Docket #1365 Date Filed: 3/17/2010

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE:	§	Chapter 11
	§	
Home Interiors & Gifts, Inc.;	§	
Dallas Woodcraft Company, LLC;	§	
DWC GP, LLC;	§	Case No. 08-31961
Titan Sourcing, LLC;	§	
Laredo Candle Company, LLC;	§	
HIG Holdings, LLC; and	§	
Home Interiors de Puerto Rico, Inc.	§	(Jointly Administered)
	§	
Debtors	§	

FIRST AMENDED DISCLOSURE STATEMENT IN CONNECTION WITH THE FIRST AMENDED PLAN OF LIQUIDATION PROPOSED BY DENNIS S. FAULKNER, CHAPTER 11 TRUSTEE

IMPORTANT NOTICE

THIS DISCLOSURE STATEMENT HAS NOT BEEN APPROVED BY THE BANKRUPTCY COURT. PRIOR TO SUCH APPROVAL BY THE BANKRUPTCY COURT, DISTRIBUTION OF THE DISCLOSURE STATEMENT IS FOR THE SOLE PURPOSE OF COMPLYING WITH ESTABLISHED PROCEDURES FOR OBTAINING APPROVAL OF THE DISCLOSURE STATEMENT AND NOT FOR THE PURPOSE OF SOLICITATION OF ACCEPTANCES OR REJECTIONS OF THE PLAN.

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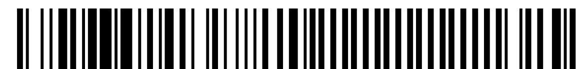
Dated: March 17, 2010



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I. INTRODUCTION

Dennis S. Faulkner, the duly appointed Chapter 11 Trustee of the jointly-administered bankruptcy estates of Home Interiors & Gifts, Inc. ("HIG"), Case No. 08-31961, and its wholly owned debtor subsidiaries, Dallas Woodcraft Company, LLC ("Dallas Woodcraft"), Case No. 08-31960; DWC GP, LLC ("DWC"), Case No. 08-31963; Titan Sourcing, LLC ("Titan"), Case No. 08-31964; Laredo Candle Company, LLC ("Laredo Candle"), Case No. 08-31965; HIG Holdings, LLC ("HIG Holdings"), Case No. 08-41855; and Home Interiors de Puerto Rico, Inc. ("HI Puerto Rico"), Case No. 08-31967 (collectively the "Debtors"), submits this First Amended Disclosure Statement with respect to his proposed First Amended Plan of Liquidation (the "Disclosure Statement").[1] This Disclosure Statement is to be used in connection with the solicitation of votes on the First Amended Plan of Liquidation proposed by the Trustee (the "Plan").

The Trustee believes that the proposed Plan will result in the most cost-effective procedure for the distribution of estate assets to creditors and is a superior alternative to liquidation of the remaining assets under Chapter 7.

II. PLAN APPROVAL PROCEDURES AND VOTING

The purpose of this Disclosure Statement is to enable Creditors of the Debtors whose Claims are impaired under the Plan to make an informed decision in exercising their right to vote to accept or reject the Plan.

THIS DISCLOSURE STATEMENT CONTAINS INFORMATION THAT RELATES TO YOUR DECISION TO ACCEPT OR REJECT THE PLAN. PLEASE READ THIS DOCUMENT CAREFULLY. THE TRUSTEE URGES ALL CREDITORS TO READ THE PLAN THAT ACCOMPANIES THIS DISCLOSURE STATEMENT. IN THE EVENT OF ANY INCONSISTENCIES BETWEEN THE PROVISIONS OF THE PLAN AND THE SUMMARY CONTAINED HEREIN, THE PLAN PROVISIONS WILL CONTROL.

On ____________________, 2010, the Honorable Barbara J. Houser, Chief Judge for the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, approved this Disclosure Statement as containing information of a kind, and in sufficient detail to enable Creditors whose votes on the Plan are being solicited to make an informed judgment whether to accept or reject the Plan. A copy of the Order of the Bankruptcy Court approving the Disclosure Statement is enclosed with the materials transmitted to you. APPROVAL OF THIS DISCLOSURE STATEMENT BY THE BANKRUPTCY COURT DOES NOT CONSTITUTE A DETERMINATION BY THE BANKRUPTCY COURT REGARDING THE FAIRNESS OR MERITS OF THE PLAN.

Each Holder of a Claim entitled to vote should read this Disclosure Statement in its entirety prior to voting on the Plan. No solicitation of votes on the Plan may be made except

[1] Unless otherwise defined herein, capitalized terms used herein have the meanings ascribed thereto in the Plan (see Article I of the Plan entitled "Definitions, Construction and Interpretation").

pursuant to this Disclosure Statement and section 1125 of the Bankruptcy Code and no person has been authorized to utilize in the solicitation of votes any information concerning the Debtors or their respective businesses other than the information contained in this Disclosure Statement or other information approved for dissemination to Creditors by the Bankruptcy Court. In voting on the Plan, Creditors should not rely on any information relating to the Debtors and their respective businesses, other than that contained in this Disclosure Statement, except as otherwise approved by the Bankruptcy Court.

The information in this Disclosure Statement regarding the Debtors, their history, their assets or the value of any benefits offered pursuant to the Plan, are expressly confined to the context of this Disclosure Statement, and the Trustee specifically rejects use of any such information outside of consideration of the Disclosure Statement.

After carefully reviewing this Disclosure Statement, including the attached exhibits, please indicate your acceptance or rejection of the Plan by voting in favor of or against the Plan on the enclosed ballot and returning the ballot to the address set forth on the ballot, in the enclosed return envelope so that it will be received by Kurtzman Carson Consultants LLC, the Debtors' balloting agent, ___________________, no later than 5:00 p.m. Pacific Time on _______________ 2010.

If you do not vote to accept the Plan, or if you are the Holder of an unimpaired Claim, you may be bound by the Plan if it is accepted by the requisite Holders of Claims.

TO BE SURE YOUR BALLOT IS COUNTED, YOUR BALLOT MUST BE RECEIVED NO LATER THAN 5:00 P.M. PACIFIC TIME, ON __________________. For detailed voting instructions, see "Confirmation of the Plan of Liquidation — Solicitation of Votes; Voting Procedures," below and the ballot.

Pursuant to section 1128 of the Bankruptcy Code, the Bankruptcy Court has scheduled a hearing to consider confirmation of the Plan (the "Confirmation Hearing"), on **__________, 2010, at _______ Central Standard Time**, in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, 1100 Commerce Street, 14th floor, Courtroom 1. The Bankruptcy Court has directed that objections, if any, to confirmation of the Plan be filed and served on or before **______, Central Standard Time on** __________, 2010. The Confirmation Hearing may be adjourned from time to time without further notice. ANY ANNOUNCEMENT OF A CONTINUATION OR POSTPONEMENT OF THE CONFIRMATION HEARING THAT IS MADE IN COURT AT THAT HEARING IS THE ONLY NOTICE THAT WILL BE PROVIDED OF THE NEW DATE AND TIME.

THE TRUSTEE SUPPORTS CONFIRMATION OF THE PLAN AND URGES ALL HOLDERS OF IMPAIRED CLAIMS TO ACCEPT THE PLAN.

III. EXPLANATION OF CHAPTER 11

A. Overview of Chapter 11

Chapter 11 is the principal reorganization chapter of the Bankruptcy Code. Pursuant to chapter 11, the debtor-in-possession or Chapter 11 Trustee attempts to reorganize the debtor's business for the benefit of the debtors, its creditors, and other parties in interest.

The commencement of a chapter 11 case creates an estate comprising all the legal and equitable interests of the debtor in property as of the date the bankruptcy petition is filed. Sections 1101, 1107, and 1108 of the Bankruptcy Code provide that a debtor may continue to operate its business and remain in possession of its property as a "debtor-in-possession" unless the bankruptcy court orders the appointment of a trustee. In the present chapter 11 cases, the Debtors remained in possession of their properties and operated their businesses as debtors-in-possession until November 25, 2008, at which time Dennis S. Faulkner, the Chapter 11 Trustee was appointed to administer the Debtors' Bankruptcy Cases.

The formulation of a plan of reorganization or liquidation is the principal purpose of a chapter 11 case. The plan sets forth the means for satisfying the claims against, and interests in, the debtor.

B. Plan of Liquidation

A plan may provide for the liquidation of the debtor's assets rather than reorganization as a going-concern. After a plan has been filed, the holders of claims against, or interests in, a debtor are permitted to vote to accept or reject the plan. Before soliciting acceptances of the proposed plan, section 1125 of the Bankruptcy Code requires the debtor to prepare a disclosure statement containing adequate information of a kind, and in sufficient detail, to enable a hypothetical reasonable investor to make an informed judgment about the plan. This Disclosure Statement is presented to Holders of Claims against and Interests in the Debtors to satisfy the requirements of section 1125 of the Bankruptcy Code.

If all classes of claims and interests accept a plan of liquidation, the bankruptcy court may nonetheless deny confirmation of the plan unless the court independently determines that the requirements of section 1129 of the Bankruptcy Code have been satisfied. Section 1129 sets forth the requirements for confirmation of a plan and, among other things, requires that a plan meet the "best interests of creditors" test and be "feasible." The "best interests" test generally requires that the value of the consideration to be distributed to the holders of claims and interests under a plan may not be less than those parties would receive if the debtor was liquidated pursuant to a hypothetical liquidation under chapter 7 of the Bankruptcy Code.

Chapter 11 does not require that each holder of a claim against, or interest in, a debtor vote in favor of a plan of liquidation in order for the bankruptcy court to confirm the plan. At a minimum, however, the plan must be accepted by a majority in number and two-thirds in amount of those claims actually voting in at least one class of impaired claims under the plan. In the present case, only the Holders of Claims or Interests who are entitled to vote on the Plan, and who actually vote on the Plan, will be counted as either accepting or rejecting the Plan.

In addition, classes of claims or interests that are not "impaired" under a plan of reorganization are conclusively presumed to have accepted the plan and, thus, are not entitled to vote. Accordingly, acceptances of a plan will generally be solicited only from those persons who hold claims or interests in an impaired class. A class is "impaired" if the legal, equitable, or contractual rights attaching to the claims or equity interests of that class are modified in any way under the plan. Modification for purposes of determining impairment, however, does not include curing defaults and reinstating maturity or payment in full in cash. All Classes of Claims and Interests are impaired under the Plan. Administrative Claims and Priority Tax Claims are unclassified; their treatment is prescribed by the Bankruptcy Code, and the Holders of such Claims are not entitled to vote on the Plan. Classes of claims or interests that do not receive or retain any property under a plan of are conclusively deemed to have rejected the plan and, thus, are not entitled to vote. Holders of an Interest in Class 4 (Equity Interests) will not receive or retain any property under the Plan and, therefore, are deemed to have rejected the Plan and are not entitled to vote. Based on the foregoing principles, only the Holders of Claims in Class 1, 2 and Class 3 (including each subclass thereof) shall be entitled to vote on the Plan.

IV. HISTORY AND EVENTS LEADING UP TO THE DEBTORS' BANKRUPTCY FILINGS

The Debtors were founded in 1957 by Mary Crowley. The Debtors were one of the nation's leading home decor companies, selling home decorative accessories for over fifty years, primarily through in-home parties in the United States, Canada, Mexico, and Puerto Rico. From the Debtors' inception, they experienced steady and consistent sales growth until the early 1990s when the Debtors reached a high sales mark of $850 million. Mary Crowley died in 1986 and her son, Don Carter, took over operations of the company. In 1998, the private equity firm of Hicks, Muse, Tate & Furst acquired 66% of the equity of HIG in a leveraged buyout.

