IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re	:	Chapter 11
	:	
Handy Hardware Wholesale, Inc.,	:	Case No. 13-10060 (MFW)
	:	
Debtor.[1]	:	

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

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Dated: March 6, 2013
Wilmington, Delaware

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

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

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

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

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

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

THIS DISCLOSURE STATEMENT MAY CONTAIN "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. SUCH STATEMENTS CONSIST OF ANY STATEMENT OTHER THAN A RECITATION OF HISTORICAL FACT AND CAN BE IDENTIFIED BY THE USE OF FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY," "EXPECT," "ANTICIPATE," "ESTIMATE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. THE READER IS CAUTIONED THAT ALL FORWARD-LOOKING STATEMENTS ARE NECESSARILY SPECULATIVE AND THERE ARE CERTAIN RISKS AND UNCERTAINTIES THAT COULD CAUSE ACTUAL EVENTS OR RESULTS TO DIFFER MATERIALLY FROM THOSE REFERRED TO IN SUCH FORWARD-LOOKING STATEMENTS. THE

LIQUIDATION ANALYSIS, DISTRIBUTION PROJECTIONS AND OTHER INFORMATION CONTAINED HEREIN, ATTACHED HERETO AND CONTAINED IN THE PLAN SUPPLEMENT ARE ESTIMATES ONLY, AND THE TIMING AND AMOUNT OF ACTUAL DISTRIBUTIONS TO HOLDERS OF ALLOWED CLAIMS AGAINST THE DEBTOR MAY BE AFFECTED BY MANY FACTORS THAT CANNOT BE PREDICTED. THEREFORE, ANY ANALYSES, ESTIMATES OR RECOVERY PROJECTIONS MAY OR MAY NOT TURN OUT TO BE ACCURATE.

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

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

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

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

SUCH OTHER DOCUMENTS WILL GOVERN FOR ALL PURPOSES. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY THE DEBTOR, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE DEBTOR DOES NOT REPRESENT OR WARRANT THAT THE INFORMATION CONTAINED HEREIN OR ATTACHED HERETO IS WITHOUT ANY MATERIAL INACCURACY OR OMISSION.

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

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

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

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

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I. SUMMARY

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

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

A. Summary of the Plan

On March 6, 2013, the Debtor filed the Plan with the Bankruptcy Court. A copy of the Plan is annexed hereto as **Exhibit A**. The purpose of the Plan is to resolve all Claims and Equity Interests in the Debtor and reorganize the Debtor's business. The goal of the Plan is to enable the Debtor to right-size its operations, streamline its transportation service requirements, restructure its indebtedness to Capital One, National Association ("Capital One"), return to profitability, and emerge from chapter 11 with a new senior credit facility to be provided by Wells Fargo, National Association ("Wells Fargo") on the terms and conditions of its proposed Commitment Letter. The Plan contemplates or provides for, generally, the following:

- Payment in full, in Cash, of the unclassified claims: Allowed Administrative Claims (including Allowed Section 503(b)(9) Claims), Allowed Professional Fee Claims and Committee Expense Claims, Allowed DIP Facility Claims, and Allowed Priority Tax Claims.

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

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

  (i) if (and only if) Capital One votes to accept the Plan, the Capital One Secured Claim shall be Allowed in the amount to be agreed upon with Capital One, and Capital One shall receive on the Effective Date and be treated as follows, or as soon thereafter as practicable, in full and final satisfaction of the Allowed Capital One Secured Claim and in partial consideration for the release of its lien on the Houston Facility and the Retained Capital One Equipment: (a) with respect to the Meridian Facility, a deed in lieu of foreclosure including a transfer of the Meridian Facility and all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One, and a bill of sale respecting any Abandoned Capital One Equipment; (b) an assignment of the Site Lease pursuant to section 365 of the Bankruptcy Code; (c) a deed in lieu of foreclosure of the Houston Facility and of all Improvements thereto, in form and substance mutually satisfactory to the Debtor and Capital One; (d) the rights and benefits to

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

be provided pursuant to the Houston Facility Lease; (e) except as provided herein, Capital One shall release all of its Liens on the Debtor's assets (including, but not limited to, its second-priority security interest in the "Wells Fargo First Lien Collateral", as defined in the Final Financing Order and its first-priority security interests in the Retained Capital One Equipment and other assets located at the Houston Facility); and (f) in connection with this option, Capital One shall be required to deliver to Wells Fargo (i) an executed and acknowledged landlord's waiver and access agreement in form and substance acceptable to Wells Fargo with respect to the Houston Facility, and (ii) an executed and acknowledged Collateral Assignment of Lease with respect to the Houston Facility Lease, consenting to the assignment to Wells Fargo of such lease by the Debtor as collateral for the Wells Fargo Exit Facility; or

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

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

- Payment in full, in Cash, of the Class 3 Allowed Secured Tax Claims.

- Each holder of a Class 4 Allowed Other Secured Claim shall, at the Debtor's discretion: (i) have its Allowed Other Secured Claim reinstated and rendered Unimpaired in accordance with section 1124(2) of the Bankruptcy Code; (ii) receive Cash in an amount equal to the Allowed Amount of such Allowed Other Secured Claim, including any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code; or (iii) receive collateral securing its Allowed Other Secured Claim and any interest on such Allowed Other Secured Claim required to be paid pursuant to section 506(b) of the Bankruptcy Code.

- Payment in full, in Cash, of the Class 5 Allowed Non-Tax Priority Claims.

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

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

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

- Cancellation of all Class 9 Equity Interests.

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

B. Overview of Restructuring Transactions

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

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

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

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

(3) ***Transportation Services.*** The Debtor intends to restructure its transportation services agreement(s) to reduce overall transportation costs to the Debtor by: (i) reducing necessary equipment and associated fixed weekly costs; (ii) implementing better practices in route management; and (iii) working collaboratively with each transportation services provider to identify and implement additional savings opportunities.

(5) ***Reorganized Debtor Charter and the Reorganized Debtor Bylaws.*** The Debtor will adopt and file its Amended and Restated Certificate of Incorporation (the "Reorganized Debtor Charter") and its Third Amended and Restated Bylaws (the "Reorganized Debtor Bylaws"), both of which will be filed as part of the Plan Supplement.

(6) ***Board Selection.*** The Debtor will appoint a new board of directors (the "New Board"), the members of which will be disclosed in the Plan Supplement. On the Effective Date, the term of the current members of the board of directors of the Debtor shall expire or otherwise terminate, and the New Board shall be appointed. On and after the Effective Date, each director or officer of Reorganized Debtor shall serve pursuant to the terms of the Reorganized Debtor Charter and Reorganized Debtor Bylaws, or other constituent documents, and applicable state corporation law. The business and affairs of the Reorganized Debtor will be managed by or under the direction of the Board of Directors. As will be set forth in detail in the Reorganized Debtor By-Laws, and as summarized briefly below, the Board of Directors will consist of not less than nine (9) or more than twelve (12) members, which number may be determined from time to time by the Board of Directors in the manner provided in the Reorganized Debtor By-Laws to serve for terms as set forth in the Bylaws.

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

of a successor and be subject to such director's earlier death, resignation or removal. The powers and responsibilities of the New Board shall be set forth in the Reorganized Debtor Bylaws.

(8) ***Exit Facility.*** On the Effective Date, the Wells Fargo Secured Claim/DIP Facility Claim will be refinanced through an Exit Facility contemplated to be provided by Wells Fargo. The Exit Facility would be a secured revolving credit facility in the amount of approximately $30 million, secured by a first priority lien on and security interest in all of the Reorganized Debtor's assets.

(9) ***New Class A Common Stock.*** The Debtor's shares of Class A, Class B, and Class C Shares will be cancelled on the Effective Date. The Debtor will authorize and issue New Class A Common Stock. Members of the Debtor as of the Petition Date will have the right, but not the obligation, to become a Member of the Reorganized Debtor by purchasing 30 shares of New Class A Common Stock in the Reorganized Debtor (par value of $100 per share) for $3,000 (the "Purchase Price").[3] Affiliated entities *(i.e.,* under common ownership) will be considered a single Member and only be required to purchase 30 New Class A Shares, regardless of the number of stores. The Debtor anticipates the Members' purchase of shares of New Class A Common Stock will generate approximately $3 million which the Reorganized Debtor may use to fund its reorganization.

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

The Purchase Price is payable as follows at each Member's election: (i) $3,000 to be paid on or before May 6, 2013 (the "Election/Purchase Deadline") to be held in escrow by Donlin Recano & Company, Inc ("DRC" or "Solicitation Agent"), in its capacity as escrow agent (the "Escrow Agent"), until the Effective Date; **or** (ii) pay a minimum of $1,000 to be paid on or before the Election/Purchase Deadline to be held in escrow by DRC, in its capacity as Escrow Agent, until the Effective Date. The $2,000 balance of the Purchase Price will be paid **and** the Reorganized Debtor will finance the balance of the amounts owed by the Members for the

[3] The New Class A Common Stock is not transferable, except as provided in the Reorganized Debtor Bylaws. Any attempted transfer will be null and void. In addition, the New Class A Common Stock will be non-redeemable until one year after all payments required by the Plan have been made or provided for. At that time, New Class A Common Stock will be redeemable upon 60 days' prior written notice and payable, in the discretion of the Board of Directors of the Reorganized Debtor, in cash by the Reorganized Debtor or with cash and an unsecured note bearing 5% interest over three (3) years at the lesser of: (i) the par value; or (ii) the amount paid towards the Purchase Price at the time a redemption is requested. The Reorganized Debtor may suspend redemptions of New Class A Common Stock in the business judgment of the Board of Directors at any time based on the financial condition, financial needs of the Reorganized Debtor, or its availability under the Wells Fargo Exit Facility, or if redemption would result in a violation of applicable law.

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

remaining amount, with no interest (the "Deferred Purchase Price") due for the purchase of their New Class A Common Stock. In such case, the Deferred Purchase Price will be invoiced weekly and paid at the rate of 1.5% fee (the "Stock Purchase Payment") based on all warehouse purchases for such Member's stores for the applicable invoice period, commencing with the warehouse purchases on or after the Effective Date and continuing thereafter until paid in full, with any unpaid balance due and payable in full on the second anniversary of the Effective Date. The 1.5% Deferred Purchase Price charge shall be added to the individual Member's invoices for warehouse purchases and shall be payable in accordance with the payment terms of such invoice.[5]

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

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

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

b. The Wells Fargo Exit Loan Documents will provide that the Reorganized Debtor may make payments (the "Permitted Payments"), subject to the Permitted Payment Conditions (as defined below), of the 1.5% Deferred Purchase Price to the Subordinated Term Lender from time to time but not more frequently than weekly; provided, that each of the following conditions is satisfied: (i) there is no default or event of default under the Wells Fargo Exit Loan Documents; (ii) Reorganized Debtor has Excess Availability (as defined in the Wells Fargo Exit Facility Loan Documents) in an amount at least equal to 105% of the amount of the required Availability Block (as defined in the Wells Fargo Exit Facility Loan Documents) both immediately before and after giving effect to each payment to Subordinated Term Lender and any other payments of subordinated indebtedness contemplated to be paid on such date; and (iii) such payments shall be limited, as of any date, to an amount equal to the amount of Stock Purchase Payments

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

received by Reorganized Debtor and applied to the indebtedness under the Wells Fargo Exit Facility *less* all payments to Subordinated Term Lender funded by Wells Fargo (collectively, the "Permitted Payment Conditions"). To the extent any payments are deferred due to a lack of availability under the Wells Fargo Exit Facility, such payments may be "caught up" in subsequent months subject to the foregoing limits (*i.e.* excess availability, no defaults and receipt of a requisite level of Stock Purchase Payments).

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

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

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

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

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

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

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

C. Treatment of Claims and Equity Interests

THE FOLLOWING CHART IS A SUMMARY OF THE CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS AND THE POTENTIAL DISTRIBUTIONS UNDER THE PLAN. THE AMOUNTS SET FORTH BELOW ARE ESTIMATES ONLY. REFERENCE SHOULD BE MADE TO THE ENTIRE DISCLOSURE STATEMENT AND THE PLAN FOR A COMPLETE DESCRIPTION OF THE CLASSIFICATION AND TREATMENT OF CLAIMS AND EQUITY INTERESTS. THE RECOVERIES SET FORTH BELOW ARE PROJECTED RECOVERIES AND ARE THEREFORE SUBJECT TO CHANGE. THE ALLOWANCE OF CLAIMS AGAINST THE DEBTOR MAY BE SUBJECT TO LITIGATION OR OTHER ADJUSTMENTS, AND ACTUAL ALLOWED CLAIM AMOUNTS MAY DIFFER MATERIALLY FROM THESE ESTIMATED AMOUNTS.

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

Claim	Plan Treatment
Administrative Claims	Any request for allowance and payment of any Administrative Claim, other than a Professional Fee Claim, or 503(b)(9) Claim, accruing between the Administrative Claims Bar Date and the Effective Date, shall be filed no later than thirty (30) days after the Effective Date. Unless otherwise agreed to by the holder of an Allowed Administrative Claim and the Debtor or Reorganized Debtor, as applicable, each holder of an Allowed Administrative Claim (other than of a Professional Fee Claim), will receive in full and final satisfaction of its Administrative Claim an amount of Cash equal to the amount of such Allowed Administrative Claim either: (1) on the Effective Date, or as soon as practicable thereafter, (2) if the Administrative Claim is not Allowed as of the Effective Date, no later than 30 days after the date on which an order Allowing such Administrative Claim becomes a Final Order, or as soon as reasonably practicable thereafter, or (3) if the Allowed Administrative Claim is based on liabilities incurred by the Debtor in the ordinary course of their business after the Petition Date, pursuant to the terms and conditions of the particular transaction giving rise to such Allowed Administrative Claims, without any further action by the holder of such Allowed Administrative Claim.
Professional Fee Claims and Committee Expense Claims	All final requests for allowance and payment of Professional Fee Claims, Committee Expense Claims, claims for reimbursement of actual, necessary expenses or reasonable compensation pursuant to sections 503(b)(3) or (4) of the Bankruptcy Code, or otherwise seeking reimbursement of expenses or compensation from the Estate (except for Wells Fargo, as provided under the Final Financing Order) shall be filed no later than sixty (60) days after the Effective Date. After notice and a hearing in accordance with the procedures established by the Bankruptcy Code and any prior Bankruptcy Court orders, the Allowed amounts of such Professional Fee Claims and Committee Expense Claims shall be determined by the Bankruptcy Court. Subject to Section 2.2.2 and 2.2.3 of the Plan and the terms and conditions of the Final Financing Order, Allowed Professional Fee Claims and Allowed Committee Expense Claims shall be paid in Cash from the Professional Fee Escrow Account in an amount equal to the Allowed Amount of such Allowed Professional Fee Claim or Allowed Committee Expense Claim when such Claims are Allowed by a Final Order or as soon as practicable thereafter.
DIP Facility Claim	The holder of the DIP Facility Claim, which is a secured Administrative Claim, shall be entitled to all of the Liens, protections, benefits, and priorities which shall continue until the DIP Facility Claim is indefeasibly paid in full Cash from the proceeds of the Wells Fargo Exit Facility, which secured Allowed Administrative Claim, by reason of the Final Financing Order and the Confirmation Order, (a) shall be allowed and payable in its entirety, (b) includes principal, accrued but unpaid interest, and attorneys' fees, costs, and expenses through the date of the full and indefeasible payment in Cash of the DIP Facility Claim (subject to the terms and conditions in the Final Financing Order regarding attorneys' fees, costs, and expenses), and (c) is secured by the valid, unavoidable and perfected Liens and security interests granted under, or in connection with the DIP Credit Agreement (and loan documents related thereto) and authorized by the Final Financing Order. All sums owing with respect to, and all payments made in reduction of the DIP Facility Claim through the date of the full payment in Cash of the DIP Facility Claim shall be deemed indefeasibly paid in full in Cash on the closing and funding of the Wells Fargo Exit Facility on the Effective Date.

