IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
HDC HOLDINGS II, LLC, *et al.*,[1]	Case No. 24-12307 (___)
Debtors.	(Joint Administration Requested)

DECLARATION OF JEFFREY MARTIN IN SUPPORT OF CHAPTER 11 PETITIONS AND REQUESTS FOR FIRST DAY RELIEF

Pursuant to 28 U.S.C. § 1746, I, Jeffrey Martin, do hereby declare, under penalty of perjury, the following to the best of my knowledge and belief:

1. I was appointed as the Chief Restructuring Officer for HDC Holdings II, LLC ("HDC Holdings II") and its affiliated debtors and debtors in possession, each a Delaware limited liability company (collectively, the "Debtors" or the "Company"), on or about September 11, 2024.

2. I have over ten (10) years of experience in the corporate turnaround and restructuring industry. I am a Managing Director at Mosaic Growth Partners ("Mosaic"), which I joined in 2011. Mosaic is a strategy consulting and coaching firm offering their corporate clients business growth strategy consulting and advisory support services. In addition, Mosaic has served

[1] The Debtors in these chapter 11 cases, together with the last four digits of each Debtor's federal tax identification number, are: HDC Holdings II, LLC (2013); HDC Holdings III, LLC (3296); CCM Capital Assets, LLC (9451); Channel Control Merchants, LLC (3319); Dirt Cheap I, LLC (9433); CCM Support Services, LLC (2059); CCM Wholesale SE, LLC (7219); Channel Control Merchants of Texas, LLC (8091); Creative Sales Solutions, LLC (1691); Dirt Cheap Arkansas, LLC (0244); Dirt Cheap Building Supplies, LLC (0880); Dirt Cheap of Georgia, LLC (0269); Dirt Cheap of Louisiana, LLC (0067); Dirt Cheap SE, LLC (4928); Dirt Cheap Tennessee, LLC (1273); Treasure Hunt, LLC (9393); CCM Wholesale, LLC (7219); Channel Control Merchants of California, LLC (9011); and CAL Support Services, LLC (2859). The Debtors' headquarters are located at 6892 US Hwy 49 North, Hattiesburg, Mississippi 39402.

as an advisor to Channel Control Merchants Corporation, a Canadian non-Debtor affiliate of the Debtors, furthering my familiarity with the Debtors' business operations and financial condition. I have served in C-Suite, Vice President, and Director roles for a wide range of companies. I received a Bachelor of Commerce and a Master of Business Administration from Memorial University, Newfoundland and Labrador.

3. On the date hereof (the "Petition Date"), each Debtor filed a voluntary petition for relief with the United States Bankruptcy Court for the District of Delaware (the "Court") under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), thereby commencing these chapter 11 cases (collectively, the "Chapter 11 Cases"). The Debtors intend to operate their business and manage their properties as debtors in possession during the pendency of these Chapter 11 Cases, which, as further detailed below, have been commenced to implement an orderly wind down of the Debtors' business and operations.

4. This declaration (this "Declaration") is submitted (i) to provide an overview of the Debtors and these Chapter 11 Cases and (ii) in support of the Debtors' chapter 11 petitions and "first day" motions (each a "First Day Motion," and, collectively, the "First Day Motions"), which have been filed to minimize the adverse effects of filing for chapter 11 protection and enhance the Debtors' ability to maximize value for the benefit of their estates and all constituents.

5. If called as a witness, I could and would competently testify to the matters set forth herein based on my personal knowledge. In my capacity with the Debtors, I am familiar with the Debtors' day-to-day operations, business affairs, financial condition and books and records. My testimony herein is based on my current service as an officer of the Debtors, my review of the Debtors' books and records and other relevant documents, and my review of information compiled and communicated to me by other employees of the Debtors and the Debtors' professional

advisors.

6. Prior to the commencement of these Chapter 11 Cases I, among other things, (i) reviewed and discussed the Debtors' strategy regarding disposition alternatives for the Debtors' assets and, ultimately, implementation of the value-maximizing initiatives described herein; (ii) supervised the preparation of the documentation needed to implement the wind down of the Debtors' affairs contemplated during these Chapter 11 Cases; and (iii) consulted on a regular basis with the Debtors' other senior management members, the Debtors' Board of Directors (the "Board") and the Debtors' outside advisors with respect to the foregoing.

7. Section I of this Declaration describes the Debtors' business history, corporate structure, governance model, and prepetition indebtedness. Section II describes the events and circumstances that triggered the commencement of these Chapter 11 Cases. Section III discusses the Debtors' need for cash collateral and the efforts that the Debtors have expended to reach a consensual agreement in connection therewith. Section IV details the Debtors' objectives for these Chapter 11 Cases and the contemplated means by which such objectives will be met. Finally, Section V sets forth the relevant facts in support of the First Day Motions and summarizes the relief requested thereby.

I. Business History, Corporate Structure, and Prepetition Indebtedness

A. Company History and Corporate Structure

8. Founded in 1954 and based in Hattiesburg, Mississippi, the Debtors are a leading vertically-integrated reverse logistics solution provider with a differentiated retail arm. The Debtors procure and process secondary merchandise, including excess inventory and customer returns, from major retailers and sell the products through the Company's retail stores directly to customers and through wholesale channels to other off-price retailers or e-tailers. The Debtors

provide their consumer customers with the opportunity to purchase high-quality merchandise at deeply discounted prices while also providing its retailer vendors with a means to process secondary inventories to maximize recovery. The Company was acquired by an investor group in 2004 and the Company was sold in its entirety to KKR & Co, Inc. ("KKR") in 2015, with existing equity retaining a minority stake. A group of private investors, including Hilco Global and Behrens Investment Group purchased the Company in May of 2023.

