

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

<b>In re:</b>	)	<b>Chapter 11</b>
	)	
<b>WW WAREHOUSE, INC., f/k/a</b>	)	
<b>WOODWORKERS WAREHOUSE, INC.,</b>	)	
	)	<b>Case No. 03-13655(JBR)</b>
<b>Debtor.</b>	)	

**FIRST AMENDED DISCLOSURE STATEMENT OF THE DEBTOR AND  
THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS' JOINT  
PLAN OF LIQUIDATION OF WW WAREHOUSE, INC., F/K/A  
WOODWORKERS WAREHOUSE, INC.**

**SAUL EWING LLP**

Donald J. Detweiler, Esquire  
Tara L. Lattomus, Esquire  
222 Delaware Avenue, Suite 1200  
P.O. Box 1266  
Wilmington, DE 19899

and

Irving E. Walker, Esquire  
Joyce A. Kuhns, Esquire  
Saul Ewing LLP  
100 South Charles Street  
Baltimore, MD 21201-2773

**THE BAYARD FIRM**

Steven M. Yoder, Esquire  
Christopher A. Ward, Esquire  
222 Delaware Avenue, Suite 900  
P.O. Box 25130  
Wilmington, DE 19899

**Attorneys for WW Warehouse, Inc.,  
f/k/a Woodworkers Warehouse, Inc.,  
the Debtor and  
Debtor-in-Possession**

---

**Attorneys for the Official Committee of  
Unsecured Creditors of  
WW Warehouse, Inc., f/k/a  
Woodworkers Warehouse, Inc.**

Dated: June 16, 2004  
Wilmington, Delaware

**TABLE OF CONTENTS**

<u>PAGE</u>	
I.	<u>PURPOSE OF DISCLOSURE STATEMENT</u> .....1
II.	<u>DISCLAIMER</u> .....1
III.	GENERAL INFORMATION ON CONFIRMATION PROCEDURE AND <u>VOTING</u> .....3
IV.	<u>BACKGROUND OF THE DEBTOR</u> .....7
V.	<u>WOODWORKERS BANKRUPTCY CASE</u> .....10
VI.	<u>PLAN FORMULATION PROCESS</u> .....18
VII.	<u>KEY PROVISIONS OF THE PLAN TERM</u> .....22
VIII.	<u>CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN</u> .....46
IX.	<u>FEASIBILITY OF PLAN</u> .....47
X.	<u>CERTAIN RISK FACTORS TO BE CONSIDERED</u> .....47
XI.	<u>ALTERNATIVES TO PLAN – CHAPTER 7</u> .....48
XII.	<u>RECOMMENDATIONS</u> .....49
XIII.	<u>CONCLUSION</u> .....50

**THIS IS A SOLICITATION BY WW WAREHOUSE, INC., f/k/a  
WOODWORKERS WAREHOUSE, INC., THE DEBTOR AND DEBTOR-IN-  
POSSESSION, AND ITS OFFICIAL COMMITTEE OF UNSECURED CREDITORS  
AND IS NOT A SOLICITATION BY THEIR RESPECTIVE ATTORNEYS, FINANCIAL  
ADVISORS OR OTHER PROFESSIONAL ADVISORS. INFORMATION CONTAINED  
HEREIN HAS NOT BEEN SUBJECT TO A CERTIFIED AUDIT.**

## **I. PURPOSE OF DISCLOSURE STATEMENT**

WW Warehouse, Inc., f/k/a Woodworkers Warehouse, Inc. (the "Debtor," "Woodworkers" or the "Company") and its Official Committee of Unsecured Creditors (the "Committee") (jointly, the "Proponents") provide this Disclosure Statement of the Debtor and the Official Committee of Unsecured Creditors' Joint Plan of Liquidation of WW Warehouse, Inc. (this "Disclosure Statement") to the Office of the United States Trustee, the Securities and Exchange Commission and to all of the Debtor's known Creditors<sup>1</sup> and Equity Interest holders pursuant to section 1125(b) of Title 11 of the United States Code (the "Bankruptcy Code") for the purpose of soliciting acceptances of the Joint Plan of Liquidation of WW Warehouse, Inc. (the "Plan"), which has been filed with the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court"). The Bankruptcy Court approved this Disclosure Statement by Order dated June 14, 2004 (the "Disclosure Statement Order") as containing "adequate information" of a kind and in sufficient detail to enable a hypothetical reasonable investor typical of a Creditor or Equity Interest holder to make an informed decision to accept or reject the Plan.

The Proponents strongly urge you to read this Disclosure Statement because it contains a summary of the Plan and important information concerning the Debtor. This Disclosure Statement also provides information regarding alternatives to the Plan. A copy of the Plan is attached to this Disclosure Statement as **Exhibit A**.<sup>2</sup> If you want to review a much more abbreviated form of Disclosure Statement that does not have the details contained herein, you may visit the website for the Balloting Agent, [www.delawareclaimsagency.com](http://www.delawareclaimsagency.com), and access the "Disclosure Statement - - Executive Summary" under the case administration docket.

## **II. DISCLAIMER**

NO PERSON MAY GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DISCLOSURE STATEMENT, REGARDING THE PLAN OR THE SOLICITATION OF ACCEPTANCES OF THE PLAN.

PLAN SUMMARIES AND STATEMENTS MADE IN THIS DISCLOSURE STATEMENT, INCLUDING THE EXECUTIVE SUMMARY, ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE PLAN, OTHER EXHIBITS, SUPPLEMENTS TO THE PLAN AND THIS DISCLOSURE STATEMENT. THE STATEMENTS CONTAINED IN THIS DISCLOSURE STATEMENT ARE MADE ONLY AS OF THE DATE HEREOF, AND THERE CAN BE NO ASSURANCE THAT THE STATEMENTS CONTAINED HEREIN WILL BE CORRECT AT ANY TIME HEREAFTER. ALL CREDITORS AND EQUITY INTEREST HOLDERS SHOULD READ CAREFULLY AND CONSIDER FULLY THE "RISK FACTORS" SECTION OF THIS DISCLOSURE STATEMENT BEFORE VOTING FOR OR AGAINST THE PLAN. TO THE EXTENT OF ANY INCONSISTENCY

---

<sup>1</sup> All capitalized terms not defined in this Disclosure Statement have the meaning ascribed to them in the Joint Plan of Liquidation of WW Warehouse, Inc., f/k/a Woodworkers Warehouse, Inc.

<sup>2</sup> A complete electronic copy of the Plan and Disclosure Statement may be found by accessing the Woodworkers electronic docket at [www.delawareclaimsagency.com](http://www.delawareclaimsagency.com).

BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN SHALL CONTROL.

AS TO CONTESTED MATTERS, ADVERSARY PROCEEDINGS AND OTHER ACTIONS OR THREATENED ACTIONS, THIS DISCLOSURE STATEMENT SHALL NOT CONSTITUTE OR BE CONSTRUED AS AN ADMISSION OF ANY FACT, LIABILITY, STIPULATION OR WAIVER, BUT RATHER AS A STATEMENT MADE IN FURTHERANCE OF SETTLEMENT NEGOTIATIONS.

THIS DISCLOSURE STATEMENT SUMMARIZES CERTAIN PROVISIONS OF THE PLAN, STATUTORY PROVISIONS, DOCUMENTS RELATED TO THE PLAN, EVENTS IN THE DEBTOR'S CHAPTER 11 CASE AND FINANCIAL INFORMATION. ALTHOUGH THE PROPONENTS BELIEVE THAT THE PLAN AND RELATED DOCUMENT SUMMARIES ARE FAIR AND ACCURATE, SUCH SUMMARIES ARE QUALIFIED TO THE EXTENT THAT THEY DO NOT SET FORTH THE ENTIRE TEXT OF SUCH DOCUMENTS OR STATUTORY PROVISIONS. FACTUAL INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT HAS BEEN PROVIDED BY DEBTOR'S MANAGEMENT FROM THE DEBTOR'S RECORDS AND PUBLIC PLEADINGS, EXCEPT WHERE OTHERWISE SPECIFICALLY NOTED. THE PROPONENTS ARE UNABLE TO WARRANT OR REPRESENT THAT THE INFORMATION THIS DISCLOSURE STATEMENT CONTAINS, INCLUDING THE FINANCIAL INFORMATION, IS WITHOUT INACCURACY OR OMISSION, ALTHOUGH DILIGENT EFFORTS HAVE BEEN MADE TO PRESENT ACCURATE AND COMPLETE INFORMATION. NEITHER PROPONENT ACCEPTS ANY RESPONSIBILITY FOR ANY INFORMATION PROVIDED BY THE OTHER PROPONENT.

THE INFORMATION CONTAINED IN THIS DISCLOSURE STATEMENT IS INCLUDED FOR PURPOSES OF SOLICITING ACCEPTANCES OF THE PLAN AND MAY NOT BE RELIED UPON FOR ANY PURPOSE OTHER THAN TO DETERMINE HOW TO VOTE ON THE PLAN.

THIS DISCLOSURE STATEMENT SHALL NOT BE ADMISSIBLE IN ANY NON-BANKRUPTCY PROCEEDING INVOLVING THE DEBTOR OR ANY OTHER PARTY, NOR SHALL IT BE CONSTRUED TO BE ADVICE ON THE TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN AS TO HOLDERS OF CLAIMS AGAINST, OR EQUITY INTERESTS IN, THE DEBTOR. ANY VALUE GIVEN AS TO ASSETS OF THE DEBTOR IS BASED UPON AN ESTIMATION OF SUCH VALUE. YOU ARE URGED TO CONSULT YOUR OWN COUNSEL AND FINANCIAL AND TAX ADVISORS ON ANY QUESTIONS OR CONCERNS RESPECTING TAX, SECURITIES OR OTHER LEGAL EFFECTS OF THE PLAN ON HOLDERS OF CLAIMS OR EQUITY INTERESTS.

The Disclosure Statement Order specifies the deadlines, procedures and instructions for voting to accept or reject the Plan and for filing objections to confirmation of the Plan and standards for tabulating ballots ("Ballots" or a "Ballot" as used in the singular form) to accept or reject the Plan. In addition, voting instructions accompany each Ballot. Each holder of a Claim or Equity Interest entitled to vote on the Plan should read this Disclosure Statement and

Plan, or Executive Summary, the Disclosure Statement Order and the instructions accompanying the Ballot in their entirety before voting on the Plan.

### **III. GENERAL INFORMATION ON CONFIRMATION PROCEDURE AND VOTING**

---

#### **3.1 PLAN CONFIRMATION PROCESS**

**3.1.1 Requirements.** The requirements for confirmation of a plan are set forth in detail in section 1129 of the Bankruptcy Code. The following summarizes some of the pertinent requirements:

A. **Acceptance by Impaired Classes.** Without invoking the “cramdown” provision of the Bankruptcy Code, each impaired class must accept a plan. Under all circumstances, at least one class must vote in favor of a plan. The definition of an “impaired class” is discussed in section 3.2.1 below.

