(a) of the Bankruptcy Code requires that the Bankruptcy Court, after notice, hold a hearing on confirmation of the Plan. Section 1128(b) of the Bankruptcy Code provides that any party-in-interest may object to confirmation of the Plan.

**The Confirmation Hearing will commence on ~~May 13~~July 25, 2013 at ~~10:30 a~~1:00 p.m. (prevailing Eastern Time)** before The Honorable Mary F. Walrath, United States Bankruptcy Judge, in the United States Bankruptcy Court for the District of Delaware, 824 Market Street, 5th Floor, Courtroom #4, Wilmington, Delaware 19801. The Confirmation Hearing may be adjourned from time to time without further notice, except for an announcement of the adjourned date made at the Confirmation Hearing, subject to the milestone covenants in the Final Financing Order.

**The Plan Objection Deadline is 4:00 p.m. (prevailing Eastern Time) on ~~May 10~~July 22, 2013**. All objections to the Plan must be filed with the Bankruptcy Court and served on the Debtor in accordance with the Solicitation Procedures Order on or before the Plan Objection Deadline. In accordance with the Confirmation Hearing Notice filed with the Bankruptcy Court, objections to the Plan or requests for modifications to the Plan, if any, must:

- Be in writing;
- Conform to the Bankruptcy Rules and the Local Rules;
- State the name and address of the objecting entity and the amount and nature of the Claim against or Equity Interest in the Debtor held by such entity;
- State with particularity the basis and nature of the objection to the Plan and, if practicable, a proposed modification to the Plan that would resolve such objection; and
- Be filed, contemporaneously with a proof of service, with the Bankruptcy Court and served so that it is **actually received** by the notice parties identified in the Confirmation Hearing Notice on or prior to the Plan Objection Deadline.

**THE BANKRUPTCY COURT MAY NOT CONSIDER OBJECTIONS TO THE PLAN UNLESS THEY ARE TIMELY SERVED AND FILED IN COMPLIANCE WITH THE PROCEDURES SET FORTH IN THE SOLICITATION PROCEDURES ORDER.**

## I. Consummation of the Plan

Following Confirmation of the Plan, the Plan will be consummated on the Effective Date, which will be a Business Day selected by the Debtor after the Confirmation Date on which (1) no stay of the Confirmation Order is in effect and (2) all conditions to the occurrence of the Effective Date as set forth in Article XI, Section 11.1 of the Plan have been satisfied or waived. Distributions to be made under the Plan will be made on or as soon as reasonably practicable after the Effective Date in accordance with the Plan.

## II. BACKGROUND

### A. Business Overview

#### 1. The Debtor's Ownership Structure and Corporate Structure

The Debtor's business was originally established under the laws of Texas in 1961 by a small group of independent hardware retailers who wanted to use their collective bargaining power to make purchases of inventory for each of their respective retail stores. Those retailers formed a company comprised of various hardware retailers to provide each of their respective hardware stores with a cost efficient way to purchase the inventory needed to operate their businesses.

In 2006, the Debtor's stockholders approved a recapitalization of the Debtor and its conversion to a Delaware corporation (the "Recap"). In furtherance of the Recap, the Debtor was re-incorporated as a Delaware corporation to operate on a cooperative or "co-op" basis under Subchapter T of the Internal Revenue Code. In connection with the Recap, the Debtor

ceased being an SEC registered public reporting company, and the Debtor's outstanding preferred shares of stock were converted into shares of Class B common stock.

The Debtor is completely member-owned, with over 1,000 members (each a "Member" and collectively, the "Members"). The Debtor's certificate of incorporation authorizes the issuance of 630,000 shares of stock in the aggregate, comprised of: (a) 30,000 shares of Class A common stock (the "A Shares"); (b) 400,000 shares of Class B common stock (the "B Shares"); and (c) 200,000 shares of Class C common stock (the "C Shares"). Each Member owns ten (10) A Shares entitling each Member to equal voting rights and privileges. As of the Petition Date, there were approximately 10,820 outstanding A Shares. In addition, 2% of each Member's semi-monthly purchase of merchandise from the Debtor's Warehouse Facilities (as defined below) is added to each Member's total merchandise purchase statement creating a "stock purchase fund" that is held by the Debtor for the purchase of B Shares. At the time a Member's stock purchase fund reaches the total of $2,000.00, the Debtor issues twenty (20) shares of Class B Stock. Each Member owns various amounts of B Shares and as of the Petition Date, 258,483 B Shares were outstanding. As of the Petition Date, no C Shares were outstanding.

The Debtor's management team is guided by an elected board of directors (the "Board"). The Board currently consists of seven Members, and each Member is elected to serve a three-year term. In addition, on November 27, 2012, the Debtor formed a Member Advisory Committee composed of seven Members who do not hold a seat on the Board, for the purpose of providing the Members with additional visibility into the Board's decision-making process concerning the Debtor's restructuring. The Member Advisory Committee does not hold or exercise any decision-making authority, but rather is available to discuss issues germane to the operation of the Debtor's business with the Board. In addition, the Debtor's retail district managers regularly meet with Members in the field to ensure that the Debtor remains truly responsive to its Members' needs. The Debtor also conducts two "Markets" every year, a Spring Market in late January or early February and a Fall Market usually around the middle of August. The Markets are essentially buying shows and allow the Members to purchase products at discount pricing and/or with extended payment terms. The Markets are routinely attended by as many as 650 Members and 750 vendors. The Markets are significant to the Debtor's business operations and are crucial to the Debtor's financial performance on an annual basis.

