

**Court File No. CV-11-9514-00CL**

**HARTFORD COMPUTER HARDWARE INC.**

**PRE-FILING REPORT TO THE COURT SUBMITTED BY  
FTI CONSULTING CANADA INC., IN ITS CAPACITY AS  
PROPOSED INFORMATION OFFICER**

**December 12, 2011**

**ONTARIO  
SUPERIOR COURT OF JUSTICE  
(COMMERCIAL LIST)**

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF CERTAIN PROCEEDINGS TAKEN IN THE  
UNITED STATES BANKRUPTCY COURT FOR THE NORTHERN  
DISTRICT OF ILLINOIS EASTERN DIVISION WITH RESPECT TO THE  
COMPANY LISTED ON SCHEDULE "A" HERETO ("HARTFORD" OR THE  
"CHAPTER 11 DEBTORS")**

**APPLICATION OF HARTFORD COMPUTER HARDWARE, INC.**

**UNDER SECTION 46 OF THE  
COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36, AS AMENDED**

**PRELIMINARY REPORT TO THE COURT  
SUBMITTED BY FTI CONSULTING CANADA INC.  
IN ITS CAPACITY AS PROPOSED INFORMATION OFFICER**

**INTRODUCTION**

1. FTI Consulting Canada Inc. ("**FTI Consulting**" or the "**Proposed Information Officer**") has been informed that on December 12, 2011 (the "**Petition Date**"), the Chapter 11 Debtors filed voluntary petitions under Chapter 11 of Title 11 of the United States Code (the "**Chapter 11 Proceedings**") in the United States Bankruptcy Court for the Northern District of Illinois Eastern Division (the "**US Bankruptcy Court**"). The Proposed Information Officer is informed by counsel for the Chapter 11 Debtors that motions for the first day orders (the "**First Day Orders**") in the Chapter 11 Proceedings are anticipated to be heard one day this week.

2. The Proposed Information Officer understands that Hartford Computer Hardware, Inc. (“**HCH**”) pending formal appointment by the US Bankruptcy Court as a foreign representative of the Chapter 11 Debtors (the “**Foreign Representative**”), intends to commence proceedings (the “**Recognition Proceedings**”) before this Honourable Court. As part of the Recognition Proceedings, the Foreign Representative will seek an Order (the “**Interim Initial Order**”) under Part IV of the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36 (the “**CCAA**”), which would grant certain limited interim relief including an interim stay of proceedings until a request for an Initial Recognition Order and a Supplemental Order (each as defined herein) can be heard. The Proposed Information Officer understands that the foreign representative appointment motion is currently pending before the US Bankruptcy Court.
3. FTI Consulting hereby submits this report (the “**Pre-Filing Report**”) to provide some background information and to assist this Honourable Court in considering the Foreign Representative’s request for the Interim Initial Order, and to provide this Court with information concerning the contemplated initial proceedings in the Chapter 11 Proceedings and in the Recognition Proceedings.
4. In preparing this Pre-Filing Report, FTI Consulting has relied solely on information and documents provided by the Foreign Representative, the Chapter 11 Debtors and their affiliates and their counsel. FTI Consulting has not audited, reviewed or otherwise attempted to independently verify the accuracy of completeness of this information. Accordingly, FTI Consulting expresses no opinion or other form of assurance on the information contained herein.
5. Unless otherwise stated, all monetary amounts contained herein are expressed in United States dollars.

## BACKGROUND

6. The Chapter 11 Debtors are one of the leading providers of repair and installation services in North America for consumer electronics and computers. The Chapter 11 Debtors operate in 4 locations in the United States and 1 in Canada located in Markham, Ontario. The Chapter 11 Debtors have 486 employees of which approximately 113 are located in Canada. The Chapter 11 Debtors operate in three complementary business lines: parts distribution and repair, depot repair and onsite repair and installation. Products serviced include laptop and desktop computers, commercial computer systems, flat-screen televisions, consumer gaming units, printers, interactive whiteboards, peripherals, servers, point of sale devices and other electronic devices.
  
