IN THE UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re: HOBBICO, INC., *et al.*,[1] Debtors.	Chapter 11
	Case No. 18-10055
	(Joint Administration Requested) **Re: D.I. 19**

AMENDED DECLARATION OF TOM S. O'DONOGHUE, JR.
IN SUPPORT OF DEBTORS' CHAPTER 11 PETITIONS AND FIRST-DAY MOTIONS

I, Tom S. O'Donoghue, Jr., pursuant to section 1746 of title 28 of the United States Code, hereby declare that the following is true and correct to the best of my knowledge, information, and belief:

1. I am the Chief Restructuring Officer (the "CRO") of Hobbico, Inc. ("Hobbico") and its debtor affiliates in the above-captioned chapter 11 cases (collectively, the "Debtors" and together with their non-debtor affiliates, the "Company"). I have served in such capacity since October 25, 2017.

2. In addition to serving as the Debtors' CRO, I am also a partner at CR3 Partners LLC ("CR3"), a leading national business advisory firm which has 7 offices nationwide and over 60 professionals. CR3 has been retained to advise and assist the Debtors with respect to liquidity management and other operational restructuring initiatives.

3. I submit this declaration (the "Declaration") in support of the First Day Pleadings (defined below) and to provide information to parties in interest regarding the Debtors. The First Day Pleadings allow the Debtors to perform and meet the obligations necessary to fulfill their

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, are as follows: Hobbico, Inc. (9545); Axial R/C Inc. (0233); Estes-Cox Corp. (2196); Great Planes Model Manufacturing, Inc. (5259); Revell Inc. (8545); Tower Hobbies, Inc. (5185); and United Model, Inc. (5302). The Debtors' headquarters are located at 2904 Research Road, Champaign, Illinois 61822.

duties as debtors-in-possession and minimize any adverse effects that filing for bankruptcy protection may have on their businesses. I am familiar with the contents of each First Day Pleading (including the exhibits thereto) and believe that the relief sought in each First Day Pleading: (a) is necessary to enable the Debtors to operate in chapter 11 with minimum disruption or loss of productivity or value; (b) constitutes a critical element in achieving a successful going concern sale of the Debtors' businesses; (c) best serves the Debtors' estates and stakeholders' interests; and (d) is, in those instances where the relief seeks immediate payment of prepetition amounts, necessary to avoid immediate and irreparable harm.

4. Except as otherwise indicated, all statements set forth in this Declaration are based upon: (a) my personal knowledge; (b) information supplied to me by other members of the Debtors' management or the Debtors' professionals; (c) my review of relevant documents; and (d) my opinion based upon my experience and knowledge of the Debtors' operations, financial condition and industry.

5. Except as otherwise indicated, all statements set forth in this Declaration exclude information related to Hobbico's direct and indirect non-Debtor foreign subsidiaries (collectively, the "Foreign Subsidiaries"): (a) ARRMA Durango Limited, (b) Hobbico Deutschland Holdings GmbH, and (c) Revell GmbH.

6. If called upon to testify, I could and would testify to the facts set forth in this Declaration.

I. INTRODUCTION AND OVERVIEW

7. The Company is one of the world's largest designers, manufacturers and distributors of radio control ("R/C") and general hobby products, including radio control vehicles, drones, model rockets, model kits, and general hobby products. The Company markets and sells thousands of these products across more than 250 brands, many of which are

proprietary, including industry-leaders Axial, ARRMA, Revell, Estes, Great Planes Model Manufacturing, DuraTrax, and Top Flite.

8. For the twelve months ending November 30, 2017, the Company generated approximately $248.6 million in revenue on a consolidated basis, $198.9 million generated by the Debtors. In addition, the Debtors had approximately $53.1 million in assets and approximately $141.3 million in liabilities based upon the book value of these assets and liabilities as of November 30, 2017.

9. The Debtors' headquarters and primary distribution center are located in Champaign, Illinois. Additionally, the Debtors' have operations in Mission Viejo, California; Penrose, Colorado; Reno, Nevada; and Elk Grove, Illinois.[2] Today, the Debtors have approximately 417 employees.

10. In order to support the financial requirements of several acquisitions over the years, the Debtors incurred and began carrying a heavy debt load. Beginning in 2016, the Debtors' businesses began to struggle due to a number of factors which included, without limitation and as described more fully herein, a lack of investment in product innovation and its core ecommerce platform coupled with a systemic shift in the drone market. In the second half of 2016, these challenges became more acute with the disruption of the Debtors' supply chain in Asia due to the financial distress of multiple key suppliers. These factors all combined to negatively impact the Debtors' sales and profitability and, in conjunction with elevated debt service obligations, resulted in defaults under their debt obligations and a sharp decrease in liquidity and financial flexibility.

[2] The Foreign Subsidiaries maintain operations in Moira, United Kingdom, and Bunde, Germany.

11. In March 2016, the Debtors' lenders initially declared a default under the Debtors' secured debt facilities. While searching for additional sources of financing to supply working capital liquidity, the Debtors negotiated a series of amendments to, and forbearance periods with respect to, their senior and subordinated secured debt obligations. The Debtors also engaged in a thorough review of strategic alternatives with the advice and guidance of experienced financial and legal advisors including, but not limited to, the Debtors' proposed investment banker, Lincoln Partners Advisors ("Lincoln"), who were retained in April 2017. Based upon that review of available options and taking into consideration the liquidity constraints of the Debtors, which worsened in the Fall of 2017, the Debtors concluded that pursuing a going-concern sale of substantially all the assets of the Company is the optimal course by which to maximize the value of the Company's businesses.

12. Through the proposed sale process, the Debtors are hopeful that meaningful recoveries will be available for their various stakeholders and that the Company will continue as a going-concern under new ownership. The Debtors' senior prepetition lenders will provide debtor-in-possession financing to fund these bankruptcy proceedings, and to provide time for a public auction process, which Lincoln began in late November 2017, to be completed. The Debtors' ability to successfully emerge from these bankruptcy proceedings hinges on the going-concern sale of the enterprise. The Debtors have therefore committed to engage in a sale effort with the goal of maximizing value for the benefit of the Debtors' collective stakeholders.

13. Accordingly, following the expiration of the lenders' forbearance period on January 8, 2018, and the Debtors' inability to satisfy their senior and subordinated secured debt obligations, the Debtors commenced these bankruptcy proceedings to pursue a going concern sale of their businesses for the highest and best value. Based on projected working capital

required to maintain business while pursuing a sale of the Company, the Prepetition Lenders proposed financing pursuant to debtor-in-possession financing.

II. CORPORATE STRUCTURE AND HISTORY

14. A corporate structure chart is attached as Exhibit A.

15. Hobbico is an employee-owned company that serves as the ultimate parent of the other Debtors and the direct or indirect parent to the Foreign Subsidiaries. The non-Debtor Foreign Subsidiaries are not seeking any relief in these Chapter 11 Cases.

16. In 1971, Tower Hobbies, Inc. ("Tower Hobbies") was created as a high-discount mail order company that sold radio control models directly to consumers through catalogs. Great Planes Model Manufacturing, Inc. ("Great Planes") was later formed to be a wholesale distributor of radio control models to hobby shops.

17. In approximately 1985, Hobbico was formed through the combination of the Tower Hobbies and Great Planes businesses, which allowed each to achieve greater operating efficiencies, purchasing discounts, and other economies of scale. Their operations were consolidated into Hobbico's current location in Champaign, Illinois.

18. Hobbico grew the business by adding proprietary product lines to the existing Tower Hobbies and Great Planes lines and by pursuing a series of acquisitions to form the organization that exists today:

- United Model: In approximately 2000, Hobbico acquired United Model, Inc. ("United Model") to expand the Company's wholesale distribution beyond hobby shops to mass market retailers;

- Revell U.S.: In 2007, Hobbico acquired Revell Inc. ("Revell U.S.") to augment the United Model channel;

- Estes-Cox: In 2010, Hobbico acquired Estes-Cox Corp. ("Estes-Cox") to augment the United Model channel;

- Axial: In 2011, Hobbico acquired Axial R/C ("Axial") to capture the radio control rock-crawling niche and the current rockracer category;

- Team Durango: In 2012, Hobbico acquired the Team Durango proprietary product line to enhance the racing product line market;[3]

- ARRMA: In 2012, Hobbico acquired the Arrma proprietary product line to further increase market share with radio controlled cars; and

- Revell Germany: In 2012, Hobbico formed non-Debtor Hobbico Deutschland Holding GmbH ("Revell Germany") to acquire one of the largest plastic model makers in Europe.