B. **“Cramdown” Provisions.** If an impaired class of claims or equity interests either is deemed to have rejected a plan or votes to reject a plan, the plan may still be confirmed under the Bankruptcy Code’s “cramdown” provision so long as the plan is fair and equitable and does not discriminate unfairly against the non-accepting classes.

C. **Feasibility.** A court must find that confirmation of a plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor, unless otherwise contemplated by the Plan. In this case, the Plan is based on liquidation of the Debtor.

D. **“Best Interests of Creditors” Test.** A plan must be in the “best interests” of the debtor’s creditors. To satisfy this requirement, each holder of a claim or equity interest must accept the plan or receive or retain property that has a value not less than the amount such holder would receive if the debtor’s property were liquidated under chapter 7 of the Bankruptcy Code.

**3.1.2 Confirmation Hearing.** To confirm the Plan, the Bankruptcy Court must hold a hearing to determine whether the Plan meets the requirements of the Bankruptcy Code (the “Confirmation Hearing”). The Bankruptcy Court has scheduled the Confirmation Hearing for **July 27, 2004 at 1:00 p.m. (Prevailing Eastern Time)**.

**3.1.3 Objections to Confirmation.** Any party in interest may object to confirmation of the Plan and appear at the Confirmation Hearing to pursue such objection. The Bankruptcy Court has set **July 16, 2004 at 4:00 p.m. (Prevailing Eastern Time)** as the deadline for filing and serving objections. Objections to confirmation must be filed with the Bankruptcy Court at the following address:

U.S. Bankruptcy Court for the  
District of Delaware  
824 Market Street  
2<sup>nd</sup> Floor  
Wilmington, Delaware 19801

with a copy served upon counsel to the Debtor:

Steven Yoder, Esquire  
The Bayard Firm  
222 Delaware Avenue, Suite 1000  
Wilmington, Delaware 19801

Chris Ward, Esquire  
The Bayard Firm  
222 Delaware Avenue, Suite 1000  
Wilmington, Delaware 19801

and a copy served upon counsel to the Committee:

Donald J. Detweiler, Esquire  
Saul Ewing LLP  
222 Delaware Avenue, Suite 1200  
Wilmington, Delaware 19801

Irving E. Walker, Esquire  
Saul Ewing LLP  
100 South Charles Street, 15<sup>th</sup> Floor  
Baltimore, Maryland 21201-2773

and a copy served upon counsel to the United States Trustee:

Joseph J. McMahon, Jr., Esquire  
Office of the United States Trustee  
J. Caleb Buggs Federal Building  
844 King Street, Room 2207, Lockbox 35  
Wilmington, Delaware 19801

**3.1.4 Effect of Confirmation.** Except as otherwise provided in the Bankruptcy Court's Order confirming the Plan (the "Confirmation Order"), property of the Debtor's Estate will vest in the Debtor free and clear of all Claims and Liens on the Effective Date. On the Effective Date, the Debtor shall deliver all Assets to the Liquidation Manager for administration and Distribution to the holders of Allowed Claims in accordance with the terms of the Plan. Upon entry of the Confirmation Order, the Plan shall be binding on the Debtor, all Creditors, Equity Interest holders and other parties in interest.

### **3.2 VOTING ON THE PLAN**

**3.2.1 Who May Vote.** Only the holders of impaired claims and equity interests who will retain or receive property under a plan may vote to accept or reject the Plan. A class of claims or equity interests is impaired under a plan unless the plan leaves unaltered the legal, equitable or contractual rights of the holders of such interests. Holders of impaired claims or equity interests that retain no rights or property on account of their interests are deemed to have rejected the Plan and are not entitled to vote. Holders of unimpaired claims or equity interests are not entitled to vote.

Class 4 (General Unsecured) and Class 5 (Gift Certificate) claims are impaired under the Plan and the holders of such claims are the only parties entitled to vote to accept or reject the Plan. Administrative Claims, Priority Tax Claims and Reclamation Claims are not classified for voting purposes and the holders of such claims are unimpaired and not entitled to vote. Class 1 (Secured Claim of Bank of America, N.A.), Class 2 (Other Secured) and Class 3 (Priority Non-Tax) claims are unimpaired under the Plan and the holders of such claims are not entitled to vote. Holders of Class 6 (Equity Interests) claims will receive no Distributions or retain any rights or property. Thus, the holders of Class 6 claims are conclusively presumed to have rejected the Plan and are not entitled to vote.

If you are the holder of a Class 4 or Class 5 claim, you are entitled to vote to accept or reject the Plan, and a Ballot is enclosed for the purpose of voting.

**3.2.2 Eligibility.** In order to vote on the Plan, you must hold a Class 4 or Class 5 claim and have timely filed a proof of Claim or have a Claim that is identified on the Debtor's Schedule of Assets and Liabilities (the "Schedules") that is not listed as disputed, unliquidated or contingent.

**3.2.3 Procedure/Voting Deadlines.** In order for your vote to count, you must complete, date, sign and properly mail the enclosed Ballot (please note that envelopes have been included with the Ballot) to the Delaware Claims Agent Company (the "Balloting Agent") at the following address:

(if mailed)

Delaware Claims Agency, LLC  
Woodworkers Warehouse, Inc.  
Claims Agent  
P.O. Box 515  
Wilmington, DE 19899

(if sent by hand-delivery or overnight courier)

Delaware Claims Agency, LLC  
Woodworkers Warehouse, Inc.  
Claims Agent  
103 West Seventh Street, Third Floor  
Wilmington, Delaware 19801

The Balloting Agent must receive original Ballots by mail or overnight delivery on or before **5:00 p.m., July 20, 2004 at 5:00 p.m. (Prevailing Eastern Time)** (the "Ballot Submission Deadline"). Except as otherwise provided in the Disclosure Statement Order, you may not change your vote once the Balloting Agent receives your Ballot.

All Ballots the Balloting Agent receives that are incomplete or inaccurate in any way will be treated as follows:

(a) The Balloting Agent will complete or correct a Ballot that does not indicate the claimant's claim amount or that indicates an amount inconsistent with the Schedules or the claimant's proof of claim, as the case may be, based upon the Schedules if the Schedules indicate that the claim is liquidated, non-contingent and undisputed and if the claimant did not file a proof of claim on or before the Bar Date, or if the claimant filed a proof of claim on or before the Bar Date to which the Debtor files no objection by June 25, 2004, based upon the claimant's proof of claim amount. After the Balloting Agent completes or corrects the claim

amount in accordance with the provisions of this section, the Balloting Agent will calculate the claimant's vote based on the corrected amount;

(b) The Balloting Agent will not count a claimant's vote if the Ballot fails to identify the claimant or if the Ballot is unsigned;

(c) The Balloting Agent will complete or correct a Ballot, as the case may be, that does not reflect in which class such Ballot is cast or that incorrectly classifies such claimant's claim. After the Balloting Agent completes or corrects the Ballot to reflect the claimant's proper class, the Balloting Agent will count the claimant's vote accordingly;

(d) The Balloting Agent will count a Ballot that is complete, except that such claimant fails to vote to accept or reject the Plan, as a vote to accept the Plan.

Holders of Class 4 and Class 5 claims are urged to complete, date and sign the Ballot properly and legibly and promptly serve the completed Ballot on the Balloting Agent in accordance with the provisions of this section.

### **3.3 ACCEPTANCE OF THE PLAN**

As the holder of a Class 4 or Class 5 claim, your acceptance of the Plan is the most important aspect of confirmation. At least one of the two voting classes must vote to accept the Plan. If either voting class votes to accept the Plan, the Proponents will attempt to invoke the "cramdown" provisions of the Bankruptcy Code with respect to the holders of Class 4 or Class 5 claims, if either such class votes to reject the Plan. To accept the Plan by vote, a majority of claimants who possess at least two thirds of the dollar amount representing that class must vote to accept the Plan. If the Balloting Agent receives no valued Ballots to accept or reject the Plan from a voting class on or before the Ballot Submission Deadline, the Class from which no claimants voted will be deemed to have accepted the Plan.

### **3.4 ADDITIONAL INFORMATION**

Any questions regarding the Plan or this Disclosure Statement may be directed to:

Counsel to the Debtor:

Steven Yoder, Esquire  
The Bayard Firm  
222 Delaware Avenue, Suite 1000  
Wilmington, Delaware 19801  
(302) 429-4238

Chris Ward, Esquire  
The Bayard Firm  
222 Delaware Avenue, Suite 1000  
Wilmington, Delaware 19801  
(302) 429-4220

Counsel to the Committee:

Donald J. Detweiler, Esquire  
Saul Ewing LLP  
222 Delaware Avenue, Suite 1200  
Wilmington, Delaware 19801

Irving E. Walker, Esquire  
Joyce E. Kuhns, Esquire  
Saul Ewing LLP  
100 South Charles Street

#### IV. BACKGROUND OF THE DEBTOR

##### 4.1 WOODWORKERS' PREPETITION BUSINESS OPERATIONS AND CREDIT FACILITIES

The Debtor was a specialty retailer of power and hand tools and accessories, primarily for use in woodworking and light construction. As of the Petition Date, the Debtor operated 93 Woodworkers Warehouse stores, located in the New England and Mid-Atlantic regions and employed approximately 525 employees. In addition to its retail operations, the Debtor also mailed catalogs and operated a website ([www.woodworkerswarehouse.com](http://www.woodworkerswarehouse.com)), the rights to which were acquired by Woodworkers Supply, Inc. under an IP Purchase Agreement in this Chapter 11 Case. The Debtor's corporate office (the "Store Support Center") was located in Lynn, Massachusetts, and the lease for the Store Support Center, as amended in March 2004, expired by its own terms on April 30, 2004.

Woodworkers is the successor by merger (the "Merger") to Trend-Lines, Inc. ("Trend-Lines"). The Merger was effectuated as part of a plan of reorganization (the "Trend-Lines Plan"), confirmed on October 17, 2001 (the "Trend-Lines Confirmation Date") by the United States Bankruptcy Court for the District of Massachusetts Eastern Division in the matter of *Trend-Lines, Inc. and Post-Tool, Inc.*, Case No. 00-15431 (CJK) (the "Trend-Lines Bankruptcy Cases").

Under the terms of the Merger, the Trend-Lines Plan and the confirmation order approving the Trend-Lines Plan, Woodworkers, as the surviving entity in the merger, became liable for all debts, duties and obligations of Trend-Lines and Post-Tool, Inc. ("Post Tool"). In addition, the security interests of Trend-Lines and Woodworkers' secured lenders, Bank of America, N.A. ("Bank of America") as agent for itself and the other lenders, Foothill Capital Corporation ("Foothill") and Transamerica Business Capital Corporation ("Transamerica") (collectively, the "Lenders"), were deemed to be automatically perfected on the effective date of the Trend-Lines Plan, without the necessity of the Lenders taking possession, filing financing statements, mortgages or any other documents.