Priority Tax Claims	Each holder of an Allowed Priority Tax Claim due and payable on or before the Effective Date shall receive, at the Reorganized Debtor's option in its sole and absolute discretion (in consultation with the Creditors' Committee) one of the following treatments on account of such Claim (1) Cash in an amount equal to the amount of such Allowed Priority Tax Claim, (2) Cash in an amount agreed to by the Debtor or Reorganized Debtor, as applicable, and such holder, provided, however, that such parties may further agree for the payment of such Allowed Priority Tax Claim to occur at a later date, or (3) at the option of the Debtor, Cash in the aggregate amount of such Allowed Priority Tax Claim payable in installment payments over a period not more than five years after the Petition Date pursuant to section 1129(a)(9)(C) of the Bankruptcy Code. To the extent any Allowed Priority Tax Claim is not due and owing on the Effective Date, such Claim shall be paid in full in Cash in accordance with the terms of any agreement between the Debtor and the holder of such Claim, or as may be due and payable under applicable non-bankruptcy law or in the ordinary course of business.

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

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

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

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

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

Class	Claim	Plan Treatment	Status	Voting Rights	Estimated Recovery
		Effective Date for a 3-year period commencing on the first day following the last Business Day of the first full quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is a default or event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, or there is no Excess Availability for such payments, as may be fully described in the Plan Documents, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holder of the Capital One Unsecured Claim to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents.			
7	General Unsecured Claims	Holders of Allowed General Unsecured Claims in Class 7 shall receive, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed General Unsecured Claim, including interest at the appropriate contract rate, if applicable: (i) the Avoidance Action Release, and (ii) their Pro Rata share of the Net Cash Flow Available to Creditors each quarter following the Effective Date for a 3-year period commencing on the first day following the last Business Day of the first full quarter following the Effective Date (and continuing on the first day following each calendar quarter). Without limiting the foregoing, in the event that there is a default or event of default under the Wells Fargo Exit Facility Loan Documents, which default remains uncured by the Reorganized Debtor, or there is no Excess Availability for such payments, as may be fully described in the	Impaired	Entitled to Vote	6.8%

Class	Claim	Plan Treatment	Status	Voting Rights	Estimated Recovery
		Plan Documents, the Reorganized Debtor shall not be permitted or obligated to make up any further distributions of the Net Cash Flow Available to Creditors. The right of the holders of General Unsecured Claims in Class 7 to receive distributions under the Plan shall be subordinate to the payment of the Senior Debt pursuant to the Wells Fargo Exit Facility and the Wells Fargo Exit Facility Loan Documents.			
8	Con-venience Claims	Holders of Allowed Convenience Claims in Class 7 shall receive, in full and final satisfaction, settlement, release, and discharge of and in exchange for each and every Allowed Convenience Claim, within ninety days following the Effective Date, Cash in an amount equal to seventy-five percent (75%) of the Allowed Amount of such Allowed Convenience Claims.	Impaired	Entitled to Vote	75%
9	Equity Interests (Class A Shares, Class B Shares, and Class C Shares)	On the Effective Date, all Allowed Equity Interests will be cancelled. A Member will not receive any Distribution of any kind under the Plan on account of its Class A Shares or Class B Shares; provided however, that a Member may elect to become a member of the Reorganized Debtor by purchasing New Class A Common Stock in accordance with Article VI of the Plan.	Impaired	Deemed to Reject	None
10	Section 510(b) Claims	Holders of Allowed Section 510(b) Claims shall not receive any Distributions on account of such Allowed Section 510(b) Claims. On the Effective Date, all Allowed Section 510(b) Claims shall be discharged.	Impaired	Deemed to Reject	None

D. Releases

BY VOTING TO ACCEPT THE PLAN, YOU ARE ALSO VOTING TO ACCEPT THE RELEASES, AS SET FORTH IN ARTICLE X OF THE PLAN, BY YOU OF THE DEBTOR,

THE REORGANIZED DEBTOR, CURRENT AND FORMER OFFICERS AND DIRECTORS OF THE DEBTOR, THE DIP FACILITY LENDER, THE CREDITORS' COMMITTEE, AND EACH OF THEIR RESPECTIVE REPRESENTATIVES, ATTORNEYS, EMPLOYEES, AGENTS, OFFICERS, PARTNERS, MEMBERS, OR AFFILIATES.

E. Voting and Confirmation

The Record Date is April 9, 2013 at 4:00 p.m. The Record Date is the date on which the holders of Class 2, Class 4, Class 6, Class 7, and Class 8 Claims that are entitled to vote to accept or reject the Plan will be determined.

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

BALLOTS

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

If Sent by Mail:	**If Sent by Hand Delivery or Overnight Courier:**
Donlin, Recano & Company, Inc.	Donlin, Recano & Company, Inc.
Re: Handy Hardware Wholesale, Inc.	Re: Handy Hardware Wholesale, Inc.
P.O. Box 2054, Murray Hill Station	419 Park Avenue South, Suite 1206
New York, NY 10156	New York, NY 10016

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

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

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

F. Entities Entitled to Vote on the Plan

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

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

SUMMARY OF STATUS AND VOTING RIGHTS

Class	Claim	Status	Voting Rights
1	Wells Fargo Secured Claim	Unimpaired	Not Entitled to Vote; Deemed to Accept
2	Capital One Secured Claim	Impaired	Entitled to Vote
3	Secured Tax Claims	Unimpaired	Not Entitled to Vote; Deemed to Accept
4	Other Secured Claims	Impaired	Entitled to Vote
5	Non-Tax Priority Claims	Unimpaired	Not Entitled to Vote; Deemed to Accept

SUMMARY OF STATUS AND VOTING RIGHTS

Class	Claim	Status	Voting Rights
6	Capital One Unsecured Claim	Impaired	Entitled to Vote
7	General Unsecured Claims	Impaired	Entitled to Vote
8	Convenience Claims	Impaired	Entitled to Vote
9	Equity Interests (Class A Shares, Class B Shares, and Class C Shares)	Impaired	Not Entitled to Vote; Deemed to Reject
10	Section 510(b) Claims	Impaired	Not Entitled to Vote; Deemed to Reject

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

- The Debtor is **NOT** soliciting votes to accept or reject the Plan from holders of Claims against the Debtor in Class 1 (Wells Fargo Secured Claim), Class 3 (Secured Tax Claims), or Class 5 (Non-Tax Priority Claims), because those Classes, and the Claims of any holders in those Classes, are unimpaired under the Plan and are deemed to accept the Plan.

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

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

G. Solicitation Process

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

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

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

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

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

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

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

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

H. Confirmation Hearing

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

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

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

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

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

I. Consummation of the Plan

Following Confirmation of the Plan, the Plan will be consummated on the Effective Date, which will be a Business Day selected by the Debtor after the Confirmation Date on which (1)

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

II. BACKGROUND

A. Business Overview

1. The Debtor's Ownership Structure and Corporate Structure

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

In 2006, the Debtor's stockholders approved a recapitalization of the Debtor and its conversion to a Delaware corporation (the "Recap"). In furtherance of the Recap, the Debtor was re-incorporated as a Delaware corporation to operate on a cooperative or "co-op" basis under Subchapter T of the Internal Revenue Code. In connection with the Recap, the Debtor ceased being an SEC registered public reporting company, and the Debtor's outstanding preferred shares of stock were converted into shares of Class B common stock.

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

The Debtor's management team is guided by an elected board of directors (the "Board"). The Board currently consists of seven Members, and each Member is elected to serve a three-year term. In addition, on November 27, 2012, the Debtor formed a Member Advisory Committee composed of seven Members who do not hold a seat on the Board, for the purpose of providing the Members with additional visibility into the Board's decision-making process concerning the Debtor's restructuring. The Member Advisory Committee does not hold or exercise any decision-making authority, but rather is available to discuss issues germane to the operation of the Debtor's business with the Board. In addition, the Debtor's retail district managers regularly meet with Members in the field to ensure that the Debtor remains truly

responsive to its Members' needs. The Debtor also conducts two "Markets" every year, a Spring Market in late January or early February and a Fall Market usually around the middle of August. The Markets are essentially buying shows and allow the Members to purchase products at discount pricing and/or with extended payment terms. The Markets are routinely attended by as many as 650 Members and 750 vendors. The Markets are significant to the Debtor's business operations and are crucial to the Debtor's financial performance on an annual basis.

2. Debtor's Business

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

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

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

Members may also order products that are directly shipped to the Member from the Vendors, but invoiced through the Debtor (the "Drop Shipment Program"). The Drop Shipment Program allows a Member to order products directly from a Vendor, who then requests purchase order authorization from the Debtor. Upon the issuance of a purchase order by the Debtor, the Vendor ships the ordered items directly to the Member which placed the order. Simultaneously with the shipment of the order to the Member, the Vendor submits an invoice for payment to the Debtor which, in turn, invoices the Member for payment. Through the Drop Shipment Program,

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

the Member is still able to take advantage of better pricing, while also having an avenue for ordering inventory that the Debtor does not usually stock.

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

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

As of the Petition Date, the Debtor employed approximately 303 employees. The majority of the employees worked in the Debtor's Warehouse Facilities and included employees who pulled orders, stock inventory, perform quality control, load shipments, receive shipments and perform various other functions. The employees who work in the corporate office generally perform functions related to marketing and purchasing, information technology, accounting, human resources, sales, and retail development, as well as other management and/or clerical functions. The Debtor's corporate office is located in Houston, Texas.

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

The Debtor does not offer trucking services to its Members. Rather, the Debtor currently has trucking service contracts with Averitt Express, Inc. ("Averitt") and Trans Power Corp. ("Trans Power"). Currently, both Averitt and Trans Power transport goods to the Debtor's Houston Facility and deliver ordered merchandise from the Houston Facility to the Members. In addition, Trans Power is handling the transportation of the Debtor's inventory from the Meridian Facility to the Houston Facility as a result of the Debtor's closure of the Meridian Facility (as described more fully below).

3. The Debtor's Houston Facility and Meridian Facility

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

In 2009, to support anticipated future growth in the southeastern United States, the Debtor constructed the Meridian Facility, a second distribution center in Meridian, Mississippi. In connection with the decision to expand operations and construct the Meridian Facility, the Debtor entered into a Memorandum of Understanding (the "Meridian MOU") among the Debtor, Lauderdale County, Mississippi (the "County"), the City of Meridian, Mississippi (the "City"), East Mississippi Business Development Corporation ("EMBDC"), East Mississippi Electric Power Association ("EMEPA") and the Lauderdale County Economic Development District (the "District"). The Debtor was offered a variety of material economic incentives by the counter-parties to the Meridian MOU to encourage the acquisition, construction and equipping of the Meridian Facility. The land on which the Meridian Facility is located is owned by the District and leased to the Debtor pursuant to a Project Site Lease (the "Site Lease"), dated as of March 29, 2010.

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

B. The Debtor's Assets and Capital Structure

1. Assets

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

2. Capital Structure

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

a. Capital One and Financing the Meridian Facility

As mentioned above, the Debtor financed the construction of the Meridian Facility. Specifically, pursuant to a Trust Indenture (the "Indenture") between the Mississippi Business Finance Corporation (the "MBFC") and Whitney Bank (as successor-in-interest to Hancock Bank), as Indenture Trustee (the "Indenture Trustee"), dated as of January 1, 2010, the MBFC issued its Gulf Opportunity Zone Revenue Bond, Series 2010 (Handy Hardware Wholesale, Inc. Project) (the "Bond") in the maximum aggregate principal amount of Twenty Million Dollars ($20,000,000). The Bond was purchased by Capital One pursuant to the terms of a Bond

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

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

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

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

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

The Debtor's obligations under the Capital One Note, the Equipment Note, EMEPA Loan Agreement, the Repayment Agreement and the Swap are secured on a first and senior basis by various Deeds of Trust, Security Agreements and Assignment of Rents on the Meridian Facility and the Houston Facility, and certain related agreements. Specifically, the Debtor's obligations to Capital One (either directly or indirectly) are secured by: (i) a Leasehold Deed of Trust, Security Agreement and Assignment of Rents dated as of March 29, 2010 for the benefit of

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

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

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

b. The Wells Fargo Pre-Petition Credit Facility

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

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

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

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

c. The Intercreditor Agreement

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

4. Trade Debt

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

C. Pending Litigation

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

William J. Branton v. Cedric L. Greenwood, Handy Hardware Wholesale, Inc., et al., CV 30765. This is a personal injury case arising from a 2010 automobile accident allegedly involving a truck leased by the Debtor and operated by one of the Debtor's employees. The case is currently pending in the 266th Judicial District Court in Erath County, Texas against Cedric L. Greenwood, Penske Truck Leasing Co., L.P. d/b/a Texas Penske Truck Leasing Co., L.P., and the Debtor. Plaintiff's original complaint was filed on September 22, 2010. Plaintiff's Third Amended Complaint was filed on November 30, 2012. The complaint seeks actual and

exemplary damages. Pursuant to section 362 of the Bankruptcy Code, all further proceedings in this action have been stayed.

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

D. Events Leading To The Chapter 11 Case

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

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

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

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

As of December 20, 2012, all Member delivery routes had been re-routed to the Houston Facility. As of December 31, 2012, only $7 million of inventory remained at the Meridian Facility. The remaining inventory has been transferred from the Meridian Facility to the Houston Facility. The Debtor has also significantly reduced its team at the Meridian Facility. The closure of the Meridian Facility has substantially reduced labor costs, most significantly in

the supervisor and managerial levels, as well as in overhead costs related to the operation of that 460,000 foot facility.

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

The Debtor intends to utilize the bankruptcy process to continue its plan to right-size its operations, restructure its indebtedness to Capital One, and emerge from chapter 11 through a consensual plan of reorganization, while simultaneously providing the services to its Members which the Debtor has historically provided and timely meeting its post-petition obligations to its vendors and others. The Debtor hopes to emerge from chapter 11 positioned to return to its former self – a profitable Member-owned company, that is able to provide its Members with outstanding service and products. Through its efforts to improve efficiency and reduce operational costs, the Debtor projects it will achieve break-even operations by April 1, 2013.

III. THE CHAPTER 11 CASE

A. Overview of Chapter 11

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

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

Consummating a plan is the principal objective of a chapter 11 case. A bankruptcy court's confirmation of a plan binds the debtor, any entity acquiring property under the plan, any holder of a claim against or equity interest in the debtor and all other entities, as may be ordered by the bankruptcy court in accordance with the applicable provisions of the Bankruptcy Code, to the terms and conditions of the confirmed plan. Subject to certain limited exceptions, the order issued by the bankruptcy court confirming a plan provides for the treatment of claims and equity interests in accordance with the terms of the confirmed plan.

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

B. Initial Motions in the Chapter 11 Case

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

1. Applications to Retain Professionals

To assist the Debtor in carrying out its duties as debtor-in-possession and to represent the Debtor in this Chapter 11 Case, the Debtor retained Ashby & Geddes, P.A. as bankruptcy counsel. The Bankruptcy Court approved the retention of Ashby & Geddes on February 4, 2013 effective as of the Petition Date. [Docket No. 132] In order to assist the Bankruptcy Court and the Debtor with the potential administrative burdens associated with the Chapter 11 Case, the Debtor retained DRC as their claims and noticing agent [Docket No. 29]. The Debtor also retained MCA Financial Group, Ltd. as its financial advisor [Docket No. 128]. The Debtor intends to file an application seeking to retain DRC as its Solicitation Agent.