III. SALES CHANNELS

19. Today, Hobbico sells over 50,000 stock keeping units ("SKUs") of proprietary and non-proprietary products through three divisions based on sales channel: (1) Wholesale; (2) Retail; and (3) Mass Market.

A. Wholesale

20. Hobbico's wholesale business is known as Great Planes. Great Planes is the leading distributor of radio control hobby products to domestic retail hobby shops and the largest seller of radio control products internationally. Great Planes is responsible for the marketing, merchandising and distribution of radio control products and accessories and general hobby products to approximately 1,500 U.S. hobby shops. Great Planes provides dealers with a constant stream of effective point of purchase materials, in-store video loops, and other sales, marketing, and merchandising expertise. Direct sales (*i.e*. sales made directly to a third party) and expenses for sales to dealers are reported within the Wholesale segment.

[3] The Team Durango and ARRMA product lines are designed by non-Debtor, ARRMA Durango Limited.

B. Retail

21. Tower Hobbies is the retail division of Hobbico, which is the highest margin distribution channel for the Company. Tower Hobbies includes sales from both the Tower catalog and TowerHobbies.com. The Debtor also sells to retail consumers through Omni Model and Hobby Shipper distribution channels. The Company's other online businesses reported within the Retail division include (a) OmniModels, which fulfills sales made through Ebay, and (b) HobbbiShipper, which fulfills sales from the Company's branded websites, including www.AxialRacing.com and www.Arrma-RC.com, and (c) Great Planes Model Manufacturing Company, which sells radio control plane models and accessories online at www.greatplanes.com.

C. Mass Market

22. Hobbico's mass market business ("Mass Market") is comprised of three primary groups: (1) Revell U.S.; (2) Estes-Cox; and (3) United Model. United Model emphasizes selling and distributing both proprietary and non-proprietary products to chain stores. Revell U.S. is the leader in plastic models in the U.S. market. Estes-Cox holds a majority share in the model rocketry market.

23. The Mass Market division sells to some of the most recognizable national retail chains, such as Wal-Mart, Kmart, Hobby Lobby, Michaels, Target, and Amazon.com. Revell U.S. and Estes-Cox both target the same mass market and chain customers, and the product lines often are merchandised together, which assists in the formation of a hobby department within the store.

D. Sales Distribution

24. In the Debtor's fiscal year through October 31, 2017, when excluding the Debtors' non-Debtor Foreign Subsidiaries, approximately 96% of the Debtors' total sales

occurred in the U.S., and approximately 4% occurred in the rest of the world. By channel, 59% of the Debtors' sales occurred in the wholesale channel, 27% occurred in the retail channel, and 14% occurred in the mass market channel.

IV. KEY CONSTITUENTS

A. Employees and Contractors

25. The Debtors currently employ approximately 417 employees (the "Employees"). The majority of the Employees work at facilities in Illinois, the remainder work at locations in Nevada, Colorado and California. Approximately 239 of the Employees are hourly (the "Hourly Employees") and approximately 178 are salaried (the "Salaried Employees"). None of the Employees are unionized.

26. The Debtors also employ independent contractors (the "Independent Contractors") and temp staffing agencies ("Temp Agencies") for, among other things, finance, accounting, IT, design, and engineering. As of the Petition Date, the Debtors retained approximately 10 Independent Contractors (including six outside the U.S.) and one Temp Agency.

B. Vendors and Logistics Providers

27. The Debtors have an established and comprehensive manufacturing platform with key third party suppliers that together produce the vast majority of the Debtors' manufactured products. The third-party manufacturing facilities are located primarily in China, Japan and Taiwan. Many of the suppliers are legally or functionally exclusive to the Debtors and depend on the Debtors' business for survival.

28. The Debtors also manufacture products at in-house manufacturing facilities in Illinois and Colorado.

29. For supplies received outside of North America, the Debtors use customs brokers to handle duties, shipping charges, and other related expenses. Foreign inventory is primarily shipped free on board, such that title to the goods transfers at the originating port, or ex works, such that title to the goods transfers once the goods are shipped from the vendors' facilities.

30. The Debtors ship goods to their distribution facilities (the "Distribution Centers")[4] to arrange shipment directly to consumers or to customer warehouses through third-party logistics providers. The Debtors also arrange for delivery of product from the Distribution Centers to the European subsidiaries that purchase their needed inventory from the Debtors.

C. Customers

31. Hobbico's customers include independent specialty retailers (aka hobby dealers) which operate brick and mortar and/or ecommerce stores, individual consumers, mass market retailers, and select institutional customers. The Debtors' ten largest customers together accounted for approximately 23% of the Company's sales year-to-date through November 2017.

V. INTELLECTUAL PROPERTY

32. The Debtors' protect their technologies, products and brands under the patent, copyright, and trademark laws of those countries in which they conduct business in order to maintain a competitive advantage with respect to the technology and design incorporated into their products. The Debtors' patent portfolio includes numerous issued patents and pending patent applications covering the following key areas:

(a) Air products

(b) Surface products

(c) Radio controls

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[4] Distribution Centers are in Champaign, IL, Urbana, IL, Reno, NV, and Penrose, CO.

(d) Model rockets

33. In addition to their patent portfolio, the Debtors own a number of registered trademarks that protect brands that have become trusted with consumers in their respective markets. The trademarks have been registered in each of the jurisdictions in which the Debtors operate and are typically held by the legal entity that operates the business line that uses the trademark.

34. In addition to having its own registered trademarks, the Company licenses a number of key trademarks from various sources. For example, Disney Consumer Products, Inc., granted to Revell, Inc., a license to distribute product to distributers using the Star Wars trademark in the toy market in the U.S., Canada, Mexico, Chile, Colombia, Australia, and Paraguay.

VI. BUSINESS OPERATIONS

A. Facilities

35. The Debtors own four facilities for general corporate, operations, and manufacturing capabilities across the U.S. Additionally, the Debtors lease six facilities for sales, marketing, distribution, and office capabilities. In aggregate, the Debtors have over 850,000 square feet of leased and owned facilities.[5] The non-Debtor Foreign Subsidiaries lease two facilities comprising over 200,000 square feet.

36. The Debtors manage their global operations centrally from their headquarters in Champaign, Illinois ("Headquarters"). The Headquarters provide numerous administrative services to the various Debtors, including finance, tax, treasury, human resources, payroll, benefits and communications, information technology, and operations, among others.

[5] Non-Debtors lease approximately 200,000 square feet.

B. Cash Management System

37. In the ordinary course of business, the Debtors and the non-Debtor Entities maintain a cash management system that provides well-established mechanisms for the collection, concentration, and disbursement of funds used in their operations (the "Cash Management System"). The Cash Management System is similar to those commonly employed by corporate enterprises comparable to the Company in economic scope and geographic reach. Indeed, large, multiple-entity businesses use such systems because of the numerous benefits provided, including the ability to (a) quickly create status reports on the location and amount of funds, thereby allowing management to track and control corporate funds, (b) ensure cash availability, and (c) reduce administrative expenses by facilitating the movement of funds. Granting the Debtors authority to continue using the Cash Management System will facilitate a smooth transition into these chapter 11 cases.

38. Each of the bank accounts (the "Bank Accounts") maintained by the Debtors is listed on Exhibit A to the Cash Management Motion, along with the corresponding banks (the "Cash Management Banks") who hold each Bank Account. The Debtors maintain 27 Bank Accounts in the United States (collectively, the "U.S. Bank Accounts"). The U.S. Bank Accounts are maintained at Wells Fargo Bank ("Wells Fargo") and Busey Bank, and JPMorgan Chase Bank, N.A. ("Chase Bank").

39. The Non-Debtor Entities also maintain certain Bank Accounts in Europe (collectively, the "Non-Debtor Bank Accounts"). A list of Non-Debtor Bank Accounts is provided in Exhibit B to the Cash Management Motion.