On October 29, 2001, the Lenders and Woodworkers entered into a Second Amended and Restated Loan and Security Agreement (the "Second Amended Loan") for a credit facility that provided borrowings up to \$30 million. The credit facility was secured by substantially all of the Debtor's assets. The Second Amended Loan was the subject of 5 additional amendments which were entered into from the period April 4, 2002 through October 27, 2003. (The Second Amended Loan and the 5 additional amendments are hereinafter referred to as the "Credit Facility").

The Lenders properly perfected their interests in the collateral pledged under the Credit Facility and the Debtor and the Committee, after extensive investigation, have concluded that there is no basis to challenge the Lenders' liens or claims under the Credit Facility in this Chapter 11 Case.

The indebtedness under the Credit Facility has been paid in full and eliminated from the proceeds of the GOB Sales (defined below).

## **4.2 CORPORATE HISTORY**

Trend-Lines, the predecessor to Woodworkers, was incorporated in Massachusetts in 1981. After its incorporation, Trend-Lines began to sell products designed for woodworking and light construction projects through its Trend-Lines catalogs. Trend-Lines opened a Woodworkers Warehouse outlet store in 1983. Trend-Lines expanded its operations in 1986 to include its first Woodworkers Warehouse retail store. The catalog and retail operations offered customers a selection of brand name high quality and private label merchandise, mostly consisting of power stationary and hand tools and accessories.

For a time, the Woodworkers Warehouse retail stores were without significant competitors. The retail stores' profitability allowed Trend-Lines to expand its operations significantly from 1986 to 2000. By 2000, Trend-Lines operated 120 Woodworkers Warehouse retail stores throughout the Northeastern and Mid-Atlantic regions of the United States. As part of its expansion, Trend-Lines also acquired 17 "Post Tool" stores located in California and Nevada in 1995, which at the time Post Tool owned and operated. By 2000, Post Tool became a wholly-owned subsidiary of Trend-Lines. As a result of the acquisition, Trend-Lines owned and operated 28 Post Tool stores.

During its growth period, Trend-Lines also purchased the "Golf Day" trade name and catalog mailing list for the purpose of expanding its business into the retail sale of golf equipment. Trend-Lines mailed its first Golf Day catalog in 1990 and opened a Golf Day outlet store in January 1991. Trend-Lines further expanded its golf operations in 1998 by acquiring 13 "Nevada Bob's" franchise stores located in New England. Trend-Lines converted the Nevada Bob's stores to Golf Day stores. By 2000, Trend-Lines operated 82 Golf Day stores while Post Tool, a wholly-owned subsidiary of Trend-Lines, operated 5 additional Golf Day stores in the Southwestern region of the United States.

## **4.3 TREND-LINES AND POST-TOOL CASES**

**4.3.1 Events Leading up to Trend-Lines and Post Tool Cases.** In 2000, the Golf Day and Post Tool stores were sustaining significant losses. As a result of these losses, Trend-Lines decided to segregate its Woodworkers Warehouse operations from its Golf Day and Post Tool operations, believing that it could operate the Woodworkers Warehouse stores at a profit on a going-forward basis. Based on this decision, Trend-Lines attempted to restructure its operations and debt to avoid bankruptcy and generate positive cash flow. However, Trend-Lines' attempt to restructure outside of bankruptcy was unsuccessful. Both Trend-Lines and Post Tool had little availability under their loan facility (the "Trend-Lines Facility") with Bank of America and were unable to generate positive cash flow from operations.

**4.3.2 Trend-Lines and Post Tool Bankruptcies.** Facing a liquidity crisis, on August 11, 2000, Trend-Lines and Post Tool filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States District Court for the District of Massachusetts (Eastern Division) (the "Massachusetts Bankruptcy Court"). Much like Trend-Lines' prepetition

goal to segregate its Woodworkers Warehouse operations from its Post Tool and Golf Day operations, the main goal of the Trend-Lines and Post Tool bankruptcies was to liquidate their assets relating to the Golf Day and Post Tool stores. Under the bankruptcy court's supervision, Trend-Lines liquidated Golf Day's inventory and assumed and assigned certain of its real property leases. The sale of Golf Day's inventory generated \$21,100,000, \$20,773,000 of which Trend-Lines used to pay off its debt under the Trend-Lines Facility. The Trend-Lines bankruptcy estate also received approximately \$285,000 from assignments of certain real property leases. Under the bankruptcy court's supervision, Post Tool also liquidated its inventory, which generated approximately \$1,350,000. As part of its wind-down, Post Tool rejected or assumed and assigned all of its real property leases.

On February 27, 2001, Trend-Lines and Post Tool obtained bankruptcy court approval to substantively consolidate their cases. Under the court's substantive consolidation order, Trend-Lines was the remaining consolidated entity.

**4.3.3 The Trend-Lines Plan of Reorganization.** On October 17, 2001, the bankruptcy court confirmed the First Amended Joint Reorganized Plan of Trend-Lines, Inc. and the Official Committee of Unsecured Creditors (the "Trend-Lines Plan"). The Trend-Lines Plan provided for full payment of administrative, professional fee, priority tax and secured claims. A convenience class was to receive twenty-five percent (25%) of each individual claimant's allowed claim. Class 5 general unsecured claimants were to receive a pro rata share of a \$2,000,000 cash distribution on January 15, 2002, and 5,280,000 shares of new common stock. The equity holders in Class 6 were to retain no property or other interest, and their stock interests were to be extinguished.

**4.3.4 Events Regarding Consummation of the Trend-Lines Plan.** As required by the Trend-Lines Plan, Reorganized Trend-Lines amended and restated its articles of incorporation and bylaws and changed its name to Woodworkers. The Reorganized Trend-Lines also canceled its old equity securities and issued 7,500,000 shares of new common stock, 5,280,000 shares of which were transferred to the holders of general unsecured claims in Class 5 on a pro rata basis. Reorganized Trend-Lines reserved 1,500,000 of newly-issued shares.

In accordance with the Trend-Lines Plan, Reorganized Trend-Lines delivered the documents necessary to obtain a credit facility (the "Trend-Lines Exit Facility") from Bank of America, as agent for itself, Foothill, and Transamerica in the requested amount of at least \$30,000,000.

As provided in the Trend-Lines Plan, all property of the Trend-Lines bankruptcy estate, and all other property Trend-Lines owned which the Trend-Lines Plan did not specifically dispose of, reverted in Reorganized Trend-Lines on the Trend-Lines Confirmation Date free of all claims and equity interests except as otherwise provided in the confirmed plan. The Trend-Lines Plan allowed Reorganized Trend-Lines to operate its business and to use, acquire and dispose of any and all of its property free of bankruptcy restrictions. Reorganized Trend-Lines also retained all causes of action it may have had against any person except for any causes of action arising under section 547 of the Bankruptcy Code, governing preferential transfers, which were waived.

Reorganized Trend-Lines satisfied its obligations to all Trend-Lines claimants under the Trend-Lines Plan; except that, Reorganized Trend-Lines could not generate sufficient cash to make the required \$2,000,000 distribution to the Class 5 claimants.

## V. WOODWORKERS BANKRUPTCY CASE

### 5.1 EVENTS LEADING UP TO THE FILING

Prior to the Petition Date, the Debtor was unable to purchase adequate levels of merchandise for sale due to insufficient availability under its Credit Facility. Further, the Debtor believed that the availability under the Credit Facility, together with available cash and expected cash flows during the remainder of its fiscal year 2003 (end date: February 28, 2004), would not be sufficient to enable the Debtor to meet its working capital needs, debt service requirements, and planned capital expenditures on a timely basis.

The Debtor and the Lenders had entered into various amendments to the Credit Facility, some of which further restricted the Debtor's access to cash. Throughout 2002 and 2003, the Debtor's vendor community continued to work with the Debtor in an attempt to assist in the revival of the Company, since the Debtor's year-over-year results had improved steadily, although they fell short of the Debtor's financial plans upon which the Lenders' covenants were primarily established.

In order to alleviate a liquidity shortfall in January 2003, certain vendors entered into one-year term notes with respect to at least some of their then-outstanding accounts payables due from the Debtor (the "A/P Notes"), while generally increasing their credit limits available for the Debtor by the same amounts. Primarily as a result of the A/P Notes, the Debtor and the Lenders entered into an amendment to the Credit Facility whereby the Lenders waived the Debtor's January 2003 default under the Credit Facility and allowed for the A/P Notes. The Debtor used the temporary liquidity provided by the A/P Notes and associated credit limit increases primarily for inventory purchases and other working capital needs while also attempting to secure outside capital or a purchaser for the Company, along with alternative financing.

The Debtor was successful in obtaining the interest of a company, Western Supply Corporation ("Western"), to purchase substantially all of its assets on a going-concern basis. After extensively marketing its assets, the Debtor determined to sell substantially all of its assets to Western, although other parties were interested in a similar acquisition. The Debtor focused primarily on the proposed transaction with Western since the vendor community appeared to favor the Western purchase. However, after much work had been done by both Western and the Debtor to effectuate the purchase, Western was unable to procure adequate financing within the Lenders' proscribed time-frame under a forbearance agreement, and the parties were unable to consummate the transaction.

As a result of these and certain other factors, including the lack of other options available to the Debtor on a timely enough basis to salvage a normal holiday selling season, the Debtor filed a voluntary Chapter 11 petition on December 2, 2003, commencing this case (the "Woodworkers Case" or the "Chapter 11 Case").

## 5.2 MAJOR PLEADINGS AND FILINGS

### 5.2.1 First Day Motions Requesting Authority to Take Stabilization

**Actions.** On December 3, 2003, the Debtor obtained authorization to take certain stabilizing actions, including but not limited to, maintaining its existing bank accounts, business forms and cash management system and paying certain prepetition wages, compensation, employee benefits and deductions. On December 5, 2003, the Debtor also obtained authorization to provide its utility companies with adequate assurances regarding the Debtor's payment of outstanding prepetition utility bills. These steps minimized disturbances to the Debtor's business operations and allowed the Debtor's employees to focus their attentions on preserving the value of the Debtor's bankruptcy estate.

**5.2.2 Cash Collateral Orders.** On the Petition Date, the Debtor was without sufficient cash to meet its operating needs. Moreover, the Debtor could not obtain alternate financing on terms and conditions more favorable than those Bank of America offered under the Credit Facility. As a result, the Debtor filed a motion for entry of interim and final orders authorizing the Debtor's use of Bank of America's cash collateral (the "Cash Collateral"), granting adequate protection and administrative priority expenses and scheduling a final hearing on its motion.

The Court entered an interim Order on December 3, 2003 (the "Interim Cash Collateral Order") authorizing the Debtor's use of the Cash Collateral, granting adequate protection and scheduling the final Cash Collateral hearing. The Interim Cash Collateral Order required the Debtor to deposit the Cash Collateral immediately into a blocked concentration account (the "Concentration Account") that Woodworkers established and Fleet National Bank maintained and authorized Bank of America, as agent for itself, Foothill, and Transamerica, to sweep the Cash Collateral from the Concentration Account on a daily basis, and use the Cash Collateral to reduce the Debtor's prepetition indebtedness and meet the Debtor's expenses. Subsequently, the Bankruptcy Court entered the second through sixth interim orders.