### 2. Debtor's Business

The Debtor is engaged in the business of buying goods wholesale from its Vendors (defined below) and selling those goods at a discounted price to its Members for sale in their retail stores. The Debtor's business has experienced substantial growth over the years and its over 1,000 Members operate over 1,300 retail stores, home centers, and lumber yards.[6] The Members are located in 14 States throughout the United States as well as in Mexico, South America, and Puerto Rico. The retail stores operated by the Members typically are smaller local and family-owned establishments and do not include the "big box" retail stores such as a Lowes

[6] The Debtor currently serves retail establishments in Alabama, Arkansas, Colorado, Georgia, Florida, Louisiana, Missouri, Mississippi, New Mexico, Oklahoma, Tennessee, Kansas, Georgia, and Texas.

or Home Depot. The Debtor is committed to providing its Members with basic stock keeping units (the "SKUs") at the lowest possible prices.

The Debtor maintains over 48,000 different items, or SKUs. The Debtor purchases inventory from approximately 1,300 vendors (the "Vendors"), and by ordering in bulk, the Debtor is able to purchase its inventory at a lower cost and take advantage of various incentives, credits and other services. Once the inventory is ordered, the Debtor historically either stored it in one of the Warehouse Facilities (as defined below) pending purchase by a Member, or the inventory was shipped directly to the Member. Once a Member places an order with the Debtor, the Debtor generally ships the order to the Member within two business days. Prior to the Petition Date, the Debtor facilitated the formation of a five-member ad hoc committee of its largest Vendors (the "Ad Hoc Vendor Committee"). The Debtor has been working cooperatively with the Ad Hoc Vendor Committee and has kept the Ad Hoc Vendor Committee informed of the Debtor's restructuring efforts.

Members have various ways of ordering products through the Debtor. Members may order directly from the Warehouse Facilities (defined below) through the Debtor's catalogues, available in hardcopy and online. In addition, Members may transmit orders directly to the Debtor through hand-held Telxon units, Point of Sale systems, Workabouts, Handy's DVD-ROM catalog, via the Internet at www.handyhardware.com, or by using the HandyBuy system.

Members may also order products that are directly shipped to the Member from the Vendors, but invoiced through the Debtor (the "Drop Shipment Program"). The Drop Shipment Program allows a Member to order products directly from a Vendor, who then requests purchase order authorization from the Debtor. Upon the issuance of a purchase order by the Debtor, the Vendor ships the ordered items directly to the Member which placed the order. Simultaneously with the shipment of the order to the Member, the Vendor submits an invoice for payment to the Debtor which, in turn, invoices the Member for payment. Through the Drop Shipment Program, the Member is still able to take advantage of better pricing, while also having an avenue for ordering inventory that the Debtor does not usually stock.

The Debtor offers its Members many other advantages. For example, every Member has the opportunity to purchase products listed on the monthly circular buy guides, and shipment priority is given to circular users. Members are also able to take advantage of booking programs on seasonal merchandise, which carry extended terms and special pricing.

The Debtor serves its Members from the Debtor's warehouse facility located in Houston, Texas (the "Houston Facility") and previously served its Members from its facility in Meridian, Mississippi (the "Meridian Facility", and together with the Houston Facility, the "Warehouse Facilities"). The Warehouse Facilities are described in greater detail below and, as discussed below, the Debtor ~~will have~~ closed the Meridian Facility and relocated the inventory and operations to the Houston Facility as of ~~the date of this Disclosure Statement~~February 28, 2013.

As of the Petition Date, the Debtor employed approximately 303 employees. The majority of the employees worked in the Debtor's Warehouse Facilities and included employees who pulled orders, stock inventory, perform quality control, load shipments, receive shipments

and perform various other functions. The employees who work in the corporate office generally perform functions related to marketing and purchasing, information technology, accounting, human resources, sales, and retail development, as well as other management and/or clerical functions. The Debtor's corporate office is located in Houston, Texas.

As of the Petition Date, the Debtor also employed approximately 23 veteran sales professionals, all of whom live and work within their regional areas of responsibility. These sales professionals serve as a liaison between the Members, the Debtor's corporate headquarters, and the Warehouse Facilities. The sales professionals assist Members in the field on a daily basis with promotional ideas, new store planning and merchandising, remodeling, problem solving, and advertising, as well as assisting the Members in communicating with the Vendors regarding the Drop Shipment Program, product service and warranties, and in seeking new sources of supply.