9. Debtor HDC Holdings III, LLC is a holding company that is the sole manager of each other Debtor, except HDC Holdings II, which is a holding company and is the sole manager and 100% owner of the membership interests in Debtor HDC Holdings III, LLC. The membership interests of Debtor HDC Holdings II are 100% owned by non-debtor Treasure Intermediate LLC, which membership interests are 100% owned by non-debtor Treasure Topco LLC, the ultimate parent of all Debtors.

10. Debtor HDC Holdings III, LLC is the sole member and manager of Debtors CCM Capital Assets, LLC and Channel Control Merchants, LLC. Debtor Channel Control Merchants, LLC is the sole member of (i) CCM Support Services, LLC, (ii) CCM Wholesale SE, LLC, (iii) Channel Control Merchants of Texas, LLC, (iv) Creative Sales Solutions, LLC, (v) Dirt Cheap Arkansas, LLC, (vi) Dirt Cheap Building Supplies, LLC, (vii) Dirt Cheap I, LLC, (viii) Dirt Cheap of Georgia, LLC, (ix) Dirt Cheap of Louisiana, LLC, (x) Dirt Cheap SE, LLC, (xi) Dirt Cheap Tennessee, LLC, and (xii) Treasure Hunt, LLC. Debtor Dirt Cheap I, LLC is the sole member of CCM Wholesale, LLC and Channel Control Merchants of California, LLC. Debtor Channel Control Merchants of California, LLC is the sole member of CAL Support Services, LLC. A copy of the organizational chart that includes all 19 Debtors and their non-debtor affiliates is attached hereto as Exhibit A (the "Corporate Organization Chart").

B. Current Business Operations

11. The Debtors are a leading provider of quality secondary merchandise which serves a loyal customer base of treasure hunters and value seekers in underserved secondary and tertiary retail markets. The Debtors brands include Dirt Cheap, Treasure Hunt, and Dirt Cheap Building Supplies. Through these business lines, the Debtors sell a variety of quality merchandise, including apparel and footwear, building supplies, toys and electronics, furniture, seasonal items, and health and beauty products, among others. The Company focuses on addressing the retail needs of its consumer customers through wholesale brick and mortar retail locations located throughout the southern United States, primarily in Mississippi and Louisiana. A non-debtor Canadian affiliate of the Company provides similar services to its Canadian customer base and operates retail locations throughout Canada.

12. The Company also provides a critical service to its more traditional retail partners, helping them monetize secondary inventories and maximize recoveries in an efficient, sustainable, and cost-effective manner. Processing customer returns is a growing operational issue for large-scale retailers. The Company provides a critical end-to-end solution to address these needs through a high level of service and integrity that maximizes cash proceeds. By adhering to rigorous compliance standards, the Debtors maximize brand integrity for their partners while also maintaining the ability to process complex inventories with an unparalleled focus on environmental sustainability. To that end, the Debtors obtain goods from third parties (the "Material Vendors") for resale in their brick-and-mortar locations, including (i) apparel and footwear; (ii) seasonal items; (iii) toys and electronics; (iv) jewelry; and (v) health and beauty products, among others (the "Goods").

13. Headquartered in Hattiesburg, Mississippi (the "Mississippi Headquarters"), the Debtors operate their retail store business through 68 facilities and distribution centers in 8

states, which are primarily located in suburban areas and in malls or shopping centers. The Debtors own eight (8) stores and warehouses and two (2) distribution centers, which are subject to the mortgages described below.[2]

14. Prior to initiating the efforts described herein, the Debtors maintained a distribution system in which all store-bound merchandise was received, sorted, and repacked at the Company's various distribution centers located in Texas and the southern United States (collectively, the "Distribution Centers").

C. Prepetition Indebtedness

15. The Debtors' prepetition debt structure primarily consists of (i) the Pre-Petition ABL Facility; (ii) the Second Lien Loan; (iii) Hancock Loans and Mortgages; and (iv) other unsecured debt consisting of, among other things, amounts owed to landlords in connection with certain leases of nonresidential real property and amounts owed to the Debtors' primary Material Vendors from whom the Debtors receive inventory, including those described above. The Goods will be sold through the store closing initiatives described herein.

i. *Pre-Petition ABL Facility*

16. On August 21, 2023, HDC Holdings II and HDC Holdings III, LLC ("Borrower") entered into that certain Amended and Restated ABL Credit Agreement (as amended, restated, modified, supplemented or replaced from time to time, the "Pre-Petition ABL Credit Agreement")[3] with BMO Bank N.A. (f/k/a BMO Harris Bank N.A. ("BMO")), as lender and agent,

[2] As of the Petition Date, the Debtors were in the process of winding down operations at all of their retail stores and distribution centers and conducting clearance sales in furtherance thereof. The Debtors intend to complete store closing sales and vacate these stores and distribution centers before the end of 2024.