A Final Cash Collateral Order has been submitted to the Bankruptcy Court for approval, with the consent of the Debtor and the Committee, which, among other things, would: (i) approve all terms of prior interim orders on a final basis; (ii) allow for payment, in full, of the Lenders' Secured Claim from the Cash Concentration Account maintained at Fleet National Bank, including remaining attorneys' fees and costs, in a stipulated amount or in the absence of agreement as determined by the Bankruptcy Court after the filing by the Lenders of an application for allowance of reimbursement of attorneys' fees and expenses; (iii) allow the Lenders to reserve the sum of \$16,500 against the contingency of a draw against a certain Letter of Credit for the benefit of Debtor's landlord, Cummings Property L.L.C. No. 3025528A, expiring June 30, 2004, and to deposit this sum in an account at Bank of America in the name of Bank of America as agent and for this express purpose, to be refunded to the Debtor if not drawn down in accordance with the terms of the Letter of Credit prior to its expiration; (iv) authorize the transfer of \$400,000 into a Professional Carve-Out Account to fund the Allowed Professional Claims of the Debtor and Committee through the Effective Date of the Plan<sup>3</sup>; and (v) bar the

<sup>3</sup> Because the Professional Carve-Out Account no longer serves any purpose, the Plan eliminates the need for that Account to be maintained.

Debtor, its Estate and the Committee from pursuing those claims and causes of action against the Lenders or their Agent challenging Lenders' or their Agent's Pre-Petition Liens or Pre-Petition Indebtedness and payments received thereunder, as those terms are defined in the Final Cash Collateral Order.

**5.2.3 Key Employee Retention Program ("KERP").** On January 8, 2004, the Court entered an Order authorizing the Debtor to implement a KERP under which the Debtor would pay key executives and employees fixed retention payments and certain other benefits, including "Upside KERP Payments." Based on the estimated Available Cash and the assumption that Class 5 claimants will be treated as general unsecured claimants, the estimated total KERP payments are as follows:

Name	Fixed Retention Payment	Estimated Upside KERP Payment	Estimated Total KERP Payments
Walt Spokowski	\$ 75,000	\$ 24,940	\$ 99,940
Rick Welker	81,300	24,940	106,240
Kenneth Harrison	10,000	4,157	14,157
Margot Mokdessi	8,800	4,157	12,957
James Tirrell	12,900	4,157	17,057
Jerry Finn	9,400	4,157	13,557
Patricia Carey	3,300	4,157	7,457
Sandra Vieira	5,600	4,157	9,757
<b>TOTAL:</b>	<b>\$206,300.00</b>	<b>\$74,822.00</b>	<b>\$281,122.00</b>

If Class 5 claimants are treated as priority claimants, the estimated total KERP payments would be reduced by less than \$12,000.00, with payments to Walt Spokowski and Rick Welker, the highest paid employees under the KERP, being reduced by less than \$4,000.00 each.

**5.2.4 Debtor's Employment of Kronish Lieb as Counsel.** By applications dated December 2, 2003, the Debtor asked the Court to approve its employments of the law firm of Kronish Lieb Weiner & Hellmann LLP ("Kronish Lieb") as reorganization and lead counsel for the Debtor under section 327(a) of the Bankruptcy Code, and The Bayard Firm as co-counsel for the Debtor. The United States Trustee objected to the Kronish Lieb application on the grounds that Kronish Lieb had an impermissible conflict of interest arising from its prior representation of the Official Committee of Unsecured Creditors in the Debtor's prior bankruptcy case in the United States Bankruptcy Court for the District of Massachusetts, In re Trend-Lines, Inc. The Court denied the Debtor's application, but authorized the Debtor to employ The Bayard Firm as lead counsel and Kronish Lieb as special counsel pursuant to section 327(e) of the Bankruptcy Code, under an Order dated January 13, 2004, limiting Kronish Lieb's services to the following matters:

- (a) prepare and prosecute on behalf of the Debtor, as Debtor in possession, all necessary motions, applications, answers, orders, reports, and papers in

connection with the sale of the Debtor's assets, including inventory, intellectual property, unexpired leases and executory contracts, furniture, fixtures and equipment;

(b) prepare and prosecute on behalf of the Debtor, as Debtor in possession, all necessary motions, applications, answers, orders, reports, and papers in connection with the Debtor's use of cash collateral; and

(c) prepare and prosecute on behalf of the Debtor, as Debtor in possession, all necessary motions, applications, answers, orders, reports, and papers in connection with the Debtor's request to make certain key employee retention payments.

After Kronish Lieb was retained as special counsel pursuant to section 327(e), The Bayard Firm became the Debtor's lead counsel. The United States Trustee took an appeal from that Order, and that appeal was pending before the United States District Court for the District of Delaware (Case No. 04-124 (JJF)) as of the date of this Disclosure Statement. The outcome of this appeal, which has been fully briefed and in which the parties are awaiting a decision, could impact Kronish Lieb's ability to retain and receive fees billed to the Debtor, which to date total approximately \$299,900. If Kronish Lieb were required to disgorge any of the compensation previously paid to it, such funds would be returned to the bankruptcy estate for distribution to creditors.

**5.2.5 Official Committee of Unsecured Creditors.** By Notice of Appointment of Official Committee of Unsecured Creditors filed by the United States Trustee, the Committee was formed on December 15, 2003. The members of the Committee are the following:

- (a) Delta Machinery;
- (b) WMH Tool Group;
- (c) Black and Decker (U.S.), Inc.; and
- (d) Makita USA, Inc.

The Committee employed the law firm of Saul Ewing LLP to serve as counsel for the Committee, and by an Order dated January 27, 2004, the Court approved the Committee's employment of Saul Ewing LLP as counsel. The Committee also employed The Buckley Group of Marlborough, Massachusetts, to serve as financial advisor, and the Court approved the Committee's employment of The Buckley Group by an Order dated January 27, 2004.

#### **5.2.6 Wind-Down Matters**

(a) **Going Out of Business Sales.** Having determined that a prompt sale of the Debtor's assets via "going out of business" sales (the "GOB Sales") was essential to preserve the value of the Debtor's assets for the benefit of its creditors, on the Petition Date, the Debtor filed Debtor's Motion For An Order (I) (A) Approving Bidding Procedures, (B) Approving Certain Notice Procedures And Deadlines And Scheduling An Auction And A Sale Hearing, (C) Approving The Bid Protections And (D) Authorizing Entry Into An Agency Agreement, Subject To Higher Or Better Offers (II) (A) Approving The Sale Of Substantially

All The Debtor's Merchandise Free And Clear Of All Liens, Claims And Encumbrances, (B) Authorizing The Agent To Conduct Going Out Of Business Sales And (C) Granting Certain Related Relief (the "Sale Motion").

Pursuant to Part I of the Sale Motion, the Debtor requested, among other things, that the Court enter an Order (i) approving the Bidding Procedures in connection with the proposed sale of the Merchandise, (ii) scheduling an Auction and the Sale Hearing, and (iii) authorizing the Debtor to enter into the Agency Agreement with the Stalking Horse, subject to higher and better offers.

In order to maximize the value of the Debtor's estate for distribution to its creditors, the Debtor sought to commence the GOB Sales on December 5, 2003 in order to take advantage of the current holiday selling season. On December 3, 2003, the Court entered an order granting Part I of the Sale Motion (the "Sale Procedures Order").

As authorized by the Sale Procedures Order, on December 4, 2003, an auction was held at the offices of the Debtor's special counsel in New York. At the conclusion of the auction, Great American Group (the "GOB Agent") was the successful bidder with a bid of 55% of the "retail price of the Merchandise." As a result of the auction and because of the quality of the Debtor's inventory, the estate realized approximately \$14.4 million in total from the liquidation of the Debtor's inventory.

On December 4, 2003, a supplement to the Sale Motion was filed. On December 5, 2003, the Court granted Part II of the Sale Motion and a sale order (the "Sale Order") was entered. Pursuant to the Sale Order, the Debtor was authorized to commence the GOB Sales at each of its 93 stores (each a "Store" and collectively the "Stores"), including the liquidation of inventory located at its warehouse/distribution center.

In accordance with the Sale Order, the GOB Sales commenced on December 5, 2003. The GOB Agent had the right to conclude the GOB Sales at individual Stores beginning on December 31, 2003. Each Store closed following the conclusion of a Store GOB Sale. All GOB Sales were concluded by January 15, 2004. Following the conclusion of the GOB Sales, the Debtor has either sold (via public auction), or rejected and abandoned the leases and real and personal property assets left in the estate.

(b) **Assumption and Assignment of Certain Unexpired Leases.** Western offered to undertake the Debtor's obligations under 10 of its real property leases (the "Assigned Leases") and to purchase the assets located at the leased locations (the "Underlying Assets"). With the Bankruptcy Court's approval, the Debtor held an auction on January 19, 2004 to obtain the highest and best offer to assume the Debtor's obligations under the Assigned Leases and purchase the Underlying Assets, as well as 3 additional real property leases, and the assets located at the additional leases locations. Western was the winning bidder for the initial 10 Assigned Leases and Underlying Assets. Rockler Retail Group, Inc. was the winning bidder for the 3 additional leases and related assets.

After the auction, the Debtor entered into a Lease Acquisition Term Sheet with Western dated January 14, 2004 (the "Lease Term Sheet") under which, among other things, and

Western agreed to assume the Debtor's obligations under the Assigned Leases and purchase the Underlying Assets for \$174,000. The Bankruptcy Court entered an Order on January 27, 2004 authorizing the Debtor to assume and assign the Assigned Leases and sell the Underlying Assets free and clear of all liens, claims and encumbrances to Western in accordance with the terms of the Lease Term Sheet.

In addition, the Debtor entered into a Lease Acquisition Term Sheet with Rockler dated January 20, 2004 (the "Lease Term Sheet") under which, among other things, and Rockler agreed to assume the Debtor's obligations under the Assigned Leases and purchase the Underlying Assets for the greater of \$80,000 or \$5,000 in excess of the combined November 2003, December 2003 and January 2004 rents under the Assigned Leases, not to exceed \$85,000. The Bankruptcy Court entered an Order on January 27, 2004 authorizing the Debtor to assume and assign the Assigned Leases and sell the Underlying Assets free and clear of all liens, claims and encumbrances to Rockler in accordance with the terms of the Lease Term Sheet.