In March of 2004, the Debtors, needing liquidity, entered into a $370 million Credit Agreement (the "Pre-Petition Credit Facility") with JP Morgan Chase Bank[2] as agent ("Pre-Petition Agent") for several lenders (the "Pre-Petition Lenders"). The Pre-Petition Credit Facility was secured by liens on substantially all of the Debtors' assets.[3]

In January, 2006, HIG entered into a "Restructuring Lockup and Support Agreement" which resulted in funds managed by Highland Capital Management, LP ("Highland") obtaining a 71.5% equity stake in the Debtors. HIG's shareholders, led by Highland, then elected the following five new directors: [4]

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[2] On or about July 1, 2007, JP Morgan resigned as Pre-Petition Agent and NexBank Savings, SSB, became the Administrative Agent.

[3] The Pre-Petition Lenders are currently made up of approximately forty funds. Of these funds, Highland Capital Management, LP serves as fund manager for approximately twenty of the funds (the "Highland Lenders" or the "Group One Lenders").

[4] The Hicks, Muse board members resigned and HIG procured certain D & O insurance policies on behalf of the Hicks, Muse board members. HIG also entered into a Trust Agreement ("the D & O Insurance Trust") to set aside funds for future premiums on the policy. Pursuant to an order of the Bankruptcy Court these funds are now held by Vinson & Elkins and will be released no later than February 13, 2012.

- Patrick H. Daugherty, Chairman
- Carl Moore
- Jeffrey Kobylarz
- Charles McQueary
- Richard Heath

In a continuing effort to obtain essential liquidity, HIG entered into a sale-leaseback transaction with an unrelated third-party in September, 2006 with respect to HIG's primary distribution center. The sale-leaseback transaction netted HIG over $28 million in sale proceeds. HIG used the sale proceeds in its day-to-day operations, including remaining current on all of its obligations to unsecured creditors.

In May, 2007, as the liquidity needs of the Debtors continued to increase, HIG and Crusader Offshore Partners, LP, entered into a new note purchase facility of $54 million (the "Crusader Fund"), which was used, in part, to redeem a prior $6.7 million note obligation. Accordingly, the Crusader Fund offset the $6.7 million due to it against the $54 million unsecured facility. The balance of the $54 million in proceeds was used by HIG to pay interest obligations under the Pre-Petition Credit Facility as such obligations came due, and for working capital, capital expenditures, and for other corporate purposes to revitalize the company's sales and profitability.

To further enable the Debtors to implement their initiatives to increase sales and profitability, the Debtors' management team continued to look for further opportunities to provide additional liquidity for the Debtors. One such prospect was a request made by HIG to the Pre-Petition Lenders to enter into the Amortization Deferment and Consent Agreement, dated September 29, 2006. This agreement, agreed to by certain lenders within the group, deferred the quarterly amortization payments of such lenders due under the Pre-Petition Credit Facility for a period of two years from September 2006 through September 2008. The total principal amortization payments that were deferred under the Principal Deferral Agreement exceeded $33 million.

Unfortunately, economic conditions continued to deteriorate in the fall of 2007 and spring of 2008, and HIG could not reverse its declining sales trends. In an attempt to reorganize, revise its capital structure, and halt the rapidly declining revenues, the Debtors filed for relief under Chapter 11 of the Bankruptcy Code on April 29, 2008 (the "Petition Date").

V. <u>POST-PETITION EVENTS</u>

After the filing of the bankruptcy petitions, the Debtors remained in possession of their assets as debtors-in-possession and continued in their existing management roles. With the approval of the Bankruptcy Court, Mr. Richard Lindenmuth continued in his role as Chief Restructuring Officer of the Debtor companies and Boulder International was employed as Financial Consultant. Hunton & Williams LLP was engaged as general counsel for the Debtors and Rochelle Hutcheson & McCullough was engaged as Special Counsel.

The United States Trustee for the Northern District of Texas appointed an Official Committee of Unsecured Creditors (the "Creditors Committee") on May 15, 2008 and the Creditors Committee engaged Munsch Hardt Kopf & Harr, P.C. as counsel for the Creditors Committee.

In need of immediate post-petition financing, the Debtors negotiated with the Pre-Petition Lenders and the Creditors Committee on the terms and conditions of proposed post-petition financing. The parties entered into a series of interim financing orders culminating in a Final Cash Collateral Order entered on July 3, 2008.

The Creditors Committee and certain members of the pre-petition lender group lacked trust in the management of the Debtors and believed that an investigation should be conducted of the activities of the management team, especially actions taken after the 2006 restructuring. Accordingly, during the summer months of 2008, the Creditors Committee initiated extensive discovery with respect to Highland and the activities of the Debtors' management team. The Creditors Committee ultimately filed a motion (the "Louisiana World Motion") seeking authority to pursue alleged causes of action against Highland, the Pre-Petition Agent, the Pre-Petition Lenders, the directors and officers and others. These alleged causes of action included challenges to the validity of certain liens of the Pre-Petition Lenders, the equitable subordination of claims held by the Pre-Petition Lenders, and alleged breaches of fiduciary duties by the directors and officers.

Disagreements between the Creditors Committee and the Debtors' management continued and the Creditors Committee and the Debtors were unable to agree on an exit strategy for the Bankruptcy Cases. An early attempt at a plan of reorganization failed and economic conditions continued to deteriorate during the pendency of the Bankruptcy Cases. In September, 2008, the Debtors engaged CRG Partners as business consultants and Mr. William K. Snyder as chief restructuring officer in an attempt to restore the creditor's confidence in post-petition management.

In an effort to settle continuing disputes between the Debtors and the Creditors Committee and obtain a consensus on a direction for the cases, the parties agreed to mediate their disputes. These discussions resulted in a consensus that further efforts to reorganize the Debtors as going-concerns were not viable and that a sale of the Debtors' assets and operations was the only viable alternative for the Debtors. In connection with these consensus, the parties also agreed to the terms of a Second Final Cash Collateral Order, which provided necessary funds for the completion of the sales process and certain wind-down expenses of the Debtors and set forth a detailed timetable for the completion by March 31, 2009 of certain required tasks.

To minimize further controversies and to guide the sales process for the Debtors' assets, the Debtors filed a motion to appoint a Chapter 11 trustee on October 31, 2008, which was granted by the Bankruptcy Court on November 25, 2008. Thereafter, the United States Trustee appointed Mr. Dennis S. Faulkner as the Chapter 11 Trustee. Mr. Faulkner's appointment was approved by Bankruptcy Court order entered on November 26, 2008.

The Trustee assembled his own advisors including Kelly Hart & Hallman LLP, as counsel, and Lain Faulkner & Co., as his accountants. Pursuant to the directives contained in the

Second Final Cash Collateral Order, the Trustee immediately began work to sell and liquidate all of the domestic and foreign business operations of the Debtors, to continue to liquidate the Debtors' extensive inventories with the assistance of Hilco Merchant Resources, LLC, and timely vacate the Debtors' warehouse facility. Assets sold by the Trustee included:

- Debtors' domestic assets, mostly consisting of inventory, for a sales price of $6,882,000.00;

- Assets of Laredo Candle Company, LLC and the capital stock of Domistyle, Inc., for a sales price of $6,250,000.00; and

- Capital stock of Home Interiors de Mexico, S de RL de CV, and Home Interiors Services de Mexico, S.A. de C.V. for a sales price of $1,250,000.00.

The Bankruptcy Court approved each proposed sale finding that the sales price in each instance constituted the highest and best offer for the assets sold. The sales process was concluded and the warehouse vacated by March 31, 2009, within the time-frame originally dictated by the parties.

With the completion of the liquidation, the parties turned their attention to potential estate causes of action. On March 10, 2009, the Bankruptcy Court granted the Creditors Committee's *Louisiana World* Motion, thereby authorizing the Creditors Committee to prosecute the Estates' alleged claims and causes of action against Highland, the Pre-Petition Agent, the Pre-Petition Lenders, the Highland Lenders, the directors and officers and other target parties. Recognizing, however, that litigation would be long, expensive and with risk, the Trustee pursued settlement negotiations with the Creditors Committee, Highland, and the Highland Lenders to resolve potential litigation and claims.

In May, 2009, the Trustee and the Creditors Committee, the Pre-Petition Agent, the Highland Lenders, the directors and officers, and various other parties reached a proposed settlement resolving various claims and potential litigation, which was presented to the Bankruptcy Court for approval by joint motion of the Trustee and the Creditors Committee. After objection by the Minority Lenders and preliminary rulings by the Bankruptcy Court, however, the motion for approval of the settlement was withdrawn.

Unable to reach a global resolution, the Highland-managed funds, the Trustee and the Creditors Committee continued to engage in negotiations to reach a partial settlement. In September 2009, the Trustee, Creditors Committee, Highland and certain other parties reached a settlement (the "Highland Settlement Agreement") resolving all estate causes of action entrusted to the Creditors Committee. The Highland Settlement Agreement was approved by the Bankruptcy Court by order entered on September 3, 2009. A copy of the Highland Settlement Agreement is attached hereto as **Exhibit A**.

Under the Highland Settlement Agreement, the settling parties, as defined in the Highland Settlement Agreement (the "Highland Lenders"), agreed to pay $3 million to the Trustee and assigned their rights to receive any proceeds from the Debtors' potential causes of

actions for preferences, fraudulent conveyances, and other avoidance power claims and recoveries under Chapter 5 of the Bankruptcy Code. The settlement also provided for payment of $150,000 from the directors and officers' insurance carrier in exchange for full releases between the Estates and the officers and directors ("Ds&Os").

The final controversy requiring resolution before proposal of a plan of liquidation concerned the alleged Super-Priority Administrative Expense Claim of the Minority Lenders. In order to present this controversy to the Bankruptcy Court for resolution, the Minority Lenders agreed to file a motion seeking payment of their Super-Priority Administrative Expense Claim. On October 2, 2009, the Minority Lenders filed an Application for Allowance and Payment of Super-Priority Administrative Expense Claim based upon an alleged diminution in value of their collateral during the pendency of the Bankruptcy Cases. The Application was joined by the Pre-Petition Agent for certain Pre-Petition Lenders that were neither Minority Lenders, nor Highland Lenders.

Prior to the hearing on the claim, the Trustee, the Pre-Petition Agent and the Minority Lenders reached a settlement regarding the Super-Priority Administrative Expense Claim, which was approved by the Bankruptcy Court on December 17, 2009. A copy of the Order approving the Super-Priority Claim Settlement is attached hereto as **Exhibit B.**

Under the Super-Priority Claim Settlement, the Trustee, Minority Lenders and the Pre-Petition Agent (on behalf of certain additional lenders, collectively with the Minority Lenders, referred to as the "Non-Highland Lenders" or "Group Two Lenders") agreed that the Super-Priority Administrative Expense Claim would be allowed and paid in the amount of $2.2 million. From this fund, the Minority Lenders' attorney's fees and expenses in the approximate amount of $1.4 million were reimbursed first and the balance shared among the Group Two Lenders pro-rata according to the percentages of their holdings in the Pre-Petition Credit Facility.