2. First Day Relief

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

3. The DIP Credit Facility

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

Intercreditor Agreement. The proceeds of the DIP Credit Facility were used for working capital purposes during the Chapter 11 Case.

4. Appointment of the Committees

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

Members' Committee. On March 1, 2013, the U.S. Trustee appointed the Official Committee of Equity Holders (the "Members' Committee") [Docket No. 227]. The Members' Committee is comprised of the following: Guadalupe Lumber Co., Inc.; P&H Builders Supply, Inc.; T.H. Rogers Lumber Co.; Coastal Hardware, LLC; and Powers Holdings, Inc. As of the date of the filing of this Disclosure Statement the Members' Committee has not yet retained counsel. The Debtor intends to consult with the Members' Committee on a regular basis concerning all aspects of the Chapter 11 Case, including the Plan.

C. Disposition of Assets

1. Closing Of Meridian Facility

Prior to the Petition Date, the Debtor's management performed an in-depth analysis of the Debtor's financial performance and determined that the increased operational costs and debt service attendant to the Meridian Facility required the Debtor to close the Meridian Facility and migrate the inventory and customer services then serviced out of the Meridian Facility to the Houston Facility.

As of December 20, 2012, all Member delivery routes had been re-routed to the Houston Facility. As of February 28, 2013, the Debtor had vacated the Meridian Facility and transferred all remaining inventory and equipment to the Houston Facility (with the exception of 10 reach trucks, certain conveyor system, racks, and fixtures). The Meridian Facility was locked, alarmed, and vacated, and insurance on the building remains in place. Elimination of all other costs associated with the Meridian Facility will assist the Debtor's efforts to return to profitability.

2. Transportation Services Agreements

Critical to the Debtor's business success is the timely, reliable, and cost-effective shipment of products to Members. The Debtor intends to seek modifications to its transportation services agreement(s) to reduce overall transportation costs to the Debtor by: (i) reducing necessary equipment and associated fixed weekly costs; (ii) implementing better practices in

route management; and (iii) working collaboratively with each transportation services provider to identify and implement additional savings opportunities. Such modifications will enable the Debtor to satisfy the transportation needs imposed by its business model on terms more favorable to the Debtor. The Debtor anticipates that the modifications to the transportation services agreement(s) will provide a large cost-savings benefit the Debtor's estate and business going forward.

3. Other Executory Contracts

In connection with the closing of the Meridian Facility, the Debtor has taken steps to reject certain unnecessary executory contracts. Specifically, through the *Omnibus Motion of the Debtor for Entry of an Order Authorizing the Rejection of Certain Executory Contracts* [Docket No. 167], the Debtor sought authority from the Bankruptcy Court to reject contracts with AT&T Corp., Securitas Security Services USA, Inc., Insight Group, Cintas, Vendworks LLC, Enmon Enterprises LLC d/b/a Jani-King of Southeast Mississippi, and ServiceMaster Professional Services. On February 28, 2013, the Bankruptcy Court entered an Order granting the relief [Docket No. 219]. The Debtor's rejection of these contracts will help to reduce the Debtor's operating costs.

4. Sale of *De Minimis* Assets

As part of the Debtor's closing of the Meridian Facility, and migration of inventory and customer service to the Houston Facility, the Debtor has sought authority from the Bankruptcy Court to sell certain *de minimis* assets from the Meridian Facility that the Debtor no longer needs, including wireless access point switches, security cameras, and other devices, to a re-seller of such items. See *Debtor's Motion for Entry of an Order Approving Procedures Pursuant to Bankruptcy Code Sections 105(a) and 363 and Federal Rule of Bankruptcy Procedure 6004, for the Sale of Certain De Minimis Assets Free and Clear of Liens, Claims and Encumbrances* [Docket No.196]. To the extent the Debtor's request is approved by the Bankruptcy Court, sale proceeds generated from *de minimis* assets will also assist the Debtor in its reorganization efforts.

D. Claims Administration

1. The Bar Date Order

The Debtor filed its Schedules of Assets and Liabilities (the "Schedules") on January 18, 2013 [Docket No. 59] and its Statement of Financial Affairs on January 24, 2013 [Docket No. 69]. The Debtor also filed certain Amended Schedules E & G on February 8, 2013 [Docket No. 159].

On February 4, 2013, the Bankruptcy Court entered an Order (the "Bar Date Order") (i) setting March 15, 2013 at 5:00 p.m. (prevailing Eastern Time) as the general bar date for filing proofs of claim with respect to claims arising prior to the Petition Date, including 503(b)(9) claims (the "General Bar Date"), (ii) setting July 10, 2013 at 5:00 p.m. (prevailing Eastern Time) as the governmental bar date (the "Governmental Bar Date", and together with the General Bar

Date, the "Bar Dates"), and (iii) approving the form of notice (the "Bar Date Notice") [Docket No. 133].

In accordance with the Bar Date Order, the Debtor published an abridged form of the Bar Date Notice in the following publications, informing unknown creditors of the Bar Dates to file proofs of claim for claims arising prior to the Petition Date: *The Wall Street Journal* on February 8, 2013 [Docket No. 177]; *The Meridian Star* on February 13, 2013 [Docket No. 206]; and the *Houston Chronicle* on February 14, 2013 [Docket No. 203].

2. The Reclamation Procedures Order

On February 4, 2013, the Bankruptcy Court entered an Order (i) establishing procedures for the resolution and payment of reclamation demands, (ii) authorizing the Debtor to return goods, and (iii) prohibiting interference with delivery of goods [Docket No. 131] (the "Reclamation Procedures Order"). Pursuant to the Reclamation Procedures Order, any vendor wishing to assert a right of reclamation must satisfy all procedural and timing requirements under applicable state and federal law, establish that it has satisfied all legal elements entitling it to a right of reclamation, and deliver a copy of the written reclamation demand to the Debtor and certain other notice parties, including the Committee. In accordance with the Reclamation Procedures Order, the Debtor is required to file a notice, not later than 90 days after the Petition Date, listing each Reclamation demand and the amounts, if any, that the Debtor has determined to be valid. The Reclamation Procedures Order further provides for a 20-day objection deadline with respect to the notice, procedures for noticing and stipulating any settlement of the Reclamation Claim, and procedures for seeking a Bankruptcy Court determination of the Reclamation Claim in the event that no settlement is reached.

3. The Administrative Bar Date Order

The Debtor intends to file a motion to set an Administrative Claims Bar Date, which will request that the Bankruptcy Court set a deadline by which any holder of an Administrative Claim, other than 503(b)(9) Claims and Professional Fee Claims, that arose on or after the Petition Date through May 15, 2013, must file with the Bankruptcy Court a written request for allowance and payment of such Administrative Claim.

IV. SUMMARY OF THE PLAN

The following is a general overview of the Plan and certain provisions of the Plan. This overview has been prepared to describe the Plan and some of its more pertinent provisions in basic terms. The Debtor does not offer it as a comprehensive analysis of the Plan, which is a complicated legal document. If it is important to you to understand every nuance of the Plan as a complicated and precise legal contract, you are urged to read the Plan in its entirety and to consult with legal counsel to understand the Plan fully. A copy of the Plan accompanies this Disclosure Statement as **Exhibit A**.

A. Brief Explanation of Chapter 11 Reorganization

Chapter 11 of the Bankruptcy Code is the principal reorganization chapter of the

Bankruptcy Code. Under Chapter 11, a debtor is authorized to reorganize its business for the benefit of itself and its creditors and shareholders. Confirmation of a plan of reorganization is the principal objective of a Chapter 11 case.

In general, a Chapter 11 plan of reorganization (a) divides claims and equity interests into separate classes, (b) specifies the property that each class is to receive under the plan, and (c) contains other provisions necessary to the reorganization of the debtor. A Chapter 11 plan may specify that certain classes of claims are to be paid in full upon the effective date of the plan, reinstated, or their legal, equitable and contractual rights are to remain unchanged by the reorganization effectuated by the plan. Such classes are referred to under the Bankruptcy Code as "unimpaired" and, because of such favorable treatment, are deemed to accept the plan. Accordingly, it is not necessary to solicit votes from the holders of claims or equity interests in such classes. A Chapter 11 plan also may specify that certain classes will not receive any distribution of property. Such classes are deemed to reject the plan, and it is not necessary to solicit votes from such classes.

All other classes of claims and equity interests contain "impaired" claims and equity interests entitled to vote on the plan. As a condition to confirmation, the Bankruptcy Code generally requires that each impaired class of claims or equity interests votes to accept a plan. Acceptances must be received (a) from the holders of claims constituting at least two-thirds in dollar amount and more than one-half in number of the allowed claims in each impaired class of claims that have voted to accept or reject the plan, and (b) from the holders of at least two-thirds in amount of the allowed equity interests in each impaired class of equity interest that have voted to accept or reject the plan. If any class or classes of claims or equity interests entitled to vote with respect to the plan rejects the plan, upon request of the Debtor, the Bankruptcy Court may nevertheless confirm the plan if certain minimum treatment standards are met with respect to such class or classes.

Chapter 11 of the Bankruptcy Code does not require each holder of a claim or equity interest to vote in favor of a plan of reorganization in order for the Bankruptcy Court to confirm the plan. However, the Bankruptcy Court must find that the plan of reorganization meets a number of statutory tests (other than the voting requirements described in this section) before it may confirm, or approve, the plan of reorganization. Many of these tests are designed to protect the interests of holders of claims or equity interests that do not vote to accept the plan of reorganization, but which will nonetheless be bound by the plan's provisions if it is confirmed by the Bankruptcy Court.

B. Acceptance or Rejection of the Plan

1. Voting Classes

Holders of Claims in each Impaired Class of Claims are entitled to vote as a class to accept or reject the Plan, and, accordingly, each holder of a Claim in Class 2, Class 4, Class 6, Class 7, and Class 8 shall be entitled to vote to accept or reject the Plan. Classes 9 and 10 are deemed to reject the Plan because Claims and Equity Interests in those Classes will receive no Distribution on account of their Equity Interests or Claims.

2. Acceptance by Impaired Classes

An Impaired Class of Claims shall be deemed to have accepted the Plan if (a) the holders (other than any holder designated under Section 1126(e) of the Bankruptcy Code) of at least two-thirds in amount of the Claims actually voting in such Class have voted to accept the Plan and (b) the holders (other than any holder designated under Section 1126(e) of the Bankruptcy Code) of more than one-half in number of the Claims actually voting in such Class have voted to accept the Plan.

3. Presumed Acceptance of the Plan

Class 1, Class 3, and Class 5 are Unimpaired under the Plan, and, therefore, are conclusively presumed to have accepted the Plan pursuant to Section 1126(f) of the Bankruptcy Code.

4. Non-Consensual Confirmation

To the extent that any Impaired Class rejects the Plan or is deemed to have rejected the Plan, the Debtor requests confirmation of the Plan under Section 1129(b) of the Bankruptcy Code. The Debtor reserves the right to alter, amend, modify, revoke or withdraw the Plan or any document in the Plan Supplement, including to amend or modify it to satisfy the requirements of Section 1129(b) of the Bankruptcy Code, if necessary.

V. PROVISIONS FOR IMPLEMENTATION OF THE PLAN

A. General Settlement of Claims

Pursuant to section 1123 of the Bankruptcy Code and Bankruptcy Rule 9019, and in consideration for the Wells Fargo Exit Facility, the New Class A Common Stock, Distributions, releases, and other benefits provided under the Plan, on the Effective Date, the provisions of the Plan shall constitute a good-faith compromise and settlement of all Claims and Equity Interests and controversies resolved pursuant to the Plan.

B. Means of Funding Plan Obligations

Funds to be used to make Distributions under the Plan have been or will be generated from (i) Net Cash Flow Available to Creditors; (ii) the Wells Fargo Exit Financing; and (iii) the net proceeds from any Causes of Action not otherwise released pursuant to the Plan, provided, however, that upon payment of all Distributions required by the Plan, all remaining net proceeds of any Causes of Action shall accrue to the benefit of the Reorganized Debtor.

C. Subordination

The classification and treatment of all Claims and Equity Interests under the Plan shall conform to and with the respective contractual, legal, and equitable subordination rights of such Claims and Equity Interests, and any such rights shall be settled, compromised, and released pursuant to the Plan.

D. Vesting of Assets in the Reorganized Debtor

Except as otherwise provided in the Plan, the Wells Fargo Exit Facility Loan Documents, or any agreement, instrument, or other document incorporated in the Plan, on the Effective Date, all property in the Estate, all Causes of Action, and any property acquired by the Debtor pursuant to the Plan shall vest in the Reorganized Debtor, free and clear of all Liens, Claims, charges, or other encumbrances. All Wells Fargo Avoidance Actions vesting in the Reorganized Debtor shall be subject to the Allowed Secured Claims and Liens of Wells Fargo under and in accordance with the Wells Fargo Exit Facility. On and after the Effective Date, except as otherwise provided in the Plan, the Reorganized Debtor may operate its business and may use, acquire, or dispose of property without supervision or approval by the Bankruptcy Court and free of any restrictions of the Bankruptcy Code or Bankruptcy Rules; provided, however, the settlement of any Claims or any Causes of Action shall be subject to Bankruptcy Court jurisdiction.

E. Cancellation of Notes, Instruments, Certificates and Other Documents

On the Effective Date, except to the extent otherwise provided in the Plan, all notes, instruments, Certificates, indentures and other documents evidencing Claims or Equity Interests shall be cancelled and the obligations of the Debtor or Reorganized Debtor thereunder or in any way related thereto shall be discharged; provided, however, that notwithstanding Confirmation or the occurrence of the Effective Date, any indenture or agreement that governs the rights of Capital One to receive payment on the Capital One Claim shall continue in effect solely for purposes of allowing Capital One to receive Distributions under the Plan.

F. Post-Confirmation Property Sales

To the extent the Debtor or Reorganized Debtor, as applicable, purchase or sell any property prior to or including the date that is one year after the Confirmation Date, the Debtor or Reorganized Debtor, as applicable, may elect to purchase or sell such property pursuant to sections 363, 1123(a)(5)(D), 1141(c), and 1146(a) of the Bankruptcy Code.

G. Corporate Action

Each of the matters provided for Consummation of the Plan involving the corporate structure of the Debtor or corporate or related actions to be taken by or required of the Debtor or the Reorganized Debtor, whether taken prior to or as of the Effective Date, or otherwise, shall be authorized without the need for any further corporate action or without any further action by the Debtor or the Reorganized Debtor, as applicable. Such actions shall include, but not necessarily be limited to: (1) the adoption and filing of the Reorganized Debtor Charter and Reorganized Debtor Bylaws, (2) the appointment of the New Board, (3) the authorization, issuance and Distribution of the New Class A Shares, (4) the formation of the Subordinated Term Lender, and (5) the consummation and implementation of the Wells Fargo Exit Financing.