(c) **Sale of Intellectual Property and Name Change.** The Debtor entered into an agreement for the sale of intellectual property with Ozer dated January 30, 2004, under which Ozer agreed to purchase all of the Debtor's right, title and interest in and to its customer mailing lists, inventions, trademarks, copyrightable works, trade secrets, along with all other intellectual property and related assets for \$75,000 (the "IP Stalking Horse Agreement"). The Bankruptcy Court entered an Order on February 2, 2004 approving the Debtor's entry into the IP Stalking Horse Agreement subject to higher and better offers and the Debtor held an auction to obtain the highest and best offer to purchase the IP on March 23, 2004. Woodworkers Supply, Inc. ("Woodworkers Supply") was the successful bidder at auction with an offer of \$158,000. After the auction, the Debtor entered into an agreement with Woodworkers Supply, dated March 23, 2004 (the "IP Purchase Agreement"), consistent with its offer. The Bankruptcy Court entered an Order on March 24, 2004 approving Woodworkers' sale of its IP free and clear of all liens, claims and encumbrances to Woodworkers Supply under the terms of the IP Purchase Agreement.

Following the closing on the sale of the IP, which included the Debtor's trademarks (including its trade name "Woodworkers Warehouse"), the Debtor filed a motion to change the Chapter 11 Case caption to "WW Warehouse, Inc. f/k/a Woodworkers Warehouse, Inc." and to change its legal name to "WW Warehouse, Inc.," through the filing of appropriate amendments with the State of Delaware. The Bankruptcy Court granted the requested relief on April 22, 2004, without opposition.

(d) **Sale of Furniture, Fixtures and Other Equipment.** On March 2, 2004, the Debtor and Paul E. Saperstein Co., Inc. ("PESCO"), in consultation with the Committee, sold certain of the Debtor's personal property located at the Store Support Center, including but not limited to furniture, fixtures and equipment (the "FF&E") at public auction (the "FF&E Auction") for a gross sale price of \$17,568. The Bankruptcy Court entered an Order on March 24, 2004 authorizing Woodworkers to employ PESCO, nunc pro tunc, to February 20, 2004 and approving the FF&E Auction.

(e) **Rejection of Executory Contracts and Unexpired Leases.** In addition to liquidating substantially all of its assets, the Debtor also obtained approval to reject

certain real and personal property leases and executory contracts. Due to Woodworkers' prepetition determination that conducting the GOB Sales would be the best mechanism for preserving the value of its assets, the Debtor obtained approval on December 30, 2003 to reject its real property leases, with the exception of the Assigned Leases and the Store Support Center, and to abandon certain personal property located at its leased locations. Woodworkers also obtained orders on January 27, February 24, and April 22, 2004, to reject certain executory contracts and/or unexpired leases.

(f) **Postpetition Insurance Premium Financing.** The Debtor's liability insurance policies for property and worker's compensation, among other coverages (the "Policies"), were set to expire on January 15, 2004. On December 23, 2003, the Debtor filed an Emergency Motion of Debtor Requesting the Entry of Interim and Final Orders Authorizing the Debtor to Enter into a Postpetition Insurance Premium Financing Agreement with AFCO Premium Credit LLC (the "Insurance Financing Motion") to provide a financing mechanism for the Debtor to fund workers' compensation premiums.

The Bankruptcy Court entered an Order granting the Insurance Financing Motion, on an interim basis (the "Interim Insurance Financing Order") and scheduling a final hearing on the Insurance Financing Motion (the "Final Insurance Financing Hearing") for January 8, 2004. The Final Insurance Financing Hearing was rescheduled for January 27, 2004 with objections due by January 20, 2004. Although no objections to the Insurance Financing Motion were filed, ultimately the Bankruptcy Court did not have to consider the Insurance Financing Motion on a final basis as the financing mechanism called for in the Policies was never needed by the Debtor.

(g) **Schedules and Statement of Assets and Liabilities.** Pursuant to FED. R. BANKR. P. ("Bankruptcy Rule") 1007, the Debtor filed its Schedules of Assets and Liabilities (the "Schedules") on January 20, 2004 and its Statement of Financial Affairs on January 27, 2004. According to the Debtor's books and records and its Schedules, the Debtor had \$21,400,548 in assets and \$29,454,283 in liabilities as of the Petition Date.

(h) **Settlement with U.S. Trustee regarding General Unsecured Creditors under the Trend-Lines Plan.** The Debtor listed in its Schedules the unpaid \$2,000,000 distribution that the Reorganized Trend-Lines was required to make to general unsecured creditors under the Trend-Lines Plan. While holders of general unsecured claims in the Trend-Lines Bankruptcy Case received 5,280,000 shares of Woodworkers common stock on a pro rata basis, Reorganized Trend-Lines was without sufficient cash to make the \$2,000,000 distribution.

On or about March 22, 2004, the U.S. Trustee for the District of Massachusetts filed a Motion to Dismiss the Debtors' Chapter 11 Cases in the Trend-Lines Bankruptcy Cases citing, among other grounds, the Debtors' inability to pay general unsecured creditors the required \$2,000,000 cash distribution under the confirmed Trend-Lines Plan. A Stipulation resolving that motion was agreed to by the Debtor, the Committee, and the U.S. Trustee for the District of Massachusetts. Under that Stipulation, without the need to file a proof of Claim in the Woodworkers Case, (i) the allowed, but unpaid Class 5 unsecured claims in the Trend-Lines Bankruptcy Case shall be allowed as general unsecured claims in the Woodworkers Case in the amount to which they would have been pro-rated against the \$2,000,000 cash distribution under

the Trend-Lines Plan, in addition to and without prejudice to any other claims these creditors have asserted or filed solely in the Woodworkers Case; and (ii) the post-confirmation quarterly fees outstanding under 28 U.S.C. § 1930(a)(6) to the Office of the U.S. Trustee for the District of Massachusetts, if any, shall also be allowed and paid as a general unsecured claim in this case; provided, however, if the Office of the U.S. Trustee and the Committee are unable to agree on the amount of fees due, the United States Trustee must file a proof of Claim in the Woodworkers Case on or before June 1, 2004 which, if filed prior to June 1, 2004, shall be considered timely regardless of the deadline in the Bar Date Order. Upon entry of the Stipulation by the Massachusetts Bankruptcy Court, the Clerk of that court shall enter final decrees closing the Trend-Lines Cases. The Debtor filed a motion and notice of settlement under Bankruptcy Rule 9019 in the Woodworkers Case, with the Committee's consent, for Bankruptcy Court approval of the Stipulation as a reasonable settlement and compromise that avoids litigation costs and provides a fair, efficient and equitable resolution of the matter and possible claims of unpaid creditors in the Trend-Lines Case against the Debtor and its Estate in the Woodworkers Case. That motion was approved by a Bankruptcy Court Order dated May 20, 2004.

Accordingly, the Plan treats claims that arose from Reorganized Trend-Lines' failure to make the distribution as Class 4 claims in accordance with the Stipulation. Claims that arose from an Equity Interest in Woodworkers, regardless of whether the origin of those Claims were debt claims, are treated as Equity Interests under Class 6 of the Plan.

(i) **Bar Date Order.** The Bankruptcy Court entered an Order establishing April 3, 2004 (the "Bar Date") as the last day to file proofs of Claim for the purpose of asserting claims against the Debtor that arose prior to the Petition Date. On February 19, 2004, the Claims Agent filed an Affidavit of Service (the "Affidavit") which provided that the Claims Agent served a Notice of Bar Date to File Proofs of Claim (the "Bar Date Notice") on all parties on the service list attached to the Affidavit. The Debtor's books and records reflected that the parties on the service list may have claims against the Debtor's bankruptcy estate. The Debtor also had the Bar Date Notice published in The Boston Globe on February 9, 2004 and in The Wall Street Journal on February 10, 2004.

(j) **Monthly Operating Reports.** The Debtor has filed monthly operating reports for the months of December 2003 through April 2004 (collectively, the "Operating Reports"). The Debtor's Operating Reports reflect, *inter alia*, the following:

Month	Cash Receipts <sup>4</sup>	Cash Disbursements <sup>4</sup>	Net Cash Flow
December 2003-12/02/03-01/03/04	\$13,486,000	\$2,055,000	\$11,431,000 <sup>5</sup>
January 2004-01/04/04-01/31/04	\$1,343,000	\$1,522,000	-\$179,000

<sup>4</sup> The cash disbursements include cash disbursements made for the GOB Agent and the cash receipts include the associated cash receipts for reimbursement.

<sup>5</sup> Prior to payoff of the outstanding amount under the Credit Facility.

February 2004- 02/01/04-02/28/04	\$223,000	\$647,000	-\$424,000
March 2004- 02/29/04-04/03/04	\$3,129,000	\$552,000	\$2,577,000
April 2004- 04/04/04-05/01/04	\$47,000	\$323,000	-\$276,000

## VI. PLAN FORMULATION PROCESS

### 6.1 EXCLUSIVE PERIODS

Pursuant to section 1121 of the Bankruptcy Code: (i) only the debtor may file a plan during the 120-day period following the commencement of a Chapter 11 case (the "Exclusive Plan Proposal Period") and (b) if the debtor files a plan during the Exclusive Plan Proposal Period, only the debtor may solicit acceptances of the plan and no other party may file a competing plan during the 180 days following the commencement of the chapter 11 case (the "Exclusive Solicitation Period") (collectively, the "Exclusive Periods"). On request of a party in interest, the Bankruptcy Court, for cause, may increase the Exclusive Plan Proposal Period and/or the Exclusive Solicitation Period.

In the early stages of this case, the Debtor and Committee decided that they would pursue a joint plan of liquidation. In anticipation of the filing of such a plan, the Debtor filed a Motion to Extend the Exclusive Plan Proposal Period through and including June 29, 2004 and the exclusive solicitation period through and including August 30, 2004 on March 18, 2004 (the "Exclusivity Motion"). The Committee believed the extensions the Debtor requested were too long, since discussions regarding the structure of a joint plan had been ongoing between the Debtor and the Committee and a draft of the Plan was circulated to parties-in-interest. Thereafter, the Committee and Debtor agreed to extend the time to file a joint plan through April 30, 2004 and to extend the exclusive solicitation period through and including June 30, 2004. The Proponents filed the Plan and Disclosure Statement on May 20, 2004.

### 6.2 PLAN OBJECTIVES

The primary objectives of the Plan are to: (i) maximize the value of the ultimate recovery to all Creditors on a fair and equitable basis; and (ii) settle, compromise or otherwise dispose of certain Claims and Equity Interests on terms that the Proponents believe to be fair and reasonable and in the best interests of the Debtor's Estate and Creditors. The Proponents believe that, through the Plan, holders of Allowed Claims will obtain a substantially greater recovery from the Estate than the recovery they would receive if the Assets and Property of the Debtor and its Estate were liquidated under Chapter 7 of the Bankruptcy Code.