[3] Capitalized terms used in describing the Pre-Petition ABL Facility but not otherwise defined herein shall have the meanings ascribed to such terms in the Pre-Petition ABL Credit Agreement.

together with the other lenders[4] (in such capacities, the "Pre-Petition ABL Agent" and the underlying facility, the "Pre-Petition ABL Facility"). The Pre-Petition ABL Facility permits borrowings of up to $36.5 million, including a first-in, last-out loan tranche (the "FILO Loan") of up to $5 million, and a revolving credit agreement (the "Revolving Loan") in the amount of $31.5 million. The Pre-Petition ABL Facility is guaranteed by the following Debtors: HDC Holdings II, LLC, Dirt Cheap of Georgia, LLC, Dirt Cheap of Louisiana, LLC, Dirt Cheap Arkansas, LLC, Channel Control Merchants of Texas, LLC, Dirt Cheap Tennessee, LLC, CCM Wholesale SE, LLC, Dirt Cheap SE, LLC, CAL Support Services, LLC, CCM Wholesale, LLC, Channel Control Merchants of California, LLC, Dirt Cheap I, LLC, Dirt Cheap Building Supplies, LLC, Creative Sales Solutions, LLC, Treasure Hunt, LLC, CCM Support Services, LLC, CCM Capital Assets, LLC, and Channel Control Merchants, LLC (collectively, the "ABL Guarantors"). Hilco Trading, LLC serves as a limited guarantor under the Pre-Petition ABL Credit Agreement in an amount up to $17.5 million.

17. The Pre-Petition ABL Facility is secured by a first-priority lien on all of the Debtors' assets other than the Excluded Property (the "Collateral"). Excluded Property includes, but is not limited to: (i) all leasehold interests in real property; (ii) motor vehicles and other assets subject to certificates of title, letter of credit rights, and certain commercial tort claims; (iii) assets over which the granting of security interests in such assets would be prohibited by applicable law or regulation; (iv) margin stock; (v) those assets agreed to by the Borrower and Pre-Petition ABL Agent; (vi) any contract, lease, license or other agreement or any property subject to a purchase money security interest, capitalized lease obligation or similar arrangement permitted under the

[4] As of the Petition Date, the lenders to the Pre-Petition ABL Credit Agreement are BMO, Hancock Whitney Bank, and Hilco Trading, LLC (collectively, the "Prepetition Secured Parties").

Pre-Petition ABL Agreement; and (vii) any property that is subject to a lien if the contract or other agreement in which such lien is granted prohibits the creation of any other line on such property or creates a right of termination in favor of any other party thereto as a result of the creation of any such lien.

18. Availability under the Pre-Petition ABL Facility is capped by a borrowing base, which is calculated monthly based on percentages of the value of certain of the Debtors' inventory, and receivables, and is subject to certain reserves and sub-limits. As of the date hereof, the aggregate amount of all obligations outstanding under the Pre-Petition ABL Facility was no less than $29.5 million.

ii. *Second Lien Loan*

19. On March 7, 2024, Treasure Topco, LLC and HDC Holdings III, LLC entered into a Subordination and Intercreditor Agreement (the "Second Lien Agreement"). Under the Second Lien Agreement, Treasure Topco, LLC provided a second lien loan (the "Second Lien Loan") in the amount of $4 million to the Borrower under the Pre-Petition ABL Facility. The Second Lien Loan is guaranteed by the following Debtors: HDC Holdings II, Dirt Cheap of Georgia, LLC, Dirt Cheap of Louisiana, LLC, Dirt Cheap Arkansas, LLC, Channel Control Merchants of Texas, LLC, Dirt Cheap Tennessee, LLC, CCM Wholesale SE, LLC, Dirt Cheap SE, LLC, CAL Support Services, LLC, CCM Wholesale, LLC, Channel Control Merchants of California, LLC, Dirt Cheap I, LLC, Dirt Cheap Building Supplies, LLC, Creative Sales Solutions, LLC, Treasure Hunt, LLC, CCM Support Services, LLC, CCM Capital Assets, LLC, and Channel Control Merchants, LLC. The Second Lien Loan matures on July 20, 2025.

iii. *Hancock Loan and Mortgages*

20. In 2018, the Debtors and Hancock Whitney Bank (a participant in the Pre-Petition ABL Facility) ("Hancock") entered into three mortgage loan agreements (the "Hancock Agreements") pursuant to which Hancock provided loans to the Debtors (the "Hancock Loans") and, in exchange, the Debtors assigned and granted security interests and rights to certain real properties owned by the Debtors (the "Mortgaged Properties") as collateral for the Hancock Loans. As of the Petition Date, outstanding amounts owed under the Hancock Loans is approximately $10.5 million.

iv. *Other Unsecured Debt*

21. As of the Petition Date, the Debtors' books and records reflected accounts payable due and owing in an amount exceeding approximately $32 million on account of unsecured debt.

II. Circumstances Leading to the Commencement of These Chapter 11 Cases and Prepetition Restructuring Efforts

22. The Debtors operate in an extremely competitive retail environment, facing competition from other secondary merchandise retail stores and mass-market discount retailers. The Company has recently encountered multiple issues with its foundational supplier, Target Brands, Inc. ("Target"). Over the past eighteen (18) months, Target has de-mixed its pallets, divesting its best returns to B-Stock Solutions, Inc., a Company competitor. At the same time, Target has been channeling a deteriorating mix of inventory to the Debtors, while increasing the cost of its pallets. Given Target's position as the Company's foundational supplier, the Company lacked the necessary leverage to negotiate or otherwise dispute these increased costs.