H. Certificate of Incorporation and Bylaws

On the Effective Date, the Reorganized Debtor shall be deemed to have adopted the Reorganized Debtor Charter and the Reorganized Debtor Bylaws. The form of Reorganized

Debtor Charter and Reorganized Debtor Bylaws shall be substantially in the form filed with the Plan Supplement. The Reorganized Debtor Charter will, among other things, (1) authorize the issuance of the shares of New Class A Common Stock; (2) pursuant to and only to the extent required by section 1123(a)(6) of the Bankruptcy Code, include a provision prohibiting the issuance of non-voting Equity Securities; and (3) provide for the appointment of a nine (9) member "staggered" board of directors, each of which shall be appointed for a three (3) year term (such that three (3) new directors are elected each year). The Reorganized Debtor Bylaws shall, among other things, address the matters on which Members owning shares of New Class A Common Stock shall be entitled to vote including, but not limited to, the members of the board of directors of the Reorganized Debtor.

After the Effective Date, the Reorganized Debtor may, subject to the Reorganized Debtor Charter and Reorganized Debtor Bylaws, amend and restate its certificate of incorporation and other constituent documents as permitted by the applicable law.

I. Effectuating Documents, Further Transactions

On and after the Effective Date, the Reorganized Debtor shall be authorized to and may issue, execute, deliver, file, or record such contracts, instruments, releases, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate, implement, and further evidence the terms and conditions of the Plan, the Wells Fargo Exit Facility Loan Documents, and the New Class A Common Stock issued pursuant to the Plan in the name of and on behalf of the Reorganized Debtor, without the need for any approvals, authorizations, or consents except for those expressly required pursuant to the Plan.

J. Section 1146(a) Exemption

Pursuant to section 1146(a) of the Bankruptcy Code, any transfers of property pursuant to the Plan shall not be subject to any document recording tax, stamp tax, conveyance fee, intangibles or similar tax, mortgage tax, stamp act, real estate transfer tax, mortgage recording tax, or other similar tax or governmental assessment, and upon entry of the Confirmation Order, the appropriate state or local governmental officials or agents shall forgo the collection of any such tax or governmental assessment and accept for filing and recordation any of the foregoing instruments or other documents without the payment of any such tax, recordation fee, or governmental assessment.

K. Directors and Officers of Reorganized Debtor

On the Effective Date, the term of the current members of the board of directors of the Debtor shall expire or otherwise terminate, and the New Board shall be appointed. On and after the Effective Date, each director or officer of Reorganized Debtor shall serve pursuant to the terms of the Reorganized Debtor Charter and Reorganized Debtor Bylaws, or other constituent documents, and applicable state corporation law.

L. Preservation of Causes of Action

Other than any Causes of Action expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Final Order, in accordance with section 1123(b) of the Bankruptcy Code, the Reorganized Debtor shall retain and may enforce all rights to commence

and pursue, as appropriate, any and all Causes of Action, whether arising before or after the Petition Date, including any actions specifically enumerated in the Plan Supplement, and the Reorganized Debtor's rights to commence, prosecute, or settle such Causes of Action shall be preserved notwithstanding the occurrence of the Effective Date. The Reorganized Debtor may pursue such Causes of Action, as appropriate, in accordance with the best interests of the Reorganized Debtor. No Entity may rely on the absence of a specific reference in the Plan, the Plan Supplement, or the Disclosure Statement to any Causes of Action against them as any indication that the Debtor or the Reorganized Debtor will not pursue any and all available Causes of Action against them. The Debtor and the Reorganized Debtor expressly reserve all rights to prosecute any and all Causes of Action against any Entity, except as otherwise expressly provided in the Plan. Unless any Causes of Action against an Entity are expressly waived, relinquished, exculpated, released, compromised, or settled in the Plan or a Bankruptcy Court order, the Reorganized Debtor expressly reserves all Causes of Action, for later adjudication, and, therefore no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable or otherwise), or laches, shall apply to such Causes of Action upon, after, or as a consequence of the Confirmation or Consummation.

The Reorganized Debtor reserves and shall retain the Causes of Action notwithstanding the rejection of any Executory Contract or Unexpired Lease during the Chapter 11 Case or pursuant to the Plan. In accordance with section 1123(b)(3) of the Bankruptcy Code, any Causes of Action that the Debtor may hold against any Entity shall vest in the Reorganized Debtor unless expressly released under the Plan. The Reorganized Debtor, through its authorized agents or representatives, shall retain and may exclusively enforce any and all such Causes of Action. The Reorganized Debtor shall have the exclusive right, authority, and discretion to determine and to initiate, file, prosecute, enforce, abandon, settle, compromise, release, withdraw, or litigate to judgment any such Causes of Action and to decline to do any of the foregoing without the consent or approval of any third party or any further notice to or action, order, or approval of the Bankruptcy Court.

M. Avoidance Action Release and Wells Fargo Release.

Subject to the Creditors' Committee affirmatively supporting confirmation of the Plan, the Debtor and the Reorganized Debtor will not pursue Avoidance Actions against any individual or Entity that is a holder of an Allowed General Unsecured Claim in Class 7 or Class 8 of the Plan, in such capacity, and that (w) is not listed on an Exhibit to the Plan Supplement (the "Excluded Parties") (x) is not an Insider, (y) affirmatively votes in favor of confirmation of the Plan, and (z) agrees to continue supplying goods and services to the Reorganized Debtor on reasonable credit terms for a reasonable period of time following the Effective Date.

The Wells Fargo Release shall be effective from and after the Effective Date. Effective as of the Effective Date, to the extent not previously released and discharged under the terms of the Final Financing Order, all causes of action and the right to assert a Challenge Action against Wells Fargo (or its collateral) contained in the Final Financing Order or the DIP Credit Facility are waived and barred. Nothing contained herein shall waive or release any right to enforce the terms of the Plan or any rights or obligations under the Wells Fargo Exit Facility.

N. Restructuring Transactions

On or after the Effective Date, the Debtor or the Reorganized Debtor shall be authorized to enter into such transactions and take such actions as may be necessary or appropriate to effect Consummation, including, without limitation: (i) the transactions contemplated by the Plan; (ii) the issuance and distribution of the New Class A Common Stock; (iii) the execution and delivery of appropriate agreements or other documents containing terms that are consistent with the terms of the Plan and that satisfy the requirements of applicable law and any other terms to which the relevant entities may agree; (iv) the execution and delivery of appropriate instruments of transfer, assignment, assumption, or delegation of any asset, property, right, liability, debt, or obligation on terms consistent with the terms of the Plan and having other terms for which the applicable parties agree; (v) pledging, granting of liens or security interests over, assuming or guarantying obligations or taking such similar actions as may be necessary to preserve the rights and collateral interests of the secured creditors of the Debtor at all times prior to the effectiveness and consummation of the Plan; (vi) opening a segregated bank account in which the Debtor shall deposit the Professional Fee Reserve Amount which funds may not be disbursed absent Order of the Bankruptcy Court; and (vii) such other actions that the Debtor or the Reorganized Debtor determine to be necessary or appropriate, including making filings or recordings that may be required by applicable law.

Until the occurrence of the Effective Date, all of the assets transferred to the Reorganized Debtor shall be subject to the Liens securing the DIP Credit Facility and the Wells Fargo Secured Claim. In accordance with section 2.3 of the Plan, the DIP Facility Claim and the Wells Fargo Secured Claim shall be indefeasibly paid in full in Cash from the proceeds of the Wells Fargo Exit Facility or otherwise.

On the Effective Date, the Reorganized Debtor shall consummate the Wells Fargo Exit Facility, including, without limitation, the granting to Wells Fargo of a first-priority Lien on all assets of the Reorganized Debtor, which Liens shall be perfected through the Confirmation Order without the need for Wells Fargo to take any other or further action, or file or record any notices or statements, subject only to the Liens securing Allowed Secured Tax Claims and, if Capital One shall reject the Plan, the Capital One Secured Claim (subject to the continuation of the Intercreditor Agreement in full force and effect).

O. Post-Effective Date Financing

On the Effective Date, without any requirement or further action, the Reorganized Debtor shall be authorized to enter into: (1) the Wells Fargo Exit Facility, as well as any documents or agreements in connection therewith, including without limitation, any document necessary or appropriate in connection with the creation or further notice of perfection of liens securing the Reorganized Debtor's obligations under the Wells Fargo Exit Facility; and (2) the Subordinated Term Note, as well as any and all documents or agreements necessary or appropriate in connection therewith. The Confirmation Order shall specifically approve the Wells Fargo Exit Facility (including the transactions contemplated thereby and all actions to be taken and payment of all fees, indemnities, and expenses provided for therein) and grant authorization for the Reorganized Debtor to enter into and execute the Wells Fargo Exit Facility Loan Documents.

The Reorganized Debtor may use the Wells Fargo Exit Facility for any purpose permitted thereunder, including the funding of obligations under the Plan and its working capital.

P. Corporate Existence As A Cooperative

From and after the Effective Date, the Reorganized Debtor shall continue to exist under applicable state law and shall be operated on a cooperative basis under Subchapter T of the Internal Revenue Code for the purpose of engaging in any lawful act, activity and/or business for which corporations may be organized under applicable state law.

Q. Tax Reporting Matters

All parties (including the Reorganized Debtor and holders of Claims and Equity Interests) shall report for all federal income tax purposes in a manner consistent with the Plan.

VI. PURCHASE OF SHARES OF NEW CLASS A COMMON STOCK

A. New Class A Common Stock

The issuance of the New Class A Common Stock by the Reorganized Debtor shall be authorized without the need for any further corporate action or without any further action by the Debtor or Reorganized Debtor, as applicable. Pursuant to the Plan, the Reorganized Debtor shall be authorized to issue, and shall be deemed to have distributed on the Effective Date, the New Class A Common Stock to the New Handy Members.

B. Procedures for Purchasing New Class A Common Stock.

The Debtor will deliver an Election Form to each Member in accordance with the procedures approved by the Bankruptcy Court and which shall be set forth in the Solicitation Procedures Order. Each Member shall have the right, but not the obligation, to purchase 30 shares of New Class A Common Stock. A Member may purchase 30 shares of New Class A Common Stock by payment of the Purchase Price. The Purchase Price is payable as follows at each Member's election: (i) $3,000 to be paid on or before the Election/Purchase Deadline to be held in escrow by DRC, in its capacity as escrow agent (the "Escrow Agent"), until the Effective Date; **or** (ii) $1,000 to be paid on or before the Election/Purchase Deadline to be held in escrow by DRC, in its capacity as Escrow Agent, until the Effective Date **and** $2,000 to be paid over two years from the Effective Date, which Deferred Purchase Price amount shall be paid at the rate of 1.5% of all warehouse purchases for all of such individual Member's stores, commencing with the warehouse purchases on or after the Effective Date and continuing thereafter until paid in full, with any unpaid balance due and payable in full on the second anniversary of the Effective Date. The 1.5% Deferred Purchase Price charge shall be added to the individual Member's invoices for warehouse purchases and shall be payable in accordance with the payment terms of the invoice.

Any Member who wishes to purchase New Class A Common Stock must, in accordance with the terms set forth in the Notice of New Class A Common Stock Offering and Election Form, complete and return an Election Form along with the Purchase Price by the Election

Purchase Deadline. The Debtor may elect to extend the Election Purchase Deadline in its sole and absolute discretion. From and after the Effective Date, the Reorganized Debtor may implement such procedures as the New Board deems appropriate to enable the Reorganized Debtor to attract new Members.

C. Formation of Subordinated Term Lender

On or about the Effective Date, if and to the extent that the aggregate amount of cash received by the Debtor or Reorganized Debtor, as the case may be, on account of the issuance of the New Class A Common Stock to Members is less than $3 million, the Reorganized Debtor shall issue to the Subordinated Term Lender the Subordinated Term Note in an amount equal to, but not less than, the difference between $3 million and the amount of cash received on account of the New Class A Common Stock the Subordinated Term Note shall be subject to the Subordination Agreement. Interest on the Subordinated Term Note shall accrue at the rate of 7.0% per annum and shall be subject to the prior payment of all Distributions required under the Plan. Any New Handy Member that is an Accredited Investor (as that term is defined in the Securities Act) will be afforded the opportunity to subscribe to an interest in the Subordinated Term Lender. The proceeds from the purchase of membership interests in Subordinated Term Lender will be used to temporarily finance the gap between the funds received by the Reorganized Debtor on the Effective Date from the sale of New Class A Common Stock and $3 million. The Term Loan shall be repaid primarily from the proceeds received by the Reorganized Debtor from New Handy Members from the 1.5% Stock Purchase Price on warehouse sales charged on New Handy Member invoices during the two year period following the Effective Date.

Reorganized Handy shall use the funds raised through the issuance of the New Class A Common Stock to fund operations from and after the Effective Date.

D. Transfer Restriction

The New Class A Common Stock is not transferable except as provided in the Reorganized Debtor Bylaws. Any attempted transfer is null and void and the Reorganized Debtor will not treat any purported transferee as the holder of any New Class A Common Stock. The New Class A Common Stock shall not be listed or quoted on any public or over-the-counter securities exchange or quotation system.

E. Registration Exemptions

The offering, issuance, and Distribution of the New Class A Common Stock pursuant to the Plan and any and all settlement agreements incorporated therein will be exempt from the registration requirements of section 5 of the Securities Act pursuant to section 1145 of the Bankruptcy Code, section 4(2) of the Securities Act, or any other available exemption from registration under the Securities Act, as applicable.

VII. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Rejection of Executory Contracts and Unexpired Leases

Except as otherwise provided herein, each Executory Contract and Unexpired Lease shall be deemed automatically rejected pursuant to sections 365 and 1123 of the Bankruptcy Code as of the Effective Date, unless any such Executory Contract or Unexpired Lease: (1) is listed on the schedule of "Assumed Executory Contracts and Unexpired Leases" in the Plan Supplement; (2) has been previously assumed by the Debtor by Final Order or has been assumed by the Debtor by order of the Bankruptcy Court as of the Effective Date, which order becomes a Final Order after the Effective Date; (3) is the subject of a motion to assume or reject pending as of the Effective Date; or (4) is otherwise assumed pursuant to the Plan.

The Confirmation Order will constitute an order of the Bankruptcy Court approving such rejections pursuant to sections 365 and 1123 of the Bankruptcy Code as of the Effective Date. Counterparties to Executory Contracts or Unexpired Leases that are deemed rejected as of the Effective Date shall have the right to assert any Claim on account of the rejection of such Executory Contracts or Unexpired Leases, including under section 502(g) of the Bankruptcy Code, subject to compliance with the requirements herein.

Unless otherwise provided by a Bankruptcy Court order, any Proofs of Claim asserting Claims arising from the rejection of the Executory Contracts and Unexpired Leases pursuant to the Plan must be filed with the Claims and Solicitation Agent no later than 30 days after the later of the Effective Date or the effective date of rejection. Any Proofs of Claim arising from the rejection of the Executory Contracts or Unexpired Leases that are not timely filed shall be disallowed automatically and forever barred, estopped, and enjoined from assertion and shall not be enforceable against the Reorganized Debtor, without the need for any objection by the Reorganized Debtor or any further notice to or action, order, or approval of the Bankruptcy Court, and any Claim arising out of the rejection of the Executory Contract or Unexpired Lease shall be deemed fully satisfied, released, and discharged, notwithstanding anything in the Schedules or a Proof of Claim to the contrary. All Allowed Claims arising from the rejection of the Executory Contracts and Unexpired Leases shall be classified as General Unsecured Claims against the Debtor.

B. Assumption of Executory Contracts and Unexpired Leases

On the Effective Date, the Reorganized Debtor shall assume all of the Executory Contracts and Unexpired Leases listed on the schedule of "Assumed Executory Contracts and Unexpired Leases" in the Plan Supplement. The Confirmation Order shall constitute an order of the Bankruptcy Court approving any such assumption pursuant to sections 365(a) and 1123 of the Bankruptcy Code.

i. Modifications, Amendments, Supplements, Restatements, or Other Agreements.