In addition, the settlement provides that the Group Two Lenders will share equally with the Trustee any amounts recovered from objections to Professional Fees that were part of the Professional Fee Reserve established in prior Cash Collateral Orders, with the share of the Minority Lenders paid directly to their counsel. In addition, after the Trustee has distributed the sum of $3.5 million to general unsecured creditors, the settlement provides that the Group Two Lenders will share in the pool of unsecured claims on a pro-rata basis with all other general unsecured creditors.

This settlement has now been consummated paving the way for presentation of the Trustee's Plan of Liquidation to the creditors and parties-in-interest in this case.

VI. SUMMARY OF THE PLAN

The following is a summary of the classification and treatment of Claims and Interests under the Plan. Reference should be made to the entire Disclosure Statement and to the Plan for a complete description of the classification and treatment of Claims and Interests.

THIS IS ONLY A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. THE PLAN INCLUDES OTHER PROVISIONS THAT MAY AFFECT YOUR RIGHTS. YOU ARE URGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING ON THE PLAN.

A. General Overview

The Trustee believes, and will demonstrate at the Confirmation Hearing, that confirmation and consummation of the Plan are in the best interests of creditors. Pursuant to the Plan, the Trustee, the Creditor Trust Trustee, and the members of the Creditor Trust Oversight Committee shall execute the Creditor Trust Agreement, thereby establishing the Home Interiors Creditors Trust (the "Creditor Trust"). On the Effective Date of the Plan, all Assets of the Debtors, as well as Causes of Action held by the Estates, will be transferred to the Creditors Trust, which will distribute the proceeds to Creditors who are the beneficiaries of the Creditor Trust to pay Allowed Claims pursuant to the Plan. The Creditor Trust Trustee's rights and duties will be set forth in detail in the Creditor Trust Agreement, which shall be governed by the terms of the Plan. A copy of the Creditor Trust Agreement will be filed with the Bankruptcy Court ten (10) days prior to the commencement of the Confirmation Hearing.

B. Classification and Treatment of Claims and Interests

The following is a summary of the classification of Claims and Interests under the Plan. Reference should be made to the entire Disclosure Statement and to the Plan for a complete description of the classification and treatment of Claims and Interests.

THIS IS ONLY A SUMMARY OF CERTAIN PROVISIONS OF THE PLAN. THE PLAN INCLUDES OTHER PROVISIONS THAT MAY AFFECT YOUR RIGHTS. YOU ARE URGED TO READ THE PLAN IN ITS ENTIRETY BEFORE VOTING ON THE PLAN.

1. Unclassified Claims Against the Debtor

In accordance with section 1123(a)(1) of the Bankruptcy Code, unclassified Claims against the Debtor consist of Administrative Claims, including Fee Claims and Priority Tax Claims. Based on the books and records and projections for future expenses, the Trustee anticipates that all Allowed Administrative Claims will be paid in full.

The Holder of any Administrative Claim incurred or accrued after December 31, 2009, other than (i) a Fee Claim, (ii) an Allowed Administrative Claim, or (iii) governmental claim pursuant to Bankruptcy Code § 503(b)(1)(D),[5] must file and serve on all parties required to receive such notice an Administrative Expense Claim Request within thirty (30) days after the Effective Date. Such notice must include at a minimum (i) the name of the holder of the Claim, (ii) the amount of the Claim, and (iii) the basis of the Claim. Failure to timely and properly file and serve the request required under section 2.01(a) of the Plan shall result in the Administrative

[5] Holders of Administrative Claims that were incurred or accrued prior to December 31, 2009, other than (i) a Fee Claim, (ii) an Allowed Administrative Claim, or (iii) governmental claim pursuant to Bankruptcy Code 503(b)(1)(D), were required to file an Administrative Claim Request on or before December 31, 2009, by order of the Bankruptcy Court.

Claim being forever barred and discharged. Objections to such requests must be filed and served pursuant to the Bankruptcy Rules on the requesting party and the Creditor Trust Trustee within twenty (20) days after the filing of the applicable request. No hearing may be held until the twenty (20) day objection period has terminated.

Each Professional who holds or asserts an Administrative Claim that is a Fee Claim for compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date shall be required to file with the Bankruptcy Court and serve on all parties required to receive such notice a Fee Application within thirty (30) days after the Effective Date. Failure to timely and properly file and serve a Fee Application as required under the Plan shall result in the Fee Claim being forever barred and discharged. No Fee Claim will be deemed Allowed until an order allowing the Fee Claim becomes a Final Order or by consent of the Creditor Trust Trustee. Objections to such applications must be filed and served pursuant to the Bankruptcy Rules on the requesting party and the Creditor Trust Trustee within twenty (20) days after the filing of the applicable Fee Application. No hearing may be held until the twenty (20) day objection period has terminated.

An Administrative Claim with respect to which notice has been properly filed pursuant to subparagraph 2.01(a) of the Plan shall become an Allowed Administrative Claim if no timely objection is filed. If a timely objection is filed, the Administrative Claim shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order. An Administrative Claim that is a Fee Claim, and with respect to which a Fee Application has been properly filed and served pursuant to subparagraph 2.01(b) of the Plan, shall become an Allowed Administrative Claim only to the extent Allowed by a Final Order.

Except to the extent that a Holder of an Allowed Administrative Claim has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Administrative Claim other than a Fee Claim, shall be paid in Cash by the Creditors Trust from the Creditors Reserve equal to the Allowed amount of such Administrative Claim, within thirty (30) days after the Effective Date, or fifteen (15) days of the Allowance Date, whichever is later, in full satisfaction, release and discharge of and exchange for such Other Administrative Claim.

Holders of Allowed Fee Claims shall be paid as follows:

> **Allowed Fee Claims Through March 31, 2009**. Except to the extent that such Holder has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Fee Claim for services rendered and expenses incurred through March 31, 2009, shall be paid in Cash by the Creditors Trust first from the Professional Fee Reserve and then, if necessary, from the Creditors Reserve, equal to the Allowed amount of such Fee Claim, within thirty (30) days after the Effective Date or fifteen (15) days of the Allowance Date, whichever is later, in full satisfaction, release and discharge of and exchange for such Fee Claim.
>
> **Allowed Fee Claims After March 31, 2009**. Except to the extent such Holder has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Fee Claim for services rendered and expenses incurred after

March 31, 2009, will be paid in Cash by the Creditors Trust first from the Wind-Up Reserve and then, if necessary, from the Creditors Reserve, equal to the Allowed amount of such Fee Claim, after application of any retainer held by such Holder, within thirty (30) days after the Effective Date or fifteen (15) days of the Allowance Date, whichever is later, in full satisfaction, release and discharge of and exchange for such Fee Claim.

Except to the extent that a Holder of an Allowed Priority Tax Claim has been paid prior to the Effective Date, or agrees to a different treatment, each Holder of an Allowed Priority Tax Claim, in full satisfaction, release and discharge of and exchange for such Claim, shall be paid from the Creditors Reserve, equal to the Allowed amount of such Allowed Priority Tax Claim, together with interest thereon at the rate provided through Bankruptcy Code section 511 from the Petition Date through the date such Claim is paid in full on the later of (a) thirty (30) days after the Effective Date, (b) fifteen (15) days after the Allowance Date, or (c) the last Business Day such taxes may be paid under applicable law without incurring penalties or interest. Notwithstanding the foregoing, any penalty arising with respect to or in connection with an Allowed Priority Tax Claim shall be treated as a Class 3 General Unsecured Claim against the applicable Debtor.

The Creditors Trust shall be responsible for timely payment of United States Trustee quarterly fees incurred in the Bankruptcy Cases pursuant to 28 U.S.C. § 1930(a)(6). Any fees due as of the most recent quarterly invoice prior to the Confirmation Date will be paid in full within thirty (30) days after the Effective Date. After the Effective Date, the United States Trustee quarterly fees shall be paid as they accrue from the Creditors Reserve until the Bankruptcy Cases are closed by the Bankruptcy Court. The Creditor Trust Trustee shall serve on the United States Trustee a quarterly financial report for each quarter (or portion thereof) that the Bankruptcy Cases remain open.

2. Classified Claims and Interests

The following Classes of Claims and Interests are established under the Plan:

Class 1: Pre-Petition Lenders' Secured Claims

- Class 1.1: Group One Lenders
- Class 1.2: Group Two Lenders

Class 2: Other Secured Claims

- Class 2.1: Other Secured Claims of HIG
- Class 2.2: Other Secured Claims of Dallas Woodcraft
- Class 2.3: Other Secured Claims of DWC
- Class 2.4: Other Secured Claims of Titan
- Class 2.5: Other Secured Claims of Laredo Candle
- Class 2.6: Other Secured Claims of HIG Holdings
- Class 2.7: Other Secured Claims of HI Puerto Rico

Class 3: General Unsecured Claims[6]

Class 3.1:	General Unsecured Claims of HIG
Class 3.2:	General Unsecured Claims of Dallas Woodcraft
Class 3.3:	General Unsecured Claims of DWC
Class 3.4:	General Unsecured Claims of Titan
Class 3.5:	General Unsecured Claims of Laredo Candle
Class 3.6:	General Unsecured Claims of HIG Holdings
Class 3.7:	General Unsecured Claims of HI Puerto Rico

Class 4: Equity Interests

3. Summary of Treatment of Classified Claims and Interests in the Debtors

Class 1 under the Plan shall consist of the Secured Claims of the Pre-Petition Lenders, including the Class 1.1, Group One Lenders[7] and Class 1.2, Group Two Lenders.[8] Group One Lenders will retain their Liens on all remaining pre- and post-petition Collateral securing their Claims. The Creditor Trust Trustee will remit to the Pre-Petition Agent 79.92 % of the proceeds from the collection of any Collateral including, but not limited to the Paymentech Reserve Rebate, any tax refunds, the Visa Check/Mastermoney Antitrust Settlement Payment, and the D&O Insurance Trust, less any amounts necessary to pay accrued but unpaid property taxes.

Group One Lenders <u>will not</u> share in (1) the proceeds of any collections from successful Chapter 5 litigation (Avoidance Actions) by the Trustee or Creditor Trust Trustee; (2) the proceeds of any funds paid to a Professional which are returned by the Professional or are ordered by the Court to be disgorged by the Professional; or (3) the remaining proceeds, if any, in the Professional Fee Reserve or the Wind-Up Reserve created by prior Cash Collateral Orders of the Court.

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[6] Approximately 244 proofs of Claims have been filed alleging General Unsecured Claims in the total amount of $414,901,627. The Trustee anticipates that the number and amount of Allowed General Unsecured Claims will be significantly less. The Trustee has not made an assessment of the amount of funds available for Distribution to Allowed General Unsecured Claims.

[7] The Group One Lenders include: (i) Atascosa Investments, LLC; (ii) Burnett Partners, LLC; (iii) Gillespie Income Fund, LLC; (iv); Highland Credit Opportunities CDO, LP; (v) Highland Credit Strategies Fund; (vi) Highland Crusader Offshore Partners, LP; (vii) Highland Floating Rate Advantage Fund; (viii) Highland Floating Rate LLC; (ix) Highland Legacy Limited; (x) Highland Loan Funding V Ltd.; (xi) Highland Offshore Partners, LP; (xii) Hopkins Capital Partners, LLC; (xiii) Jasper CLO Ltd.; (xiv) Loan Funding IV LLC; (xv) Loan Funding VII LLC; (xvi) Milam High Yield Fund, LLC; (xvii) Navarro Investment Partners, LLC; (xviii) Pam Capital Funding LP; (xix) Presidio Capital Management, LLC; and (xx) Southfork CLO Ltd.