40. The Debtor's Cash Management System as of the Petition Date is summarized as follows:

a. Master Collection Account: The Debtors maintain a Master Collection Account (the "Master Collection Account") with Wells Fargo, to which deposits from each of the Debtors' business entities are made multiple times each day. The Master Collection Account also acts as the collections account for the Great Planes, Tower Hobbies, and United Model sales channels. The Master Collection Account is subject to a control agreement with Wells Fargo. The Wells Fargo line of credit is paid down through deposits entering the "Master Collection Account." Deposits made into the Master Collection Account include checks, wire transfer, automated clearinghouse transfers, and cash receipts.

b. Collection Accounts: The Debtors maintain multiple collection accounts (the "Collection Accounts") with Wells Fargo, to which deposits from each business entity's customers are made throughout the day into the respective account(s). Each business entity has one collections account, with the exception of Tower Hobbies, Inc., which has three. Deposits made into the Collection Accounts include checks, wire transfers, automated clearinghouse transfers (PayPal, EZPay, or direct from customer), credit card payments (VISA, MasterCard, Discover and American Express as well as other debit cards), and cash receipts.

c. Operating Accounts: The Debtors also maintain multiple operating accounts (the "Operating Accounts") with Wells Fargo, which funds all of the Debtors' operations for each business entity, respectively. On an as-needed basis, the company will request revolver advances from a Wells Fargo line of credit to fund the operations of the Debtors' businesses. The Operating Account then distributes those funds to certain of the accounts described below. With the exception of the Operating Account for Hobbico, Inc., the Operating Accounts are zero balance accounts ("ZBA").

d. Controlled Disbursement Accounts: The Debtors maintain multiple controlled disbursement accounts with Wells Fargo (the "Controlled Disbursement Accounts"), which operates to cover all wires, automated clearinghouse transfers, checks written for each business entity's operational expenses, respectively. Payroll for all U.S. business entities is processed as an ACH debit from the Hobbico, Inc. Controlled Disbursement Account. Payments to the Debtors' payroll processor are remitted, on a bi-weekly basis, in order to fund payroll and certain related employee benefit obligations. The Controlled Disbursement Accounts are ZBA.

e. Busey Bank Checking Account: The Debtors maintain a checking account at Busey Bank, to which deposits from Canadian customers are made. This account is required to process these deposits, as Wells Fargo does not process Canadian checks, nor is there a local Wells Fargo Branch in Champaign, IL, where the Debtor is headquartered. Funds deposited

into this account are deposited on a weekly basis into the Wells Fargo Master Collection Account.

f. Non-Debtor Bank Accounts: The Debtors do not have direct access to the Non-Debtor Bank Accounts. Cash management of the Revell accounts is maintained by Revell GmbH.

g. UK Non-Debtor Bank Accounts: The UK Non-Debtor Bank Accounts of Arrma Durango Ltd ("ADL"), a UK subsidiary of Hobbico, Inc., are fully funded by the Debtors. ADL provides a cash budget to the Debtor, who provides the necessary cash to finance operations. Cash is transferred biweekly from the Debtor's Controlled Disbursement Account to the ADL bank account denominated in USD.

C. Intercompany Transactions

41. The Debtors engage in two types of intercompany transactions: (i) intercompany trade transactions; and (ii) intercompany debt transactions.

(a) Intercompany Trade Transactions

42. In the ordinary course of business, the Debtors participate in ordinary course trade transactions between and among each other (the "Intercompany Trade Transactions"). Certain Debtors, *e.g*. Axial, Estes-Cox, and Revell U.S., will sell products that they source to Hobbico for distribution through the Great Planes, Tower Hobbies, and United Model sales channels. The Debtors also engage in intercompany transactions with the non-Debtor Foreign Subsidiaries. All Intercompany Trade Transactions are documented in the Company's books and records.

43. The Company also engages in Intercompany Trade Transactions that occur between the Debtors and the non-Debtor Foreign Subsidiaries, *e.g*. transactions between Revell U.S. and Revell GmbH. Revell U.S. sells branded product globally through Revell GmbH at appropriate transfer pricing. Revell U.S. also purchases branded product from Revell GmbH at appropriate transfer pricing.

44. The Intercompany Trade Transactions are critical to the Debtors' ongoing global operations and the preservation of the Debtors' going concern value. The Debtors do not at this

time seek authority to pay or setoff prepetition Intercompany Trade Transactions but reserve their rights to seek to do so through a separate order of this Court if needed.

(b) Intercompany Debt Transactions

1. The Debtors enter into, and have entered into, intercompany loans by and among each other, and with certain of the Non-Debtor Entities (the "Intercompany Debt Transactions" and together with the Intercompany Trade Transactions, the "Intercompany Transactions"). The Debtors have three types of Intercompany Debt Transactions: (a) intercompany loan obligation owed to Hobbico, Inc. by ADL (the "ADL Obligation"); (b) intercompany loan owed to Hobbico, Inc. by Revell GmbH (the "Revell Obligation"); and (c) intercompany loan owed to Hobbico, Inc. by Hobbico Deutschland Holding GmbH (the "Hobbico DE Obligation").

45. ADL is a wholly-owned subsidiary of Hobbico, Inc. located in Derbyshire, England, which provides engineering, R&D and design services in support of Hobbico's Arrma product line. Hobbico, and not ADL, recognizes sales related to the product line. ADL has no meaningful income, as it performs 100% of its services for the Debtors. ADL regularly (at least weekly) provides budgets to Hobbico for funding, including funding of ADL's monthly payroll and other operating expenses. Hobbico makes funding payments from a Wells Fargo controlled disbursement account to ADL's Lloyd's USD operating account. Without such funding from its parent Hobbico, ADL would be unable to maintain itself as a going concern, which would impair the Debtors' reorganization efforts considerably.

46. The ADL Obligation reflects advances made by Hobbico to ADL to fund ADL's operating expenses (including payroll, rent and others). As of the Petition Date, the approximate amount of the ADL Obligation is $3.7 million.

47. The Revell Obligation reflects advances made by Hobbico to Revell GmbH to assist Revell GmbH in efforts to sell Hobbico-branded products in Europe. As it is debt owed to

an affiliate, the Revell Obligation is subordinate to all other debt of Revell GmbH under German law. As of the Petition Date, the approximate amount of the Revell Obligation is 12.1 million Euros.

48. The Hobbico DE Obligation reflects acquisition financing lent by Hobbico, Inc. to Hobbico DE, primarily used by Hobbico DE to acquire its wholly-owned subsidiary, Revell GmbH. As of the Petition Date, the approximate amount of the Hobbico DE Obligation is 19.8 million Euros.

49. The Debtors account for the Intercompany Debt Transactions as unsecured debts on the individual balance sheets of the relevant Debtors and the Non-Debtor Entities. From time to time, the Debtors may also enter into intermittent or ad-hoc Intercompany Debt Transactions related to intracompany asset transfers, inventory movement or similar ordinary course business transactions. The Debtors do not at this time seek authority to pay or setoff prepetition Intercompany Debt Transactions but reserve their rights to seek to do so through a separate order of this Court.

D. Employee Credit Cards

50. The Debtors provide corporate credit cards to employees to charge reimbursable expenses, such as travel expenses (the "Employee Credit Cards") and miscellaneous operating costs of the business. The Employee Credit Cards are issued by BMO Harris Bank NA. The Debtors pay BMO Harris Bank NA directly for the business charges and fees incurred in connection with the employee credit cards; no employee cardholders are individually liable for the expenses on these cards. The Debtors seek authority to continue using their Employee Credit Cards in the ordinary course of business, and to continue to limit the Employee Credit Cards credit use as they deem appropriate in their business judgment.

E. Credit Cards Processing

51. The Debtors receive credit card payment from customers through both their dealer network and online website. To process credit card payments, the Debtors utilize JPMorgan Chase & Co ("Chase") and PayPal, which assist in processing credit card payments from MasterCard, Visa and Discover. In addition, Chase provides fraud detection and management services. At this time, Chase and PayPal do not hold a deposit to secure chargebacks. The Debtors seek authority to continue using Chase and PayPal in the ordinary course of business and honor chargebacks per their agreements, without the need for a deposit.