The Debtor does not offer trucking services to its Members. ~~Rather, the Debtor currently has trucking service contracts with Averitt Express, Inc. ("Averitt") and Trans Power Corp. ("Trans Power"). Currently, both Averitt and Trans Power transport goods to the Debtor's Houston Facility and deliver ordered merchandise from the Houston Facility to the Members. In addition, Trans Power is handling the transportation of the Debtor's inventory from the Meridian Facility to the Houston Facility as a result of the Debtor's closure of the Meridian Facility (as described more fully below).~~On the Petition Date, the Debtor had trucking service contracts with Averitt and Trans Power. Since the Petition Date, the Debtor has been working to restructure its transportation services agreements to reduce overall transportation costs to the Debtor by: (i) rejecting its transportation services agreement with Trans Power; and (ii) modifying and assuming its transportation services agreement with Averitt. On March 20, 2013, the Debtor filed its motion to modify and assume its contract with Averitt [Docket No. 293]. The proposed modifications under such agreement would allow Averitt to serve as the Debtor's exclusive transportation services provider; reduce necessary equipment and associated fixed weekly costs; (ii) implement better practices in route management; and require Averitt to work collaboratively with the Debtor to identify and implement additional savings opportunities. On April 10, 2013, the Court entered an order authorizing the rejection of the Debtor's transportation services agreement with Trans Power [Docket No. 387]. The hearing on the motion to modify and assume the Averitt contract has been adjourned to permit additional discussions between and among Averitt, the Debtor, Littlejohn, the Creditors' Committee, and the Members' Committee.

### 3. The Debtor's Houston Facility and Meridian Facility

In 1986, the Debtor completed a massive expansion program, moving operations into a new, computerized, state-of-the-art warehouse complex with more than 220,000 square feet in Houston, Texas. By 2001, the Houston Facility had expanded to 560,000 square feet to support the Debtor's continued growth.

In 2009, to support anticipated future growth in the southeastern United States, the Debtor constructed the Meridian Facility, a second distribution center in Meridian, Mississippi. In connection with the decision to expand operations and construct the Meridian Facility, the Debtor entered into a Memorandum of Understanding (the "Meridian MOU") among the Debtor, Lauderdale County, Mississippi (the "County"), the City of Meridian, Mississippi (the "City"),

East Mississippi Business Development Corporation ("EMBDC"), East Mississippi Electric Power Association ("EMEPA") and the Lauderdale County Economic Development District (the "District"). The Debtor was offered a variety of material economic incentives by the counter-parties to the Meridian MOU to encourage the acquisition, construction and equipping of the Meridian Facility. The land on which the Meridian Facility is located is owned by the District and leased to the Debtor pursuant to a Project Site Lease (the "Site Lease"), dated as of March 29, 2010.

The Site Lease is for an initial term of 10 years, and thereafter is subject to annual extension. In exchange for the benefits that the County and City were to receive by virtue of the Debtor's construction of the Meridian Facility (including increased utilization by additional tenants of the industrial park in which the Meridian Facility is located, increased income to the County by virtue of water, sewer, and natural gas services, and creation of new jobs in the County and City), the Debtor is not required to pay rent for the first 10 years of its tenancy under the Site Lease. The Meridian Facility consists of 460,000 square feet of space. As described in detail below, given its underperformance and drain on the Debtor's cash, in November, 2012 the Debtor was forced to close the Meridian Facility and relocate its operations to the Houston Facility. The Debtor has completed the relocation.

On April 10, 2013, the Bankruptcy Court entered an Order [Docket No. 388] authorizing the Debtor to enter into a short-term lease agreement with Avery Dennison, pursuant to which Avery Dennison will lease 100,000 square feet of warehouse space in the Meridian Facility. Pursuant to the terms of the lease, Avery Dennison will vacate the Meridian Facility not later than August 16, 2013.

## B. The Debtor's Assets and Capital Structure

### 1. Assets

The Debtor's principal assets consist of the Warehouse Facilities, inventory, accounts receivable, and equipment. The Debtor typically has on hand approximately $38 million in inventory at cost, although this amount fluctuates daily due to the nature of the Debtor's business.

### 2. Capital Structure

The Debtor's secured debt is held by Wells Fargo Bank, N.A. ("Wells Fargo") and Capital One, North America ("Capital One"). Prior to the Petition Date, the Debtor was indebted to Wells Fargo under a Credit and Security Agreement, dated as of May 11, 2012, as amended by the First Amendment to Credit and Security Agreement, dated as of November 28, 2012 (the "Wells Fargo Pre-Petition Credit Facility"), under which Wells Fargo agreed to provide working capital to the Debtor secured by the Wells Fargo Pre-Petition Collateral. Capital One maintained a first-priority lien on the Capital One Pre-Petition Collateral[7], and a second-priority lien on that portion of the Wells Fargo Pre-Petition Collateral which is subject to Wells Fargo's first-priority liens, to secure payment of the Debtor's obligations owing to Capital One under the operative loan documents and agreements among Capital One, the Indenture Trustee, and the Debtor entered into with respect to the financing of the Meridian Facility described immediately below (the "Capital One Loan Documents").