Unless otherwise provided in the Plan, each Executory Contract or Unexpired Lease that is assumed shall include all modifications, amendments, supplements, restatements, or other agreements that in any manner affect such Executory Contract or Unexpired Lease, and all rights related thereto, if any, including all easements, licenses, permits, rights, privileges, immunities, options, rights of first refusal, and any other interests, unless any of the foregoing agreements has been previously rejected or repudiated or is rejected or repudiated hereunder. Modifications, amendments, supplements, and restatements to prepetition Executory Contracts and Unexpired Leases that have been executed by the Debtor during the Chapter 11 Case shall not be deemed to alter the prepetition nature of the Executory Contract or Unexpired Lease, or the validity, priority, or amount of any Claims that may arise in connection therewith.

ii. Proofs of Claim Based on Executory Contracts or Unexpired Leases that Have Been Assumed.

Any and all Proofs of Claim based upon Executory Contracts or Unexpired Leases that have been previously assumed in the Chapter 11 Case or are to be assumed under the Plan, except unresolved Proofs of Claim asserting Cures, shall be deemed disallowed and expunged from the Claims Register as of the Effective Date, without any further notice to or action, order, or approval of the Bankruptcy Court.

iii. Cure of Defaults for Assumed Executory Contracts and Unexpired Leases

The Debtor shall for each of the Executory Contracts or Unexpired Leases listed on the schedule of "Assumed Executory Contracts and Unexpired Leases," designate the amount the Debtor's books and records reflect is necessary to Cure any default under each Executory Contract or Unexpired Lease. Such Cure shall be satisfied by the Debtor or the Reorganized Debtor, as applicable, if any, by payment of the Cure in Cash on the Effective Date or as soon as reasonably practicable thereafter, or on such other terms as may be ordered by the Bankruptcy Court or agreed upon by the parties to the applicable Executory Contract or Unexpired Lease without any further notice to or action, order, or approval of the Bankruptcy Court. Any Counterparty to an Executory Contract or Unexpired Lease which disagrees with the Cure identified in the Plan Supplement or otherwise objects to the assumption of the Executory Contract or Unexpired Lease must file an objection on or before the date specified in the Solicitation Procedures Order and serve a copy of same on the notice parties. Any request for payment of Cure that is not timely filed shall be disallowed automatically and forever barred, estopped, and enjoined from assertion and shall not be enforceable against the Reorganized Debtor, without the need for any objection by the Reorganized Debtor or any further notice to or action, order, or approval of the Bankruptcy Court, and any Cure shall be deemed fully satisfied, released, and discharged upon payment by the Debtor of the amounts listed on the Debtor's proposed Cure schedule, notwithstanding anything included in the Schedules or in any Proof of Claim to the contrary; provided, however, that nothing shall prevent the Reorganized Debtor from paying any Cure despite the failure of the relevant Counterparty to file such request for payment of such Cure. The Reorganized Debtor also may settle any Cure without any further notice to or action, order, or approval of the Bankruptcy Court.

If the Debtor, the Reorganized Debtor or any Counterparty to an Executory Contract or Unexpired Lease, as applicable, object to any Cure or any other matter related to assumption, the Bankruptcy Court shall determine the Allowed amount of such Cure and any related issues. If there is a dispute regarding such Cure, the ability of the Reorganized Debtor to provide "adequate assurance of future performance" within the meaning of section 365 of the Bankruptcy Code, or any other matter pertaining to assumption, then payment of Cure shall occur as soon as reasonably practicable after entry of a Final Order resolving such dispute, approving such assumption (and, if applicable, assignment), or as may be agreed upon by the Debtor or Reorganized Debtor, as applicable, and the Counterparty to the Executory Contract or Unexpired Lease. Any Counterparty to an Executory Contract and Unexpired Lease that fails to object timely to the proposed assumption of any Executory Contract or Unexpired Lease and associated Cure will be deemed to have consented to such assumption and Cure. The Debtor or Reorganized Debtor, as applicable, reserve the right either to reject or nullify the assumption of any Executory Contract or Unexpired Lease after a Final Order determining the Cure or any request for adequate assurance of future performance required to assume such Executory Contract or Unexpired Lease is made.

Assumption of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall result in the full release and satisfaction of any Cures, Claims or defaults, whether monetary or nonmonetary, including defaults of provisions restricting the change in control or ownership interest composition or other bankruptcy-related defaults, arising under any assumed Executory Contract or Unexpired Lease at any time prior to the effective date of assumption.

C. Indemnification Obligations

Each Indemnification Obligation shall be assumed by the Debtor effective as of the Effective Date, pursuant to sections 365 and 1123 of the Bankruptcy Code, to the extent such Indemnification Obligation is executory, unless such Indemnification Obligation previously was rejected by the Debtor pursuant to a Bankruptcy Court order or is the subject of a motion to reject pending on the Effective Date. The Reorganized Debtor reserves the right to honor or reaffirm Indemnification Obligation other than those terminated by a prior or subsequent order of the Bankruptcy Court, whether or not executory, in which case such honoring or reaffirmation shall be in complete satisfaction, discharge, and release of any Claim on account of such Indemnification Obligation. Each Indemnification Obligation that is assumed, deemed assumed, honored, or reaffirmed shall remain in full force and effect, shall not be modified, reduced, discharged, impaired, or otherwise affected in any way, and shall survive Unimpaired and unaffected, irrespective of when such obligation arose.

D. Insurance Policies

Each insurance policy under which the Debtor is beneficiary shall be assumed by the Debtor as of the Effective Date, pursuant to sections 365 and 1123 of the Bankruptcy Code, to the extent such insurance policy is executory, unless such insurance policy previously was rejected by the Debtor pursuant to a Bankruptcy Court order, or is the subject of a motion to reject pending on the Effective Date.

E. Preexisting Obligations to the Debtor Under Executory Contracts and Unexpired Leases

Rejection of any Executory Contract or Unexpired Lease pursuant to the Plan or otherwise shall not constitute a termination of pre-existing obligations owed to the Debtor under such contracts or leases. In particular, notwithstanding any nonbankruptcy law to the contrary, the Reorganized Debtor expressly reserves and does not waive any right to receive, or any continuing obligation of a Counterparty to provide, warranties or continued maintenance obligations on goods previously purchased by the Debtor or Reorganized Debtor, as applicable, from Counterparties to rejected or repudiated Executory Contracts.

F. Contracts and Leases Entered Into After the Petition Date

Any contracts or leases entered into by the Debtor after the Petition Date, and any Executory Contracts and Unexpired Leases assumed by the Debtor, may be performed by the Reorganized Debtor in the ordinary course of business.

G. Reservation of Rights

Neither the exclusion nor inclusion of any contract or lease in the Plan Supplement, nor anything contained in the Plan, shall constitute an admission by the Debtor that any such contract or lease is in fact an Executory Contract or Unexpired Lease or that any Reorganized Debtor has any liability thereunder. If there is a dispute regarding whether a contract or lease is or was executory or unexpired at the time of assumption or rejection, the Debtor or Reorganized Debtor, as applicable, shall have 45 days following entry of a Final Order resolving such dispute to alter their treatment of such contract or lease.

VIII. PROCEDURES FOR RESOLVING DISPUTED CLAIMS AND EQUITY INTERESTS

A. Allowance of Claims and Equity Interests

After the Effective Date, the Reorganized Debtor shall have and retain any and all rights and defenses such Debtor had with respect to any Claim immediately prior to the Effective Date, including the Causes of Action retained pursuant to Section 5.4 of the Plan, except with respect to any Claim deemed Allowed under the Plan. Except as expressly provided in the Plan or in any order entered in the Chapter 11 Case prior to the Effective Date (including the Confirmation Order), no Claim shall become an Allowed Claim unless and until such Claim is deemed Allowed or the Bankruptcy Court has entered a Final Order, including the Confirmation Order, in the Chapter 11 Case allowing such Claim. All settled claims approved prior to the Effective Date pursuant to a Final Order of the Bankruptcy Court, pursuant to Bankruptcy Rule 9019 or otherwise shall be binding on all parties.

B. Objections to Claims

Except as otherwise specifically provided in the Plan, after the Effective Date, the Reorganized Debtor shall have the sole authority, in consultation with the Creditors' Committee (1) to file, withdraw, or litigate to judgment, objections to Claims, (2) to settle or compromise any Disputed Claim without any further notice to or action, order, or approval by the Bankruptcy Court, and (3) to administer and adjust the Claims Register to reflect any such settlements or compromises without any further notice to or action, order, or approval by the Bankruptcy Court; provided, however, the deadline to file an objection to any filed Proof of Claim shall be the later of 60 days following the Effective Date or 20 business days following the filing of any such Proof of Claim; provided that such time may only be extended by Bankruptcy Court order for good cause shown. Any claim which is not objected to by this deadline (as may be extended as set forth herein) shall be deemed an Allowed Claim.

C. Estimation of Claims

Before or after the Effective Date, the Debtor or Reorganized Debtor, in consultation with the Creditors' Committee, as applicable, may (but is not required to) at any time request that the Bankruptcy Court estimate any Disputed Claim that is contingent or unliquidated pursuant to section 502(c) of the Bankruptcy Code for any reason, regardless of whether any party previously has objected to such Claim or whether the Bankruptcy Court has ruled on any such objection, and the Bankruptcy Court shall retain jurisdiction to estimate any such Claim, including during the litigation of any objection to any Claim or during the appeal relating to such objection. In the event that the Bankruptcy Court estimates any contingent or unliquidated Claim, that estimated amount shall constitute a maximum limitation on such Claim for all purposes under the Plan (including for purposes of Distributions), and the relevant Reorganized Debtor may elect to pursue any supplemental proceedings to object to any ultimate Distribution on such Claim.

D. Expungement or Adjustment to Paid, Satisfied, or Superseded Claims

Any Claim that has been paid, satisfied, or superseded, or any Claim that has been amended or superseded, may be adjusted or expunged on the Claims Register by the Reorganized Debtor without a claims objection having to be filed and without any further notice to or action, order, or approval of the Bankruptcy Court; provided, however, that the Debtor shall provide five (5) Business Days' prior written notice of such adjustment or expungement to the Creditors' Committee.

E. No Post-Petition Interest On Claims

Unless otherwise specifically provided for in the Plan, required under applicable bankruptcy law, or agreed to by the Debtor, the Confirmation Order, or a post-petition agreement in writing between the Debtor and a holder of a Claim, post-petition interest shall not accrue or

be paid on Claims, and no holder of a Claim shall be entitled to interest accruing on or after the Petition Date on any Claim or right. Additionally, and without limiting the foregoing, interest shall not accrue or be paid on any Disputed Claim with respect to the period from the Effective Date to the date a final Distribution is made on account of such Disputed Claim, if and when such Disputed Claim becomes an Allowed Claim.

F. Disallowance of Claims

EXCEPT AS OTHERWISE AGREED, OR AS MAY BE ORDERED BY THE BANKRUPTCY COURT, ANY AND ALL PROOFS OF CLAIM FILED AFTER THE APPLICABLE DEADLINE FOR FILING SUCH PROOFS OF CLAIM SHALL BE DEEMED DISALLOWED AND EXPUNGED AS OF THE EFFECTIVE DATE WITHOUT ANY FURTHER NOTICE TO OR ACTION, ORDER, OR APPROVAL OF THE BANKRUPTCY COURT, AND HOLDERS OF SUCH CLAIMS MAY NOT RECEIVE ANY DISTRIBUTIONS ON ACCOUNT OF SUCH CLAIMS, UNLESS SUCH LATE PROOF OF CLAIM IS DEEMED TIMELY FILED BY A FINAL ORDER OF THE BANKRUPTCY COURT ON OR BEFORE THE LATER OF (1) THE CONFIRMATION HEARING AND (2) 45 DAYS AFTER THE APPLICABLE DEADLINE FOR FILING SUCH PROOFS OF CLAIM.

All Claims of any Entity from which property is sought by the Debtor under section 542, 543,550, or 553 of the Bankruptcy Code or that the Debtor or the Reorganized Debtor alleges is a transferee of a transfer that is avoidable under section 522(f), 522(h), 544, 545, 547, 548, 549, or 724(a) of the Bankruptcy Code shall be disallowed if (1) the Entity, on the one hand, and the Debtor or the Reorganized Debtor, on the other hand, agree or the Bankruptcy Court has determined by Final Order that such Entity or transferee is liable to turn over any property or monies under any of the aforementioned sections of the Bankruptcy Code and (2) such Entity or transferee has failed to turn over such property by the date set forth in such agreement or Final Order.

Upon disallowance of a Claim pursuant to the Plan, the Confirmation Order or such other order of the Bankruptcy Court, the Claims and Solicitation Agent shall be authorized to reflect such disallowance on the official claims registry maintained by the Claims and Solicitation Agent in accordance with the terms of its retention as approved by the Bankruptcy Court.

G. Amendments to Claims

On or after the Effective Date, except as otherwise provided herein, a Claim may not be filed or amended without the prior authorization of the Bankruptcy Court or the Reorganized Debtor, and, to the extent such prior authorization is not received, any such new or amended Claim filed shall be deemed disallowed in full and expunged without any further notice to or action, order, or approval of the Bankruptcy Court.

H. No Distributions Pending Allowance

If an objection to a Claim or portion thereof is filed prior to the Effective Date, no payment or Distribution provided under the Plan shall be made on account of such Claim or portion thereof, as applicable, unless and until such Disputed Claim becomes an Allowed Claim.

I. Distributions After Allowance

To the extent that a Disputed Claim ultimately becomes an Allowed Claim, Distributions, if any, shall be made to the holder of such Allowed Claim in accordance with the provisions of the Plan. As soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing any Disputed Claim becomes a Final Order, the Reorganized Debtor shall provide to the holder of such Claim the Distribution, if any, to which such holder is entitled under the Plan as of the Effective Date, without any interest to be paid on account of such Claim unless required under applicable bankruptcy law.

IX. PROVISIONS GOVERNING DISTRIBUTIONS

A. Distributions on Account of Claims Allowed as of the Effective Date

1. Delivery of Distributions in General.

All Distributions of Cash shall be made by check or wire transfer within the Debtor's sole discretion. Except as otherwise provided in the Plan, a Final Order, or as otherwise agreed to by the relevant parties on the Distribution Date, the Reorganized Debtor shall make initial Distributions under the Plan or before the Effective Date, subject to the Reorganized Debtor's right to object to Claims; provided, however, that (a) Allowed Administrative Claims with respect to liabilities incurred by the Debtor in the ordinary course of business during the Chapter 11 Case or assumed by the Debtor prior to the Effective Date shall be paid or performed in the ordinary course of business in accordance with the terms and conditions of any controlling agreements, course of dealing, course of business, or industry practice, and (b) Allowed Priority Tax Claims and Allowed Secured Tax Claims shall be paid as set forth herein. To the extent any Allowed Priority Tax Claim or Allowed Secured Tax Claim is not due and owing on the Effective Date, such Claim shall be paid, in the Debtor's or Reorganized Debtor's, as applicable, discretion, in full in Cash in accordance with the terms of any agreement between the Debtor and the holder of such Claim, or as may be due and payable under applicable non-bankruptcy law or in the ordinary course of business or over a five-year period as provided in section 1129(a)(9)(C) of the Bankruptcy Code with annual interest provided by applicable non-bankruptcy law.