CAPITAL STRUCTURE

A. Senior Debt

52. On July 11, 2014, all of the Debtors (each a "Borrower") entered into the Third Amended and Restated Credit Agreement (as amended, restated, modified, supplemented, or replaced from time to time, the "Prepetition Credit Agreement"), by and among the Borrowers, the lenders party thereto from time to time (in such capacity, the "Prepetition Lenders"), and Wells Fargo Bank, N.A. as the administrative agent, swingline lender and issuing lender (in such capacities, the "Prepetition Agent") for its own benefit and the benefit of the other "Secured Parties" as defined therein, providing the Debtors with prepetition credit facilities (the "Prepetition Credit Facilities"), consisting of revolving credit loans not to exceed $70.0 million (the "Revolving Credit Loans"), a term loan of $75.0 million (the "Term Loan"), letters of credit not to exceed $450 thousand (the "Letters of Credit"), and a swing loan facility not to exceed $5 million (the "Swing Loan Facility"). The Prepetition Credit Agreement also obligated the Borrowers to repay amounts arising from hedge agreements (the "Secured Hedge Agreements") and cash management agreements (the "Secured Cash Management Agreements"). The non-Debtor Foreign Subsidiaries (collectively, the "Guarantors" and,

together with the Borrowers, the "Prepetition Obligors") serve as guarantors under the Prepetition Credit Facility. The borrowing availability under the Prepetition Revolving Credit Loans is capped pursuant to a budget and by a borrowing base calculated by taking the sum of certain percentages of value of the Prepetition Obligors' inventory and accounts receivable, subject to certain reserves and sub-limits. By their terms, the Prepetition Credit Facilities mature on July 11, 2019.

53. The Prepetition Obligors secured their obligations under the Prepetition Credit Facilities by granting the Prepetition Agent, for the benefit of the Secured Parties, first-priority liens on substantially all of their assets (collectively, the "Senior Collateral").

54. As of the Petition Date, there is approximately $74.5 million outstanding under the Prepetition Credit Facilities, comprised of $37.0 million on account of the Revolving Credit Loan, $37.5 million on account of the Term Loan. The revolver balance is inclusive of $450,000 in Letters of Credit.

B. Subordinated Note

55. On July 11, 2014, the Borrowers and Cyprium Investors IV AIV I LP ("Cyprium") entered into a Securities Purchase Agreement (as amended, restated, modified, supplemented, or replaced from time to time, the "Securities Purchase Agreement") pursuant to which the Borrowers entered into a subordinated promissory note with Cyprium (as amended, restated, modified, supplemented, or replaced from time to time, the "Subordinated Note"). The Guarantors have guaranteed the Borrowers' obligations under the Subordinated Note. By its terms, the Subordinated Note matures on July 11, 2020.

56. The Prepetition Obligors secured their obligations under the Subordinated Note by granting Cyprium subordinated liens on substantially all of their assets (collectively, the "Subordinated Collateral"). Pursuant to a Subordination and Intercreditor Agreement (as

amended, restated, modified, supplemented, or replaced from time to time, the "Subordination Agreement") between Cyprium and Prepetition Agent, Cyprium agreed, among other things, that the security interests and liens of the Prepetition Agent upon the Senior Collateral would be senior in all respects and prior to the security interests and liens of Cyprium in such property, that Cyprium would not object to postpetition financing from the Administrative Agent or the Prepetition Lenders or demand adequate protection in connection with such financing, or object to the use of cash collateral by the Debtors.

57. As of the Petition Date, there is approximately $41.2 million outstanding under the Subordinated Note.

C. Other Secured Debt

58. In addition to the Prepetition Credit Facility and the Subordinated Note, the Debtors have entered into minimal other secured debt for equipment leasing and financing (*e.g.* for postage meters).

D. General Unsecured Obligations

59. In the ordinary course of operating their businesses, the Debtors purchase goods and services from hundreds of trade creditors. As of the Petition Date, the Debtors estimate that they owe approximately $18.6 million to third-party trade creditors. Additionally, the Debtors are obligated to each other for various intercompany obligations owing either from one Debtor to another, with certain intercompany trade obligations owing between the Debtors and certain non-Debtor affiliates.

E. Equity / ESOP

60. In 2005, an ESOP was established and purchased Hobbico for $200.0 million. The transaction was financed with $100.0 million of senior debt and $100.0 million of seller

notes. Subsequently, Hobbico repaid the seller notes with cash flow and incremental borrowings from the Agent and from Cyprium.

61. As of the petition date the ESOP participants owned 100 percent of the beneficial interest in the Debtor and non-Debtor equity, with 953,887 shares of stock outstanding.

VII. EVENTS LEADING TO THE BANKRUPTCY PROCEEDINGS

62. The Company experienced several setbacks in its business after FY 2015. From FY 2015 to FY 2016, the Company's sales decreased from $363.3 million to $324.2 million, and net income decreased from a positive $2.4 million to a net loss of $14.6 million. The decline in FY 2016 was due to a confluence of nonrecurring events that exposed underinvestment in key strategic areas that had been occurring prior to 2016.

63. Lack of investment in product innovation. Many of the Company's R/C products are sold to hobby enthusiasts, who often make purchasing decisions based on newness and product features such as speed and design. While the Company historically had been known for offering some of the most innovative products in the industry, new product introductions slowed, and the Company's R/C product offering started to become stale.

64. Underdeveloped ecommerce platform. Tower Hobbies originated as a catalog-based discount retailer of hobby products, and, at its peak, Tower Hobbies catalogs were circulated to more than 3 million consumers on a regular basis. In 1994, Tower Hobbies transitioned to an ecommerce platform and experienced strong success in the years following the transition. However, despite its initial success and notoriety in the industry, Tower Hobbies has not kept pace with the rapidly developing ecommerce environment and has slowly started to lose market share to competing ecommerce platforms that deploy more advanced digital marketing strategies to attract consumers.

65. Systemic Shift in the Drone Market. Hobbico has been seller of drones and other non-proprietary designs. The drone product line quickly grew to represent over $20 million in sales by 2015. However, as the popularity of the drone category grew, competitors quickly entered the market, which quickly became saturated. Manufacturers from Asia that traditionally supplied distributors such as Hobbico began selling low-cost drones directly to consumers, which contributed to the creation of multiple sources for the consumer in recent years. These factors contributed to a 70% decline in Hobbico's drone sales since FY 2015.

66. HPI Racing Bankruptcy. Historically, the Debtors generated a significant amount of revenue from the sale of HPI Racing products. Specifically, in fiscal 2015, HPI Racing was (1) Hobbico's largest exclusive product line with $13.3 million in sales, (2) its second largest proprietary product line after Axial, and (3) the third largest overall product line after Axial and Traxxas. In January 2016, HPI Racing filed for relief under chapter 11 of the Bankruptcy Code and was subsequently purchased by Ripmax, a radio control product distributor in the United Kingdom. During the ownership transition to Ripmax, the supply of HPI product to Hobbico was severely impacted, which contributed to a decline of $7.2 million in sales in fiscal 2016. HPI did not reorganize rapidly and continued to struggle during FY 2017, contributing to a further decline in year-over-year sales of $2.8 million as of October 31, 2017.

67. Financial Instability and Bankruptcy of Kingstar. Kingstar, Axial's main factory in Taiwan, suspended production in November 2016 and subsequently filed for bankruptcy and stopped production. Axial is the Company's largest proprietary brand as measured by sales. The disruption in production of the Axial product resulted in the delay of several key product launches as well as shortages of product already in market. The impact from this supply chain disruption, was a significant decrease in the Company's sales of Axial products in fourth quarter

of 2016, though demand existed. Hobbico replaced Kingstar with a new manufacturer, which only started shipping product to Hobbico in May 2017. Due to the delay in getting a new supplier on line and the supply chain filled, plus limited liquidity in the second half of FY 2017, these factors impacted deliveries of Axial product to meet an increasing demand for the new products introduced by Axial.

68. Discontinuation of Traxxas Product Line. Traxxas, L.P., historically the Debtors' largest supplier of non-proprietary radio control cars and one of the Debtors' largest vendors, terminated its supplier relationship to the Debtors in the beginning of second quarter of FY 2017. Preceding the termination, Traxxas filed a lawsuit in July 2016 in the United States District Court for the Eastern District of Texas, Case No. 16-cv-00768 (the "Traxxas Lawsuit"), alleging that certain of the Debtors were infringing on several Traxxas patents. Losing access to Traxxas product in FY 2017 contributed to a decrease in working capital turnover and impacted the company's working capital liquidity. Legal defense costs related to the litigation contributed to higher than planned operating expenses in FY 2017.