[8] The Group Two Lenders include: (i) MCG Capital Corporation, (ii) Northwoods Capital IV Limited, (iii) Northwoods Capital VI Limited, (iv) Styx International, Ltd., (v) Atrium CDO, (vi) Atrium III CDO, (vii) Credit Suisse Syndicated Loan Fund, (viii) CSAM Funding II, (ix) CSAM Funding III, (x) CSAM Funding IV, (xi) First Dominion Funding III, (xii) KC CLO I Limited; (xiii) Eaton Vance Floating Rate Income Trust; (xiv) Eaton Vance Limited Duration Income Fund; (xv) Eaton Vance Senior Floating Rate Trust; (xvi) Eaton Vance Senior Income Trust; (xvii) Grayson and Company; (xviii) Pioneer Floating Rate Trust; and (xix) Senior Debt Portfolio.

Group Two Lenders will continue to receive any further proceeds from the liquidation of pre- or post-petition Collateral. The deficiency claim of the Group Two Lenders ("Group Two Lenders' Deficiency Claim") will share Pro-Rata with all other general unsecured creditors in Class 3 after the Creditor Trust Trustee has distributed a total aggregate sum of $3.5 million to the other general unsecured creditors. Any amounts recovered from objections to Professional Fees that are part of the Professional Fee Reserve established in prior Cash Collateral Orders shall be shared equally between the Group Two Lenders and the Creditor Trust Trustee, with the share of the Minority Lenders paid directly to their counsel.

Class 2, Other Secured Claims of the Debtors will be placed into separate subclasses by Debtor for purposes of accepting or rejecting the Plan. Holders of Allowed Other Secured Claims will receive in full satisfaction of their Allowed Claim either i) conveyance of its Collateral; (ii) payment in Cash in the amount of the Allowed Other Secured Claim; or (iii) such other treatment as may be agreed to by such Holder and the Creditor Trust Trustee or Trustee. In the event that any Allowed Other Secured Claim exceeds the value of the Collateral securing such Claim, after taking into account any other a senior Lien or security interest in the same Collateral, any such excess (exclusive of applicable interest, fees or other charges) shall constitute a Class 3 General Unsecured Claim against the applicable Debtor.

Class 3, General Unsecured Claims will be placed within separate subclasses by Debtor for purposes of accepting or rejecting the Plan. For purposes of receiving Distributions under the Plan, all General Unsecured Claims will share in the same pool of assets as if in a single Class. General unsecured creditors will share Pro-Rata in any recoveries from Chapter 5 causes of action (Avoidance Actions). When Distributions to general unsecured creditors in Class 3 reach $3.5 million, the general unsecured creditors will then share Pro-Rata in the pool of all unsecured claims including the deficiency claim of the Group Two Lenders.

The rights of Class 4 Equity Interest Holders will be extinguished on the Effective Date.

4. Identification of Unimpaired and Impaired Claims and Interests

Claims against the Debtors in Class 1, Class 2 and Class 3, including each subclass thereof, are impaired under the Plan and the Holders of those Claims are entitled to vote to accept or reject the Plan. The Holders of Equity Interests in the Debtors in Class 4 will not receive or retain any property on account of such Interests, and such Holders are deemed to have rejected the Plan under section 1126(g) of the Bankruptcy Code and are not entitled to vote to accept or reject the Plan. Administrative Claims and Priority Tax Claims are unclassified; their treatment is prescribed by the Bankruptcy Code, and the Holders of such Claims are not entitled to vote on the Plan.

VII. MEANS FOR IMPLEMENTATION OF THE PLAN

A. Establishment of the Creditor Trust and Transfer of Assets.

On the Effective Date, the Trustee, the Creditor Trust Trustee, and the members of the Creditor Trust Oversight Committee shall execute the Creditor Trust Agreement, thereby establishing the Home Interiors Creditors Trust (the "Creditor Trust"). The Debtors, the Trustee,

all Creditors and all Equity Interest Holders shall be deemed to have adopted and approved the Creditor Trust Agreement as of the Effective Date. The Creditor Trust shall be administered by the Creditor Trust Trustee, who shall administer the Creditor Trust consistent with terms of the Plan, Confirmation Order, and Creditor Trust Agreement, and shall have all of the rights, obligations, powers and duties as set forth in the Plan and Creditor Trust Agreement. On the Effective Date, the Creditor Trust Oversight Committee will be formed and established to monitor the Creditor Trust and the Creditor Trust Trustee in the performance of his obligations under the Plan.

On the Effective Date, all the Assets of the Debtors and their Estates shall be transferred to and vest in the Creditor Trust, and shall constitute Trust property, free and clear of all Claims, Liens, interests and encumbrances, except as otherwise provided in the Plan or prior Cash Collateral Orders. The Creditor Trust Trustee shall maintain and hold the Professional Fee Reserve and Wind-Up Reserve to the extent such funds are remaining as of the Effective Date. All other Assets shall be held by the Creditor Trust in the Creditors Reserve and distributed in accordance with the Plan.

B. Substantive Consolidation of Estates.

Based upon the Debtors' pre-petition operations and other factors, the Trustee believes substantive consolidation is necessary and appropriate to achieve a fair and meaningful distribution to Holders of Allowed Claims. In particular, the Trustee believes that the Assets of the Debtors are all subject to the Liens of the Pre-Petition Lenders. In these circumstances, the Trustee believes that substantive consolidation of the jointly-administered estates is appropriate. In addition, the Trustee believes that the settlements negotiated by the Trustee will inure to the benefit of all creditors and allow ratable distributions to all creditors of the combined estates.

Accordingly, for the purposes of effectuating the Plan, including for purposes of voting on and confirmation of the Plan, and distributions to Creditors under the Plan, the Trustee is seeking authority to substantively consolidate the Debtors with respect to treatment of and distributions to Creditors who hold Allowed Claims. The Plan will serve as a motion seeking entry of an order (which may be the Confirmation Order) consolidating the Debtors.

VIII. EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. General Treatment - Rejected If Not Assumed

The Plan constitutes a request by the Trustee to reject, as of the Effective Date, all pre-petition executory contracts and unexpired leases to which the Debtors are a party, except for executory contracts or unexpired leases that (a) have been assumed or rejected pursuant to Final Order of the Bankruptcy Court, or (b) are the subject of a separate motion pursuant to section 365 of the Bankruptcy Code filed and served by the Trustee on or before the Confirmation Date.

B. Bar Date for Rejection Damage Claims

If the rejection of an executory contract or an unexpired lease by the Trustee, the Creditor Trust Trustee or by operation of the Plan results in damages to the other party to such contract or

lease, a Claim for such damages shall be forever barred and shall not be enforceable unless a proof of Claim is filed with the Bankruptcy Court and served upon the Creditor Trust Trustee no later than thirty (30) days after the Effective Date or (b) such other deadline as the Bankruptcy Court may set for asserting a Claim for such Damages.

C. Rejection Claims

Any rejection Claim of an unexpired lease or executory contract not barred for failure to file a claim shall be classified as a General Unsecured Claim subject to the provisions of section 502(g) of the Bankruptcy Code.

IX. LITIGATION INVOLVING THE ESTATES

A. Pre-Petition Litigation

Listed below is a description of the current status of all litigation involving the Debtor that was pending as of the Petition Date:

Cause Number	Plaintiff	Defendant	Court	Nature of Suit
2007 CV 3427 ,	Juan Medina	Home Interiors & Gifts, Inc. (HIG)	Denver County District Court, Colorado	Personal injury (Settled)
07CC11249	Aida Beretta	HIG	Superior Court in Orange County, California	Validity of non-compete agreement (Pending)
07-14195-H	Home Interiors & Gifts, Inc.	Aida Beretta	44th District Court of Dallas County, Texas	Breach of employment agreement (Pending)
08-cv-00257	Meredith Corporation	HIG	United States District Court – District of Columbia	Terms of license agreement re use certain trademark (Settled)
08cv855	Green Bay Packaging	Dallas Woodcraft, Inc and HIG	Circuit Court, Branch 3, Brown County, Wisconsin	Collection of debt (Stayed)
3:2008cv00393	Gaylord Entertainment Company	HIG	US District Court, Middle District of Tennessee	Collection of debt (Settled)
DC-08-03412	Charles W. Weaver Manufacturing, Inc.	HIG	193rd Court – Dallas County District Court, Texas	Collection of debt (Stayed)
508-070J6	Mark Calvert dba Photography at Large	HIG	Justice Court, Precinct, Denton County, Texas	Collection of debt (Stayed)
DC-08-04584	Manny Rodriguez Photography	HIG	14th District Court of Dallas, Texas	Collection of debt (Stayed)
229341-0	Danhill Containers II, Ltd.	Laredo Candle Company, LP, Laredo Candle Company, LLC and Spring Valley Scents, Inc.	146th Judicial District Court of Bell County, Texas	Collection of debt (Stayed)
2008-42486	Pet City, Inc.	The Brampton Company	11th Judicial District	Products liability

		dba Simple Solutions, Laredo Candle Company, LLC and HIG	Court, Harris County, Texas	(Stayed)
Docket 204 Page 0837	Julio Hernandez	GIA, Inc.	Nebraska Workers Compensation Court	Personal injury (Settled)
Docket 207 Page 0059	Annabelle Gonzalez	GIA, Inc.	Nebraska Workers Compensation Court	Personal injury (Settled)

B. Post-Petition Litigation

On February 1, 2010, the Trustee commenced an adversary action against Applejack Art Partners, Inc. ("Applejack") styled, *Dennis S. Faulkner, Chapter 11 Trustee of Home Interiors & Gifts, Inc. v. Applejack Art Partners, Inc.,* Case No. 10-03016-bjh, which is currently pending in this Court. In this matter, the Trustee is suing Applejack, among other things, due to its failure to honor an agreement to purchase E.M. Boehm, Inc.[9] In connection with this action, the Trustee has asserted the following causes of action: i) breach of payment agreement; ii) breach of asset purchase agreement; iii) quantum merit; iv) money had and received; v) attorneys' fees; and vi) prejudgment and post-judgment interest. This action is currently set for trial for the week of July 6, 2010.

C. Post-Confirmation Litigation

Pursuant to Chapter 5 of the Bankruptcy Code, the Debtors own various actions including, but not limited to, causes for avoidance of preferential and/or fraudulent conveyances. These may necessarily involve voluntary and/or involuntary transfers to or for the benefit of insiders of the Debtors.

The Trustee has undertaken an analysis of payments by the Debtor to Creditors prior to the Petition Date, to determine whether such pre-petition payments may be avoidable as preferential or fraudulent transfers. The Trustee has reviewed and continues to review post-petition payments of pre-petition debt which may be avoidable under section 549 of the Bankruptcy Code. The Trustee is reviewing files containing payment histories for all operating accounts of the Debtors and, based on the review conducted to date, has prepared a list of the recipients of such payments against whom Debtors have claims or potential claims against, a copy of which is attached as **Exhibit C** to this Disclosure Statement. Payments to Creditors that might be subject to recovery as a preference may be insulated by a variety of defenses, including the new value defense, the ordinary course defense, recoupment and other defenses. The Trustee has not yet completed an analysis of whether each particular recipient has valid defenses to an avoidance action. The deadline for filing Chapter 5 causes of action under Bankruptcy Code § 546 is two years after entry of the order for relief. No representation is made herein with respect to whether any Avoidance Actions will yield a material dividend to unsecured creditors.