7. Based on the declaration of Mr. Brian Mittman, dated December 12, 2011 filed with the US Bankruptcy Court the Proposed Information Officer understands that on May 9, 2005, the Chapter 11 Debtors entered into a restructuring agreement (the “**Restructuring Agreement**”) with Delaware Street Capital Master Fund, L.P. (the “**Prepetition Senior Lender**”), MRR Venture LLC (“**MRR**”), ARG Investments (“**ARG**”), SKM Equity Fund II, L.P. (“**SKM I**”), and SKM Investment Fund II (“**SKM II**” and together with MRR, ARG and SKM I, the “**Subordinated Lenders**”), HCG Financial Services, Inc. (the “**Financial PO Lender**”), and Enable Systems, Inc. Pursuant to the Restructuring Agreement, the Chapter 11 Debtors amended and restructured their agreements with their various stakeholders. Specifically, after the execution and effectiveness of the Restructuring Agreement, the Chapter 11 Debtors’ long-term, secured debt was as follows:

- (a) pursuant to that certain Amended and Restated Loan and Security Agreement dated as of December 17, 2004 among the Chapter 11 Debtors and the Prepetition Senior Lender and various promissory notes and other documents (collectively, as may have been amended, supplemented, and modified, the “**Senior Credit Agreement**”), the Chapter 11 Debtors are indebted to the Prepetition Senior Lender, as of the Petition Date, the aggregate amount of \$70,573,615; and
  - (b) pursuant to that certain Substituted and Amended Subordinated Promissory Note dated May 9, 2005, made by Hartford in favor of MRR (the “**Prepetition Subordinated Lender**”), Hartford was indebted to Prepetition Subordinated Lender in the amount of \$1,519,868.
8. Over the past 5 years, the Chapter 11 Debtors implemented key turnaround initiatives under the leadership of Hartford’s CEO, Mr. Brian Mittman. The Chapter 11 Debtors focused on creating an efficient operation capable of delivering high quality service. During that period, the Chapter 11 Debtors’ total revenues have grown from \$55.1 million in 2006 to \$95.1 million. Given the Chapter 11 Debtors’ recent performance, as well as their capital structure, the Chapter 11 Debtors commenced an aggressive marketing and sales effort so as to take advantage of their improvements in performance and earnings for the benefit of all their creditors.

## **CENTRE OF MAIN INTEREST**

9. While the Chapter 11 Debtors have operations in Canada through one of their companies, Hartford Computer Group, Inc. (“**HCG**”) such Canadian operations are fully integrated with the operations in the United States and are controlled by the senior management team located in California. There is one general manager for the Canadian operations who is located in Canada. There is no separate Canadian legal entity and the registered offices and head office for each of the Chapter 11 Debtors is in the United States. The Canadian creditors are creditors of HCG., Based on the foregoing, the Proposed Information Officer is of the view that, the Chapter 11 Debtors’ “centre of main interest” is in the United States.

## **THE SALES PROCESS**

10. It is the Proposed Information Officer’s understanding that the Chapter 11 Debtors have decided that the best way to maximize value for their stakeholders is to complete a sale of all or substantially all of their assets on the most favourable terms possible.
11. The Chapter 11 Debtors undertook an extensive marketing process which is described in greater detail below. The result of the marketing process to date is that on December 12, 2011, the Chapter 11 Debtors entered into an asset purchase agreement (the “**Stalking Horse Agreement**”) with Avnet Inc. and Avnet International (Canada) Ltd. (together “**Avnet**” or the “**Purchaser**”) for the sale of substantially all of the Chapter 11 Debtors’ assets and the assumption of certain liabilities by Avnet. The Chapter 11 Debtors propose that the Stalking Horse Agreement will be used as the basis for concluding the sales process (the “**Sales Process**”) with the expectation of achieving the highest and best offer for the assets of the Chapter 11 Debtors.