#### a. Capital One and Financing the Meridian Facility

As mentioned above, the Debtor financed the construction of the Meridian Facility. Specifically, pursuant to a Trust Indenture (the "Indenture") between the Mississippi Business Finance Corporation (the "MBFC") and Whitney Bank (as successor-in-interest to Hancock Bank), as Indenture Trustee (the "Indenture Trustee"), dated as of January 1, 2010, the MBFC issued its Gulf Opportunity Zone Revenue Bond, Series 2010 (Handy Hardware Wholesale, Inc. Project) (the "Bond") in the maximum aggregate principal amount of Twenty Million Dollars

[7] The term "Capital One Pre-petition Collateral" means (i) all equipment, then owned or thereafter acquired by the Debtor; (ii) all assets of the Debtor more fully described in that certain property, whether real, personal, or mixed, that is described in that certain Leasehold Deed of Trust, Security Agreement and Assignment of Rents, dated March 29, 2010, recorded on March 31, 2010, in the land records of the office of the Chancery Clerk of Lauderdale County, Mississippi, under Doc# 002304 in Book 2428, page 167 as in effect on the date hereof, relating to the Meridian Distribution Center; and (iii) all assets of the Debtor more fully described in that certain property, whether real, personal, or mixed, that is described in that certain Deed of Trust, Assignment of Rents, and Security Agreement, dated March 29, 2010, recorded on March 31, 2010, in the office of the County Clerk of Harris County, Texas, under Clerk's File No. 2010-0124602 as in effect on the date hereof, relating to the Houston Distribution Center; provided, however, the Capital One First Lien Collateral shall not include the Accounts; Books (other than the Mississippi Project General Intangibles); Chattel Paper; Deposit Accounts; Inventory, General Intangibles (other than Mississippi Project General Intangibles), Investment Property, Letters of Credit, Letters of Credit Rights, Instruments, Promissory Notes, Drafts, Documents, Commercial Tort Claims not relating to any of the Capital One First Lien Collateral, Money and Cash Equivalents.

($20,000,000). The Bond was purchased by Capital One pursuant to the terms of a Bond Purchase Contract (the "Bond Purchase Contract"), dated March 31, 2010, among the Debtor, the MBFC, and Capital One. The proceeds of the Bond were loaned to the Debtor pursuant to the terms of a Series 2010 Note (the "Capital One Note")[8] and a Loan Agreement (the "Loan Agreement")[9] between the MBFC and the Debtor, dated as of January 1, 2010. The Capital One Note and the Loan Agreement were assigned contemporaneously to the Indenture Trustee. The Capital One Note bears interest at 5.27% per annum. As of December 31, 2012, approximately $19,467,347 in principal amount, and $202,107 in interest, was outstanding on the Capital One Note.

In addition, the Debtor also entered into a "Rural Economic Development Loan Agreement – Ultimate Recipient", dated March 1, 2011 with EMEPA (the "EMEPA Loan Agreement"), by which the Debtor borrowed the amount of $740,000 for equipment purchases and infrastructure improvements. The obligations under the EMEPA Loan Agreement are secured by a letter of credit (the "EMEPA Letter of Credit") issued by Capital One pursuant to the Working Capital and Term Loan Agreement by and between the Debtor and Capital One dated December 22, 2009 (the "Capital One Loan Agreement"). As of the Petition Date, $678,333 remains outstanding under the EMEPA Loan Agreement. The Debtor and the County also entered into a Repayment Agreement, dated as of April 8, 2011 (the "Repayment Agreement") relating to the payment by the Debtor of $360,000 of Taxable General Obligation Industrial Development Bonds, Series 2010. The Debtor's obligations to make payments under the Repayment Agreement are secured by a letter of credit issued by Capital One (the "Repayment Letter of Credit", and with the EMEPA Letter of Credit, the "Letters of Credit") pursuant to the Capital One Loan Agreement. To date, neither of the Letters of Credit has been drawn upon.

In connection with the Capital One Loan Agreement, the Debtor also borrowed $3,100,000 from Capital One in order to purchase certain equipment used in the operation of the Meridian Facility (the "Equipment Note"). The Debtor's obligations to Capital One under the Equipment Note are secured by computer equipment and software, material handling equipment, and other general office and warehousing equipment type items. As of the Petition Date, approximately $2,221,661 in principal and $43,398 in accrued interest and fees is outstanding under the Equipment Note.

Lastly, the Debtor and Capital One entered into an International Swaps and Derivatives Association, Inc. 2002 Master Agreement, dated as of February 1, 2010 (the "Swap") to provide Capital One an interest rate hedge. The amount currently outstanding under the Swap is $3,058,734.

The Debtor's obligations under the Capital One Note, the Equipment Note, EMEPA Loan Agreement, the Repayment Agreement and the Swap are secured on a first and senior basis by various Deeds of Trust, Security Agreements and Assignment of Rents on the Meridian Facility and the Houston Facility, and certain related agreements. Specifically, the Debtor's obligations

to Capital One (either directly or indirectly) are secured by: (i) a Leasehold Deed of Trust, Security Agreement and Assignment of Rents dated as of March 29, 2010 for the benefit of Capital One (the "Meridian Deed of Trust"), on the Meridian Facility and Site Lease; (ii) a Leasehold Deed of Trust, Security Agreement and Assignment of Rents dated as of March 29, 2010 for the benefit of MBFC, which was assigned to the Indenture Trustee (the "Indenture Trustee Deed of Trust"), on the Meridian Facility and Site Lease; (iii) a Deed of Trust, Assignment of Rents and Security Agreement dated as of March 29, 2010, covering the Houston Facility, the equipment and other items installed in or used in connection with the Houston Facility and an adjoining undeveloped tract (the "Houston Deed of Trust" and, together with the Meridian Deed of Trust and the Indenture Trustee Deed of Trust, the "Deeds of Trust"); and (iv) a Security Agreement dated as of March 29, 2010 (the "Security Agreement") covering all of the Capital One First Lien Collateral.