69. The factors discussed above contributed to a decline in sales beginning in 2016. As a result, the Company failed to meet senior lender financial covenants and other requirements. The Prepetition Agent notified the Company that it was in default, and such default permitted the lenders to accelerate the timing or maturity of amounts owed and resulted in suspension of certain payments by the Company, including interest payments to Cyprium under the Subordinated Note. After the default, the Company and the Prepetition Agent entered into a forbearance agreement, which has been amended and extended several times since then.

70. Taken together, these events presented significant challenges to the Debtors, which had undertaken an assertive acquisition approach to growth during the past decade. The

Debtors sought to counteract these market pressures and address their financial deterioration by, among other things:

(a) Restructuring management, including filling key positions within the company;

(b) Implementing price increases in areas where the Debtors have a competitive advantage or to match competition;

(c) Renegotiating unfavorable vendor contracts;

(d) Improving the online retail platform to focus on profitable growth;

(e) Executing on various cost-cutting measures and cash-generating initiatives, including workforce reductions, non-personnel savings (*e.g.* elimination of print catalogues), and operating consolidation; and

(f) Reducing overall working capital requirements by reductions in inventory and accounts receivable.

71. Nonetheless, the Debtors continued to struggle. The follow-on effects of the above events in combination with the Company's significant leverage resulted in constrained liquidity and shortages of inventory which further impacted sales in the second half of 2017.

VIII. THE GOING-CONCERN SALE AND DIP FINANCING

72. Recognizing the challenges facing the Company, including its precarious liquidity position, the Debtors began to review and assess the Company's strategic alternatives. Following completion of this strategic review, after careful and extensive consideration of all available alternatives and having given due consideration to the interests of all stakeholders, the board of directors of Hobbico and each of its Debtor subsidiaries, and with the assistance, input and advice from professional advisers, determined that the best value-maximizing path forward of the Company necessitated (a) initiating a sale process to find a purchaser for substantially all of the Debtors' assets through an auction and sale process in these chapter 11 proceedings and

(b) securing postpetition debtor-in-possession financing to provide working capital for operations through the consummation of a sale.

A. The Going-Concern Sale

73. On April 11, 2017, the Debtors retained Lincoln to commence a review of strategic alternatives, including the sale of individual business units or subsidiaries, evaluation of alternative financing options, and a sale of the entire business. Given the challenges noted herein, in October 2017, the Board authorized Lincoln to begin a sale process (the "Sale Process") for identifying a buyer for substantially all of the Debtors' assets either in whole or in part through these bankruptcy proceedings. Lincoln began preparations for this process and, in late November, began soliciting interest from potential investors. Since that time, Lincoln has contacted numerous parties, distributed a confidential information presentation to interested parties and conducted numerous telephonic and in person meetings both with and without management. Unfortunately, due to the expiration of the Lenders' forbearance agreement on January 8, 2018, and the Debtors' inability to satisfy their senior and subordinated secured debt obligations, Lincoln was not able to complete its marketing process prior to the Petition Date. Lincoln is continuing the Sale Process without interruption and is actively in discussions with a variety of potential investors for the Company.

B. The DIP Financing

74. As further detailed in the DIP Financing Motion, the Debtors commenced negotiations to obtain debtor-in-possession ("DIP") financing while still pursuing the Sale Process. The Debtors asked Lincoln in early December 2017 to contact potential sources of DIP financing as an alternative to the Prepetition Lenders.

75. Lincoln contacted a number of bank and non-bank financial institutions of the type that would consider providing DIP financing. Lincoln reported that, based on the Debtors'

significant level of secured debt, asset base, and financial profile, all parties declined to provide proposals for DIP financing on either a priming, junior secured, or unsecured basis. In addition, no party was willing to consider providing DIP financing in an amount necessary to retire the Prepetition Debt in full. Given the lack of viable alternatives, and after extensive, good faith negotiations, the Debtors ultimately determined to enter into the DIP Facilities offered by the Prepetition Lenders.

76. The DIP Facilities consist of two separate but coordinated facilities in the form of a revolving credit facility (the "Revolving DIP Facility") and a new money term loan facility (the "Term Loan DIP Facility"). The DIP Facilities are to be provided by the Prepetition Lenders and will be available to the Debtors on an interim basis upon entry of an appropriate order (the "Interim DIP Order") and will provide the Debtors with incremental liquidity through the Sale Process, and will allow the Debtors to, among other things, repay and refinance a portion of the Debtors' obligations under the Prepetition Credit Facility.

77. Having commenced the Sale Process and secured the DIP financing necessary to conduct a thorough marketing and sales process, the Debtors commenced these bankruptcy proceedings, which will provide the Debtors with the necessary breathing space to implement a sale of their businesses and property under court supervision, preserve the Company as a going concern, preserve jobs, and maximize value for stakeholders.

IX. FIRST DAY PLEADINGS

78. Concurrently with the filing of their chapter 11 petitions, the Debtors filed the first day pleadings described below (collectively, the "First Day Pleadings"). The Debtors respectfully request that this Court grant each of the First Day Pleadings with respect to each of the Debtors. I believe that each First Day Pleading constitutes a critical piece of the Debtors' successful and smooth transition into chapter 11. Collectively, the First Day Pleadings maximize

value for the Debtors' estates and stakeholders by reducing unnecessary disruption and minimizing any negative impact of the Chapter 11 Cases on the Debtors' businesses and operations.

79. It is my further belief that, with respect to those First-Day Pleadings requesting the authority to pay discrete prepetition claims or continue selected prepetition programs (*e.g.*, those First-Day Pleadings seeking relief related to, among other things, the Debtors' obligations to their vendors, lienholders, employees, customers, taxing authorities and insurers), the relief requested is essential to preserve the Debtors' going-concern sale value and necessary to avoid immediate and irreparable harm to the Debtors and their employees, customers and affected vendors. The Debtors believe that payment of those selected prepetition claims identified in the First Day Pleadings will forestall such irreparable harm, thus maximizing the value of the Debtors' estates to the benefit of all stakeholders.

80. The Debtors have an immediate need to continue the orderly operation of their business by securing goods and paying employees in the normal course of business. The Debtors' continued operations will enable the Debtors to preserve the going concern value of their estates and re-establish any lost vendor and customer confidence. Further, the Debtors believe that such relief will enable them to stabilize their operations and avoid a chaotic post-filing period.

81. The Debtors respectfully refer the Court to the individual First Day Pleadings for a more detailed description of the requested relief and relevant facts related to each pleading. I have read each of the First Day Pleadings and the descriptions and facts contained therein are complete and accurate. To the extent that this Declaration and the provisions of any of the First Day Pleadings are inconsistent, the terms of the First Day Pleadings control. Capitalized terms

that are used in this Section IX but not otherwise defined herein have the meanings ascribed to them in the applicable First Day Pleading.

A. Administrative Pleadings

(i) Motion for Joint Administration

82. Many of the motions, applications, hearings and orders in these chapter 11 cases will jointly affect each Debtor. Under these circumstances, the interests of the Debtors, their estates, their creditors and other parties in interest would be best served by the joint administration of these chapter 11 cases for procedural purposes only. Joint administration of these chapter 11 cases will ease the administrative burden on the Court and all parties in interest, and will protect creditors of the respective estates against potential conflicts of interest.

83. Additionally, allowing the Debtors to include the significant number of their creditors and stakeholders with foreign addresses in their combined service and notice lists, as requested in the Debtors' motion, will similarly ease the administrative burden on the Debtors, to the ultimate benefit of their estates, creditors and other stakeholders. For these reasons, the Debtors submit, and I believe, the relief requested in the motion is in the best interest of the Debtors, their estates and their creditors.

(ii) *Motion to Appoint 156(c) Claims Agent*

84. The Debtors request entry of an order, pursuant to section 156(c) of title 28 of the United States Code, and Rule 2002-1(f) of the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the "Local Rules"), authorizing the retention and appointment of JND Restructuring ("JND"), as claims and noticing agent in these chapter 11 cases. The Debtors selected JND after soliciting proposals from JND and at least two other potential claims and noticing agents, as I am advised is required by this Court. I believe that the relief requested in JND's retention application will ease the

administrative burden on the Clerk of the Court in connection with these chapter 11 cases. In addition, I have been advised by counsel that JND's retention is required by the Local Rules in light of the Debtors' number of creditors.