12. Since late January 2011, the Chapter 11 Debtors, with the assistance of their advisors, have actively marketed the business focusing on a sale of substantially all of their assets as a going concern. Prior to the commencement of the Chapter 11 Proceedings, the Chapter 11 Debtors retained Paragon Capital Partners, LLC (“**Paragon**”) to act in an advisory capacity to explore strategic alternatives. As part of this evaluation, the Chapter 11 Debtors and Paragon have aggressively pursued a potential sale of substantially all of the assets of HCH, HCG and Nexicore Services LLC (the “**Acquired Assets**”). The Chapter 11 Debtors and Paragon undertook exhaustive efforts to solicit interest in the Chapter 11 Debtors from third parties with the potential to acquire all or a substantial portion of the Acquired Assets.
13. At the outset of this process, the Chapter 11 Debtors determined, in consultation with their advisors and the Prepetition Senior Lender, to focus their sale efforts on locating a stalking horse bidder for substantially all of their assets. The Chapter 11 Debtors believe that their businesses and assets have little value if liquidated separately, and that a sale process that includes a sale of substantially all of the Acquired Assets as a going concern will maximize value to the estates.
14. During the marketing process, the Chapter 11 Debtors and Paragon identified and contacted approximately ninety-one potential strategic and financial counterparties. Approximately thirty-two of these parties executed confidentiality agreements and received a confidential information memorandum providing extensive information relating to the Chapter 11 Debtors’ businesses, financial performance and projections, customers, programs, technology, information systems, operations, facilities, management and employees.

15. Approximately eleven companies received a detailed management presentation, either in-person or by phone, and were given the opportunity to speak extensively with the Chapter 11 Debtors and their advisors. Of these, eight companies were strategic buyers (including five public companies with a median market capitalization in excess of \$4 billion), and three were major private equity firms with relevant portfolio companies and significant funds under management. Six of these parties submitted written indications of interest to acquire all of the Acquired Assets of the Chapter 11 Debtors as a going concern (the Acquired Assets exclude the Chapter 11 Debtors' hardware business). Five of these parties attended in-person management presentations conducted by the Chapter 11 Debtors' senior management team, and conducted site visits with respect to the Acquired Assets.
16. All of these eleven parties were granted access to supplemental due diligence materials made available on an electronic data site (the "**Data Site**"). One of these parties, the Purchaser, submitted a preliminary proposal and subsequently submitted a definitive agreement. As of November 3, 2011, the Purchaser had a market capitalization of approximately \$4.6 billion. For its most recent fiscal year ending July 2, 2011, the Purchaser reported total sales of \$26.5 billion and had cash on its balance sheet of \$675 million.
17. The Purchaser's offer was the basis of extensive discussions and negotiations with the Chapter 11 Debtors, ongoing diligence and discussions with management, and visits to the Chapter 11 Debtors' facilities. As a result, on December 12, 2011, the Chapter 11 Debtors executed the Stalking Horse Agreement with the Purchaser for the purchase of the Acquired Assets for:
  - (a) (i) an aggregate price of \$35 million; plus
  - (b) (ii) a working capital adjustment and potential earnout; and



- (c) (iii) the assumption of certain liabilities, including certain cure costs and post-petition administrative expenses.
18. At this juncture, the Purchaser's bid is the highest and best offer that the Chapter 11 Debtors have received for the Acquired Assets. Now that the Chapter 11 Debtors have concluded negotiations with the Purchaser as the stalking horse bidder (subject to approval by the US Bankruptcy Court), the Chapter 11 Debtors have begun to (and plan to continue to) focus their attention, time, and energy on bidders with continuing interest in the Chapter 11 Debtors' assets in order to pursue the possibility that value may be maximized at an auction.
19. Because of various factors, including the requirements for the Chapter 11 Debtors' maintenance of its debtor-in-possession financing, and the Purchaser's desire not to unnecessarily tie up capital and the risk of losing other business opportunities, the Chapter 11 Debtors have proposed to move forward with the Sales Process on an expedited basis and within a specified time frame. Consequently, the Chapter 11 Debtors have determined that it is in the best interest of their estates, creditors, and other parties in interest to move forward with the Sales Process.
20. Accordingly, the Chapter 11 Debtors have filed a motion in the US Bankruptcy Court to approve the Sales Process and have proposed the following timeline for the sale of the Acquired Assets:<sup>1</sup>
- January 3, 2012 – Bidding Procedures Hearing
  - February 13, 2012 – Submission Deadline for Qualified Bids
  - February 16, 2012 – Auction
  - February 17, 2012 – Proposed Sale Hearing