In addition, the Debtor's obligations to Capital One are also secured by a second-priority lien on and security interest in the Debtor's inventory, accounts, cash equivalents and other current assets, which lien and security interest is junior and subordinate to the first-priority lien and security interest held by Wells Fargo to secure the Debtor's obligations to Wells Fargo under the Wells Fargo Pre-Petition Credit Facility.

By letter, dated October 8, 2012, the Indenture Trustee declared an Event of Default under the Indenture due to the Debtor's failure to make the $85,430.97 interest payment due October 1, 2012 on the Bond. Additionally, on October 19, 2012, Capital One notified the Debtor that the Debtor was in default of its obligations under the Equipment Note and the Capital One Loan Agreement for failure to make the principal payment on the Equipment Note due on October 1, 2012 and the failure to make the $85,430.97 interest payment on the Bond, and that these failures would constitute an Event of Default under the Debtor's agreements with Capital One if not cured within five (5) business days. The Debtor was unable to cure these defaults and, accordingly, an Event of Default occurred. As of the Petition Date, the Debtor was indebted to Capital One in the approximate aggregate amount of $26 million, inclusive of interest and fees.

**b. The Wells Fargo Pre-Petition Credit Facility**

Pursuant to the Wells Fargo Pre-Petition Credit Facility, Wells Fargo had provided the Debtor with a $30 million revolving line of credit, subject to a borrowing base formula. The Debtor's obligations under the Wells Fargo Pre-Petition Credit Facility are secured by a senior, first-priority security interest in substantially all of the Debtor's inventory, accounts, cash, cash equivalents and other personal property more fully described in the Wells Fargo Pre-Petition Credit Facility (the "Wells Fargo First Lien Collateral"). In addition, to further secure the Debtor's obligations under the Wells Fargo Pre-Petition Credit Facility, Wells Fargo holds a duly perfected second-priority lien on and security interest in the Capital One Pre-Petition Collateral.

On November 28, 2012, the Debtor and Wells Fargo entered in to that certain First Amendment to Credit and Security Agreement (the "First Amendment") in which, among other things, Wells Fargo waived certain Specified Events of Default (as defined in the First Amendment), and the Debtor agreed to retain a financial advisor and pursue a restructuring of the Debtor's indebtedness.

On January 7, 2013, Wells Fargo provided written notice to the Debtor of, among other things, the occurrence and continuation of an Event of Default under the Wells Fargo Pre-Petition Credit Agreement resulting from the Debtor's failure to comply with certain of the covenants and agreements contained therein.

As of the Petition Date, the Debtor was indebted under the Wells Fargo Pre-Petition Credit Facility in the approximate unpaid principal amount of $14.6 million (including outstanding letter of credit obligations) (the "Wells Fargo Pre-Petition Debt").

**c. The Intercreditor Agreement**

Capital One, Wells Fargo, the Indenture Trustee and the Debtor are parties to the First Lien/Second Lien Intercreditor Agreement dated as of May 11, 2012 (the "Intercreditor Agreement"). The Intercreditor Agreement is a critical agreement which specifies the relative rights, priorities and remedies in and to the Wells Fargo First Lien Collateral and the Capital One Pre-Petition Collateral. The Intercreditor Agreement confirms that Capital One and the Indenture Trustee have a first-priority lien and security interest on all "PP&E Collateral" (as defined in the Intercreditor Agreement), and the proceeds thereof, and a second-priority lien and security interest on all "Other Collateral" (as defined in the Intercreditor Agreement), and the proceeds thereof. The Intercreditor Agreement likewise confirms that Wells Fargo has a first-priority lien on and security interest in all Wells Fargo First Lien Collateral and the proceeds thereof, and a second-priority lien on all Capital One Pre-Petition Collateral.

**4. Trade Debt**

As of the Petition Date, the Debtor had current liabilities consisting of accounts payable and accrued expenses and other current liabilities. Current liabilities included accounts payable to vendors which sold merchandise to the Debtor for sale in its stores and other creditors. As of the Petition Date, unsecured claims accounted for more than $40 million of the total accounts payable.

**C. Pending Litigation**

*HHW, Inc. v. Lakeshore Lumber Company and John Argubright*, Case No. 201207634-7. The Debtor filed this action against Lakeshore Lumber Company and John Argubright, asserting claims of breach of contract, sworn account, breach of guaranty and *quantum meruit*. The action is currently pending before the District Court of Harris County, Texas 55th Judicial District. The complaint seeks judgment in the amount of $286,608.42, pre-judgment and post-judgment interest, and reasonable and necessary attorneys' fees.