D. Causes of Action to be Transferred to the Creditor Trust

As of the Effective Date, all Causes of Action belonging to the Estates pursuant to Chapter 5 of the Bankruptcy Code will be transferred to the Creditors Trust. The Creditor Trust

[9] E.M. Boehm, Inc. was merged into Debtor HIG Holdings, Inc. on March 31, 2008.

Trustee is authorized under the Plan, in his sole discretion, to litigate to final judgment, prosecute appeals as are necessary and enter into such settlement agreements as are deemed appropriate with respect to any and all suits initiated as provided herein. Persons subject to a successful Avoidance Action may file a Claim, as appropriate, within such time as is established by the Bankruptcy Court.

X. CONFIRMATION OF THE PLAN OF LIQUIDATION

A. Solicitation of Votes: Voting Procedures

1. Ballots and Voting Deadline

A ballot to be used for voting to accept or reject the Plan is enclosed with this Disclosure Statement. Each Creditor should: (1) carefully review the ballot and the instructions thereon; (2) execute the ballot; and (3) return it to the address indicated thereon by the deadline to enable the ballot to be considered for voting purposes.

2. Classes Entitled to Vote

The Claims in Class 1, Class 2 and Class 3, including each subclass thereof, are impaired under the Plan. Holders of Interests in Class 4 will not receive a distribution under the Plan, and thus, are presumed to have rejected the Plan. **Therefore, only the Creditors in Classes 1, 2 and 3, including each subclass thereof, are entitled to vote and only their votes are being solicited to accept the Plan.**

The Trustee specifically reserves the right to contest whether any ballots cast should be allowed to be counted for purposes of confirmation. In addition, a vote may be disregarded if the Bankruptcy Court determines that a Creditor's acceptance or rejection was not solicited or procured in good faith, in accordance with the provisions of the Bankruptcy Code.

XI. ALTERNATIVES TO THE PLAN

A. Chapter 7 Liquidation

The most realistic alternative to the Plan is conversion of the Bankruptcy Case from a proceeding under Chapter 11 of the Bankruptcy Code to a proceeding under Chapter 7 of the Bankruptcy Code. A Chapter 7 case, sometimes referred to as a "straight liquidation," requires the liquidation of all of the debtor's assets by a Chapter 7 trustee. The cash realized from liquidation is subject to distribution to creditors in accordance with the order of distribution prescribed in section 726 of the Bankruptcy Code. Whether a bankruptcy case is one under Chapter 7 or Chapter 11, allowed secured claims, allowed administrative claims and allowed priority claims are entitled to be paid in cash, in full, before unsecured creditors and equity interest holders receive any funds, as explained further below. Thus, in a Chapter 7 case, the recovery, if any, to creditors holding non-priority unsecured claims and to holders of equity interests will depend upon the net proceeds left in the estate after all of the debtor's assets have been reduced to cash and all claims of higher priority have been satisfied in full.

Chapter 7 liquidation theoretically adds an additional layer of expense. As referenced above, conversion of a bankruptcy case to Chapter 7 will trigger the appointment of a Chapter 7 trustee having the responsibility of liquidating the debtor's assets. Pursuant to sections 326 and 330 of the Bankruptcy Code, the Chapter 7 trustee will be entitled to reasonable compensation in relation to the level of disbursements made to creditors, as follows: (a) up to 25% of the first $5,000.00 disbursed; (b) up to 10% of the amount disbursed in excess of $5,000.00 but not in excess of $50,000.00; (c) up to 5% of any amount disbursed in excess of $50,000.00 but not in excess of $1,000,000.00; and (d) up to 3% of any amount disbursed in excess of $1,000,000.00. Additionally, the Chapter 7 trustee will be entitled to retain his or her own professionals to assist in the liquidation and administration of the estate. The fees and expenses of such professionals, to the extent allowed, are also entitled to priority in payment as administrative claims. Chapter 7 administrative costs are entitled to priority in payment over Chapter 11 administrative costs. Nevertheless, Chapter 11 administrative costs continue to have priority over all other non-administrative priority claims and non-priority unsecured claims in the bankruptcy case.

Conversion to Chapter 7 could result in the appointment of a trustee or multiple trustees having no experience or knowledge of the prior proceedings in the bankruptcy case or of the debtor's business, its books and records and its assets. In the Debtors' case, the United States Trustee could opt to re-appoint the Trustee as the Chapter 7 trustee, but there is no guarantee that such re-appointment would be made. To the extent that it is not, a substantial amount of time would be required in order the new Chapter 7 trustee to become familiar with the Debtors, their prior business operations, and Assets in order to wind the case up effectively. Given the litigation pending in the Bankruptcy Case and adversary proceedings related thereto, a newly-appointed Chapter 7 trustee would likely be in an inferior position to prosecute and defend against such actions.

The Trustee is opposed to conversion of the Bankruptcy Case to Chapter 7 for several reasons. First, the Trustee believes that conversion of the Bankruptcy Case could lead to additional layers of expense for the reasons stated above. Under the Plan, on the other hand, the Trustee, having familiarity with the Debtors' prior operations, the parties, Claims in the Bankruptcy Case, and pending litigation, will serve as the initially appointed Creditor Trust Trustee. Second, conversion of the Bankruptcy Case will re-open the proof of Claim bar dates and enable additional, otherwise barred Claims, to be asserted. By maintaining the Bankruptcy Case in Chapter 11 and confirming the Plan, the assertion of additional Claims can be prevented.

Inasmuch as the Plan is a plan of liquidation, the comparison of likely distributions to Holders of Allowed Claims and Allowed Equity Interests under the Plan to likely distributions to holders of Allowed Claims and Allowed Equity Interests in a Chapter 7 proceeding is similar, except that in a Chapter 7 the potential for additional administrative expense and substantial additional Claims demonstrates that distributions under the Plan are likely to exceed, or at least be equal to, the distributions that would be made under Chapter 7. Consequently, the Trustee believes that the Plan is in the best interest of Creditors.

XII. FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Tax Consequences to the Creditors Trust

The Creditors Trust shall be considered a "grantor" trust for federal income tax purposes, and shall, therefore, not have separate liability for federal income taxes relating to, or arising from, the conveyance, operation, or liquidation of assets of the Creditor Trust. The Debtors shall be considered the grantors of the Trust and the income and expenses of the Trust shall be passed through to Debtors to be reported on their income tax return. To the extent required by law, however, the Creditor Trust Trustee will file all tax returns that the Debtors would have filed if their Assets had not been conveyed to the Creditors Trust. Therefore, to the extent that the operation or liquidation of Trust Assets creates tax liability for the Debtors, the Creditors Trust Trustee shall promptly pay such tax liability, and any such payments shall be considered costs and expenses of operation of the Creditors Trust. The Creditors Trust Trustee may also reserve a sum sufficient to pay any accrued or potential tax liability arising out of the operations of the Creditors Trust, if any.

THE FOREGOING SUMMARY OF CERTAIN MATERIAL FEDERAL INCOME TAX CONSEQUENCES HAS BEEN PROVIDED FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED UPON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO A HOLDER OF A CLAIM OR INTEREST. EACH HOLDER OF A CLAIM OR INTEREST IS URGED TO CONSULT ITS OWN TAX ADVISORS FOR THE FEDERAL, STATE, LOCAL AND FOREIGN INCOME AND OTHER TAX CONSEQUENCES THAT MAY BE APPLICABLE UNDER THE PLAN.

XIII. PLAN MODIFICATION

A. Non-Material Modifications

The Trustee and/or Creditor Trust Trustee, as the case may be, may, with the approval of the Bankruptcy Court and without notice to all Holders of Claims and Equity Interests, correct any defect, omission, or inconsistency in the Plan in such manner and to such extent as may be necessary and desirable. Non-material modification may be undertaken insofar as it does not adversely change the treatment of the Claim of any Creditor or the Interest of any Equity Interest Holder who has not accepted, in writing, the modification.

B. Material Modifications

Modifications of the Plan may be proposed in writing by the Trustee at any time before confirmation, provided that the Plan, as modified, meets the requirements of sections 1122 and 1123 of the Bankruptcy Code, and the Trustee shall have complied with section 1125 of the Bankruptcy Code. The Plan may be modified at any time after confirmation and before its

Substantial Consummation, provided that the Plan, as modified, meets the requirements of sections 1122 and 123 of the Bankruptcy Code and the Bankruptcy Court, after notice and a hearing, confirms the Plan, as modified, under section 1129 of the Bankruptcy Code, and the circumstances warrant such modification. A Holder of a Claim or Equity Interest that has accepted or rejected the Plan shall be deemed to have accepted or rejected, as the case may be, such Plan as modified, unless, within the time fixed by the Bankruptcy Court, such Holder changes its previous acceptance or rejection.

XIV. MISCELLANEOUS PROVISIONS

A. Severability

Should the Bankruptcy Court determine that any provision of the Plan is unenforceable either on its face or as applied to any Claim or Equity Interest or transaction, the Creditor Trust Trustee may modify the Plan in accordance with Article XII of the Plan so that such provision shall not be applicable to the holder of any Claim or Equity Interest. Such a determination of unenforceability shall not (a) limit or affect the enforceability and operative effect of any other provision of the Plan or (b) require the resolicitation of any acceptance or rejection of the Plan.

B. Setoff

The Creditor Trust Trustee may, but shall not be required to, set off against any Claim and the payment or other Distributions to be made pursuant to this Plan in respect of such Claim, Claims of any nature whatsoever the Debtors may have against the Holder of such Claim, but neither the failure to do so nor the allowance of any Claim hereunder shall constitute a waiver or release of any such Claim that the Debtors may have against such holder.

C. Compliance with All Applicable Laws

If notified by any governmental authority that the Trustee, the Debtors, of the Creditor Trust Trustee are in violation of any applicable law, rule, regulation, or order of such governmental authority relating to its business, they, as the case may be, shall comply with such law, rule, regulation, or order; provided that nothing contained herein shall require such compliance if the legality or applicability of any such requirement is being contested in good faith in appropriate proceedings and, if appropriate, an adequate reserve has been set aside on the books of the Debtors.

D. Binding Effect

The Plan shall be binding upon, and shall inure to the benefit of the Debtors, the Trustee, the Creditor Trust Trustee, the Holders of Claims, the Holders of Interests, and their respective successors and assigns.

E. Governing Law

Unless a rule of law or procedure supplied by federal law (including the Bankruptcy Code and Bankruptcy Rules) is applicable, the internal laws of the State of Texas shall govern

the construction and implementation of the Plan and any agreements, documents, and instruments executed in connection with the Plan, without regard to conflicts of law.

F. Timing of Distributions

Any payment or distribution required to be made hereunder on a day other than a Business day shall be due and payable on the next succeeding Business Day.

G. Final Decree

The Creditor Trust Trustee shall file an application for final decree within six (6) months of the finality of the Confirmation Order, unless, on motion to the Bankruptcy Court, this period is extended.

XV. RETENTION OF JURISDICTION

A. Jurisdiction Generally

Pursuant to sections 1334 and 157 of title 28 of the United States Code, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising in, arising under, and related to the Chapter 11 Case and the Plan, for the purposes of sections 105(a) and 1142 of the Bankruptcy Code.

XVI. CONCLUSION AND RECOMMENDATION

The Trustee believes that confirmation of the Plan is in the best interests of the Creditors and that the Plan of Liquidation is feasible and is a better alternative than conversion of the cases to Chapter 7 liquidations. Accordingly, the Trustee recommends that the Plan be accepted by those creditors entitled to vote.