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<sup>1</sup> The Chapter 11 Debtors, in the exercise of their business judgment, reserve their right to change these sale-related dates in order to achieve the maximum value for the Acquired Assets, while cognizant of the deadlines set forth in the Agreement.

21. The Foreign Representative will be bringing a motion to recognize the Sales Process upon such order having been made in the Chapter 11 Proceedings.

### **INTERIM FINANCING**

22. We understand that the Chapter 11 Debtors have filed a motion in the Chapter 11 Proceedings seeking authorization to obtain post petition financing through a senior secured post-petition loan agreement with Delaware Street Capital Master Fund, L.P. (the "DIP Facility") in the amount of \$14.4 million.
23. The DIP Facility will be used to finance the ordinary costs of operating the business, the maintenance of business relationships with vendors, suppliers and customers, making payroll obligations and satisfying other working capital and operational needs.
24. The Canadian operations of HCG will continue to be funded as required in the ordinary course through the activities of the Chapter 11 Debtors.
25. The Foreign Representative will be bringing a motion to recognize the DIP Facility.

### **INITIAL APPLICATION TO THE US BANKRUPTCY COURT**

26. It is anticipated that the Chapter 11 Debtors will bring motions before the US Bankruptcy Court within the next few days seeking certain First Day Orders from the US Bankruptcy Court to permit them to continue to operate their business in the ordinary course. The Proposed Information Officer understands that the First Day Orders being sought include the following:
  - (a) Joint Administration Order directing the joint administration of the Chapter 11 Proceedings;

- (b) Foreign Representative Order authorizing HCH to act as the Foreign Representative in of the Chapter 11 Debtors in Canada;
- (c) Pre-petition Wages Order authorizing payment of certain pre-petition wages, salaries and employee benefits and reimbursement of employee business expenses;
- (d) Customer Obligation Order authorizing the Chapter 11 Debtors to pay certain pre-petition obligations to their customers and to continue their customer programs and practices;
- (e) Prepetition Shipping Order authorizing the payment of certain pre-petition shipping charges;
- (f) Insurance Order authorizing the Chapter 11 Debtors to honour prepetition insurance policies and to renew such policies in the ordinary course;
- (g) Prepetition Taxes Order authorizing the payment of pre-petition sales, use and other tax obligations;
- (h) Utilities Order prohibiting utility providers from altering or discontinuing service on account of pre-petition invoices and establishing procedures for determining adequate assurance of payments for future utility services;
- (i) Cash Management Order authorizing the continued use of certain pre-petition bank accounts, business forms and the cash management system;
- (j) Claims Agent Order authorizing the appointment of Kurtzman Carson Consultants LLC as the Official Claims and Noticing Agent; and

- (k) Interim DIP Facility Order authorizing the Chapter 11 Debtors to obtain post-petition financing and the use of cash collateral and granting adequate protection to the Prepetition Secured Lenders.
- 27. In addition to the First Day Orders, within the next month, the Chapter 11 Debtors intend to seek a Bidding Procedures and Sale Order from the US Bankruptcy Court granting the terms of the Sales Process referred to in paragraph 18. The Foreign Representative then intends to seek recognition of this order in these proceedings.
- 28. If appointed, the Proposed Information Officer will have an opportunity to comment on the future recognition orders being sought by the Chapter 11 Debtors in the Chapter 11 Proceedings and in respect of such further motions as are brought before this Honourable Court.