### 6.3 OVERVIEW OF THE PLAN

6.3.1 The following table summarizes the classifications and treatment of Claims and Equity Interests under the Plan:

**EXECUTIVE SUMMARY OF CLASSIFICATION AND  
TREATMENT OF CLAIMS AND EQUITY INTERESTS UNDER THE PLAN**

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery
--	Administrative Claims  [Estimated Total: \$2,117,000]	Unimpaired. Cash equal to such Allowed Administrative Claim as soon as practicable after the Effective Date or the date on which an Administrative Claim becomes an Allowed Administrative Claim, whichever is later.	100%
--	Priority Tax Claims  [Estimated Total: \$14,000]	Unimpaired. Cash equal to such Allowed Priority Tax Claim on the latter of the Initial Distribution Date or the date such Priority Tax Claim becomes an Allowed Priority Tax Claim.	100%
--	Reclamation Claim  [Estimated Total: \$.00]	Unimpaired. Cash equal to such Allowed Reclamation Claim on the later of the Initial Distribution Date and the date such Reclamation Claim becomes an Allowed Reclamation Claim.	100%
1	Secured Claim of Bank of America, individually and as agent for Foothill Capital Corporation and TransAmerica Capital  [Estimated Total: \$88,500]	Unimpaired. During the Chapter 11 Case, the Debtor paid the Secured Lenders' claims, in full, from the proceeds of the inventory liquidation and going out of business sales, except for certain fees and costs as set forth in the Final Cash Collateral Order, which shall be paid in a stipulated amount or pursuant to Order of the Bankruptcy Court. Thereafter, the Secured Lenders shall have no further Claims against the Debtor or its Estate and will not receive any payment under the Plan on account of their Secured Claim. Secured Lenders' Liens against the Debtor's Assets shall be deemed extinguished and released upon payment in full of the Secured Lenders' Allowed Secured Claim.	100% of Allowed Secured Claim
2	Other Secured Claims  [Estimated Total: \$101,000]	Unimpaired. Each Allowed Class 2 Claim, if any should exist, shall be fully satisfied in accordance with one of the five following alternatives at the Debtor's and Committee's election, written notice of which election shall be given to the holder of the Claim no later than ten days prior to the date first scheduled for a hearing on confirmation of the Plan:  (a) The holder of the Allowed Class 2 Claim shall be paid the Allowed amount of such a Claim, in Cash, on the later of the of Initial Distribution Date	100%

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery
		<p>or within ten (10) days after such Claim becomes an Allowed Claim;</p> <p>(b) On or before the Effective Date, the property subject to a Lien securing an Allowed Class 2 Claim shall be abandoned by the Debtor pursuant to section 554 of the Bankruptcy Code at which time the holder of such Allowed Class 2 Claim may exercise any and all rights and remedies it has with respect to such property;</p> <p>(c) The property subject to a Lien securing the Allowed Class 2 Claim if not already sold shall be sold free and clear of the Lien, in accordance with sections 363(f) and (k) of the Bankruptcy Code, and the Proceeds of the sale, less expenses of the sale, shall be paid to the holder of the Allowed Class 2 Claim on the later of the Initial Distribution Date or ten (10) days after such Claim becomes an Allowed Claim; or</p> <p>(d) If property subject to a Lien securing the Allowed Class 2 Claim (including Liens securing personal property, income, sales or use taxes) has been sold pursuant to an Order of the Bankruptcy Court which entered prior to the Effective Date and which provided that the Lien would attach to the Proceeds of the sale, then the Proceeds of sale, less expenses of the sale, shall be paid to the holder of the Allowed Class 2 Claim on the later of the Initial Distribution Date or ten (10) days after such Claim becomes an Allowed Claim, in Cash, in full, with accrued interest calculated in accordance with applicable law from the date of assessment, at which time the Lien shall be extinguished and the Class 2 Claim shall be deemed fully satisfied;</p> <p>(e) The Allowed Class 2 Claim shall be satisfied in the manner specified in a written agreement between the Debtor and the holder of the Allowed Claim, which written agreement shall be subject to Bankruptcy Court approval. Any such written agreement shall be filed with the Bankruptcy Court not later than the Confirmation Date.</p>	

Class	Type of Claim or Equity Interest	Treatment	Estimated Recovery
3	Priority Non-Tax Claims  [Estimated Total Excluding Gift Certificate Claims: \$00]	Unimpaired. The holder of any Allowed Claims in Class 3 shall be paid the Allowed amount of such Claim, in Cash, on the later of the Initial Distribution Date or within ten (10) days after such Claim becomes an Allowed Claim. Remaining unpaid employee Claims under sections 507(a)(3) and (a)(4) of the Bankruptcy Code in excess of the applicable priority cap shall be treated as Class 4 Unsecured Claims, without priority, to the extent they constitute Allowed Claims and have not been waived or released.	100%
4	General Unsecured Claims  [Estimated Total: \$22,500,000]	Impaired. Each holder of an Allowed Class 4 Claim shall receive from the Liquidation Manager one or more Pro-Rata Distributions from Available Cash only until the Final Distribution, as determined by the Liquidation Manager in accordance with the Plan. The first of such Distributions shall take place on the Initial Distribution Date.	See Ex. B  8.1 – 8.8%
5	Gift Certificate Claims  [Estimated Total (including those filed as secured claims: \$188,000)]	Impaired. Unless a Final Order requires otherwise, each holder of an Allowed Class 5 Claim shall receive the same treatment as Class 4 creditors and shall receive from the Liquidation Manager one or more Pro-Rata Distributions from Available Cash only until the Final Distribution, as determined by the Liquidation Manager in accordance with the Plan, in the same manner as the Class 4 Claims, so that Class 4 and Class 5 creditors receive the same percentage distribution. The first of such Distributions shall take place on the Initial Distribution Date.	See Ex. B  8.1 – 8.8% unless allowed as priority claims, in which event the claims would be paid 100%
6	Equity Interests	Impaired. Holders of Equity Interests will receive no Distributions and retain no rights or property on account of their Class 6 Equity Interest which shall be deemed extinguished on the Effective Date of the Plan.	0%

### 6.3.2 Release of Debtor's Officers and Directors.

As part of the Plan negotiations process, the Debtor bargained with the Committee for a provision, found in Section 12.3 of the Plan, that releases the Debtor, its Affiliates and their respective current or former officers and directors, from all claims relating to

the Debtor held by each person or entity who filed a proof of claim in the case and casts a Ballot to accept the Plan. As a condition for the Committee's agreement to include this provision in the Plan, the Committee recently undertook a review of the conduct of the Debtor's officers and directors prior to the Petition Date, which review included depositions of the Debtor's officers, Rick Welker and Walt Spokowski. That inquiry failed to identify any grounds for asserting a claim against Debtor's directors or officers. Accordingly, the Committee supports the release provision as reasonable in the particular circumstances of this case.

## **VII. KEY PROVISIONS OF THE PLAN TERM**

### **7.1 DESIGNATION OF CLASSES OF CLAIMS AND INTERESTS**

For the purpose of the Plan, Claims are divided into the following classes. A proof of claim asserting a Claim which is properly included in more than one class is included in each such class to the extent that it qualifies within the description of such class.

#### **7.1.1 Secured Claims**

(a) **Class 1:** Class 1 shall consist of the former Secured Claim of Bank of America. As of the Petition Date, Bank of America asserted a first priority Secured Claim in substantially all of the Debtor's Assets in the principal amount of \$11,723,459.14, which has since been paid in full, with the exception of certain fees and costs which shall be paid in a stipulated amount or pursuant to Order of the Bankruptcy Court.

#### **7.1.2 Other Secured Claims**

(a) **Class 2:** Class 2 shall consist of all Secured Claims other than the Secured Claim of Bank of America, which as of the Petition Date were secured by Liens on then existing property of the Debtor, including those arising from real or personal property, income, sales, use, or other taxes under applicable nonbankruptcy law.

#### **7.1.3 Priority Non-Tax Claims**

(a) **Class 3:** Class 3 shall consist of all Priority Non-Tax Claims.

#### **7.1.4 General Unsecured Claims**

(a) **Class 4:** Class 4 shall consist of all non-priority Unsecured Claims against the Debtor other than claims in Class 5, and specifically including, without limitation, Claims (a) asserted by vendors, suppliers and manufacturers, (b) the allowed but unpaid administrative expense claims or allowed unsecured claims of the Trend-Lines Cases, and (c) arising from the rejection or termination of executory contracts or unexpired leases of real and personal property.

#### **7.1.5 Gift Certificate Claims**

(a) **Class 5:** Class 5 shall consist of all claims based on gift certificates.

### 7.1.6 Equity Interests

- (a) **Class 6:** Class 6 shall consist of the Equity Interests.

### 7.1.7 Unclassified Claims

(a) Administrative Claims, Priority Tax Claims and Reclamation Claims shall not be classified for purposes of voting or receiving Distributions under the Plan. Rather, all such Claims shall be treated separately as Unclassified Claims pursuant to the terms set forth in Article IV of the Plan.

## 7.2 TREATMENT OF UNCLASSIFIED CLAIMS

### 7.2.1 Administrative Claims

(a) All Allowed Administrative Claims shall be paid by the Debtor or Liquidation Manager, as the case may be, on or as soon as practicable after the Effective Date or the date on which an order of the Bankruptcy Court allowing such Claim becomes a Final Order, whichever is later.

### 7.2.2 Priority Tax Claims

(a) Each holder of an Allowed Claim that is a Priority Tax Claim shall be paid Cash equal to the full amount of such Allowed Claim on the Initial Distribution Date or the date an order of the Bankruptcy Court allowing such Claim becomes a Final Order, whichever is later.

### 7.2.3 Reclamation Claims

(a) Any Reclamation Claim that is determined by an Order of the Court to be valid and allowed as a Reclamation Claim shall be treated and paid as an Allowed Administrative Claim.

## 7.3 TREATMENT OF CLASSIFIED CLAIMS AND INTERESTS

### 7.3.1 Class 1: Bank of America Secured Claim

(a) **Treatment:** Class 1 consists of the Secured Claim of Bank of America. As of the Petition Date, Bank of America asserted a claim of approximately \$11,723,459.10, secured by a Lien on substantially all of the Debtor's Assets. During the Chapter 11 Case, the Debtor paid Bank of America's Secured Claim in full from the proceeds of the Debtor's inventory and going-out-of-business sales, with the exception of certain fees and costs which shall be paid in a stipulated amount or pursuant to order of the Bankruptcy Court. Thereafter, Bank of America shall have no further Claims against the Debtor or its Estate, and will not receive any payment under the Plan on account of its Secured Claim. Bank of America's Liens against the Debtor's Assets will be deemed extinguished and released under the Final Cash Collateral Order upon payment in full of Bank of America's Allowed Secured Claim.

(b) **Impairment:** The Secured Claim of Bank of America is unimpaired by the Plan and, therefore, Bank of America is conclusively presumed to have accepted the Plan under section 1126 of the Bankruptcy Code.