23. At the same time, the retail industry, in general, has struggled as consumers have shifted away from brick-and-mortar stores to online retail channels in recent years. Retail

companies that have a significant or exclusive brick-and-mortar presence, like the Debtors, bear higher expenses than web-based retailers and are heavily dependent on store traffic, which has decreased significantly as consumers increasingly shop online. Other macro-economic factors have further compounded the problems plaguing retailers. For instance, changes in consumer spending habits have necessitated many retailers to increase promotional activities and discounting, leading to thinner profit margins. Onerous brick-and-mortar lease terms and increased operating costs, during a period of downturn in the retail sector and deep discounting, have intensified retail losses. Indeed, these macro-economic challenges have compelled numerous national retailers to file chapter 11 cases in recent years, including Big Lots, Conn's, Rue21, Express, and The Body Shop, among others. In addition to the shift away from traditional retail stores, the filing of these Chapter 11 Cases was further necessitated by challenges related to the Debtors' growth strategies initiated in the last decade and the COVID-19 pandemic, in turn, causing mass shutdowns and abrupt changes in the retail industry.

24. In this context, it is my understanding that the Company evaluated the ability to maintain a smaller retail footprint but determined, in its business judgment, that it would be unable to produce a positive cash flow model under such a strategy after taking into account warehouse, distribution, and general corporate expenses, without factoring in unrealistically high sales expectations. In addition, since the acquisition of the Company in 2023, the Company has absorbed significant wage and inflation costs which have undermined the Debtors' ability to maintain profitability. Moreover, in 2023 and 2024, the Company incurred higher labor and freight costs, and higher costs of goods. At this time, the Debtors are unable to balance out these heightened costs through increased prices given the limited economic state of their customer base and the nature of the Debtors' resale business, ultimately resulting in a negative cash flow.

25. On July 19, 2024, the Company's working line of capital expired by its terms. Notwithstanding efforts to refinance and restructure their secured debt, due to the poor financial performance of the Company, including significant losses and a cash burn of up to $1 million per week in recent months, in conjunction with the Company's lack of a traditional perpetual inventory system, the Company was unable to obtain this much needed financing without a significant equity infusion. The Company has engaged with the Pre-Petition ABL Agent on numerous occasions to keep a working line of credit in place and also explored potential investments from third parties. Unfortunately, the Company was only able to secure additional liquidity in the amounts of: (i) a $15 million equity infusion from Hilco Trading and (ii) the FILO Loan of $5 million. With limited cash available, it was determined that the Company would only be able to continue operations until the end of 2024 absent an additional liquidity infusion.

26. In this context, the Debtors began exploring restructuring alternatives. In recent months, the Board considered numerous potential ways to address the Debtors' debt structure and liquidity issues, and ultimately determined that it was appropriate to wind down the Debtors' brick-and-mortar operations prior to, and during, these Chapter 11 Cases.

27. Indeed, once it became clear that the Debtors would wind down their brick-and-mortar operations on a chain-wide level and with Court oversight, the Debtors determined to retain Hilco Merchant Resources, LLC ("Hilco"), an affiliate of the Debtors' primary equity holder, to serve as asset disposition agent to handle the monetization of the Debtors' assets, including (i) merchandise located at the retail locations and Distribution Centers, and (ii) furniture, fixtures, and equipment owned by the Debtors (the "Store Closing Assets"). Additionally, in early September 2024, the Debtors retained Mosaic as turnaround advisors and Young Conaway Stargatt & Taylor, LLP ("YCST") as restructuring counsel. Shortly thereafter, I was appointed CRO.

28. Accordingly, in addition to the eight (8) stores closed by Hilco in 2023 pursuant to an agreement by and between the Debtors and Hilco dated January 30, 2023 (the "Hilco Agreement"), the Debtors entered into an amendment to the Hilco Agreement (the "Hilco Amendment", and together with the Hilco Agreement, the "Agency Agreement") with Hilco on or about October 1, 2024 to: (i) commence store closing sales at all of their retail locations, distribution centers, and Mississippi Headquarters, on or about October 4, 2024 (collectively, the "Closing Stores," and such sales, the "Store Closing Sales") and (ii) to retain Hilco as agent to oversee and implement the Store Closing Sales at these locations. The Store Closing Sales are anticipated to conclude no later than December 31, 2024. Notably, Hilco is not receiving any fees for its services, and will only be entitled to reasonable and documented expenses incurred in connection with administering the Store Closing Sales. Moreover, the Debtors significantly curtailed their receipt of new inventory in the weeks prior to the Petition Date in an effort to curb the accrual of administrative expense claims.

29. At the outset of these proceedings, the Debtors will seek Court authority to (i) assume the Agency Agreement with Hilco to continue the sale of the Debtors' store-level inventory, and (ii) conduct the Store Closing Sales. After considering all viable restructuring options and taking the steps identified herein to address operational and liquidity challenges prior to the Petition Date, I believe that the Store Closing Sales represent the best means through which to maximize value for the estates and all interested parties. For the avoidance of doubt, however, the Debtors encourage and welcome inquiries from any third parties which might be interested in the Debtors' assets, whether substantially all such assets or a subset thereof. The Debtors' singular objective through these proceedings is to maximize value for the Debtors' assets in any manner whatsoever.