*William J. Branton v. Cedric L. Greenwood, Handy Hardware Wholesale, Inc., et al.,* CV 30765. This is a personal injury case arising from a 2010 automobile accident allegedly involving a truck leased by the Debtor and operated by one of the Debtor's employees. The case is currently pending in the 266th Judicial District Court in Erath County, Texas against Cedric L. Greenwood, Penske Truck Leasing Co., L.P. d/b/a Texas Penske Truck Leasing Co., L.P., and the Debtor. Plaintiff's original complaint was filed on September 22, 2010. Plaintiff's Third

Amended Complaint was filed on November 30, 2012. The complaint seeks actual and exemplary damages. ~~Pursuant to section 362 of the Bankruptcy Code, all further proceedings in this action have been stayed.~~On April 2, 2013, the Bankruptcy Court entered an agreed *Order Granting Motion of William J. Branton for Relief From the Automatic Stay to Allow State Court Litigation to Proceed* [Docket No. 343]. Pursuant to that Order, the Bankruptcy Court granted relief from section 362(d) of the Bankruptcy Code to permit the plaintiff to proceed with the action and collect on any judgment that the plaintiff may obtain against the Debtor in such action solely from the proceeds of any applicable insurance coverage.

*Alamo Iron Works, Inc. et al v. Handy Hardware Wholesale, Inc.*, Adv. Proc. No. 11-05088. This is an adversary proceeding file by the trustee for the estates of certain Chapter 7 debtors, Alamo Iron Works, et al., (Case No. 10-51269), which is currently pending in the United States Bankruptcy Court for the Western District of Texas, San Antonio Division. The complaint against the Debtor seeks to avoid certain alleged preferential transfers totaling $87,567.10. Pursuant to section 362 of the Bankruptcy Code, all further proceedings in this action have been stayed.

**D. Events Leading To The Chapter 11 Case**

The Debtor's primary focus has always been to provide high quality goods at the lowest cost to its Members while providing superior service at all times. Under that guiding principle, membership has continued to increase. In 1986, the Debtor began working on a long-range expansion project that would last 12 years, and would grow the Houston Facility from 100,000 square feet to 560,000 square feet by 2001, thereby maximizing the Houston Facility's capacity. This increase in capacity at the Houston Facility was funded with the Debtor's cash.

The Meridian Facility was intended to facilitate the Debtor's expansion across the southeastern region of the United States, and the purchase of the real estate and equipment to construct and operate the Meridian Facility was financed as described in detail above.

The expansion and construction of the Meridian Facility was an important strategic step for the Debtor, but coincided with the worst economic crisis this country has faced in decades. These economic circumstances resulted in the Debtor's inability to reach the necessary growth rates to sustain operations at the Meridian Facility. For the fiscal year ending 2011, the Debtor generated sales in excess of $240 million. The increased operational costs and debt service attendant to the Meridian Facility created a loss from operations of $8.4 million. The resulting cash drain and inability to service the debt owed to Capital One lead to the Debtor's decision to close the Meridian Facility and migrate the inventory and customer services serviced out of the Meridian Facility to the Houston Facility.

Upon deciding to shut down the operations at the Meridian Facility, the Debtor provided its employees at the Meridian Facility with notices in compliance with the Worker Adjustment and Retraining Notification Act of 1988 (the "WARN Act"). On November 7, 2012, each employee who was employed at the Meridian Facility was notified that his or her position would be eliminated on or before January 31, 2013. Subsequently, the Debtor began transitioning the Meridian Facility operations to the Houston Facility.

As of December 20, 2012, all Member delivery routes had been re-routed to the Houston Facility. As of December 31, 2012, only $7 million of inventory remained at the Meridian Facility. The remaining inventory has been transferred from the Meridian Facility to the Houston Facility. ~~The Debtor has also significantly reduced its team at the Meridian Facility.~~ The closure of the Meridian Facility as of February 28, 2013 has substantially reduced labor costs, most significantly in the supervisor and managerial levels, as well as in overhead costs related to the operation of that 460,000 foot facility.

The Debtor will continue to maintain and insure the Meridian Facility (and the equipment and fixtures) during its bankruptcy, and provide security for the Meridian Facility, pending the disposition of the Meridian Facility. The Debtor would also pay the education tax on the Meridian Facility under the Plan, and any other tax, pending the disposition of the Meridian Facility.

The Debtor intends to utilize the bankruptcy process to ~~continue~~effect a sale of substantially all of its ~~plan~~assets to ~~right-size its operations,~~ Buyer and restructure its indebtedness to Capital One~~, and emerge from chapter 11 through a consensual plan of reorganization~~, while simultaneously providing the services to its Members which the Debtor has historically provided and timely meeting its post-petition obligations to its vendors and others. ~~The Debtor hopes to emerge from chapter 11 positioned to return to its former self – a profitable Member-owned company, that is able to provide its Members with outstanding service and products. Through its efforts to improve efficiency and reduce operational costs, the Debtor projects it will achieve break-even operations by April 1, 2013.~~Buyer intends to maintain Handy as an independent entity under Littlejohn's ownership, and will focus on growing the Debtor's customer base through competitive pricing and high service levels that have distinguished Handy in the past. As a wholly owned subsidiary of Littlejohn Management post-emergence, Buyer will be positioned to continue a mutually beneficial business relationship with its current Members, providing the same outstanding service and products to its customers that Handy has historically provided.