### 7.3.2 Class 2: Other Secured Claims

(a) **Treatment:** Each Allowed Class 2 Claim, if any exists, shall be fully satisfied in accordance with one of the four following alternatives, at the Debtor's or the Liquidation Manager's and Committee's sole election:

(i) The holder of an Allowed Class 2 Claim shall be paid the Allowed amount of such a Claim, in Cash, with interest to the extent required under section 506(b) of the Bankruptcy Code, on the later of the of Initial Distribution Date or within ten (10) days after such Claim becomes an Allowed Claim;

(ii) On or before the Effective Date, the property subject to a Lien securing an Allowed Class 2 Claim shall be abandoned by the Debtor pursuant to section 554 of the Bankruptcy Code at which time the holder of such Allowed Class 2 Claim may exercise any and all rights and remedies it has with respect to such property;

(iii) The property subject to a Lien securing the Allowed Class 2 Claim if not already sold shall be sold free and clear of the Lien, in accordance with sections 363(f) and (k) of the Bankruptcy Code, and the proceeds of the sale, less expenses of sale, shall be paid, to the extent of the amount of the Allowed Class 2 Claim, to the holder of the Allowed Class 2 Claim on the later of the Initial Distribution Date or ten (10) days after such Claim becomes an Allowed Claim;

(iv) If property subject to a Lien securing the Allowed Class 2 Claim (including Liens securing personal property, income, sales or use taxes) has been sold pursuant to an Order of the Bankruptcy Court entered prior to the Effective Date and which provided that the Lien would attach to the proceeds of the sale, then the proceeds of sale, less expenses of sale, shall be paid to the holder of the Allowed Class 2 Claim on the Initial Distribution Date or ten (10) days after such Claim becomes an Allowed Claim, in Cash, in full, with accrued interest calculated in accordance with applicable law from the date of assessment, at which time the Lien shall be extinguished and the Class 2 Claim shall be deemed fully satisfied; or

(v) The Allowed Class 2 Claim shall be satisfied in the manner specified in a written agreement between the Debtor and the holder of the Allowed Claim, which written agreement shall be subject to Bankruptcy Court approval. Any such written agreement shall be filed with the Bankruptcy Court not later than the Confirmation Date.

Written notice of the Debtor's or Liquidation Manager's and Committee's election shall be given to the holder of the Claim not later than thirty (30) days following the Effective Date. In the absence of any such notice, the Debtor shall be deemed to have elected the alternative at subsections (c) and (d), above, depending on whether the property was previously sold, except in those instances where the Debtor previously has abandoned the subject property.

(b) **Impairment:** Class 2 Claims are not impaired under the Plan within the meaning of section 1124 of the Bankruptcy Code, and solicitation of acceptances of the Plan with respect to such Class 2 Claims is not required under section 1126(f) of the Bankruptcy Code.

### 7.3.3 **Class 3: Priority Non-Tax Claims**

(a) **Treatment:** The holder of any Allowed Claims in Class 3 shall be paid the allowed amount of such Claim, in Cash, on the later of the Initial Distribution Date or within ten (10) days after such Claim becomes an Allowed Claim. Any unpaid employee Claims under sections 507(a)(3) and (a)(4) of the Bankruptcy Code in excess of the applicable priority cap shall be treated as Class 4 Unsecured Claims, without priority, to the extent they constitute Allowed Claims and have not been waived or released.

(b) **Impairment:** Allowed Class 3 Claims are not impaired under the Plan within the meaning of section 1124, and solicitation of acceptances of the Plan from the holders of Class 3 Claims is not required under section 1126(f) of the Bankruptcy Code.

### 7.3.4 **Class 4: General Unsecured Claims**

(a) **Treatment:** The treatment and consideration to be received by the holders of the Allowed Class 4 Claims shall be in full settlement and satisfaction of their respective Claims. Each holder of an Allowed Class 4 Claim shall receive from the Disbursing Agent one or more Pro Rata Distributions, with such Pro Rata Distributions to be calculated by including Class 4 and Class 5 Allowed Claims from Available Cash only until the Final Distribution, as determined by the Disbursing Agent in accordance with the Plan. The first of such Distributions shall take place on the Initial Distribution Date.

(b) **Resolution of Pending Actions:** All Claims which were subject to an administrative or judicial proceeding pending as of the Petition Date, and as to which a proof of claim was filed by the Bar Date, shall be determined, liquidated and deemed removed to the Bankruptcy Court; provided, however, that the Liquidation Manager may agree to adjudication of such a Claim in another forum or to resolve it through means of alternative dispute resolution, in the Liquidation Manager's discretion.

(c) **Impairment:** Class 4 Claims are impaired under the Plan, and the holders of such Claims are entitled to vote as a class to accept or reject the Plan.

### 7.3.5 **Class 5: Gift Certificate Claims**

(a) **Treatment:** Unless a Final Order requires a different treatment, each holder of claims based on gift certificates to the extent of their Allowed Claims, shall receive from the Disbursing Agent one or more Pro Rata Distributions from Available Cash until the Final Distribution, as determined by the Disbursing Agent in accordance with the Plan, in the same manner as the Class 4 Claims, so that holders of Class 4 and Class 5 Allowed Claims receive the same percentage distribution.

The Proponents maintain that the Gift Certificate claims, as a matter of law, are general unsecured claims not entitled to be treated with any special priority. Section 507(a)(6), however, provides for priority treatment of claims arising from the "deposit . . . of money in connection with the purchase . . . of property" for personal or household use. In this case, all priority claims will be paid in full upon confirmation. Some courts in other jurisdictions have recognized gift certificate claims to be entitled to priority. The Proponents believe that decisions by two other courts support the conclusion that gift certificate claims are not "deposits." The Proponents believe the latter approach is more consistent with the plain language of Section 507(a)(6), and do not believe Gift Certificate claims, as a matter of law, are entitled to priority treatment. Accordingly, the Plan provides that Gift Certificate claims will receive pro rata distributions of the cash available after payment of all secured and priority claims, in the same manner as the Class 4 (general unsecured claims), unless the Court orders otherwise.

The United States Trustee has questioned this proposed treatment. In the event that the Gift Certificate claims are determined by a final and nonappealable Court Order to be entitled to priority, they will be paid in full under the Plan.

#### **7.3.6 Class 6: Equity Interests**

(a) **Treatment:** Holders of Equity Interests will receive no Distributions and retain no rights on account of their Class 6 Equity Interests, which shall be deemed extinguished on the Effective Date of the Plan.

(b) **Impairment:** The Equity Interests are impaired under the Plan. The holders of Equity Interests are conclusively presumed to have rejected the Plan under section 1126(g) of the Bankruptcy Code.

#### **7.4 MEANS OF IMPLEMENTING THE PLAN**

**7.4.1 Implementation on the Effective Date.** The Plan shall be implemented beginning on the Confirmation Date.

**7.4.2 Execution of the Liquidation Manager Agreement.** On the Confirmation Date, the Liquidation Manager and duly authorized members of the Committee and Debtor shall execute the Liquidation Manager Agreement.

**7.4.3 Vesting of Assets of Estate.** Upon the Effective Date, all Assets of the Estate, wherever situated, shall vest in the Debtor, and be delivered by the Debtor to the Liquidation Manager for Distribution pursuant to the Plan. All such property shall be free and clear of all liens, claims and interests. The Liquidation Manager shall liquidate the Assets and distribute the proceeds from that liquidation to the holders of Allowed Claims in accordance with the provisions of the Plan and the Liquidation Manager Agreement.

**7.4.4 Authority.** The Liquidation Manager selected by the Committee is The Buckley Group, who has served as the Committee's financial advisor. The compensation to be paid by the Liquidation Manager is set forth in the Liquidation Manager Agreement, and is based on the customary hourly rates of the Liquidation Manager's professional personnel, subject to a

maximum of \$300 per hour. The Liquidation Manager, under the supervision of the Plan Committee and pursuant to the terms of the Liquidation Manager Agreement, is authorized to investigate, prosecute and, if necessary or desirable, litigate, any Cause of Action on behalf of the Debtor and shall have standing as an Estate representative to pursue any Causes of Action and Claims Objections, whether initially filed by the Debtor or the Liquidation Manager, and may assert any defenses that may otherwise be asserted by a trustee under the Bankruptcy Code. The Liquidation Manager shall not be required to take any further action to pursue Causes of Action and Claims Objections originally asserted by the Debtor; all such further actions with respect to Causes of Action and Claims Objections shall be taken in the sole discretion of the Liquidation Manager, after conferring with the Plan Committee, with the exception of actions with respect to Avoidance Actions, which shall be within the Liquidating Manager's sole discretion. The Liquidation Manager shall also be vested with all rights, powers, and benefits afforded to a trustee under sections 704 and 1106 of the Bankruptcy Code. Except as provided herein, no Asset of the Estate shall be deemed abandoned and no Cause of Action shall be deemed released or compromised by or as a result of the Plan, its confirmation, its consummation or its treatment of any Claim or Creditor. Further, no defense, counterclaim or right of recoupment shall be deemed waived or compromised.

**7.4.5 Resignation of Officers and Directors.** As of the Effective Date, all of the Debtor's officers and directors shall be deemed to have resigned without the necessity of any further action or writing and, except as provided otherwise in the Plan, they shall be released from any responsibilities, duties, and obligations that arise on and after the Effective Date to the Debtor or its Creditors under the Plan, the Liquidation Manager Agreement, or applicable law, including, but not limited to the following:

- (a) preparation and filing of corporate income and other tax returns, provided, however, that the Debtor's officers shall cooperate as may be necessary, to the extent reasonably possible, to assist the Liquidation Manager in filing income and other tax returns for the 2004 tax year or prior years;
- (b) preservation or liquidation of Assets or the Distribution of Assets or proceeds of Assets;
- (c) payment of outstanding fees due to the Office of the U.S. Trustee;
- (d) filing of status reports with the Bankruptcy Court or other parties in interest;
- (e) filing a Final Decree;
- (f) approving or disapproving any corporate action;
- (g) responding to inquiries of Creditors
- (h) resignation of officers and directors; and
- (i) any duty of care, loyalty or other duty imposed or imputed by law.

Provided, however, that it shall be the responsibility of the officers and directors of the Debtor to (a) use reasonable efforts to fully administer and terminate the Debtor's 401(k) plan and to resolve all COBRA issues by the Confirmation Date; and (b) cooperate with and provide requested information to the Liquidation Manager, as may be reasonably necessary, from time to time. The Debtor's officers and directors shall be reasonably compensated for their efforts in assisting with the termination of the Debtor's 401(k) plan and resolving open COBRA issues, after the Confirmation Date. It is presently anticipated that Rick Welker, the Debtor's Chief Financial officer, will primarily provide such assistance on an as needed basis, for which he will receive compensation at a daily rate of \$750, equating to approximately \$100 per hour.

**7.4.6 Appointment of Liquidation Manager and Notice of Successor.** The Committee shall select and designate the Liquidation Manager five (5) days prior to the Confirmation Date and the name and address of such Liquidation Manager shall be disclosed prior to the Confirmation Hearing and be set forth in the Confirmation Order. On or before the Effective Date, the Liquidation Manager, the Debtor and Committee shall execute the Liquidation Manager Agreement. The Liquidation Manager shall be subject to the direction of the Plan Committee and shall have the powers, duties, and obligations set forth in the Plan and in the Liquidation Manager Agreement. The Liquidation Manager Agreement shall provide for prompt written notice to the Bankruptcy Court and the U.S. Trustee of the name and address of any successor Liquidating Manager. The Plan Committee may replace the Liquidation Manager in its discretion, or in the event the Liquidation Manager resigns.