2. Delivery of Distributions on account of DIP Facility Claim.

The DIP Lender shall be treated pursuant to Section 2.3 of the Plan.

B. Distributions on Account of Claims Allowed After the Effective Date

1. Payments and Distributions on Disputed Claims.

Except as otherwise provided in the Plan, a Final Order, or as agreed to by the relevant parties, Distributions under the Plan on account of Disputed Claims that become Allowed after the Effective Date shall be made on the Periodic Distribution Date that is at least 30 days after the Disputed Claim becomes an Allowed Claim; provided, however, that (a) Disputed Claims that are Administrative Claims with respect to liabilities incurred by the Debtor in the ordinary course of business during the Chapter 11 Case or assumed by the Debtor on or before the Effective Date that become Allowed after the Effective Date shall be paid or performed in the ordinary course of business in accordance with the terms and conditions of any controlling agreements, course of dealing, course of business, or industry practice and (b) Disputed Claims that are Priority Tax Claims or Secured Tax Claims that become Allowed Priority Tax Claims or Allowed Secured Tax Claims after the Effective Date shall be paid in full in Cash on the Periodic Distribution Date that is at least 30 days after the Disputed Claim becomes an Allowed Claim or over a five-year period as provided in section 1129(a)(9)(C) of the Bankruptcy Code with annual interest provided by applicable non-bankruptcy law.

2. Special Rules for Distributions to Holders of Disputed Claims.

Notwithstanding any provision otherwise in the Plan and except as otherwise agreed by the relevant parties (a) no partial payments and no partial Distributions shall be made with respect to a Disputed Claim until all such disputes in connection with such Disputed Claim have been resolved by settlement or Final Order and (b) any Entity that holds both an Allowed Claim and a Disputed Claim shall not receive any Distribution on the Allowed Claim unless and until all objections to the Disputed Claim have been resolved by settlement or Final Order or the Claims have been Allowed or expunged. All Distributions made pursuant to the Plan on account of a Disputed Claim that is deemed an Allowed Claim by the Bankruptcy Court shall be made together with any dividends, payments, or other Distributions made on account of, as well as any obligations arising from, the distributed property as if such Allowed Claim had been an Allowed Claim on the dates Distributions were previously made to holders of Allowed Claims included in the applicable Class; provided, however, that no interest shall be paid on account to such Allowed Claims unless required under applicable bankruptcy law.

C. Delivery of Distributions

1. Record Date for Distributions.

On the Distribution Record Date, the Claims Register shall be closed and the Reorganized Debtor shall be authorized and entitled to recognize only those record holders listed on the Claims Register as of the close of business on the Distribution Record Date. Notwithstanding the foregoing, if a Claim, other than one based on a publicly traded Certificate

is transferred less than 20 days before the Distribution Record Date, the Reorganized Debtor shall make Distributions to the transferee only to the extent practicable and in any event only if the relevant transfer form contains an unconditional and explicit certification and waiver of any objection to the transfer by the transferor.

2. Distribution Process.

The Reorganized Debtor shall make all Distributions required under the Plan. Except as otherwise provided in the Plan, and notwithstanding any authority to the contrary, Distributions to holders of Allowed Claims shall be made to holders of record as of the Distribution Record Date by the Reorganized Debtor: (a) to the signatory set forth on any of the Proofs of Claim filed by such holder or other representative identified therein (or at the last known addresses of such holder if no Proof of Claim is filed or if the Debtor has been notified in writing of a change of address); (b) at the addresses set forth in any written notices of address changes delivered to the Reorganized Debtor after the date of any related Proof of Claim; (c) in accordance with Federal Rule of Civil Procedure 4, as modified and made applicable by Bankruptcy Rule 7004 if no Proof of Claim has been filed and the Reorganized Debtor has not received a written notice of a change of address; (d) at the addresses reflected in the Schedules if no Proof of Claim has been filed and the Reorganized Debtor has not received a written notice of a change of address; or (e) on any counsel that has appeared in the Chapter 11 Case on the holder's behalf. Neither the Debtor nor the Reorganized Debtor shall incur any liability whatsoever on account of any Distributions under the Plan.

3. Accrual of Rebates and Other Rights.

For purposes of determining the rights of the holders of New Class A Common Stock on and after the Effective Date, shares of New Class A Common Stock shall be deemed distributed as of the Effective Date.

4. Compliance Matters.

In connection with the Plan, to the extent applicable, the Debtor and the Reorganized Debtor shall comply with all tax withholding and reporting requirements imposed on them by any Governmental Unit, and all Distributions pursuant to the Plan shall be subject to such withholding and reporting requirements. Notwithstanding any provision in the Plan to the contrary, the Reorganized Debtor shall be authorized to take all actions necessary or appropriate to comply with such withholding and reporting requirements, including liquidating a portion of the Distribution to be made under the Plan to generate sufficient funds to pay applicable withholding taxes, withholding Distributions pending receipt of information necessary to facilitate such Distributions, or establishing any other mechanisms it believes are reasonable and appropriate. The Reorganized Debtor reserves the right to allocate all Distributions made under the Plan in compliance with all applicable wage garnishments, alimony, child support, and other spousal awards, liens, and encumbrances.

5. Foreign Currency Exchange Rate.

If and to the extent necessary, and except as otherwise provided in the Plan or a Bankruptcy Court order, as of the Effective Date, any Claim asserted in currency other than U.S. dollars shall be automatically deemed converted to the equivalent U.S. dollar value using the exchange rate as of _____, 2013 as quoted at 4:00 p.m. (EDT), mid-range spot rate of exchange for the applicable currency as published in The Wall Street Journal, National Edition, on _____, 2013.

6. Fractional, De Minimis, Undeliverable, and Unclaimed Distributions.

a. Fractional Distributions.

Notwithstanding any other provision of the Plan to the contrary, the Reorganized Debtor shall not be required to make Distributions or payments of fractions of dollars. Whenever any payment of Cash of a fraction of a dollar pursuant to the Plan would otherwise be required, the actual payment shall reflect a rounding of such fraction to the nearest whole dollar (up or down), with half dollars or less being rounded down.

b. De Minimis Distributions.

The Reorganized Debtor shall not have any obligation to make a Distribution on account of an Allowed Claim if (i) the aggregate amount of all Distributions authorized to be made on the Periodic Distribution Date in question is or has an economic value less than 1% of the aggregate amount of Allowed General Unsecured Claims ("Distribution Threshold"); provided, that should the aggregate amount of a Distributions authorized to be made on any Periodic Distribution Date be less than the Distribution Threshold, such amount shall be held in escrow by the Reorganized Debtor for the benefit of the Holders of Allowed General Unsecured Claims in an interest bearing account, and be distributed to Holder of General Unsecured Claims with the next Periodic Distribution in which the Distribution Threshold is satisfied (taking into account any amounts held in escrow for Distribution to Holders of Allowed General Unsecured Claims).

c. Undeliverable Distributions.

If any Distribution to a holder of an Allowed Claim is returned to the Reorganized Debtor as undeliverable, no further Distributions shall be made to such holder unless and until the Reorganized Debtor is notified in writing of such holder's then-current address within sixty (60) days of each Periodic Distribution Date,, at which time all currently due missed Distributions shall be made to such holder on the next Periodic Distribution Date. Undeliverable Distributions shall remain in the possession of the Reorganized Debtor until such time as a Distribution becomes deliverable, or such Distribution reverts to the

Reorganized Debtor for distribution to the Allowed General Unsecured Claims, and shall not be supplemented with any interest, dividends, or other accruals of any kind.

d. Reversion.

Any Distribution under the Plan that is an Unclaimed Distribution for a period of six months after Distribution shall be deemed unclaimed property under section 347(b) of the Bankruptcy Code and such Unclaimed Distribution shall revest in the Reorganized Debtor and be redistributed to the holders of General Unsecured Claims, Pro Rata on the Periodic Distribution Date immediately following the reversion. Upon such revesting, the Claim of any holder or its successors with respect to such property shall be cancelled, discharged, and forever barred notwithstanding any applicable federal or state escheat, abandoned, or unclaimed property laws to the contrary.

7. Surrender of Cancelled Instruments or Securities.

On the Effective Date, each Certificate shall be cancelled solely with respect to the Debtor, and such cancellation shall not alter the obligations or rights of any non-Debtor third parties vis-à-vis one another with respect to such Certificate.

D. Claims Paid or Payable by Third Parties

1. Claims Paid by Third Parties.

The Claims and Solicitation Agent shall reduce in full a Claim, and such Claim shall be disallowed without a Claim objection having to be filed and without any further notice to or action, order, or approval of the Bankruptcy Court, to the extent that the holder of such Claim receives payment in full on account of such Claim from a party that is not the Debtor or the Reorganized Debtor; provided, however, that nothing contained herein shall release, waive, reduce or diminish any rights of any such third party to contribution and subrogation hereunder. To the extent a holder of a Claim receives a Distribution on account of such Claim and receives payment from a third party that is not the Debtor or the Reorganized Debtor on account of such Claim, such holder shall, within two weeks of receipt thereof, repay or return the Distribution to the Reorganized Debtor, to the extent the holder's total recovery on account of such Claim from the third party and under the Plan exceeds the amount of such Claim as of the date of any such Distribution under the Plan; provided, however, that nothing contained herein shall release, waive, reduce or diminish any rights of any such third party to contribution and subrogation hereunder.

2. Claims Payable by Insurance Carriers.

No Distributions under the Plan shall be made on account of an Allowed Claim that is payable pursuant to one of the Debtor’s insurance policies until the holder of such Allowed Claim has exhausted all remedies with respect to such insurance policy. To the extent that one or

more of the Debtor's insurers agrees to satisfy in full a Claim (if and to the extent adjudicated by a court of competent jurisdiction), then immediately upon such insurers' agreement, such Claim may be expunged to the extent of any agreed upon satisfaction on the Claims Register by the Claims and Solicitation Agent without a Claims objection having to be filed and without any further notice to or action, order, or approval of the Bankruptcy Court.

3. Applicability of Insurance Policies.

Except as otherwise provided in the Plan, Distributions to holders of Allowed Claims shall be in accordance with the provisions of any applicable insurance policy. Nothing contained in the Plan shall constitute or be deemed a waiver of any Causes of Action that the Debtor or any Entity may hold against any other Entity, including insurers under any policies of insurance, nor shall anything contained herein constitute or be deemed a waiver by such insurers of any defenses, including coverage defenses, held by such insurers.

E. Setoffs

Except as otherwise expressly provided for in the Plan, the Reorganized Debtor pursuant to the Bankruptcy Code (including section 553 of the Bankruptcy Code), applicable non-bankruptcy law, or as may be agreed to by the holder of a Claim, may set off against any Allowed Claim (before any Distribution is made on account of such Allowed Claim), any Claims, rights, or Causes of Action of any nature that the Debtor or Reorganized Debtor, as applicable, may hold against the holder of such Allowed Claim, to the extent such Claims, rights, or Causes of Action against such holder have not been otherwise compromised or settled on or prior to the Effective Date (whether pursuant to the Plan or otherwise); provided, however, that such setoff must be effectuated on or before the Claims Objection Deadline; provided, however, that the Debtor or Reorganized Debtor shall give such holder of an Allowed Claim ten (10) Business Days' notice of such setoff and an opportunity to object; provided further, however, that the failure to effect such a setoff before the Claims Objection Deadline shall constitute a waiver or release by the Reorganized Debtor of any such Claim, rights, and Causes of Action that the Reorganized Debtor may possess against such holder. In no event shall any holder of Claim be entitled to set off any Claim against any Claim, right, or Causes of Action of the Debtor or Reorganized Debtor, as applicable, unless such holder has filed a motion with the Bankruptcy Court requesting the authority to perform such setoff on or before the Confirmation Date, or has indicated in any Proof of Claim or otherwise that such holder asserts, has, or intends to preserve any right of setoff pursuant to section 553 or otherwise; provided further, however, that nothing contained herein is intended to limit the ability of any holder of a Disputed Claim to effectuate rights of setoff or recoupment preserved or permitted by the provisions of sections 553, 555, 559 or 560 of the Bankruptcy Code or pursuant to the common law right of recoupment.

F. Allocation Between Principal and Accrued Interest

Except as otherwise provided in the Plan, the aggregate consideration paid to holders of Allowed Claims shall be treated pursuant to the Plan as allocated first to the principal amount of such Allowed Claims (to the extent thereof) and, thereafter, to the interest, if any, accrued through the Effective Date.

X. EFFECT OF CONFIRMATION OF THE PLAN

A. Discharge of Claims and Termination of Equity Interests

Effective as of the Effective Date: (1) the rights afforded in the Plan and the treatment of all Claims and Equity Interests shall be in exchange for and in complete satisfaction, discharge, and release of all Claims and Equity Interests of any nature whatsoever, including any interest accrued on such Claims from and after the Petition Date, against the Debtor or any of its assets, property, or Estate; (2) the Plan shall bind all holders of Claims and Equity Interests, notwithstanding whether any such holders failed to vote to accept or reject the Plan or voted to reject the Plan; (3) all Claims and Equity Interests shall be satisfied, discharged, and released in full, and the Debtor's liability with respect thereto shall be extinguished completely, including any liability of the kind specified under section 502(g) of the Bankruptcy Code; and (4) all Entities shall be precluded from asserting against the Debtor, the Debtor's Estate, the Reorganized Debtor, its successors and assigns, and its assets and properties any other Claims or Equity Interests based upon any documents, instruments, or any act or omission, transaction, or other activity of any kind or nature that occurred prior to the Effective Date.

B. Subordinated Claims

The allowance, classification, and treatment of all Allowed Claims and the respective Distributions and treatments under the Plan take into account and conform to the relative priority and rights of the Claims and Equity Interests in each Class in connection with any contractual, legal, and equitable subordination rights relating thereto, whether arising under general principles of equitable subordination, section 510 of the Bankruptcy Code, or otherwise. Pursuant to section 510 of the Bankruptcy Code, the Reorganized Debtor reserves the right to re-classify any Allowed Claim in accordance with any contractual, legal, or equitable subordination relating thereto.

C. Compromise and Settlement of Claims and Controversies

Pursuant to section 363 of the Bankruptcy Code and Bankruptcy Rule 9019 and in consideration for the Distributions and other benefits provided pursuant to the Plan or any Distribution or other consideration to be provided on account of an Allowed Claim or Allowed Interest, the provisions of the Plan shall constitute a good faith compromise of all Claims, Equity Interests, and controversies relating to the contractual, legal, and subordination rights that a

holder of a Claim or Allowed Interest may have with respect to any Allowed Claim or Allowed Interest. The entry of the Confirmation Order shall constitute the Bankruptcy Court's approval of the compromise or settlement of all such Claims, Equity Interests, and controversies, as well as a finding by the Bankruptcy Court that any such compromise or settlement is in the best interests of the Debtor, its Estate, and holders of Claims and Equity Interests and is fair, equitable, and reasonable. In accordance with the provisions of the Plan, pursuant to section 363 of the Bankruptcy Code and Bankruptcy Rule 9019(a), without any further notice to or action, order, or approval of the Bankruptcy Court, after the Effective Date, the Reorganized Debtor may compromise and settle Claims against it and Causes of Action against other Entities.