Dated: March 17, 2010

Respectfully submitted,

/s/ *Michael A. McConnell*
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Attorneys For The Chapter 11 Trustee

1119334v5

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between the Chapter 11 Trustee, the Committee, the Pre-Petition Agent, the Settling Pre-Petition Lenders, Highland, Barrier, H&B, and the Ds&Os, (all as separately defined below) (collectively, the "***Parties***," and each a "***Party***") who, by so executing this Settlement Agreement, respectively agree to be bound by each of its terms, conditions and obligations as of the Effective Date (as defined below).

DEFINITIONS

Unless the context otherwise requires, capitalized terms within this Settlement Agreement shall have the meanings assigned to them in this Definitions section. The meanings shall be equally applicable to both the singular and plural forms of these terms. The words "herein," "hereof," "hereunder" and other words of similar import refer to the Settlement Agreement as a whole and not to any particular section, subsection or clause contained in the Settlement Agreement unless the context requires otherwise. Whenever it appears appropriate from the context, each term stated in the masculine, feminine or neuter gender include the masculine, feminine and neuter.

A. "***Affiliates***" means, with respect to each Party, such Party's current and former officers, directors, managers, members, shareholders, accountants, agents, appraisers, attorneys, employees or consultants in their capacity as such.

B. "***AISLIC***" means American International Specialty Lines Insurance Company, the issuing carrier for the Ds&Os referenced in paragraph K herein.

C. "***Approval Order***" means the Bankruptcy Court order approving this Settlement Agreement, substantially in the form attached hereto as Exhibit A, unless otherwise agreed to by the Parties.

D. "***Assigned Proceeds***" means the Settling Pre-Petition Lenders' rights to receive from the Pre-Petition Agent (i) the proceeds, if any, of Avoidance Actions, (ii) the remaining proceeds, if any, in the Professional Fee Reserve and Wind-Up Reserve; and (iii) the proceeds, if any, of any funds paid to a professional in the Bankruptcy Cases on an interim basis which are returned by the professional or are ordered to be disgorged by the professional.

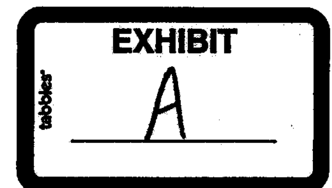
E. "***Avoidance Actions***" means the Debtors' actions for preferences, fraudulent conveyances, and other avoidance power claims and recoveries under §§ 544, 547, 548, 549, 550, and 553 of the Bankruptcy Code.

F. "***Bankruptcy Cases***" means the Debtors' Bankruptcy Cases administratively consolidated under Case No. 08-31961-11 pending in the Bankruptcy Court.

G. "***Bankruptcy Court***" means the United States Bankruptcy Court for the Northern District of Texas, Dallas Division.

H. "***Barrier***" means Barrier Advisors, Inc.

I. "***Chapter 11 Trustee***" means Dennis S. Faulkner, Trustee for Debtors' bankruptcy Estates.



J. "***Committee***" means the Official Committee of Unsecured Creditors appointed in the Bankruptcy Cases.

K. "***Ds&Os***" means collectively all directors and officers of the Debtors, including but not limited to (i) Patrick H. Daugherty, (ii) Carl Moore, (iii) Charles McQueary, (iv) Jeffrey Kobylarz, and (v) Richard W. Heath.

L. "***Debtors" or "Estates***" mean collectively each of the following Debtors and their Estates that are the subject of the Bankruptcy Cases: (i) Home Interiors & Gifts, Inc., (ii) Dallas Woodcraft Company, LLC, a Delaware Limited Liability Company, (iii) DWC GP, LLC, a Delaware Limited Liability Company, (iv) Titan Sourcing, LLC, a Delaware Limited Liability Company, (v) Laredo Candle Company, LLC a Texas Limited Liability Company, (vi) HIG Holdings, LLC, a Texas Limited Liability Company, and (vii) Home Interiors de Puerto Rico, Inc., a Delaware Corporation.

M. "***Effective Date***" means the date upon which the Bankruptcy Court enters the Approval Order unless such order has been stayed and, if stayed, the first business day following the expiration of any such stay.

N. "***First Budget***" means the authorized budget for the use of the Pre-Petition Lenders' collateral and cash collateral during the term of the First Final Cash Collateral Order.

O. "***First Final Cash Collateral Order***" means that certain Final Order (I) Authorizing Debtors' Use of Cash Collateral, (II) Granting Replacement Liens, and (III) Granting Other Adequate Protection entered on July 3, 2008 in the Bankruptcy Cases by the Bankruptcy Court.

P. "***H&B***" means Haynes and Boone, LLP.

Q. "***Highland***" means Highland Capital Management, L.P.

R. "***Investigation Deadline***" means the deadline detailed in the First Final Cash Collateral Order for the Debtors, the Committee, or any other party-in-interest to commence claims or causes of action asserting the Debtors' Estates claims, if any, against the Pre-Petition Agent, the Pre-Petition Lenders, or any of their respective agents, attorneys, advisors or representatives.

S. "***Lien Escrow***" means that certain $3 million deposit of cash collateral, plus accrued interest, held by the Chapter 11 Trustee pursuant to the terms and conditions of paragraph 28 of the Second Final Cash Collateral Order.

T. "***Louisiana World Motion***" means that certain Motion of the Official Committee of Unsecured Creditors for Authority to Prosecute Estate Causes of Action filed by the Committee on October 3, 2008.

U. "***Mexico Escrow***" means that certain $392,134.00 plus accrued interest, representing one third of the net proceeds realized from the sale of the Debtors' non-debtor Mexican subsidiaries that were not subject to the Pre-Petition Agent's pre-petition liens pursuant to the Pre-Petition Credit Facility as more further described in paragraph 29 of the Second Final Cash Collateral Order.

V. "***Minority Lenders***" means those certain Pre-Petition Lenders not in support of this Settlement Agreement. The Minority Lenders originally referred to themselves as the "Minority Lenders" but have recently begun to refer to themselves as the "non-insider

lenders." The Minority Lenders include: (i) MCG Capital Corporation, (ii) Northwoods Capital IV Limited, (iii) Northwoods Capital VI Limited, (iv) Styx International, Ltd., (v) Atrium CDO, (vi) Atrium III CDO, (vii) Credit Suisse Syndicated Loan Fund, (viii) CSAM Funding II, (ix) CSAM Funding III, (x) CSAM Funding IV, (xi) First Dominion Funding III, and (xii) KC CLO I Limited.

W. "***Petition Date***" means April 29, 2008, the date the Debtors filed their respective Bankruptcy Cases.

X. "***Pre-Petition Agent***" means NexBank, SSB, as agent under the Pre-Petition Credit Facility.

Y. "***Pre-Petition Credit Facility***" means that certain $370,000,000 Credit Agreement between Home Interiors & Gifts, Inc. and the Pre-Petition Agent for itself and for the benefit of the Pre-Petition Lenders dated as of March 31, 2004, as amended.

Z. "***Pre-Petition Lenders***" means all the banks and other financial institutions or entities that are parties to the Pre-Petition Credit Facility.

AA. "***Professional Fee Reserve***" means that certain reserve to be created and funded as detailed in paragraph 4 below in the approximate amount of $2.2 million to pay the Debtors' Estates allowed professional fees and expenses as previously authorized by the Pre-Petition Agent and Pre-Petition Lenders in the First Budget and Second Budget but not yet been paid to such professionals, and including any amounts authorized therein and paid on an interim basis that may be disallowed and/or disgorged.

BB. "***Second Budget***" means the authorized budget for the use of the Pre-Petition Lenders' collateral and cash collateral during the term of the Second Final Cash Collateral Order.

CC. "***Second Final Cash Collateral Order***" means that certain Second Final Order (I) Authorizing Debtors' Use of Cash Collateral, (II) Granting Replacement Liens, and (III) Granting Other Adequate Protection entered on November 25, 2008 in the Bankruptcy Cases by the Bankruptcy Court.

DD. "***Settling Defendants***" means collectively, the Settling Pre-Petition Lenders, Highland, Barrier, and H&B.

EE. "***Settling Pre-Petition Lenders***" means those certain Pre-Petition Lenders in support of this Settlement Agreement, including: (i) Atascosa Investments, LLC; (ii) Burnett Partners, LLC; (iii) Gillespie Income Fund, LLC; (iv); Highland Credit Opportunities CDO, LP; (v) Highland Credit Strategies Fund; (vi) Highland Crusader Offshore Partners, LP; (vii) Highland Floating Rate Advantage Fund; (viii) Highland Floating Rate LLC; (ix) Highland Legacy Limited; (x) Highland Loan Funding V Ltd.; (xi) Highland Offshore Partners, LP; (xii) Hopkins Capital Partners, LLC; (xiii) Jasper CLO Ltd.; (xiv) Loan Funding IV LLC; (xv) Loan Funding VII LLC; (xvi) Milam High Yield Fund, LLC; (xvii) Navarro Investment Partners, LLC; (xviii) Pam Capital Funding LP; (xix); Presidio Capital Management, LLC; and (xx) Southfork CLO Ltd.

FF. "***Wind-Up Reserve***" means that certain reserve to be created and funded as detailed in paragraph 5 below in the approximate amount of $1.4 million to be used by the Chapter 11 Trustee for the purpose of completing the wind-up process for the Debtors' Estates as previously authorized by the Pre-Petition Agent and Pre-Petition Lenders in the Second Budget but not yet incurred and/or paid.

GG. "***9019 Motion***" means that certain Motion for Approval of Compromise and Settlement under Rule 9019 of the FRBP filed jointly by the Chapter 11 Trustee and the Committee.

HH. "***$3 Million Settlement Payment***" means that certain $3 million settlement payment made by the Settling Defendants as described in paragraph 7.a. below.

RECITALS

WHEREAS On April 29, 2008, the Debtors each filed a voluntary petition for relief under Chapter 11 of title 11 of the United States Code in the Bankruptcy Court.

WHEREAS On May 15, 2008, the Committee was formed and appointed by the United States Trustee for the Northern District of Texas.

WHEREAS On July 3, 2008, the Court entered the First Final Cash Collateral Order and the First Budget. The First Final Cash Collateral Order and First Budget control the use of the Pre-Petition Lenders' collateral and cash collateral from the Petition Date through October 31, 2008.

WHEREAS On July 31, 2008, the Pre-Petition Agent filed a Proof of Claim as administrative agent for the Pre-Petition Lenders.

WHEREAS On October 3, 2008, prior to the expiration of the Investigation Deadline, the Committee filed its Louisiana World Motion seeking authority to prosecute the Debtors' Estates' claims and causes of action, if any, against the Pre-Petition Agent, the Pre-Petition Lenders, Highland, Barrier, H&B, and the Ds&Os.

WHEREAS On November 14, 2008 Highland filed its Response of Highland Capital Management, L.P. to (i) Motion of the Official Committee of Unsecured Creditors for Authority to Prosecute Estate Causes of Action, and (ii) Motion of the Non-Insider Lenders for Leave to Assert Claims that are Property of the Estates in response to the Committee's Louisiana World Motion.

WHEREAS On November 14, 2008 NexBank filed its Objection to Motions for Derivative Standing in response to the Committee's Louisiana World Motion.

WHEREAS On November 14, 2008 the Debtors filed their Debtors' Response and Objection to Motion of the Official Committee of Unsecured Creditors for Authority to Prosecute Estate Causes of Action in response to the Committee's Louisiana World Motion.

WHEREAS On November 21, 2008, a trial commenced on the Committee's Louisiana World Motion. The trail was continued to and concluded on January 27, 2009.