B. Operational Motions Requesting Immediate Relief

(i) *Motion for Confirmation of the Automatic Stay and Debtors' Operating Status*

85. The Debtors conduct business with parties in different jurisdictions throughout the world. Indeed, the vast majority of the Debtors' vendors and suppliers are located in foreign jurisdictions. As such, many are not aware of the provisions of the automatic stay in section 362 of the Bankruptcy Code, the protections of section 525 of the Bankruptcy Code, or of the scope of a debtor in possession's authority to conduct business. Nor are all such creditors likely cognizant of their significance and impact.

86. I am advised that Debtors in bankruptcy often must advise third parties of the existence and effect of sections 362 and 525 of the Bankruptcy Code and the automatic stay they create, and occasionally a chapter 11 debtor has to initiate proceedings in the bankruptcy court to enforce the protections contained therein. Creditors may inaccurately believe that the Debtors are no longer operating or that an administrator or liquidator has been appointed and the Debtors are no longer in control of their operations. Without the basics for understanding the authority the Bankruptcy Code provides for continued operation of the business, the Debtors believe that some of their foreign creditors may be unwilling to continue to deal with the Debtors, to the detriment of their business and prospects for their chapter 11 cases. To avoid such unnecessary actions, and to provide notice to parties unfamiliar with the Bankruptcy Code of the scope and effect of the automatic stay and related relief section 525 provides, I am advised a bankruptcy court may issue an order embodying and restating those provisions.

87. Given the composition of the Debtors' creditor base and the potential adverse impact on the Debtors' operations from misunderstandings on the part of the Debtors' overseas vendors, I consider such a motion necessary in these chapter 11 cases.

(ii) *Motion to Provide Utilities Adequate Assurance*

88. The Debtors utilize various utility services provided by numerous utility companies (collectively, the "Utility Companies"). Because the Utility Companies provide essential services to the Debtors, any significant interruption in utility services would be highly problematic. In fact, the temporary or permanent discontinuation of utility services at any of the Debtors' locations could irreparably disrupt business operations, and, as a result, fundamentally undermine the Debtors' efforts to maximize value. I understand that under section 366 of the Bankruptcy Code, the Debtors' Utility Companies are entitled to a form of "adequate assurance" of future performance. Accordingly, the Debtors have proposed to protect the rights of the Utility Companies by providing such Utility Companies with a deposit in an amount equal to approximately one month of the Debtors' estimated aggregate utility expenses. The Debtors submit that the deposit, in conjunction with the Debtors' ability to pay for future utility services in the ordinary course of business, constitutes adequate assurance of future payment to the Utility Companies to satisfy the requirements of section 366 of the Bankruptcy Code. To the extent the Utility Companies disagree, however, the Utility Companies would be able to utilize the Debtors' proposed procedures to seek additional adequate assurance.

89. I believe the Debtors' proposed treatment of the Utility Companies is appropriate under the circumstances and should be approved.

(iii) *Motion to Honor and Continue Insurance Programs*

90. In the ordinary course of their business, the Debtors maintain numerous insurance policies that provide coverage for, among other things, general liability, automobile liability,

property damage, cargo damage, and directors' and officers' liability. A listing of all known policies currently in effect, which list I have reviewed, is attached to the Debtors' motion.

91. In addition, the Debtors finance certain of their insurance premiums and may find it reasonable and necessary during the course of these chapter 11 cases to either renew an existing premium financing agreement, or enter into a new premium financing agreement, in the ordinary course of their business. Copies of the Debtors' currently-effective premium financing agreements, which I have reviewed, are attached to the Debtors' motion.

92. The Debtors' insurance policies are essential to preserve the value of the Debtors' business and assets, and are, in some cases, required by various laws, regulations or contracts that govern the Debtors' business (and I am advised that certain insurance policies are also required by the Guidelines established by the Office of the U.S. Trustee for chapter 11 bankruptcy cases). It is critical that the insurance policies be maintained and renewed on an ongoing and uninterrupted basis. Therefore, the Debtors request that the Court authorize them to pay all prepetition premiums, fees and expenses arising under, or related to, the insurance policies, including with respect to any currently-effective premium financing agreement, or any premium financing agreement entered into postpetition under substantially similar terms.

(iv) *Motion to Honor and Continue Employee Obligations and Benefits*

93. The continued and uninterrupted support of the Debtors' employees is essential to the Debtors' success. The skills and experience of the Debtors' employees, their relationships with key parties to the Debtors' business, such as customers and vendors, and their knowledge of the Debtors' products, infrastructure and business are essential to the preservation and maximization of the value of the Debtors' estates. Interruptions in payment of prepetition employee-related obligations will impose hardship on the employees and is certain to jeopardize their continued performance during this critical time.

94. To minimize the personal hardship that employees will suffer if prepetition employee-related obligations are not paid when due, and to maintain the employees' morale during this critical time, it is important that the Debtors be permitted to pay and/or perform, as applicable, their employee-related obligations, as detailed in the Debtors' motion, including with respect to the following, whether arising pre- or post-petition: (i) employee wages, salaries, and other compensation, including amounts earned through certain non-insider bonus and incentive plans, as well as compensation of temporary workers and independent contractors; (ii) business expenses incurred by the Debtors' employees, on behalf of the Debtors, in the ordinary course of business; (iii) paid time off policies, severance obligations, and employee benefits programs and plans; (iv) payroll taxes and other deductions and withholdings; (v) workers compensation programs; (vi) non-insider bonus and other incentive programs; and (vii) all costs and expenses incidental to any of the foregoing, including obligations to third-party payroll and other administrators.

95. The relief requested in the Debtors' motion is essential to the continued operation of the Debtors' business and will enable the Debtors' to operate during these chapter 11 cases without disruption, thereby maximizing value for the Debtors' estates, creditors and other stakeholders.

(v) *Motion to Honor Prepetition Taxes*

96. The Debtors, in the ordinary course of their businesses, incur various tax liabilities, including, without limitation, (i) sales taxes, (ii) use taxes, (iii) franchise taxes, (iv) property taxes, (v) import duties; (vi) goods and services taxes, and (vii) certain other miscellaneous taxes (collectively, the "Taxes") and various other fees and assessments (collectively, the "Fees," and together with the Taxes, collectively, the "Taxes and Fees") owed to certain taxing authorities (the "Authorities").

97. Prior to the Petition Date, the Debtors generally paid their Taxes and Fees as they became due, and the Debtors believe any Taxes and Fees actually incurred as of the Petition Date are for current tax periods only and are approximately $507,000, of which amount only $75,000 would come due within the current budget period under the proposed DIP Order.

98. The Debtors seek entry of an order allowing them to pay the Taxes and Fees to the Authorities, including all Taxes and Fees subsequently determined upon audit to be owed for periods prior to the Petition Date. The Debtors have ample business justification to pay the Taxes and Fees because it is my understanding that: (a) many, if not all, of the Taxes and Fees would be priority claims under the Bankruptcy Code that likely would have to be paid in full under a chapter 11 plan; (b) the funds to satisfy certain of the Taxes and Fees may not constitute property of the Debtors' chapter 11 estates; (c) the Debtors are required to pay the Taxes and Fees to maintain their good standing in certain of the jurisdictions in which they do business; (d) failure to pay certain of the Taxes and Fees could give rise to liens on certain of the Debtors' property; and (e) the Debtors' directors and officers may face personal liability if certain of the Taxes and Fees are not paid. Therefore, to prevent immediate and irreparable harm that would result from such disruptions and distractions, the Debtors seek authority to pay the Taxes and Fees.

(vi) *Motion to Honor and Continue Customer Programs*

99. The Debtors, in the ordinary course of their business, engage in certain sales practices that are designed to maximize their profitability. These include gift cards, warranty programs and allowances, discount pricing, promotional offers, rewards programs, and the other programs detailed in the Debtors' motion (collectively, the "Customer Programs"). Certain of these programs are designed to inspire confidence in customers that intend to purchase and use the Debtors' products, such as warranties. Other programs are designed to attract new customers

and to enhance loyalty and sales among the Debtors' existing customer base. The Customer Programs also include consumer protection initiatives including recalls and customer reimbursement vouchers.