## III. THE CHAPTER 11 CASE

### A. Overview of Chapter 11

Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. In addition to permitting debtor rehabilitation, chapter 11 promotes equality of treatment for similarly situated holders of claims and equity interests, subject to the priority of distributions prescribed by the Bankruptcy Code in a liquidation.

The commencement of a chapter 11 case creates an estate that comprises all of the legal and equitable interests of the debtor as of the commencement of the chapter 11 case. The Bankruptcy Code provides that the debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession."

Consummating a plan is the principal objective of a chapter 11 case. A bankruptcy court's confirmation of a plan binds the debtor, any entity acquiring property under the plan, any holder of a claim against or equity interest in the debtor and all other entities, as may be ordered

by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code, to the terms and conditions of the confirmed plan. Subject to certain limited exceptions, the order issued by the bankruptcy court confirming a plan provides for the treatment of claims and equity interests in accordance with the terms of the confirmed plan.

Prior to soliciting acceptances of a proposed chapter 11 plan, section 1125 of the Bankruptcy Code requires a debtor to prepare a disclosure statement containing information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment regarding acceptance of the chapter 11 plan.

## B. ~~Initial Motions~~Significant Events in the Chapter 11 Case

Immediately following the Petition Date, the Debtor devoted substantial effort to stabilizing its operations. To that end, the Debtor sought and obtained a number of orders from the Bankruptcy Court to minimize disruption to its operations and facilitate the administration of its case.

### 1. Applications to Retain Professionals

To assist the Debtor in carrying out its duties as debtor-in-possession and to represent the Debtor in this Chapter 11 Case, the Debtor retained Ashby & Geddes, P.A. as bankruptcy counsel~~,~~ and Haynes and Boone, LLP as special counsel. The Bankruptcy Court approved the retention of Ashby & Geddes on February 4, 2013 effective as of the Petition Date. [Docket No. 132] In order to assist the Bankruptcy Court and the Debtor with the potential administrative burdens associated with the Chapter 11 Case, the Debtor retained DRC as their claims and noticing agent [Docket No. 29]. The Debtor also retained MCA Financial Group, Ltd. as its financial advisor [Docket No. 128]. ~~The Debtor intends to file an application seeking to retain DRC as its Solicitation Agent.~~On March 20, 2013, the Debtor filed its *Application to Retain Donlin, Recano & Company, Inc. as Administrative Agent for the Debtor*, regarding plan solicitation, balloting and vote tabulation services [Docket No. 283], and on April 10, 2013, the Court entered an Order approving that application [Docket No. 384]..

### 2. First Day Relief

On January 14, 2013, the Bankruptcy Court entered orders authorizing the Debtor to (a) enter into the DIP Credit Facility (defined below) on an interim basis, (b) pay prepetition taxes, (c) continue using its prepetition cash management system, (d) maintain prepetition insurance policies and insurance brokerage agreements and enter new policies or brokerage agreements as necessary, (e) pay in the ordinary course prepetition employee wage obligations, and (f) prohibit utilities from discontinuing service and establish procedures for determining adequate assurance of payment. The relief granted in these orders helped stabilize the Debtor's business in the initial days of the Chapter 11 Case.

### 3. The DIP Credit Facility

On February 5, 2013, the Bankruptcy Court entered its *Order Approving Stipulation And Agreed Final Order: (I) Authorizing Debtor To (A) Obtain Post-Petition Financing On A Super-Priority, Secured And Priming Basis From Wells Fargo Bank, National Association; (B) Use Cash Collateral, (C) Provide Adequate Protection To Wells Fargo Bank, National Association, And (D) Enter Into Post-Petition Agreements With Wells Fargo Bank, National Association; And (II) Modifying The Automatic Stay* [Docket No. 140] (the "Final Financing Order"). Pursuant to the Final Financing Order, the Bankruptcy Court authorized the Debtor on a final basis to obtain secured postpetition financing (the "DIP Credit Facility") from Wells Fargo pursuant to that certain Ratification and Amendment Agreement. The DIP Credit Facility consisted of a $30 million revolving line of credit (inclusive of the Wells Fargo Pre-Petition Debt) and letters of credit in an aggregate amount not to exceed $3 million. Use of the DIP proceeds was limited in accordance with an Approved Budget, subject to permitted variances set forth in the Final Financing Order. Pursuant to the Final Financing Order, ~~the~~ Wells Fargo was granted a perfected first-priority lien on all of the Debtor's assets, subject to a carve-out for allowed professional fees (and subject to the Approved Budget thereunder) and to the terms of the Intercreditor Agreement. The proceeds of the DIP Credit Facility were used for working capital purposes during the Chapter 11 Case.