D. Releases by the Debtor

Pursuant to section 1123(b) of the Bankruptcy Code, and except as otherwise specifically provided in the Plan, for good and valuable consideration, on and after the Effective Date, the Debtor, the Reorganized Debtor, and the Debtor's Estate shall be deemed to have released and discharged each Released Party from any and all Claims, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative Claims, asserted on behalf of the Debtor, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that the Debtor, the Reorganized Debtor, or its Estate would have been legally entitled to assert in its own right, or on behalf of the holder of any Claim or Equity Interest or other Entity, based on or relating to, or in any manner arising from, in whole or in part, the Debtor, the Chapter 11 Case, the purchase, sale, or rescission of the purchase or sale of any Equity Interest in the Debtor or the Reorganized Debtor, the subject matter of, or the transactions or events giving rise to, any Claim or Equity Interest that is treated in the Plan, the business or contractual arrangements between any Debtor and any Released Party, the restructuring of Claims and Equity Interests prior to or in the Chapter 11 Case, the negotiation, formulation, or preparation of the Plan and Disclosure Statement, or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date of the Plan, other than Claims or liabilities arising out of or relating to any act or omission of a Released Party that constitutes willful misconduct or gross negligence, or as otherwise provided in the Plan.

E. Releases by Holders of Claims and Equity Interests

As of the Effective Date, each Releasing Party shall be deemed to have released and discharged the Debtor, the Reorganized Debtor, its Estate, and every other Released Party from any and all Claims, Equity Interests, obligations, rights, suits, damages, Causes of Action, remedies, and liabilities whatsoever, including any derivative Causes of Action, asserted on behalf of the Debtor, whether known or unknown, foreseen or unforeseen, existing or hereinafter arising, in law, equity, or otherwise, that such Entity would have

been legally entitled to assert (whether individually or collectively), based on or relating to, or in any manner arising from, in whole or in part, the Debtor, the Debtor's restructuring, the Case, the purchase, sale, or rescission of the purchase or sale of any security of the Debtor or the Reorganized Debtor, the subject matter of, or the transactions or events giving rise to, any Claim or Interest that is treated in the Plan, the business or contractual arrangements between the Debtor and any Released Party, the restructuring of Claims and Equity Interests prior to or in the Case, the negotiation, formulation, or preparation of the Plan, the Disclosure Statement, the Plan Supplement, DIP Credit Facility, Wells Fargo Exit Facility or related agreements, instruments, or other documents, upon any other act or omission, transaction, agreement, event, or other occurrence taking place on or before the Effective Date of the Plan; provided, however, that nothing herein shall release or exculpate any Released Party to the extent that such claims arise from the gross negligence, willful misconduct or fraud of such Released Party, in each case subject to determination of such by Final Order of a court of competent jurisdiction.

Nothing herein shall release or exculpate any Released Party from their obligations under this Plan, the DIP Credit Facility, Final Financing Order, the Wells Fargo Exit Facility, or any document executed in connection therewith. Notwithstanding anything to the contrary in the foregoing, the releases set forth above do not release any post-Effective Date obligations of any party under the Plan or any document, instrument, or agreement (including those set forth in the Plan Supplement) executed in connection with the Plan. For the avoidance of doubt, nothing in this paragraph shall in any way affect the operation of Section 10.1 of the Plan, pursuant to section 1141(d) of the Bankruptcy Code.

F. Exculpation

The Exculpated Parties shall neither have, nor incur any liability to any Entity for any Exculpated Claim; provided, however, that the foregoing "exculpation" shall have no effect on the liability of any Entity that results from any such act or omission that is determined in a Final Order to have constituted gross negligence or willful misconduct. The Exculpated Parties have, and upon Confirmation shall be deemed to have, participated in good faith and in compliance with the applicable provisions of the Bankruptcy Code with regard to the Distributions of the New Class A Common Stock pursuant to the Plan and, therefore, are not and shall not be liable at any time for the violations of any applicable, law, rule, or regulation governing the solicitation of acceptances or rejections of the Plan or such Distributions made pursuant to the Plan.

G. Injunction

From and after the Effective Date, all Entities are permanently enjoined from commencing or continuing in any manner, any suit, action, or other proceeding, on account of or respecting any Claim, demand, Lien, liability, obligation, debt, right, Causes of

Action, Interest, or remedy released or to be released, exculpated, or to be exculpated pursuant to the Plan or the Confirmation Order.

H. Protection Against Discriminatory Treatment

Consistent with section 525 of the Bankruptcy Code, no Governmental Unit shall discriminate against the Reorganized Debtor or deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, or other similar grant to, condition such a grant to, discriminate with respect to such a grant against, the Reorganized Debtor, or another Entity with whom such Reorganized Debtor have been associated, solely because the Debtor has been a debtor under chapter 11, has been insolvent before the commencement of the Chapter 11 Case (or during the Chapter 11 Case but before the Debtor is granted or denied a discharge), or has not paid a debt that is dischargeable in the Chapter 11 Case.

I. Recoupment

In no event shall any holder of Claims or Equity Interests be entitled to recoup any Claim or Equity Interest against any Claim, right, or Causes of Action of the Debtor or the Reorganized Debtor, as applicable, unless such holder actually has performed such recoupment and provided notice thereof in writing to the Debtor on or before the later of the Confirmation Date and the applicable Bar Date including, without limitation, by indication in any Proof of Claim or Interest or otherwise that such holder asserts, has, or intends to preserve any right of recoupment.

J. Release of Liens

Except as otherwise provided in the Plan or in any contract, instrument, release, or other agreement or document created pursuant to the Plan or executed in connection with the Plan, on the Effective Date, all mortgages, deeds of trust, Liens, pledges, or other security interests against any property of the Estate shall be fully released, and discharged, and all of the right, title, and interest of any holder of such mortgages, deeds of trust, Liens, pledges, or other security interests shall revert to the Reorganized Debtor and its successors and assigns.

K. Reimbursement or Contribution

If the Bankruptcy Court disallows a Claim for reimbursement or contribution of an Entity pursuant to section 502(e)(1)(B) of the Bankruptcy Code, then to the extent that such Claim is contingent as of the Effective Date, such Claim shall be forever disallowed notwithstanding section 502(j) of the Bankruptcy Code, unless prior to the Effective Date (1) such Claim has been adjudicated as noncontingent or (2) the relevant holder of a Claim has filed a noncontingent Proof of Claim on account of such Claim and a Final Order has been entered determining such Claim as no longer contingent.

XI. CONDITIONS PRECEDENT TO THE PLAN

A. Conditions Precedent to Confirmation of the Plan and the Occurrence of the Effective Date of the Plan

The following shall be conditions to Confirmation of the Plan

(i) the Confirmation Order is in form and substance satisfactory to the Debtor and Wells Fargo;

(ii) the documents memorializing the Wells Fargo Exit Facility are in form and substance satisfactory to the Debtor, Wells Fargo and the Creditors' Committee;

(iii) the Confirmation Order shall approve the Wells Fargo Release, and authorize the Debtor to enter into and consummate the Wells Fargo Exit Facility; and

(iv) the Confirmation Order shall approve the formation of Subordinated Term Lender and the issuance of the Subordinated Term Note.

The Plan shall not become effective, the Effective Date shall not occur, and the Plan shall not be consummated, unless and until each of the following conditions shall have been satisfied in full or waived:

1. the Confirmation Order shall have been entered by the Bankruptcy Court, and become a Final Order and shall not be subject to any stay of effectiveness; the Confirmation Date shall have occurred and no request for revocation of the Confirmation Order under § 1144 shall have been made, or if made, shall remain pending;

2. all documents, instruments and agreements, in form and substance reasonably satisfactory to the Debtor, provided for under or necessary to implement the Plan and the Wells Fargo Exit Facility shall have been executed and delivered by the parties thereto, unless such execution or delivery has been waived by the party or parties benefited thereby;

3. the Debtor has determined in its reasonable discretion that sufficient Cash and/or Reserves exist to satisfy all Allowed Administrative Expenses, Professional Fee Claims, and Priority Tax Claims;

4. the funding of the Wells Fargo Exit Facility shall have occurred or shall occur contemporaneously with the occurrence of the Effective Date;

5. the Debtor shall have received funding from the Subordinated Term Lender in the amount, if any, by which the amount on the Effective Date for the purchase of the New Class A Stock is less than $3 million, under such documentation in form and substance acceptable to Wells Fargo and the Creditors' Committee and Members' Committee; and

6. the amount of at least $3 million to purchase New Class A Stock shall have been received by the Debtor (or its agents) from the holders of Equity Interests and the Subordinated Term Lender and deposited into a separate escrow account to be maintained by the Escrow Agent.

B. Waiver of Conditions Precedent

The Debtor, subject to the consent of Wells Fargo and the Creditors' Committee and the Members' Committee, may waive any of the conditions to the Consummation of the Plan and occurrence of the Effective Date as set forth in Section 11.1 of the Plan at any time without any notice to other parties in interest and without any further notice to or action, order, or approval of the Bankruptcy Court, and without any formal action other than proceeding to confirm or consummate the Plan.

C. Effect of Non-Occurrence of Conditions to Consummation

If prior to Consummation, the Confirmation Order is vacated pursuant to a Final Order, then except as provided in any order of the Bankruptcy Court vacating the Confirmation Order, the Plan will be null and void in all respects, and nothing contained in the Plan or Disclosure Statement shall (l) constitute a waiver or release of any Claims, Equity Interests, or Causes of Action, (2) prejudice in any manner the rights of the Debtor or any other Entity, or (3) constitute an admission, acknowledgment, offer, or undertaking of any sort by the Debtor or any other Entity.

XII. RETENTION OF JURISDICTION

Notwithstanding the entry of the Confirmation Order and the occurrence of the Effective Date, the Bankruptcy Court shall retain exclusive jurisdiction over all matters arising out of, or related to, the Chapter 11 Case and the Plan pursuant to sections l05(a) and 1142 of the Bankruptcy Code, including jurisdiction to:

1. allow, disallow, determine, liquidate, classify, estimate, or establish the priority, secured or unsecured status, or amount of any Claim or Interest, including the resolution of any request for payment of any Administrative Claim and the resolution of any and all objections to the secured or unsecured status, priority, amount, or allowance of Claims or Equity Interests;

2. decide and resolve all matters related to the granting and denying, in whole or in part, any applications for allowance of compensation or reimbursement of expenses to Professionals authorized pursuant to the Bankruptcy Code or the Plan;

3. resolve any matters related to Executory Contracts or Unexpired Leases, including: (a) the assumption, assumption and assignment, or rejection of any Executory Contract or Unexpired Lease to which the Debtor is party or with respect to which the Debtor may be liable and to hear, determine, and, if necessary, liquidate, any Cure or Claims arising therefrom, including pursuant to section 365 of the Bankruptcy Code; (b) any potential

contractual obligation under any Executory Contract or Unexpired Lease that is assumed; (c) the Reorganized Debtor's amendment, modification, or supplement, after the Effective Date, pursuant to Article VII of the Plan, of the list of Executory Contracts and Unexpired Leases to be assumed or rejected or otherwise; and (d) any dispute regarding whether a contract or lease is or was executory or expired;

4. ensure that Distributions to holders of Allowed Claims are accomplished pursuant to the provisions of the Plan and adjudicate any and all disputes arising from or relating to Distributions under the Plan;

5. adjudicate, decide, or resolve any motions, adversary proceedings, contested or litigated matters, and any other matters, and grant or deny any applications involving the Debtor that may be pending on the Effective Date;

6. adjudicate, decide, or resolve any and all matters related to Causes of Action;

7. adjudicate, decide, or resolve any and all matters related to section 1141 of the Bankruptcy Code;

8. enter and implement such orders as may be necessary or appropriate to execute, implement, or consummate the provisions of the Plan and all contracts, instruments, releases, indentures, and other agreements or documents created in connection with the Plan or the Disclosure Statement;

9. enter and enforce any order for the sale of property pursuant to sections 363, 1123, or 1146(a) of the Bankruptcy Code;

10. grant any consensual request to extend the deadline for assuming or rejecting Unexpired Leases pursuant to section 365(d)(4) of the Bankruptcy Code;

11. resolve any cases, controversies, suits, disputes, or Causes of Action that may arise in connection with the Consummation, interpretation, or enforcement of the Plan or any Entity's obligations incurred in connection with the Plan;

12. enter and implement such orders as may be necessary or appropriate to execute, implement, or consummate the provisions of all contracts, instruments, releases, indentures, and other agreements or documents approved by Final Order in the Chapter 11 Case;

13. issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any Entity with Consummation or enforcement of the Plan;

14. resolve any cases, controversies, suits, disputes, or Causes of Action with respect to the releases, injunctions, and other provisions contained in the Plan and enter such orders as may be necessary or appropriate to implement such releases, injunctions, and other provisions;

15. resolve any cases, controversies, suits, disputes, or Causes of Action with respect to the repayment or return of Distributions and the recovery of additional amounts owed by the holder of a Claim for amounts not timely repaid pursuant to the Plan;

16. enter and implement such orders as are necessary or appropriate if the Confirmation Order is for any reason modified, stayed, reversed, revoked, or vacated;

17. determine any other matters that may arise in connection with or relate to the Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument, release, indenture, or other agreement or document created in connection with the Plan or the Disclosure Statement;

18. enter an order or Final Decree concluding or closing the Chapter 11 Case;

19. consider any modifications of the Plan, to cure any defect or omission, or to reconcile any inconsistency in any Bankruptcy Court order, including the Confirmation Order;

20. determine requests for the payment of Claims and Equity Interests entitled to priority pursuant to section 507 of the Bankruptcy Code;

21. hear and determine disputes arising in connection with the interpretation, implementation, or enforcement of the Plan, or the Confirmation Order, including disputes arising under agreements, documents, or instruments executed in connection with the Plan;

22. hear and determine matters concerning state, local, and federal taxes in accordance with sections 346, 505, and 1146 of the Bankruptcy Code;

23. hear and determine all disputes involving the existence, nature, or scope of the Debtor's discharge, including any dispute relating to any liability arising out of the termination of employment or the termination of any employee, regardless of whether such termination occurred prior to or after the Effective Date;

24. enforce all orders previously entered by the Bankruptcy Court; and

25. hear any other matter not inconsistent with the Bankruptcy Code.

XIII. MISCELLANEOUS PROVISIONS

A. No Stay of Confirmation Order

The Confirmation Order shall contain a waiver of any stay of enforcement otherwise applicable, including pursuant to Bankruptcy Rules 3020(e) and 7062.

B. Modification of Plan

Effective as of the date hereof and subject to the limitations and rights contained in the Plan: (1) the Debtor reserves the right, in accordance with the Bankruptcy Code and the

Bankruptcy Rules, to amend or modify the Plan before the entry of the Confirmation Order, (2) after the entry of the Confirmation Order, the Debtor or the Reorganized Debtor, as applicable, may, upon order of the Bankruptcy Court, amend or modify the Plan in accordance with section 1127(b) of the Bankruptcy Code or remedy any defect or omission or reconcile any inconsistency in the Plan in such manner as may be necessary to carry out the purpose and intent of the Plan upon five (5) Business Days' notice to the Creditors' Committee, and (3) the Debtor reserves the right to modify the Plan, to implement the sale of all or substantially all of the assets of the Debtor pursuant to sections 363 and 1123(a)(5)(D) of the Bankruptcy Code.

C. Revocation or Withdrawal of Plan

The Debtor reserves the right to revoke or withdraw the Plan before the Confirmation Date and to file subsequent chapter 11 plans. If the Debtor revokes or withdraws the Plan, or if Confirmation or the Effective Date does not occur, then (1) the Plan will be null and void in all respects, (2) any settlement or compromise embodied in the Plan, assumption or rejection of Executory Contracts or Unexpired Leases effected by the Plan, and any document or agreement executed pursuant hereto will be null and void in all respects, and (3) nothing contained in the Plan shall (a) constitute a waiver or release of any Claims, Equity Interests, or Causes of Action, (b) prejudice in any manner the rights of any Debtor or any other Entity, or (c) constitute an admission, acknowledgement, offer, or undertaking of any sort by any Debtor or any other Entity.