WHEREAS On November 25, 2008, the Court entered the Second Final Cash Collateral Order and the Second Budget. The Second Final Cash Collateral Order and Second Budget control the use of the Pre-Petition Lenders' collateral and cash collateral from November 1, 2008 through March 31, 2009.

WHEREAS On November 25, 2008, the Court entered the Order Appointing a Chapter 11 Trustee for the Debtors' Estates. Thereafter, the United States Trustee filed the Application of the United States Trustee to Approve Appointment of Trustee and Dennis S. Faulkner was appointed as the Chapter 11 Trustee for the Debtors' Estates.

WHEREAS On March 10, 2009, the Bankruptcy Court entered its Order Granting Leave to the Committee to Prosecute Estate Causes of Action granting the Committee's Louisiana World

Motion and authorizing the Committee leave and authority, for the benefit of the Debtors' Estates and in the names of the Debtors' Estates, over any and all claims and causes of action owned by one or more of the Debtors' Estates against the Pre-Petition Agent, the Pre-Petition Lenders, Highland, Barrier, H&B, and the Ds&Os as more fully detailed in the Louisiana World Motion.

WHEREAS The Parties have engaged in extensive negotiations in an effort to settle their respective disputes. Therefore, the Parties entered into that certain Stipulation and Agreed Order Tolling Deadline for Committee to Initiate Suit extending the Investigation Deadline for the Committee through September 15, 2009.

WHEREAS The Parties now wish to seek approval of their settlement, under the terms and conditions set forth in this Settlement Agreement.

WHEREAS In consideration of the promises, covenants and representations set forth herein, the sufficiency of which is hereby acknowledged and confessed, the Parties hereby expressly agree as follows:

TERMS OF SETTLEMENT

1. Bankruptcy Court Approval. This Settlement Agreement is subject to Bankruptcy Court approval and the entry of the Approval Order. This Settlement Agreement is not conditioned upon the confirmation of any plan under Chapter 11.

2. Effective Date Payment to the Pre-Petition Agent for the Benefit of the Pre-Petition Lenders. Except for the Professional Fee Reserve, the Wind-Up Reserve, and the $3 Million Settlement Payment, on the Effective Date the Chapter 11 Trustee shall distribute all remaining cash in the Estates to the Pre-Petition Agent for the benefit of the Pre-Petition Lenders. The distribution to the Pre-Petition Agent shall include, but shall not be limited to, the Lien Escrow and Mexico Escrow.

3. Post Effective Date Payments to the Pre-Petition Agent for the Benefit of the Pre-Petition Lenders. After the Effective Date, except for the Professional Fee Reserve, the Wind-Up Reserve, the $3 Million Settlement Payment, and the Assigned Proceeds, the Chapter 11 Trustee (or any subsequently appointed representative of the Estates including but not limited to a Chapter 7 trustee, plan administrative agent, or liquidating trustee) shall distribute to the Pre-Petition Agent for the benefit of the Pre-Petition Lenders the proceeds of any and all other assets of the Estates within 5 business days of receipt of such proceeds by the Estates.

4. Professional Fee Reserve.

    a. On the Effective Date, and to the extent not previously funded, the Chapter 11 Trustee shall fund the Professional Fee Reserve from cash on hand in the Estates. The Professional Fee Reserve shall be held in escrow until final Bankruptcy Court approval of final fee applications for services rendered and expenses incurred by the Estates' professionals prior to March 31, 2009. The amounts necessary to fund the Professional Fee Reserve have been authorized by the Pre-Petition Agent and Pre-Petition Lenders in the First Budget and Second Budget and represent the remaining available funds to pay allowed fees and expenses of such professionals. Any unused balance remaining in the Professional Fee Reserve after payment of

all allowed fees and expenses of such professionals shall be distributed to the Pre-Petition Agent for the benefit of the Pre-Petition Lenders.

b. Nothing in this Settlement Agreement or otherwise shall be construed to prohibit or limit any party-in-interest from objecting to the allowance of fees, expenses and claims (including substantial contribution claims) made in the Bankruptcy Cases.

5. Wind-Up Reserve. On the Effective Date, the Chapter 11 Trustee shall fund the Wind-Up Reserve from cash on hand in the Estates. The amount necessary to fund the Wind-Up Reserve was authorized by the Pre-Petition Agent and Pre-Petition Lenders in the Second Budget for the purpose of enabling the Chapter 11 Trustee to complete the wind-up process for the Debtors' Estates. Any unused balance remaining in the Wind-Up Reserve shall be distributed to the Pre-Petition Agent for the benefit of the Pre-Petition Lenders.

6. Payment from the AISLIC. On the Effective Date, AISLIC shall pay to the Chapter 11 Trustee $150,000 on behalf of the Ds&Os to be held in trust (the "Trust Funds") by the Chapter 11 Trustee in a segregated interest-bearing account, subject to and conditioned upon the following: (i) the receipt of a release from the Ds&Os; and (ii) express authorization in the Approval Order for AISLIC to distribute insurance proceeds in accordance with the terms of this Settlement Agreement. In addition, the Parties shall provide to AISLIC any and all other reasonable documents that AISLIC may require to implement the terms and conditions of this Settlement Agreement. If the Approval Order becomes a "Final Order" (as defined in this paragraph), then the Chapter 11 Trustee shall distribute such funds to the Pre-Petition Agent for the benefit of the Pre-Petition Lenders. A Final Order is an Order as to which (i) the time for appeal has expired, or (ii) if an appeal has been taken, it has been resolved in a manner that does not reverse or alter the Order in any material way. If the Approval Order does not become a Final Order, then the Chapter 11 Trustee shall return to AISLIC the Trust Funds (along with any accumulated interest) within ten days of the entry of any Order entered on appeal that reverses or alters the Approval Order in any material manner, and which itself is not subject to further appeal.

7. Settlement Payments From Settling Defendants to the Estates.

   a. On the Effective Date, the Settling Defendants shall cause a payment of $3 Million to be made to the Chapter 11 Trustee for the benefit of the Estates. The Settling Defendants shall waive and release any claims or liens in the $3 Million Settlement Payment.

   b. On the Effective Date, the Settling Pre-Petition Lenders shall assign to the Chapter 11 Trustee for the benefit of the Estates the Assigned Proceeds.

8. Mutual Releases / Waivers.

   a. On the Effective Date, the Chapter 11 Trustee and the Committee for and on behalf of themselves, the Debtors' respective bankruptcy Estates, and any and all of their respective successors and assigns, hereby waive, release and forever discharge the Pre-Petition Agent (both individually and in its capacity as agent), the Settling Pre-Petition Lenders, Highland, Barrier, H&B, and each of their respective Affiliates from any and all claims, obligations, demands, actions,

causes of action and liabilities, of whatsoever kind and nature, character and description, whether in law or equity, whether sounding in tort, contract, quantum meruit, any state or federal avoidance cause of action, including without limitation avoidance claims under 11 U.S.C. §§ 544, 545, 547, 548, 549, 550 or 553, a turnover cause of action under 11 U.S.C. §§ 542, or under other applicable law, whether known or unknown, and whether anticipated or unanticipated, that the Chapter 11 Trustee, Committee, and the Debtors' Estates and their respective successors and assigns ever had or now have against the Pre-Petition Agent (whether individually or in its capacity as agent), the Settling Pre-Petition Lenders, Highland, Barrier, H&B, or their respective Affiliates.

b. After receipt by the Pre-Petition Agent of the funds described in paragraphs 2 and 3 above, the Settling Defendants, for themselves and their respective successors and assigns, hereby waive, release and forever discharge the Chapter 11 Trustee, the Committee and the Debtors' Estates and each of their respective Affiliates from any and all claims, obligations, demands, actions, causes of action and liabilities, of whatsoever kind and nature, character and description, whether in law or equity, whether sounding in tort, contract, quantum meruit, whether known or unknown, and whether anticipated or unanticipated, that the Settling Pre-Petition Lenders, Highland, Barrier, and H&B, and their successors and assigns ever had or now have against the Chapter 11 Trustee, the Committee and the Debtors' Estates or their respective Affiliates.

c. Notwithstanding the provisions of subparagraph b above, the Pre-Petition Agent does not waive, release or discharge any of its liens against the Debtors' Estates and their assets except for the settlement payments described in paragraph 7 above.

d. Upon receipt of payment from AISLIC of the Trust Funds in accordance with paragraph 6, the Chapter 11 Trustee and the Committee, for and on behalf of themselves, the Debtors' respective bankruptcy Estates, and any and all of their respective successors and assigns, hereby waive, release and forever discharge the Ds&Os, and each of their respective Affiliates, and AISLIC from any and all claims, obligations, demands, actions, causes of action and liabilities, of whatsoever kind and nature, character and description, whether in law or equity, whether sounding in tort, contract, quantum meruit, an avoidance cause of action under 11 U.S.C. §§ 544, 545, 547, 548, 549 550 or 553, a turnover cause of action under 11 U.S.C. §§ 542, or under other applicable law, whether known or unknown, and whether anticipated or unanticipated, that the Chapter 11 Trustee, Committee, and the Debtors' Estates and their respective successors and assigns ever had or now have against the Ds&Os and their respective Affiliates or AISLIC.

e. Concurrently with the releases set forth in subparagraph d above, the Ds&Os for themselves and their respective successors and assigns, hereby waive, release and forever discharge the Chapter 11 Trustee, the Committee and the Debtors' Estates and each of their respective Affiliates from any and all claims, obligations, demands, actions, causes of action and liabilities, of whatsoever kind and nature, character and description, whether in law or equity, whether sounding in tort, contract, quantum meruit, whether known or unknown, and whether anticipated or

unanticipated, that the Ds&Os, and their successors and assigns ever had or now have against the Chapter 11 Trustee, the Committee and the Debtors' Estates or their respective Affiliates.

f. Notwithstanding the foregoing, if any order is entered on appeal that reverses or alters the Approval Order in any material manner, and such order is not itself subject to further appeal, then the releases set forth in subparagraphs d and e above shall become null and void upon receipt by AISLIC of the return of the Trust Funds pursuant to paragraph 6.

9. No Admissions. The Parties understand and acknowledge that this Settlement Agreement is in compromise of disputed claims and defenses. Accordingly, neither this Settlement Agreement, nor any of its provisions, shall constitute, or be deemed or construed as, an admission of any liability on any of the claims referenced herein, the viability of any defenses to such claims, or otherwise.

10. Authority. Each of the signatories hereto hereby represents that (a) he/she has the authority to execute this Settlement Agreement on behalf of the Party(ies) for whom he/she is signing; and (b) each Party has not assigned or otherwise transferred the claims being released herein and each such Party is the owner thereof and has full authority to settle and release those claims.

11. Entire Agreement. This Settlement Agreement is the complete and final agreement of the Parties as to all of the matters set forth herein, and supersedes all previous and contemporaneous agreements, promises, covenants, negotiations, discussions, understandings and representations by and/or between the Parties, all of which have become merged and integrated into this Settlement Agreement. The Parties hereby acknowledge that there are no other written or oral agreements between them concerning the matters set forth in this Settlement Agreement.

12. Terms Understood. Each Party represents that prior to the execution of this Settlement Agreement by its duly-authorized representative, such Party was fully informed of its terms, contents, conditions and effects, and that such Party had the benefit and advice of counsel of his/her/its own choosing in entering into this Settlement Agreement. Each Party further represents that he/she/it relied solely and exclusively on his/her/its own judgment and the advice of his/her/its own counsel in entering into this Settlement Agreement. The Parties agree that the terms and language of this Settlement Agreement were the result of negotiations among them and, as a result, there shall be no presumption that any ambiguities shall be resolved against any Party. Any controversy over construction of the Settlement Agreement shall be decided without regard to events of authorship or negotiation.