III. Use of Cash Collateral

30. I, together with the other members of the Company's management and its advisors, have analyzed the Company's business affairs, financial position, contractual arrangements and strategic alternatives and have determined that the Debtors' cash is their sole source of funding for their operations and the costs of administering these Chapter 11 Cases. This analysis included, among other things, an assessment of the Debtors' available liquidity, taking into account anticipated cash receipts and disbursements, professional fees, the impact of a chapter 11 filing on business operations, customer and vendor relationships, and other necessary operational payments. Given the existing liens on substantially all of the Debtors' assets, the Debtors negotiated the terms of the consensual use of cash collateral with the Prepetition Secured Parties.

31. I believe that the Debtors' access to their cash is critical to fund the cost of these Chapter 11 Cases and provide the Debtors with the requisite liquidity to pay their ongoing operational needs, such as payments to employees and landlords, and for purposes of maximizing value through the Store Closing Sales. Without access to cash collateral, I believe that substantial value degradation would occur as a result of the Debtors' inability to continue operations throughout the Store Closing Sales, which would not only impact revenue, but would also negatively impact the Debtors' employees, vendors, customers and brand, jeopardizing the Debtors' ability to effect efficient, successful and value-maximizing Store Closing Sales.

32. The Debtors believe that the continued use of cash collateral is necessary to provide the Debtors with sufficient liquidity to conduct a thorough and flexible Store Closing Sales process so that they may maximize the value of the Debtors' estates for the benefit of all stakeholders. The Debtors' primary stakeholders—the Prepetition Secured Parties—support the Debtors' continued use of cash collateral in accordance with a heavily-negotiated budget.

IV. Objectives for Chapter 11 and Proposed Sale Initiatives

33. For the reasons outlined above, the Debtors believe that the commencement of these Chapter 11 Cases is a necessary and prudent measure to maximize the value of the Debtors' estates. At the outset of these proceedings, the Debtors seek authority to continue the Store Closing Sales, with Hilco's assistance.

34. The Debtors will also take a number of steps to reduce their expenses moving forward, including filing a number of contract and lease rejection motions as the Store Closing Sales run their course, pursuant to which the Debtors will seek to reject store leases and contracts that the Debtors and their advisors determine are no longer necessary to the Debtors' business operations and burdensome to the estates. Finally, as these Chapter 11 Cases and the Store Closing Sales each progress, the Debtors will continue to analyze their asset portfolio and available disposition alternatives with respect to all available assets in the interests of preserving and maximizing estate value.

V. First-Day Motions[5]

35. As a result of my first-hand knowledge, and through my review of various materials and information, discussions with members of the Debtors' management and the Debtors' outside advisors, I have formed opinions as to (a) the necessity of obtaining the targeted and narrow relief sought by the Debtors in the First Day Motions, (b) the need for the Debtors to continue to operate effectively while working to maximize the value of the assets for the benefit of all stakeholders, (c) the deleterious effects upon the Debtors of not obtaining the relief sought in the First Day Motions, and (d) the immediate and irreparable harm to which the Debtors will be exposed

[5] Capitalized terms used in this section but not otherwise defined herein shall have the meanings ascribed to such terms in the First Day Motions, as applicable.

upon the commencement of these Chapter 11 Cases unless the relief requested in the First Day Motions is granted without further delay.

36. As described more fully below, the relief requested in the First Day Motions was carefully tailored by the Debtors, in consultation with their professionals, to ensure that the Debtors' immediate operational needs are met so as to allow the Store Closing Sales to succeed, and that the Debtors suffer no immediate and irreparable harm during these Chapter 11 Cases. I, or my colleagues at my instruction, participated in the analysis that informed each First Day Motion, and assisted in developing the relief requested therein and reviewing pleadings related thereto. At all times, the Debtors' management and professionals remained cognizant of the limitations imposed on a debtor-in-possession and, in light of those limitations, the Debtors narrowed the relief requested at the outset of these Chapter 11 Cases to those matters that require urgent relief to sustain the Debtors' immediate operations and preserve value during the pendency of these Chapter 11 Cases.

A. Joint Administration Motion

37. The Debtors seek the joint administration of these Chapter 11 Cases for procedural purposes only. Many of the motions, hearings, and other matters involved in these Chapter 11 Cases will affect all of the Debtors and, given the nature of the Debtors' operations, the treatment of certain contracts and business relationships of a single Debtor may impact the assets and operations of other Debtors. I understand that joint administration will reduce costs and facilitate the administrative process by avoiding the need for duplicative hearings, notices, applications, and orders. I understand that no prejudice will befall any party by the joint administration of the Debtors' cases, as the relief sought is solely procedural and is not intended to affect substantive rights. Based on the foregoing, I believe that it would be far more efficient for the administration of these Chapter 11 Cases if the Court were to authorize the joint administration

of these Chapter 11 Cases.

B. Claims Agent Retention Application

38. The Debtors request entry of an order, pursuant to 28 U.S.C. § 156(c), Bankruptcy Rule 2002(f), and Local Rule 2002-1(f), authorizing the retention and appointment of Epiq Corporate Restructuring, LLC ("Epiq") as claims and noticing agent in these Chapter 11 Cases. I believe that the relief requested in the Epiq retention application will ease the administrative burden on the Clerk of the Court in connection with these Chapter 11 Cases. In addition, I have been advised by the Debtors' proposed counsel that Epiq's retention is required by the Local Rules in light of the Debtors' anticipated number of creditors. Given Epiq's competitive rates and experience, the Debtors respectfully request that the application to retain Epiq as claims and noticing agent be approved.