**7.4.7 Duties and Responsibilities of Liquidation Manager.** On the Effective Date of the Plan and pursuant to the Confirmation Order, the Liquidation Manager (a) shall be appointed as sole officer and director of Woodworkers, vested with the duties, responsibilities, and obligations of such a director or officer under the corporate laws of the State of Delaware; (b) shall assume such responsibilities, duties, and obligations that arise on and after the Effective Date under the Plan, the Liquidation Manager Agreement, and applicable law; and (c) shall be empowered and authorized to satisfy such responsibilities, duties, and obligations without further corporate authority as may have been required prior to the Effective Date; provided, however, that the Liquidation Manager shall serve at the pleasure of the Plan Committee, except with respect to Avoidance Actions as to which the Liquidation Manager shall act in his sole discretion. The duties, responsibilities, and authority of the Liquidation Manager include, but are not limited to (subject to the terms and conditions of the Liquidation Manager Agreement), the following:

- (a) to prepare and file corporate income and other tax returns including the right to request a determination of tax liability as set forth in section 505 of the Bankruptcy Code;
- (b) to act as Disbursing Agent, or to employ a Disbursing Agent under the Plan;
- (c) to administer or continue termination of employee benefits, including, but not limited to, termination of the Debtor's 401(k) plan and resolution of all COBRA matters solely to the extent not completed by the Debtor by the Confirmation Date,

including the use of the Debtor's cash to cover any professional fees exceeding available 401(k) funds;

(d) to review Claims filed in the Chapter 11 Case and to object to any Claim;

(e) to (i) prosecute, litigate, or refrain from pursuing Claims and Causes of Action, or (ii) resolve or settle or dismiss in accordance with the Litigation Manager's Settlement Authority, or as otherwise approved by the Bankruptcy Court, (x) Avoidance Actions, so long as the amount subject to avoidance and recovery under sections 547 and 550 of the Bankruptcy Code, net of new value defenses, is \$100,000 or less and (y) all other Claims and Causes of Action, so long as the amount in dispute or asserted in the proof of Claim is \$200,000 or less;

(f) to bring and prosecute any action or to file any pleading to enforce the provisions of the Plan;

(g) to appear and be heard in any matter or proceeding before the Bankruptcy Court in this Chapter 11 Case;

(h) to sell any Assets free and clear of any liens and interests, after notice and a hearing, pursuant to section 363 of the Bankruptcy Code;

(i) to employ and to pay professionals, subject to the approval of the Plan Committee;

(j) to declare a default pursuant to the provisions of the Plan;

(k) to preserve and liquidate Assets and distribute proceeds of the Assets;

(l) to pay outstanding fees due to the Office of the U.S. Trustee;

(m) to file status reports with the Bankruptcy Court or other parties in interest;

(n) to file a motion for Final Decree;

(o) to take, approve or disapprove any corporate action, including any action that would otherwise require shareholder or director action under applicable state law;

(p) to respond to inquiries of Creditors;

(q) to sign documents and to open, close and manage bank and investment accounts;

(r) to fulfill any duty of care, loyalty, or other duty imposed or imputed by law and any other duties of a Liquidation Manager consistent with the Bankruptcy Code and the terms and provisions of the Plan; and

(s) to exercise such other powers of a debtor in possession or trustee under the Bankruptcy Code to complete the administration of the Estate and the consummation of the Plan, subject to the terms, conditions and limitations set forth in the Plan.

The only known potential Causes of Action and Claims to be pursued are claims to recover credit card deposits owed to the Debtor totaling approximately \$625,000, the recovery of which deposits is estimated to yield approximately \$400,000, and possible actions to recover avoidable preferences under 11 U.S.C. §§ 547 and 550. The potential recoveries from such preference actions is not presently known, as the Debtor and the Committee believe that substantial defenses will be available with respect to payments made by the Debtor within ninety (90) days prior to the Petition Date.

The Committee's advisors have performed a preliminary sensitivity analysis to determine preference payments subject to possible avoidance and recovery under sections 547 and 550 of the Bankruptcy Code which could enhance creditor return. To derive the "Universe of Recoverable Preferences," the advisors first eliminated payments generally not recoverable due to (i) new value and ordinary course defenses and (ii) aggregate payments to vendors totaling less than \$5,000. The Committee's advisors then analyzed the ordinary course and new value defenses for a sample population, which yielded a recovery percentage of 2.8%. Multiplying the 2.8% sample recovery percentage against the Universe of Recoverable Preferences yielded a possible aggregate recovery, before costs of collection, of approximately \$272,500. The sensitivity analysis is merely a starting point for any future analysis to be performed by the Liquidation Manager and the Liquidating Manager's advisors to determine the cost/benefit of pursuing preference actions. The level of accuracy of this test would be enhanced by increasing sample size and/or performing a per vendor analysis which was determined to be too costly to justify for the time being, given the relatively low projected recovery from the sample vendor group. The Liquidation Manager will be empowered to pursue such claims, in his discretion, after the Effective Date.

#### **7.4.8 Plan Committee**

On the Effective Date, the Committee shall cease to function and shall become the Plan Committee.

(a) The Plan Committee shall consist of the corporations that are members of the Committee as of the Effective Date and are willing to serve as members of the Plan Committee. The Bylaws of the Committee as in effect on the Effective Date shall govern the proceedings of the Plan Committee, subject to amendment by the Plan Committee.

(b) The Plan Committee shall have overall direction and control of the liquidation of the Debtor's Estate and Assets and the prosecution of Claims and Causes of Action pursuant to the Plan and the terms of the Liquidation Manager Agreement, and shall direct, oversee and control all of the activities of the Liquidation Manager, with the exception of

decisions regarding Avoidance Actions, which shall be within the sole discretion of the Liquidating Manager, so as to avoid any conflicts of interest in the event members of the Plan Committee may hold claims subject to possible avoidance. The Liquidation Manager shall otherwise serve at the discretion of the Plan Committee.

(c) Members of the Plan Committee shall be reimbursed by the Estate for their reasonable and necessary out-of-pocket expenses incurred in performing their duties as Plan Committee members. Such reimbursement shall be effected pursuant to such procedures as the Plan Committee shall establish for presentation and review of invoices and supporting documentation, but approval of the Bankruptcy Court shall not be required for such payment unless specifically provided for by such procedures.

(d) The Plan Committee may retain such attorneys (including special counsel), accountants and other professionals as it shall consider advisable and the reasonable fees and expenses of the professionals retained by the Plan Committee and approved for payment by the Plan Committee will be paid by the Liquidation Manager subject to final approval of the Bankruptcy Court. Persons who served as Professionals to the Committee, or the Debtor, prior to the Effective Date may also continue to serve the Plan Committee.

(e) In the event of the resignation of a member of the Plan Committee, the remaining members may, but need not, designate a successor from among the holders of Class 4 Claims. Unless and until such vacancy is filled, the Plan Committee shall function with such reduced membership.

(f) In the event a Creditor that is a member of the Plan Committee assigns its general unsecured Claims or releases the Debtor from further Distribution on such Claims, such assignment or release shall constitute the resignation of such Creditor from the Plan Committee.

(g) Neither the members of the Plan Committee nor any of their respective employees, Professionals or agents shall in any way be liable for any acts or for the acts of any of its members, except for acts undertaken in bad faith, gross negligence or willful misconduct, in the performance of their duties as members of the Plan Committee. The Debtor and the Estate shall indemnify and hold harmless the Plan Committee, its members, and its professionals from and against any and all liabilities, expenses, claims, damages or losses incurred by them as a direct result of acts or omissions taken by them in good faith in their capacities as members of or agents for the Plan Committee.

(h) The Plan Committee shall be immediately and automatically dissolved as of the entry of the Final Decree.

**7.4.9 Management of the Assets.** Under the direction of the Plan Committee, the Liquidation Manager shall be empowered, subject to the Plan and the Liquidation Manager Agreement, to take all steps necessary to liquidate all of the Assets and distribute the proceeds in accordance with the Plan and the Liquidation Manager Agreement. Except as otherwise expressly provided herein, the Liquidation Manager, under the direction of the Plan Committee, shall be empowered to sell, lease, or otherwise liquidate and reduce to money, or abandon, the

Assets on such terms and for such consideration as it deems reasonable and in the best interest of holders of Claims, without further application to or order of the Bankruptcy Court under any provision of the Bankruptcy Code (including, without limitation, section 363 thereof) or otherwise; provided, however, that all settlements of Causes of Action shall be subject to Bankruptcy Rule 9019 except to the extent the Court may order otherwise.

**7.4.10 Sources of Funding.** The sources of funding of the Plan shall include, but shall not be limited to, the following:

1. All Cash on hand in the Estate;
2. The proceeds from sale or liquidation of Assets of the Estate;
3. The proceeds of all Causes of Action; and
4. All Available Cash.

**7.4.11 Distribution Reserve.** On the Effective Date, the Liquidation Manager shall establish the Distribution Reserve from the Assets to be distributed under the Plan. No Distribution Reserve shall be established for Claims that are listed as unliquidated, disputed or contingent on the Schedules filed by the Debtor unless proof of claims for said Claims have been filed with the Bankruptcy Court within the deadline established by the Bankruptcy Court. All Unclaimed Property shall become Available Cash eligible for Final Distribution on account of Allowed Class 4 Claims.

**7.4.12 Priority of Distribution.**

(a) Allowed Professional Claims shall be funded from the Distribution Account.

(b) No Distribution shall be made on account of Allowed Administrative and Reclamation Claims, other than on account of Allowed Professional Claims, until sufficient funds are set aside in the Distribution Reserve for (i) Allowed and Disputed Secured Claims and (ii) all expenses which the Liquidation Manager deems necessary to administer the Plan.

(c) No Distribution shall be made on account of Allowed Priority Non-Tax Claims until sufficient funds are set aside in the Distribution Reserve for (i) Allowed and Disputed Secured Claims, Administrative Claims and Reclamation Claims and (ii) all expenses which the Liquidation Manager deems necessary to administer the Plan.

(d) No Distribution shall be made on account of Allowed Priority Tax Claims until sufficient funds are set aside in the Distribution Reserve for (i) Allowed and Disputed Secured Claims, Administrative Claims, Reclamation Claims, and Priority Non-Tax Claims and (ii) all expenses the Liquidation Manager deems necessary to administer the Plan.

(e) No Distribution shall be made on account of Allowed Unsecured Claims until sufficient funds are set aside in the Distribution Reserve for (i) Allowed and Disputed Secured Claims, Administrative Claims, Reclamation Claims, Priority Non-Tax Claims and Priority Tax Claims and (ii) all expenses that the Liquidation Manager has incurred or reasonably expects to incur in connection with the administration of the Plan.