13. Governing Law and Exclusive Jurisdiction. This Settlement Agreement shall be governed by and interpreted pursuant to the laws of the State of Texas. The Bankruptcy Court shall have exclusive jurisdiction to resolve disputes that arise under or on account of this Settlement Agreement.

14. Modifications. This Settlement Agreement shall not be modified except by an instrument in writing signed by all of the Parties.

15. Counterparts. The Parties may execute this Settlement Agreement in multiple counterparts, each of which shall be deemed an original, and all of which, when taken

together, shall constitute but one and the same instrument. The facsimile of an originally-signed signature page shall serve as, and constitute, an originally-executed copy of such signature page.

16. Minority Lenders. This Settlement Agreement does not release any claims of the Estate against the Minority Lenders nor does this Settlement Agreement provide for the release of any non-Debtors' Estates' claims or causes of action, if any, that the Minority Lenders believe that they may own against the Settling Defendants.

17. Pre-Petition Lenders not Settling. Notwithstanding anything contained herein to the contrary, and notwithstanding the payments to the Pre-Petition Agent provided for herein, including specifically in paragraphs 2 and 3 hereof, nothing contained herein shall release, prejudice, waive, compromise, or preclude any claim, right, argument, cause of action, defense, or other proceeding that the Estates (including the Chapter 11 Trustee and Committee) may have against any of the Pre-Petition Lenders that are not Settling Pre-Petition Lenders, provided that such claim, right, argument, cause of action, defense, or other proceeding is asserted solely against the Pre-Petition Lenders that are not one or more of the Settling Pre-Petition Lenders. Without limitation, and for the avoidance of doubt, nothing herein shall preclude or prejudice the Committee or the Chapter 11 Trustee from initiating any proceeding contesting the Minority Lenders' share of any diminution claim or failure of adequate protection claim, or from contesting the validity of any of the Minority Lenders' claims or liens against the Debtors or the Estates.

18. Miscellaneous. If the Effective Date does not occur, this Settlement Agreement shall be null and void.

[remainder of page intentionally left blank]

AGREED TO AND ACCEPTED:

Dennis S. Faulkner, Chapter 11 Trustee for the Debtors

By:______________________________

Title: ______________________________

Date:______________________________

Official Unsecured Creditors Committee

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

NexBank, SSB, as agent under that certain $370,000,000
Credit Agreement dated March 31, 2004, as amended

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Highland Capital Management, LP

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Barrier Advisors, Inc.

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Haynes and Boone, LLP

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Patrick H. Daugherty

By:______________________________

Date:______________________________

Carl Moore

By:______________________________

Date:______________________________

Charles McQueary

By:______________________________

Date:______________________________

Jeffrey Kobylarz

By:______________________________

Date:______________________________

Richard W. Heath

By:______________________________

Date:______________________________

Atascosa Investments, LLC

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Burnett Partners, LLC

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Gillespie Income Fund, LLC

By:______________________________

Name:______________________________

Title: ______________________________

Date:______________________________

Highland Credit Opportunities CDO, LP

By:______________________________
Name:____________________________
Title: ____________________________
Date:_____________________________

Highland Credit Strategies Fund

By:______________________________
Name:____________________________
Title: ____________________________
Date:_____________________________

Highland Crusader Offshore Partners, LP

By:______________________________
Name:____________________________
Title: ____________________________
Date:_____________________________

Highland Floating Rate Advantage Fund

By:______________________________
Name:____________________________
Title: ____________________________
Date:_____________________________

Highland Floating Rate LLC

By:____________________________________

Name:__________________________________

Title: __________________________________

Date:___________________________________

Highland Legacy Limited

By:____________________________________

Name:__________________________________

Title: __________________________________

Date:___________________________________

Highland Loan Funding V Ltd.

By:____________________________________

Name:__________________________________

Title: __________________________________

Date:___________________________________

Highland Offshore Partners, LP

By:____________________________________

Name:__________________________________

Title: __________________________________

Date:___________________________________

Hopkins Capital Partners, LLC

By:______________________________

Name:____________________________

Title: ____________________________

Date:_____________________________

Jasper CLO Ltd.

By:______________________________

Name:____________________________

Title: ____________________________

Date:_____________________________

Loan Funding IV LLC

By:______________________________

Name:____________________________

Title: ____________________________

Date:_____________________________

Loan Funding VII LLC

By:______________________________

Name:____________________________

Title: ____________________________

Date:_____________________________

Milam High Yield Fund, LLC

By:__________________________________

Name:_______________________________

Title: _______________________________

Date:________________________________

Navarro Investment Partners, LLC

By:__________________________________

Name:_______________________________

Title: _______________________________

Date:________________________________

Pam Capital Funding LP

By:__________________________________

Name:_______________________________

Title: _______________________________

Date:________________________________

Presidio Capital Management, LLC

By:__________________________________

Name:_______________________________

Title: _______________________________

Date:________________________________

Southfork CLO Ltd.

By:______________________________

Name:____________________________

Title: ____________________________

Date:_____________________________

U.S. BANKRUPTCY COURT
NORTHERN DISTRICT OF TEXAS
ENTERED
TAWANA C. MARSHALL, CLERK
THE DATE OF ENTRY IS
ON THE COURT'S DOCKET

The following constitutes the ruling of the court and has the force and effect therein described.

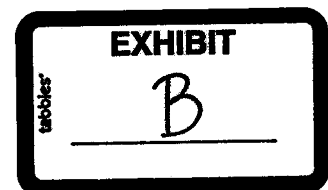
Signed December 17, 2009 **United States Bankruptcy Judge**

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

IN RE:	§	Chapter 11
	§	
HOME INTERIORS & GIFTS, INC.,	§	Case No. 08-31961
a Texas Corporation, et al.,	§	
	§	
Debtors.	§	(Jointly Administered)

ORDER ON APPLICATION FOR ALLOWANCE AND PAYMENT OF SUPER-PRIORITY ADMINISTRATIVE EXPENSE CLAIM

On October 2, 2009, MCG Capital Corporation, Northwoods Capital IV Limited, Northwoods Capital VI Limited, Styx International, Ltd., Atrium CDO, Atrium III CDO, Credit Suisse Syndicated Loan Fund, CSAM Funding II, CSAM Funding III, CSAM Funding IV, First Dominion Funding III and KC CLO I Limited (together, "the "Minority Lenders") filed an "*Application for Allowance and Payment of Super-Priority Administrative Expense Claim*" (the "Application"). Nexbank, SSB, as agent (the "Agent") for all lenders under that certain $370,000,000 Credit Agreement, dated as of March 31, 2004 (the "Credit Agreement"), joined in the Application on behalf of all lenders entitled to share in any recovery obtained on such Super-



Priority Claim, including those lenders under the Credit Agreement that are neither Minority Lenders nor are lenders affiliated with Highland Capital Management, L.P. (such lenders, holding approximately 4.79% of the outstanding indebtedness under the Credit Agreement, together with the Minority Lenders, the "Participating Lenders").

The Application was opposed by both the Chapter 11 Trustee as well as the Official Unsecured Creditors Committee. The Minority Lenders and Respondents have now reached a settlement of their controversies and in connection with the settlement **STIPULATE** and **AGREE** as follows[1]:

1. The Super-Priority Claim will be allowed in the amount of $2.2 million and paid to the counsel for the Minority Lenders and the Agent upon the entry of an order authorizing such payment. The attorney's fees and expenses of the Minority Lenders in the approximate amount of $1.4 million will first be reimbursed to the Minority Lenders from the $2.2 million fund and the balance will be shared among the Participating Lenders pro-rata according to the percentages of their holdings under the Credit Agreement. For the avoidance of doubt, Highland Capital Management L.P. and or its affiliates shall not share in any distributions pursuant to the settlement. The Agent and the Minority Lenders will jointly instruct the Chapter 11 Trustee as to the designated party to receive the $2.2 million payment with counsel to the Minority Lenders receiving all funds to be distributed to the Minority Lenders and the Agent receiving the funds to be distributed to the Participating Lenders who are not Minority Lenders.

2. Upon the execution of this Term Sheet by all required parties, the Trustee is authorized to take appropriate action in the bankruptcy court to pay the settlements of

[1] Although the Agent participated in negotiations relating to the settlement described herein, the Agent takes no position with respect to the approval of the settlement.

administrative expense claims filed by Thomas Kinkade Company, Meredith Corporation and Federal Express. The aggregate amount of the three settlements is approximately $ 301,050.00.

3. Any amounts which are recovered from objections to professional fees that are part of the Professional Fee Reserve established in prior cash collateral agreements shall be shared equally between the Participating Lenders and the Trustee, with the share of the Minority Lenders paid directly to their counsel. As part of this Agreement, the Minority Lenders have agreed to examine and possibly object to professional fees sought by professionals of this estate for the time period prior to March 31, 2009. Neither the Trustee nor the Debtors' estates shall be liable to reimburse the Agent or the Participating Lenders for any fees or expenses incurred in connection with any objection filed by the Agent or Participating Lenders to the allowance of fees and expenses of any professional on a final basis pursuant to 11 U.S.C. § 330. To the extent the Agent or Minority Lenders file and subsequently seek to compromise and settle such an objection, the Agent or Minority Lenders (as applicable) shall have no obligation to seek prior approval of any such settlement from the Trustee or the Committee, and may negotiate settlement terms with the applicable professional in their sole discretion. Notwithstanding the foregoing, any settlement of an objection brought by the Agent or the Minority Lenders to the fees of an estate professional must be approved by the Bankruptcy Court. Nothing contained herein limits the rights or obligations of the Trustee or Committee to also raise an objection to the fees requested by an estate professional and to seek a settlement approved by the Bankruptcy Court. Any amounts to be paid to the Agent or the Participating Lenders pursuant to Paragraph 3 will be paid upon the entry of final orders on each fee application of each professional and/or settlements for pre-March 31, 2009 periods.

4. After the Trustee has distributed the sum of $3.5 million to unsecured creditors holding claims other than the deficiency claims of the Agent, the Agent (on behalf of the

Participating Lenders) shall share in the pool of unsecured claims on a pro-rata basis with all other unsecured creditors with the share of the Minority Lenders paid directly to their counsel.

5. This Agreement supersedes any prior agreements or orders regarding the claims of the Participating Lenders against the jointly-administered estates.

Based upon the above stipulations and the full record of this case and after due deliberation and sufficient cause appearing therefore, it is hereby:

FOUND AND DETERMINED THAT:

A. Notice of the Application was provided in conformity with Bankruptcy Rules 2002. Sufficient notice of the Application was provided, and such notice was properly served on all required entities. No further notice of the Application or compromise is necessary. All objections to the Application have been resolved or overruled.

B. A reasonable opportunity to object to and be heard regarding the Application and proposed settlement has been afforded to all interested parties and entities.

C. The settlement is in the best interest of the estate and represents an exercise of the Trustee's reasonable business judgment.

D. The terms of the settlement set forth herein are fair and reasonable and the settlement was negotiated, proposed and accepted in good faith from arms-length bargaining positions.

E. The consideration to be provided pursuant to the terms of the settlement is adequate and fair value for the rights and claims compromised hereunder.

IT IS SO ORDERED.

END OF ORDER