C. Creditor Matrix Redaction Motion

39. By this motion (the "Creditor Matrix Redaction Motion"), the Debtors seek entry of an order authorizing the Debtors to redact certain personally identifiable information from the Debtors' list of creditors attached to the Debtors' chapter 11 petitions, schedules of assets and liabilities and statements of financial affairs, and other documents, as applicable. I believe that authorizing the Debtors to redact personally identifiable information of individuals from filings in these Chapter 11 Cases, including the Debtors' customers and employees, is warranted. Among other reasons, such information could be used to perpetrate identity theft or locate survivors of domestic violence, harassment, or stalking. With hundreds of individual creditors, the Debtors cannot reasonably know with sufficient certainty whether a release of such individual creditors' and interest holders' personal information could potentially jeopardize safety. Accordingly, the Debtors request that the relief requested in the Creditor Matrix Redaction Motion be approved.

D. Utilities Motion

40. By this motion (the "Utility Motion"), and to ensure continued provision of utility services (the "Utility Services") to each of the Debtors' retail locations, distribution centers, and the Mississippi Headquarters, the Debtors seek entry of interim and final orders (i) prohibiting the Debtors' utility service providers (collectively, the "Utility Service Providers") from altering, refusing, or discontinuing utility service on account of unpaid prepetition invoices, (ii) deeming the Utility Service Providers to be adequately assured of future payment, and (iii) establishing procedures for determining additional adequate assurance of future payment and authorizing the Debtors to provide adequate assurance of future payment to the Utility Service Providers. The Debtors propose establishing a segregated account into which the Debtors will deposit a sum equal to approximately 50% of the Debtors' estimated aggregate monthly utility expenses and, additionally, have proposed procedures to address any request made by the Utility Service Providers for additional adequate assurance.

41. Any disruption of the Debtors' Utility Services would cause irreparable harm to the Debtors' business operations, their estates and the success of the Store Closing Sales. The successful consummation of the Store Closing Sales and the sales of any other assets (as applicable) require that the Utility Services be provided on a continual and uninterrupted basis while the Debtors remain in their retail locations and operating from the Mississippi Headquarters. Any disruption of the Utility Services could have a significant impact on the Debtors' business operations and efforts to maximize value for the estates. As the Store Closing Sales conclude, the Debtors will take immediate action to minimize postpetition expenses, including with respect to utility services that will no longer be necessary upon exiting the Debtors' retail locations.

42. For the foregoing reasons, the Debtors submit, and I believe, that the relief

requested in the Utility Motion is in the best interests of the Debtors, their estates, and their creditors, and should therefore be approved.

E. Cash Management Motion

43. By this motion (the "Cash Management Motion"), the Debtors seek entry of an order, among other things, (i) authorizing continued use of their existing (a) bank accounts, (b) cash management system, (c) checks and business forms, and (d) performing intercompany transactions; and (ii) waiving certain operating guidelines related to the Bank Accounts; (iii) granting administrative expense status for postpetition Intercompany Claims; and (iv) granting an interim suspension of the requirements of section 345(b) of the Bankruptcy Code. In addition, the Debtors also request a waiver of certain of the operating guidelines established by the Office of the United States Trustee for the District of Delaware that require the Debtors to close all prepetition bank accounts, open new accounts designated as debtor-in-possession accounts, and provide new business forms and stationery.

44. As described in detail in the Cash Management Motion, the Debtors maintain a cash management and disbursement system in the ordinary course of their operations (the "Cash Management System"). To lessen the disruption caused by the bankruptcy filing and maximize the value of their estates in these Chapter 11 Cases, it is vital that the Debtors maintain their Cash Management System and be authorized to, *inter alia*, pay any outstanding Bank service and other fees owed in relation to their Cash Management System.

45. The Debtors maintain current and accurate accounting records of daily transactions and submit that maintaining this Cash Management System will prevent undue disruption to the Debtors' operations while protecting the Debtors' cash for the benefit of their estates. It is critical that the Debtors be able to consolidate management of cash and centrally

coordinate transfers of funds to efficiently and effectively operate their business operations. Absent obtaining the relief requested in the Cash Management System, the Debtors will not be able to maximize value through the Store Closing Sales.

46. The Debtors also engage in certain intercompany transactions (the "Intercompany Transactions") that generate intercompany receivables and payables (the "Intercompany Claims"). The Intercompany Transactions cover both intercompany loans and services, including with the Debtors' non-Debtor affiliates in Canada (the "Canadian Affiliates"). Additionally, in the ordinary course of business, certain of the Debtors pay each other's invoices for operational efficiency or other business reasons, including, but not limited to, Debtor Channel Control Merchants, LLC's payment of certain mortgage loan obligations incurred by Debtor CCM Capital Assets, LLC, which the Debtors intend to continue on a postpetition basis in accordance with the budget appended to the Cash Collateral Motion.

47. In addition to transfers among the Debtors, in the ordinary course of business, the Debtors have historically paid for certain back-office services that are shared with the Canadian Affiliates (the "Shared Services"). Over the course of their business, a payable owing from the Debtors to the Canadian Affiliates has accrued in the amount of approximately $50,000 (the "Intercompany Payable"). As the Debtors pay for services that are shared with the Canadian Affiliates, the Debtors setoff the Canadian Affiliates' share of such services. However, no cash is actually transferred from any of the Debtors to the Canadian Affiliates.