100. As detailed in the Debtors' motion, the Customer Programs vary by brand and customer, but the Debtors believe that continuation of the Customer Programs is necessary in all instances to avoid the immediate and irreparable harm that would result from the failure to do so. If the Debtors are not permitted to immediately honor their obligations under the Customer Programs, the Debtors' customers or end users would be frustrated by the Debtors' failure to honor their obligations under the Customer Programs, causing a loss of goodwill that would impair the value of the Debtors' brands and jeopardize the Debtors' relationships with their customers.

101. In addition, as detailed in the motion, maintaining use of the credit cards and other payment mechanisms in connection with the Customer Programs is essential to the continuing operation of the Debtors' business because a significant amount of the Debtors' sales are made using non-cash payment methods. Any disruption in the Debtors' ability to process and receive payment on account of credit card sales would have a devastating impact on the Debtors' business and could threaten the Debtors' ability to survive in chapter 11. Thus, it is vitally important that the credit card companies and any third-party administrators have assurance that they will not face any additional potential liability to customers or other third parties as a result of these chapter 11 cases. Thus, by the motion, the Debtors request authority, in their sole discretion, to allow the credit card companies, and any third-party administrators — specifically including, but not limited to, Paymentech, LLC for itself and on behalf of JPMorgan Chase Bank N.A. — to

continue to process the customer payments, including deducting chargebacks, returns, and third-party or credit card processing fees in the ordinary course of business.

(vii) *Motion to Honor Claims of Shippers and Other Lien Claimants*

102. In the ordinary course of business, the Debtors necessarily depend on an extensive shipping and distribution network to move finished products to the Debtors' customers and store finished product, giving rise to claims for these services (collectively, the "Transporter Claims"). Additionally, in the ordinary course of business, the Debtors employ the services of certain other parties whose work may give rise to potential possessory or statutory lien claims under applicable non-bankruptcy law, as described more fully in the Debtors' motion (collectively, the "Lien Claims").

103. It is essential to the Debtors' efforts to maximize the value of their estates that they insure that the flow of products throughout the Debtors' distribution network (including products being delivered from the Debtors to their customers) remains constant, timely and efficient. Should the Debtors' flow of goods or receipt of such services be interrupted, the Debtors could suffer immediate and irreparable disruptions of their business and could fail to make timely customer deliveries, with a corresponding loss of customer confidence. The Debtors' efforts to preserve and maximize the going concern value of their businesses cannot afford any such disruptions of their business operations, or present anything less than a "business as usual" appearance to customers.

104. As a result of the foregoing, the Debtors seek authority to pay the undisputed amounts owed by the Debtors on account of outstanding Transporter Claims and Lien Claims in an amount not to exceed $525,000 and $100,000 in the aggregate, respectively, and to discharge any liens that parties holding Transporter Claims and Lien Claims may have on the Debtors' property. Since statutory liens are generally senior liens under applicable state law, and because

the Debtors believe the amounts owed to the holders of Transporter Claims and Lien Claims are far less than the value of the property securing such claims, such parties may be fully secured creditors. As such, the payment of their prepetition claims will give them no more than that to which they will likely be entitled to receive in the Debtors' chapter 11 cases upon consummation of a sale or plan.

(viii) *Motion to Honor Claims of Critical Vendors, Foreign Vendors and 503(b)(9) Claimants*

105. The Debtors' business depends on, among other things, the Debtors' ability to retain their vendors and service providers and to maintain their reputation and customer loyalty within the industry. To efficiently operate their business, the Debtors have developed research and product development, purchasing, inventory, and delivery systems that rely significantly on a large number of third parties who supply the Debtors with essential goods and services (the "Critical Vendors"). To identify the Critical Vendors, the Debtors reviewed their accounts payable and prepetition vendor lists to identify those creditors most essential to the Debtors' operations pursuant to the following criteria: (a) whether suppliers were sole source or limited source suppliers, without whom the Debtors could not continue to operate without disruption, (b) the Debtors' ability to find alternative sources of supply and the potential disruption or lost revenues while a new supplier was resourced, (c) whether a supplier would be prohibitively expensive to replace, (d) whether the loss of a supplier would present an unacceptable risk to the Debtors' operations given the volume of essential services or products that such suppliers provide, (e) the extent to which suppliers may have an administrative expense claim pursuant to section 503(b)(9) of the Bankruptcy Code.; and (f) whether a vendor meeting the foregoing criteria is able or likely to refuse to ship product to the Debtors postpetition if its prepetition

balances are not paid, considering, for example, whether the particular vendor is under a contractual obligation to perform.

106. The Debtors intend to enforce their contractual agreements with their suppliers where appropriate and will seek to require them to continue to ship to the Debtors notwithstanding the commencement of these chapter 11 cases. Many of the Critical Vendors are not party to long-term contractual arrangements with the Debtors, however. Accordingly, the Debtors have determined that obtaining authority to pay a certain, limited number of Critical Vendors, in an aggregate amount not to exceed $2.95 million and upon the conditions set forth in the Debtors' motion, is necessary to prevent immediate and irreparable disruptions to their operations.

107. In addition, in the ordinary course of business, the Debtors incur various obligations to numerous foreign vendors, suppliers and other entities (the "Foreign Vendors"). Each of the Critical Vendor identified above is also a Foreign Vendor. The Debtors rely on the Foreign Vendors, which are primarily located in Asia, to supply various goods and services that are crucial to the Debtors' ongoing operations. Many of the Foreign Vendors who supply these essential goods and services may argue that they are not subject to the jurisdiction of this Court or the provisions of the Bankruptcy Code that would otherwise protect the Debtors' assets and business operations, and/or may take actions that would disrupt the Debtors' business operations. There is also a risk that Foreign Vendors could sue the Debtors in foreign courts and attempt to recover prepetition amounts owed to them if such amounts remain unpaid. If the Foreign Vendors were successful in obtaining judgments against the Debtors, the Foreign Vendors could seek to exercise post-judgment remedies, including seeking to attach the Debtors' foreign assets or withholding vital supplies from the Debtors.

108. Despite the Debtors' efforts to minimize these issues by obtaining an order confirming the automatic stay as discussed above, this will likely prove insufficient, by itself, to ensure that no disruptions to the Debtors' operations are caused by the Foreign Vendors. Accordingly, to avoid the resulting irreparable harm that would immediately arise from such issues, the Debtors must have the ability to continue to compensate the Foreign Vendors on an uninterrupted basis.

109. Lastly, the Debtors believe that in addition to the amounts described above, the Critical Vendors and Foreign Vendors also hold claims entitled to administrative expense priority under section 503(b)(9) of the Bankruptcy Code because they are on account of goods that were received by the Debtors in the ordinary course of business within the twenty-day period immediately preceding the Petition Date.

110. The Debtors' ability to satisfy, in their discretion, prepetition obligations owed to Critical Vendors, Foreign Vendors, and/or 503(b)(9) Claimants, as discussed more fully in the Debtors' motion, is necessary to ensure the uninterrupted operation of the Debtors' business during the course of these chapter 11 cases and, accordingly, is in the best interest of the Debtors' estates, creditors, and other stakeholders.

(ix) *Motion to Continue Using Existing Cash Management System*

111. In the ordinary course of business, the Debtors and their non-Debtor foreign subsidiaries operate a cash management system (the "Cash Management System") involving 27 domestic bank accounts and certain foreign bank accounts (collectively, the "Bank Accounts"). The Cash Management System provides a well-established mechanism for the collection, management and disbursement of funds used in the Debtors' business.

112. In light of the substantial size and complexity of the Debtors' operations, significant disruptions to the Debtors' business would be highly likely if the cash management

procedures must be quickly altered. As such, it is essential that the Debtors be permitted to maintain their Cash Management System in its current format.

113. Given the Debtors' corporate and financial structure and the number of affiliated entities participating in the Cash Management System, it would be difficult and unduly burdensome for the Debtors to establish an entirely new system of bank accounts and a new cash management and disbursement system for each of the 7 legal entities that comprise the Debtors. The Debtors, therefore, seek authority for the continued use of the Cash Management System and Bank Accounts. The Debtors further seek authority to implement ordinary course changes to their Cash Management System and to open and close bank accounts. The Debtors also request authority for the banks to charge and the Debtors to pay or honor service and other fees, costs, charges and expenses to which the banks may be entitled under the terms of and in accordance with their contractual arrangements with the Debtors.