### 4. Appointment of the Committees

***Creditors' Committee.*** On January 24, 2013, the U.S. Trustee appointed a 7-member Committee pursuant to Section 1102 of the Bankruptcy Code [Docket No. 71]. The members of the Creditors' Committee are: (1) American Water Heaters Company; (2) The Hillman Group Inc.; (3) PrimeSource Building Products, Inc.; (4) Southwire Company; (5) Eaton Corporation; (6) Coutinho & Ferrostaal, Inc.; and (7) California Products Corporation. The Creditors' Committee retained Lowenstein Sandler ("Lowenstein") and the Rosner Law Group, LLP ("Rosner") as its legal advisors and PricewaterhouseCoopers, LLP as its financial advisor. Since its formation, the Creditors' Committee has played an active and important role in the Chapter 11 Case. The Debtor has consulted with the Creditors' Committee on a regular basis concerning all aspects of the Chapter 11 Case, including the Plan.

***Members' Committee.*** _On March 1, 2013, the U.S. Trustee appointed the Official Committee of Equity Holders (the "Members' Committee") [Docket No. 227]. The Members' Committee is comprised of the following: Guadalupe Lumber Co., Inc.; P&H Builders Supply, Inc.; T.H. Rogers Lumber Co.; Coastal Hardware, LLC; and Powers Holdings, Inc. ~~As of the date of the filing of this Disclosure Statement the~~The Members' Committee has ~~not yet retained~~filed an application to retain Gellert Scali Busenkell & Brown, LLC as its counsel. [Docket No. 334], and on May 6, 2013, the Court entered an Order approving that application [Docket No. 466]. The Debtor intends to consult with the Members' Committee on a regular basis concerning all aspects of the Chapter 11 Case, including the Plan.

### 5. Filing of Debtor's Proposed Disclosure Statement

On March 6, 2013, in accordance with certain milestones contained in the Final Financing Order, the Debtor filed its First Disclosure Statement [Docket No. 244], along with a proposed plan of reorganization [Docket No. 243] and a motion to approve the form of First Disclosure Statement and proposed plan solicitation procedures [Docket No. 245]. The hearing to consider approval of the First Disclosure Statement was scheduled for April 10, 2013. The

First Disclosure Statement and the First Plan contemplated the Debtor's emergence from chapter 11 as a stand-alone company that would continue in existence post-confirmation as a cooperative under Subchapter T of the Internal Revenue Code. The First Plan envisioned the Debtor raising $3 million in capital from its Members by issuing new shares of common stock. In the months following the filing of the First Disclosure Statement, and the First Plan, however, the Debtor experienced declines in both sales and trade credit, which combined to weaken the Debtor financially and called into question the Debtor's ability to remain in compliance with certain of the financial covenants contained in the Final Financing Order and the viability of the First Plan.

**6. Littlejohn Letter of Intent**

In light of the deterioration of its financial condition, the Debtor began to entertain expressions of interest which certain parties had conveyed to enter into a restructuring transaction with the Debtor. With the approval of the Creditors' Committee and Members' Committee, the Debtor adjourned the hearing on the First Disclosure Statement in order to allow time to explore additional restructuring options. Thereafter, the Debtor engaged in due diligence and arm's length discussions with the potential acquirers, including Littlejohn, a private equity firm.

The Debtor's discussions with Littlejohn proved fruitful. Following arm's length negotiations among the Debtor, Creditors' Committee, and Littlejohn, the Debtor and Littlejohn entered into a non-binding Letter of Intent, which sets forth Littlejohn's proposal to acquire substantially all of the Debtor's assets, free and clear of all liens, claims, and interests. Pursuant to the Letter of Intent, Littlejohn proposed to enter into a plan support agreement and to support the Plan, which would provide for, among other things, subject to certain conditions: payment in full of allowed administrative expense claims (including Allowed 503(b)(9) Claims) on the effective date of the Plan or in the ordinary course of business; assumption of all outstanding post-petition payables and deposits; a $4 million contribution to settle general unsecured claims, costs of winding down the Debtor, and priority claims upon emergence from Chapter 11; a waiver of certain preference actions; the elimination of the 2% warehouse fee which is currently charged to Members on certain purchases; and the establishment of a loyalty program for certain existing Members who continue to do business with Buyer post-Effective Date. Additionally, Members would not be required to purchase equity in the reorganized Debtor, as contemplated in the Debtor's previous plan of reorganization. Finally, an affiliate of Littlejohn has purchased a $4 million last out participation in the Wells Fargo DIP Credit Facility, thereby increasing availability under the Wells Fargo DIP Credit Facility to rebuild working capital and ensure that the Debtor has sufficient funds for inventory procurement and operations through the contemplated closing of the acquisition. Littlejohn (or its affiliate) intends to maintain Handy as an independent entity under Littlejohn's ownership, and will focus on growing the customer base through competitive pricing and high service levels. The Debtor anticipates the experience and expertise of Littlejohn (or its affiliate) with the recent restructuring of other companies and its ownership of another company in the hardware industry will enable the parties to close the acquisition promptly. Closing of the acquisition will be subject to due diligence and the terms, conditions, and documentation.

Contemporaneously with signing the non-binding Letter of Intent, the Debtor issued a press release to its Members, relaying this important development in the Chapter 11 case and