48. I believe any disruption to the Cash Management System, including Intercompany Transactions and the Shared Services, would have an immediate adverse impact on the Debtors' business and would impair the Debtors' ability to successfully administer these Chapter 11 Cases. It would be time-consuming, difficult, and costly for the Debtors to establish an

entirely new system of accounts and a new cash management system, especially as the Debtors are actively winding down their affairs. In addition, preserving a "business as usual" atmosphere and avoiding the unnecessary distractions that inevitably would be associated with any substantial disruption of the Cash Management System will facilitate the stabilization of the Debtors' business operations, particularly during the transition into chapter 11. I believe this is critically important, here, where the Debtors are in the process of winding down their business and operations in an efficient, Court-supervised manner, and any disruption to the Cash Management System would jeopardize the Debtors' ability to implement a streamlined, value-maximizing process.

49. Accordingly, the Debtors request that in the Cash Management Motion be approved.

F. Insurance Motion

50. By this motion (the "Insurance Motion"), the Debtors request entry of an order (i) authorizing, but not directing, the Debtors to (a) continue and, to the extent necessary, revise, extend, renew, supplement, or change, the insurance programs (including by obtaining "tail" coverage) (collectively, the "Insurance Programs") summarized in the Insurance Motion, (b) pay, in their sole discretion, all undisputed policy premiums, claims, deductibles, retentions, administrative fees, broker fees and other obligations relating to the Insurance Programs (such obligations, the "Insurance Obligations") that were or are due and payable, and relate to the period before or after the Petition Date, and (c) continue their Financed Programs (as defined below) and renew or enter into new premium financing programs, and (ii) authorizing the Debtors' banks (collectively, the "Banks") to honor and process check and electronic transfer requests related thereto.

51. In the ordinary course of business, the Debtors have maintained, and continue to maintain, a number of insurance policies for, among other things, (i) general liability,

(ii) automobile, (iii) umbrella, (iv) cyber, (v) foreign, (vi) property, (vii) directors & officers liability, employment practices liability, and fiduciary liability, and (viii) excess cyber liability, among others. The Debtors employ Aon Risk Services Central Inc. and Cadence Insurance Inc. (together, the "Brokers") to assist them with the procurement and negotiation of their Insurance Programs.

52. I believe that maintaining the Debtors' insurance coverage under the Insurance Programs is a crucial ordinary-course-of-business transaction, and necessary to preserve value during these Chapter 11 Cases. Authority to pay any prepetition Insurance Obligations—to the extent that the Debtors determine that such payment is necessary to avoid cancellation, default, alteration, assignment, attachment, lapse, or any form of impairment of the coverage, benefits or proceeds provided under the Insurance Programs—is imperative, as the insurance coverage provided under the Insurance Programs is essential for preserving the value of the Debtors' assets, and, in most cases, such coverage is required by the various contracts and laws that govern the Debtors' operations. Furthermore, it is my understanding that, under the chapter 11 operating guidelines issued by the United States Trustee for Region 3 pursuant to 28 U.S.C. § 586, the Debtors are obligated to maintain certain insurance coverage during these Chapter 11 Cases, and such coverage is provided by certain of the policies included in the Insurance Programs.

53. Because it is not economically advantageous for the Debtors to pay the premiums on each of their Insurance Programs on an annual basis, from time to time and in the ordinary course of business, the premiums on certain of the Insurance Programs are financed (such programs, the "Financed Programs") pursuant to the premium finance agreements (the "PFAs") between the Debtors and Aon Premium Finance, LLC ("Aon"). If the Debtors are unable to continue making payments under the PFAs, Aon may be permitted to terminate the Financed

Programs, at which point the Debtors would be required to obtain replacement insurance on an expedited basis and likely at a significantly increased cost. Given the importance of maintaining insurance coverage under the Financed Programs during these Chapter 11 Cases, and preserving the Debtors' limited liquidity by financing insurance premiums, I believe that it is in the best interests of the Debtors' estates and creditors that the Debtors be authorized to continue their historic practice of paying amounts due under the PFAs as they come due.

54. Accordingly, for the reasons set forth herein and in the Insurance Motion, the Debtors respectfully request that the relief requested in the Insurance Motion be approved.

G. Wages Motion

55. Pursuant to this motion (the "Wages Motion"), the Debtors request entry of an order (i) authorizing, but not directing, the Debtors, in accordance with their stated policies and in their discretion, to, among other things and subject to the statutory cap on priority claims, (a) pay prepetition employee wages, salaries and other accrued compensation, (b) pay accrued prepetition obligations to independent contractors and supplemental workers employed by the Debtors, (c) to honor any prepetition obligations in respect of, and continue in the ordinary course of business until further notice (but not assume), certain of the Debtors' employee benefits programs, plans, and policies, (d) to reimburse Employees for prepetition expenses that Employees incurred on behalf of the Debtors in the ordinary course of business, (e) to pay all related prepetition payroll taxes and other deductions, (f) honor the Debtors' workers' compensation policies, and (g) to the extent that any of the foregoing programs are administered, insured, or paid through a third-party administrator or provider, to pay any prepetition claims of such administrator and provider in the ordinary course of business to ensure the uninterrupted delivery of payments or other benefits to the Employees, and (ii) authorizing the Banks to honor and process check and electronic transfer requests related to the foregoing.