#### **INITIAL APPLICATION TO THE CANADIAN COURT**

- 29. The Proposed information Officer understands that an application will be brought before this Honourable Court by the Foreign Representative (once its appointment has been confirmed by the US Bankruptcy Court) on or about December 12, 2011, to obtain the Interim Initial Order until the motion for the Initial Recognition Order (as defined below) can be heard. The Proposed Information Officer understands that the relief sought in Canada, in respect of the stay of proceedings, is comparable to the relief given to the Chapter 11 Debtors as a result of their voluntary petitions in the Chapter 11 Proceedings.
- 30. The Foreign Representative intends to return for a further hearing before this Honourable Court, anticipated to be within a week of the date of the Interim Initial Order, to request, among other things, the following orders:
  - (a) an Order (the “**Initial Recognition Order**”):

- (i) recognizing the Chapter 11 Proceedings as a “foreign main proceeding”;
  - (ii) recognizing HCH as the Foreign Representative for the Chapter 11 Debtors;
- (b) an Order (the “**Supplemental Order**”):
- (i) recognizing the First Day Orders;
  - (ii) providing for the continuance of services to the Chapter 11 Debtors, including without limitation, all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation & logistics services, utilities and other services provided by third parties;
  - (iii) appointing FTI Consulting as the Information Officer (in such capacity, the “Information Officer”), as an officer of the Court; and
  - (iv) granting a first-ranking charge on the business assets, undertakings and properties of the Chapter 11 Debtors located in Canada as security for the professional fees and disbursements incurred by the Information Officer and its counsel, in respect of the Recognition Proceedings both before and after the granting of the Supplemental Order.

## **NOTICE TO CREDITORS AND AVAILABILITY OF PRESCRIBED INFORMATION**

31. At the request of the Chapter 11 Debtors, if the Recognition Order is granted, the Proposed Information Officer will send notice of the Chapter 11 Proceedings and the Recognition Proceedings to all known creditors of the Chapter 11 Debtors in Canada within five business days of the granting of that Order.
32. The Proposed Information Officer has established a website at <http://cfcanada.fticonsulting.com/hartford> to make available copies of the Orders granted in the Recognition Proceedings as well as other relevant motion materials and reports. In addition, the Proposed Information Officer will from time to time reports as needed on the status of the Chapter 11 Proceedings and the restructuring process.

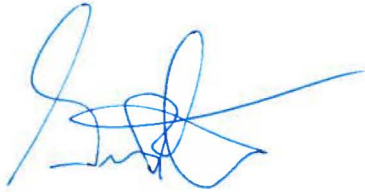
## **SUMMARY**

33. The Proposed Information Officer understands that the Chapter 11 Debtors have filed petitions commencing the Chapter 11 Proceedings and that a stay of proceedings in respect of the Chapter 11 Debtors' property and business in Canada, and also in respect of the directors and officers of the Chapter 11 Debtors, is required in order to obtain sufficient time to affect a sale of the business.
34. The Proposed Information Officer is of the view that granting the Initial Interim Order is appropriate in the circumstances, having regard to the current status of the Chapter 11 Debtors, the orders made in the US Bankruptcy Court and to allow for co-ordination of the Recognition Proceedings with the Chapter 11 Cases.
35. The Proposed Information Officer understands that the Interim Initial Order is being sought from this Honourable Court with limited notice to affected parties, and that future Orders of the Honourable Court will be sought on appropriate notice to those parties.

The Proposed Information Officer respectfully submits to the Court this Pre-Filing Report.

Dated this 12<sup>th</sup> day of December, 2011.

FTI Consulting Canada Inc.  
The Proposed Information Officer of  
Hartford Computer Hardware, Inc.



Greg Watson  
Senior Managing Director



Toni Vanderlaan  
Managing Director

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# Schedule A

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**The Chapter 11 Debtors**



## **The Chapter 11 Debtors**

1. Hartford Computer Hardware, Inc.
2. Nexicore Services, LLC
3. Hartford Computer Group, Inc.
4. Hartford Computer Government, Inc