D. Additional Documents

On or before the Effective Date, the Debtor may file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan. The Debtor or the Reorganized Debtor, as applicable, and all holders of Claims receiving Distributions pursuant to the Plan, holders of Equity Interests eligible to and electing to receive Class A Common Stock and all other parties in interest shall, from time to time, prepare, execute, and deliver any agreements or documents and take any other actions as may be necessary or advisable to effectuate the provisions and intent of the Plan.

E. Payment of Statutory Fees

All fees payable pursuant to 28 U.S.C. §1930(a), as determined by the Bankruptcy Court at a hearing pursuant to section 1128 of the Bankruptcy Code, shall be paid for each quarter (including any fraction thereof) until the Chapter 11 Case is converted, dismissed, or closed, whichever occurs first.

F. Dissolution of Creditors' Committee and the Members' Committee

On the Effective Date, the Creditors' Committee and the Members' Committee shall each be dissolved automatically, and each of their respective members shall be released and discharged from all rights, duties, responsibilities, and liabilities arising from, or related to, the Chapter 11 Case; provided, however, that the Creditors' Committee and the Members' Committee shall each be deemed to remain in existence solely for the purpose of preparation, filing and prosecution of applications filed pursuant to sections 330 and 331 of the Bankruptcy Code.

G. Reservation of Rights

Except as expressly set forth in the Plan, the Plan shall have no force or effect unless the Bankruptcy Court shall enter the Confirmation Order. None of the filing of the Plan, any statement or provision contained in the Plan, or the taking of any action by any Debtor with respect to the Plan, the Disclosure Statement, or the Plan Supplement shall be or shall be deemed to be an admission or waiver of any rights of any Debtor with respect to the holders of Claims or Equity Interests prior to the Effective Date.

H Successors and Assigns

The rights, benefits, and obligations of any Entity named or referred to in the Plan shall be binding on, and shall inure to the benefit or any heir, executor, administrator, successor or assign, affiliate, officer, director, agent, representative, attorney, beneficiary, or guardian, if any, of each Entity.

I. Service of Documents

After the Effective Date, any pleading, notice, or other document required by the Plan to be served on or delivered to the Reorganized Debtor shall be served on:

	Counsel to the Debtor
Handy Hardware Wholesale, Inc. 8300 Tewantin Drive Houston, Texas 77061 Attn: Thomas J. Schifanella, Jr. MCA Financial Group 4909 N. 44th Street Phoenix, AZ 85018 Attn: Morrie C. Aaron	ASHBY & GEDDES, P.A. 500 Delaware Avenue, 8th Floor P.O. Box 1150 Wilmington, DE 19899 Attn: William P. Bowden, Esq. Gregory A. Taylor, Esq. Amanda Winfree Herrmann, Esq. Stacy L. Newman, Esq.
Counsel to the Creditors' Committee	
LOWENSTEIN SANDLER LLP 65 Livingston Avenue Roseland, New Jersey 07068 Attn: Sharon Levine, Esq. Jeffrey Prol, Esq.	THE ROSNER LAW GROUP LLC 824 Market Street, Suite 810 Wilmington, Delaware 19801 Attn: Frederick B. Rosner, Esq. Julia B. Klein, Esq.

1251 Avenue of the Americas New York, New York 10020 Attn: Bruce Nathan, Esq.	
Counsel to the DIP Lender	
K&L GATES LLP 1717 Main Street, Suite 2800 Dallas, Texas 75201 Attn: David Weitman, Esq. david.weitman@klgates.com	DLA PIPER, LLP 919 North Market Street, Suite 1500, Wilmington, Delaware 19801 Attn: Stuart Brown, Esq.
Counsel to the Members' Committee	
[TBD]	
United States Trustee	
OFFICE OF THE UNITED STATES TRUSTEE 844 King Street, Suite 2207 Lockbox 35 Wilmington, DE 19801 Attn: Richard L. Schepacarter, Esq.	Add the Member CEE TBD

J. Term of Injunctions or Stays

Unless otherwise provided in the Plan or in the Confirmation Order, all injunctions or stays in effect in the Chapter 11 Case pursuant to section 105 of 362 of the Bankruptcy Code or any other of the Bankruptcy Court, and existing on the Confirmation Date (excluding injunctions or stays contained in the Plan or the Confirmation Order) shall remain in full force and effect until the Effective Date. All injunctions or stays contained in the Plan or the Confirmation Order shall remain in full force and effect in accordance with their terms.

K. Entire Agreement

Except as otherwise indicated, the Plan supersedes all previous and contemporaneous negotiations, promises, covenants, agreements, understandings, and representations on such subjects, all of which have become merged and integrated into the Plan.

L. Plan Supplement and Exhibits

All exhibits and documents included in the Plan Supplement are incorporated into and are a part of the Plan as if set forth in full in the Plan. After the exhibits and documents are filed, copies of such exhibits and documents shall be made available upon written request to the Debtor's counsel at the address above or by downloading such exhibits and documents from http://www.donlinrecano.com/handyhardware or the Bankruptcy Court's website at www.deb.uscourts.gov. Unless otherwise ordered by the Bankruptcy Court, to the extent any exhibit or document in the Plan Supplement is inconsistent with the terms of any part of the Plan

that does not constitute the Plan Supplement, such part of the Plan that does not constitute the Plan Supplement shall control.

M. Severability

If, prior to Confirmation, any term or provision of the Plan is held by the Bankruptcy Court to be invalid, void, or unenforceable, the Bankruptcy Court shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such holding, alteration, or interpretation, the remainder of the terms and provision of the Plan will remain in full force and effect and will in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of the Plan, as it may have been altered or interpreted in accordance with the foregoing, is (i) valid and enforceable pursuant to its terms, (ii) integral to the Plan and may not be delete or modified without the Debtor's consent, and (iii) non-severable and mutually dependent.

XIV. CERTAIN FACTORS TO BE CONSIDERED REGARDING THE PLAN

Holders of Claims against the Debtor should read and consider carefully the factors set forth below, as well as the other information set forth in this Disclosure Statement (and the documents delivered together herewith and/or incorporated by reference), prior to voting to accept or reject the Plan. These risk factors should not, however, be regarded as constituting the only risks involved in connection with the Plan and its implementation.

A. Bankruptcy Considerations

An objection to confirmation of the Plan could prevent confirmation or delay confirmation for a significant period of time. In such case, the Effective Date may not occur and payments to creditors may be delayed. In addition, if the Plan is not confirmed, the Chapter 11 Case may be converted to a case under chapter 7 of the Bankruptcy Code, in which event the Debtor believes that creditor recoveries will be substantially diminished.

The Debtor believes that the Effective Date will occur approximately 60 days after the entry of the Confirmation Order, although there can be no assurance that each of the conditions to the Effective Date will be satisfied by such date.

B. Risks Regarding Amount of Unsecured Claims

As of the Petition Date, there were approximately $40 million of General Unsecured Claims scheduled by the Debtor. The General Unsecured Claims' administration process is continuing on a limited basis and may result in an increased number. It is also possible that the dollar amount of General Unsecured Claims could increase if the Bankruptcy Court determines that any claimant did not receive adequate notice of the applicable Bar Date and therefore allows such claimant's late-filed General Unsecured Claims. Accordingly, the pro rata recoveries for the holders of General Unsecured Claims against the Debtor are uncertain.

C. Authority to Effectuate Plan

Upon the Confirmation Order becoming a Final Order, all matters provided under the Plan shall be deemed to be authorized and approved without the requirement of further approval from the Bankruptcy Court, the Debtor or the Debtor's Board of Directors, Members or shareholders, as applicable.

XV. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

Circular 230 Disclaimer: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code of 1986, as amended (the "IRC"), or (ii) promoting, marketing or recommending to another party any transaction or tax matter(s) addressed herein.

The following discussion summarizes certain federal income tax consequences of the Plan to the Debtor and to holders of General Unsecured Claims. This summary does not address the federal income tax consequences to holders of Equity Interests and to holders whose Claims or Equity Interests (i) are paid in full, in Cash, or which are otherwise not impaired under the Plan (i.e., DIP Facility Claims, Administrative Claims, Professional Fee Claims, and Priority Tax Claims) or (ii) that are not receiving any Distribution under the Plan.

This summary is based on the IRC, the Treasury Regulations promulgated and proposed thereunder, judicial decisions and published administrative rulings and pronouncements of the IRS currently in effect. These authorities are all subject to change, possibly with retroactive effect, and any such change could alter or modify the federal income tax consequences described below.

This summary does not address foreign, state or local income tax consequences, or any estate or gift tax consequences of the Plan, nor does it purport to address the federal income tax consequences of the Plan to special classes of taxpayers (such as foreign companies, nonresident alien individuals, S corporations, banks, mutual funds, insurance companies, financial institutions, small business investment companies, regulated investment companies, investors in pass-through entities, broker-dealers and tax-exempt organizations). Accordingly, this summary should not be relied upon for purposes of determining the specific tax consequences of the Plan with respect to a particular holder of a Claim against the Debtor.

Due to the possibility of changes in law, differences in the nature of various Claims, differences in individual Claim holders' methods of accounting, and the potential for disputes as to legal and factual matters, the federal income tax consequences described herein are subject to significant uncertainties. No ruling has been applied for or obtained from the IRS, and no opinion of counsel has been requested or obtained by the Debtor with respect to any of the tax aspects of the Plan. No representations are being made regarding the particular tax consequences of the Plan to the Debtor or any holder of a Claim or Interest.

THE TAX CONSEQUENCES TO HOLDERS OF CLAIMS AGAINST THE DEBTOR MAY VARY BASED UPON THE INDIVIDUAL CIRCUMSTANCES OF EACH SUCH HOLDER. THIS DISCUSSION DOES NOT CONSTITUTE TAX ADVICE OR A TAX OPINION CONCERNING THE MATTERS DESCRIBED. THERE CAN BE NO ASSURANCE THAT THE IRS WILL NOT CHALLENGE ANY OR ALL OF THE TAX CONSEQUENCES DESCRIBED HEREIN, OR THAT SUCH A CHALLENGE, IF ASSERTED, WOULD NOT BE SUSTAINED. ACCORDINGLY, EACH HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE, LOCAL, FOREIGN OR OTHER TAX CONSEQUENCES OF THE PLAN.

A. Federal Income Tax Consequences of the Plan to the Debtor

From and after the Effective Date, the Reorganized Debtor shall continue to exist under applicable state law and shall be operated for tax purposes as a cooperative under Subchapter T of the Internal Revenue Code.

Upon implementation of the Plan, the amount of the Debtor's aggregate outstanding indebtedness will be reduced substantially. In general, the discharge of a debt obligation in exchange for an amount of cash and other property having a fair market value (or, if applicable, in the case of a new debt instrument, an "issue price") less than the "adjusted issue price" of the debt gives rise to cancellation of indebtedness ("COD") income to the debtor; however, COD income is not taxable to the debtor if the debt discharge occurs in a Title 11 bankruptcy case. Rather, under the IRC, such COD income instead will reduce certain of the Debtors' tax attributes, including net operating losses ("NOLs") and NOL carryovers, capital loss carryforwards, certain tax credits, and the tax basis of property of the Debtor.

B. Federal Income Tax Consequences to Holders of General Unsecured Claims Against the Debtor

The federal income tax consequences to General Unsecured Creditors will differ and will depend on factors specific to each such creditor, including, but not limited to: (i) whether the General Unsecured Creditor's Claim (or a portion thereof) constitutes a Claim for principal or interest, (ii) the origin of the General Unsecured Creditor's Claim, (iii) the General Unsecured Creditor's holding period for the claim, (iv) whether the General Unsecured Creditor is a United States person or a foreign person for United States federal income tax purposes, (v) whether the General Unsecured Creditor reports income on the accrual or cash basis method, and (vi) whether the General Unsecured Creditor has taken a bad debt deduction or otherwise recognized a loss with respect to the Claim.

Generally, a General Unsecured Creditor will recognize gain or loss equal to the difference between the "amount realized" by such creditor and such creditor's adjusted tax basis in his, her or its Claim. The amount realized is equal to the value of such creditor's Pro Rata share of the proceeds of the Debtor's assets received under the Plan. Any gain or loss realized by a General Unsecured Creditor should constitute ordinary income or loss to such creditor unless such Claim is a capital asset in the hands of such General Unsecured Creditor. If a Claim is a capital asset and it has been held for more than one year, such creditor will realize long-term capital gain or loss.

THERE ARE MANY FACTORS THAT WILL DETERMINE THE TAX CONSEQUENCES TO EACH GENERAL UNSECURED CREDITOR. FURTHERMORE, THE TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND IN SOME CASES UNCERTAIN. THEREFORE, IT IS IMPORTANT THAT EACH CREDITOR OBTAIN HIS, HER OR ITS OWN PROFESSIONAL TAX ADVICE REGARDING THE TAX CONSEQUENCES TO SUCH CREDITOR AS A RESULT OF THE PLAN.

C. Withholding and Reporting

Payments of interest, dividends and certain other payments are generally subject to backup withholding at the rate of 28% unless the payee of such payment furnishes such payee's correct taxpayer identification number (social security number or employer identification number) to the payor. The Debtor may be required to withhold the applicable percentage of any payments made to a holder who does not provide his, her or its taxpayer identification number. Backup withholding is not an additional tax, but an advance payment that may be refunded to the taxpayer by the IRS to the extent that the backup withholding results in an overpayment of tax by such taxpayer in such taxable year.

THE FOREGOING IS INTENDED TO BE ONLY A SUMMARY OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING WITH A TAX PROFESSIONAL. THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES OF THE PLAN ARE COMPLEX AND IN SOME CASES UNCERTAIN. SUCH CONSEQUENCES MAY ALSO VARY BASED ON THE INDIVIDUAL CIRCUMSTANCES OF EACH HOLDER OF A CLAIM AGAINST THE DEBTOR. ACCORDINGLY, EACH HOLDER OF A CLAIM IS STRONGLY URGED TO CONSULT WITH HIS, HER OR ITS OWN TAX ADVISOR REGARDING THE FEDERAL, STATE AND LOCAL INCOME AND OTHER TAX CONSEQUENCES UNDER THE PLAN.

XVI. LIQUIDATION ANALYSIS

For the Bankruptcy Court to confirm the Plan, § 1129(a)(7) of the Bankruptcy Code requires Creditors receive under the Plan as much or more than such Creditors would receive if the Debtor were liquidated under Chapter 7. This is the so-called best interest of creditors' test. Specifically, the Debtor believes that the members of each Impaired Class will receive more under the Plan than they would in a liquidation. The Debtor's Liquidation Analysis is attached to

this Disclosure Statement as **Exhibit B.**

XVII. CONCLUSION AND RECOMMENDATION

The Debtor believes the Plan is in the best interests of all holders of Claims, and urges those holders of Claims entitled to vote to accept the Plan and to evidence such acceptance by returning their Ballots so they will be **RECEIVED** by DRC no later than May 6, 2013, at 5:00 p.m. (prevailing Eastern Time). If the Plan is not confirmed, the holders in those Classes may not receive a distribution.

Dated: March 6, 2013

HANDY HARDWARE WHOLESALE, INC.

By: _____
Name: _____
Title: _____

EXHIBIT A

[Plan of Reorganization]

EXHIBIT B

[Liquidation Analysis]

TO BE FILED