114. The Debtors believe that the use of the domestic accounts substantially complies with section 345(b) of the Bankruptcy Code, but the Debtors seek an interim waiver of section 345(b) to permit them to continue to deposit funds in their domestic and foreign bank accounts.

115. The Debtors and certain non-Debtor affiliates engage in inter-Debtor and intercompany transactions with each other in the ordinary course of business, as more fully described in the motion. These transactions include the sale of goods or provision of services from one Debtor entity to another (and in some cases between the non-Debtor subsidiaries and a Debtor) utilizing arms' length transfer pricing. Others of these transactions involved the transfer of funds from one Debtor to another through intercompany loans. The continuation of such ordinary course transactions will permit the Debtors to conduct business as usual and avoid any disruption to the detriment of the Debtors and their non-Debtor subsidiaries. The Debtors

request that, pursuant to section 503(b)(1) of the Bankruptcy Code, the Court accord administrative expense status to all intercompany claims against a Debtor by another Debtor or a non-Debtor affiliate arising after the Petition Date as a result of inter-Debtor and intercompany transactions. The Debtors further seek authorization to preserve and exercise intercompany setoff rights that arise through the operation of their Cash Management System.

(x) *Motion to Use Cash Collateral and Incur Postpetition Financing*

116. The Debtors request, among other things, authorization to obtain superpriority postpetition financing consisting of: (a) Revolving Credit Loans in an aggregate principal amount up to $45 million and (b) a Term Loan in an aggregate principal amount up to $26.9 million (collectively, the "DIP Facilities"). Additionally, the Debtors request authorization to use cash collateral (the "Cash Collateral") as necessary and as provided in the budget during the course of the chapter 11 cases.

117. The Debtors have an urgent need for the immediate use of the Cash Collateral pending the final hearing on the motion and seek to use Cash Collateral existing on or after the Petition Date in exchange for the adequate protection set forth in the interim order and Postpetition Loan Agreement (as that term is defined in the motion), which has been consented to by the Prepetition Agent on behalf of the Prepetition Lenders. The Debtors require the use of the Cash Collateral to provide adequate protection to the Prepetition Agent and the Prepetition Lenders of their interests in the Prepetition Collateral. In addition, the Prepetition Agent and Prepetition Lenders have consented to the use of Cash Collateral as requested herein as a condition to providing the DIP Financing.

118. The use of Cash Collateral alone is insufficient to meet the Debtors' working capital needs to operate their businesses in the ordinary course. I am familiar with the terms of

the DIP Facilities and I believe the Postpetition Loan Agreement contains terms and conditions that are the best available under the circumstances and provides the Debtors with sufficient liquidity during the period of the Budget. In addition, I am advised that the interim order preserves the rights of other parties in interest, including any statutory committee of unsecured creditors, to investigate and challenge the validity, enforceability, perfection, and priority of the Prepetition Obligations and the liens and security interests granted in connection therewith.

119. The funds provided by the DIP Facilities are essential to enable the Debtors to continue to operate during the course of these chapter 11 cases while working towards a sale transaction that is in the best interest of the estates. Indeed, failure to obtain approval of the DIP Facility will lead to a wind-down of the Debtors' business operations which, in turn, will preclude any sale of the Debtors' assets, adversely affect the value ultimately received by stakeholders, and also lead directly to the loss of hundreds of jobs.

120. The Debtors and their advisors conducted a marketing process prepetition to solicit financing proposals. No other entity was willing to provide financing on any better terms, particularly in light of the Debtors' existing capital structure. Postpetition financing is not otherwise available without granting claims having priority over any and all administrative expenses of the kinds specified in sections 503(b) and 507(b) of the Bankruptcy Code, and securing such indebtedness and obligations with the security interests in and the liens upon the Postpetition Collateral pursuant to section 364(c) and (d) of the Bankruptcy Code (in each case subject to the Carveout and Permitted Priority Liens). The Debtors are unable to obtain the necessary postpetition financing that they need on terms more favorable than those provided by the DIP Facilities.

121. I believe that the DIP Facilities will provide essential working capital, allowing the Debtors to maintain the value of their assets and their ongoing business operations while working towards a sale of the Debtors' assets in these chapter 11 cases. In addition, I believe the DIP Facilities will provide the Debtors' various constituencies, including employees, vendors, customers, and service providers, with confidence in the Debtors' ability to maintain operations while working towards a sale transaction.

122. If the request for authorization to enter into the DIP Facilities is denied or delayed, the Debtors will experience immediate business disruptions, and the Debtors' ability to consummate a sale transaction and maximize value for the estates will be irreparably damaged. Accordingly, the DIP Facilities are necessary to maximize value for the Debtors' estates and inures to the benefit of creditors and all parties in interest.

123. The terms and conditions of the DIP Facilities were negotiated in good faith and at arm's length among the parties, culminating in the Postpetition Loan Agreement that is designed to provide the Debtors with essential working capital and maintain the Debtors' ongoing business operations while working towards a sale of the Debtors' assets. Indeed, when viewed in its totality, I believe the DIP Facilities reflect the Debtors' exercise of prudent business judgment consistent with their fiduciary duties and is supported by fair consideration.

124. The terms and conditions of the DIP Facilities are fair and reasonable, and were negotiated extensively by well-represented, independent parties in good faith and at arm's length. Accordingly, I believe that the Postpetition Lender is a "good faith" lender within the meaning of Bankruptcy Code section 364(e).

CONCLUSION

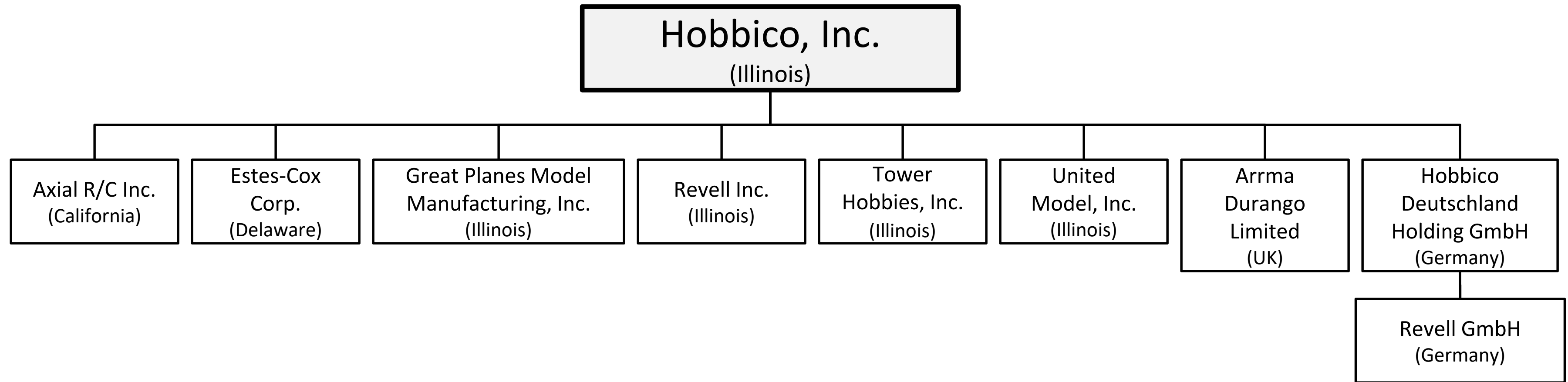
125. For all the reasons described herein and in the First Day Pleadings, I respectfully request that the Court grant the relief requested in each of the First Day Pleadings.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information and belief.

Executed on January 9, 2018 in Champaign, Illinois.

/s/ Tom S. O'Donoghue, Jr.
Tom S. O'Donoghue, Jr.

EXHIBITA


Hobbico, Inc.
(Illinois)
Axial R/C Inc.
(California)
Estes-Cox Corp.
(Delaware)
Great Planes Model Manufacturing, Inc.
(Illinois)
Revell Inc.
(Illinois)
Tower Hobbies, Inc.
(Illinois)
United Model, Inc.
(Illinois)
Arrma Durango Limited
(UK)
Hobbico Deutschland Holding GmbH
(Germany)
Revell GmbH
(Germany)