56. As of the Petition Date, the Debtors employ approximately 1,160 Full-Time Employees and 472 Part-Time Employees. The Debtors also employ approximately 38 employees provided by a staffing provider, Express Employment Professionals (the "Express Employees"). Although the Debtors have paid their wage, salary, and other obligations in accordance with their ordinary compensation schedule prior to the Petition Date, as of the date hereof, certain prepetition obligations owing to the Express Employees may nevertheless be due and owing.

57. Many of the Debtors' Employees rely on their compensation, benefits, and reimbursement of expenses to satisfy their daily living expenses. Consequently, these Employees will be exposed to significant financial hardship if the Debtors are not permitted to honor obligations for unpaid compensation, benefits, and reimbursable expenses. Moreover, if the Debtors are unable to satisfy such obligations, Employee morale and loyalty will be jeopardized at a time when Employee support is critical to the Debtors and the success of sale processes described herein.

58. I believe that the relief requested in the Wages Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption to maximize the value of their assets. Accordingly, the Debtors respectfully request that the relief set forth in the Wages Motion be approved.

H. Taxes Motion

59. By this motion (the "Taxes Motion"), the Debtors request entry of an order (i) authorizing, but not directing, the Debtors, in their discretion, to remit certain taxes including sales, use, franchise, commercial activity, business and occupation, property, and various other taxes, fees, charges, and assessments (collectively, the "Taxes and Fees") that the Debtors incurred prepetition that are or will become due and payable to various federal, state and local taxing

authorities and other governmental authorities (each, an "Authority," and collectively, the "Authorities") in connection with the sale of their merchandise at store locations, or through shipments of merchandise purchased through the Debtors' website to customers, and (ii) authorizing the Banks to honor and process check and electronic transfer requests related to the foregoing.

60. The Taxes and Fees are paid to the Taxing Authorities on a monthly basis. As of the Petition Date, the Debtors estimate that they owe approximately $3 million in unremitted Taxes and Fees, which are comprised entirely of current tax obligations, and are not in respect of "catch-up" payments. Given this timing, $1.5 million in prepetition Taxes (associated primarily with sales taxes) will become due during the first month of the case.

61. Any regulatory dispute or delinquency that impacts the Debtors' ability to conduct business in a particular jurisdiction could have a wide-ranging and adverse effect on the Debtors' ability to maximize proceeds generated by the Store Closing Sales. Moreover, some Authorities may initiate an audit of the Debtors if the Taxes and Fees are not paid on time. Such audits will unnecessarily divert the Debtors' attention away from these Chapter 11 Cases and result in unnecessary expenses. Moreover, if the Debtors do not pay such amounts in a timely manner, the Authorities may attempt to suspend the Debtors' operations, file liens, seek to lift the automatic stay, seek payment from the Debtors' managers and officers, or pursue other remedies that will materially and immediately harm the estates.

62. I believe that the Debtors' failure to pay the Taxes and Fees could have a material adverse impact on the Debtors' ability to maximize the value of their assets for the benefit of all stakeholders. Additionally, any attempt to collect the Taxes and Fees from the Debtors' members and officers has the potential to divert the attention of those individuals away from the

Debtors' efforts to maximize the value of their assets through the Store Closing Sales.

63. Accordingly, for the reasons set forth herein and in the Taxes Motion, The Debtors respectfully request that the Taxes Motion be approved.

I. Store Closing Motion

64. By this motion (the "Store Closing Motion"), the Debtors seek entry of interim and final orders authorizing the Debtors to continue, as applicable, and conduct the Store Closing Sales at the Debtors' brick-and-mortar locations. To facilitate the Store Closing Sales, the Debtors' board determined that (a) the services of Hilco are necessary (i) for a seamless and efficient large-scale store closing process, and (ii) in order to maximize the value of the saleable inventory located in the stores, along with the associated fixtures and equipment, and (b) Hilco is qualified and capable of performing the required tasks in a value-maximizing manner. Moreover, the Debtors determined that Hilco was the most logical and appropriate third party consultant to conduct these sales given Hilco's familiarity with the Debtors' business and its agreement not to seek any fees in connection with liquidating the subject inventory. I believe that the Store Closing Sales are critical for the Debtors to efficiently administer their estates during the pendency of these Chapter 11 Cases, and assumption of the Agency Agreement will allow the Debtors to conduct the Store Closing Sales in an efficient, controlled manner that will maximize value for the Debtors' estates.

65. The Debtors seek authorization for the Debtors to (i) assume the Agency Agreement entered into by and between the Debtors and Hilco; (ii) immediately conduct the Store Closing Sales in accordance with the terms of the Agency Agreement and the Sale Guidelines, with such sales to be free and clear of all liens, claims, and encumbrances; (iii) provide for customary retention bonuses to Retained Employees, in accordance with the guidelines and parameters outlined in the Store Closing Motion; and (iv) reimburse Hilco for its reasonable and necessary

expenses incurred in connection with the Store Closing Sales.

66. I believe that the Debtors' decision to conduct Store Closing Sales represents the best, and indeed only viable path for maximizing recoveries to the Debtors' estates and, to that end, I believe that engaging Hilco pursuant to the Agency Agreement will (a) ensure that the Store Closing Sales have optimal success and (b) minimize the administrative expenses to be borne by the Debtors' estates by, among other things, positioning the Debtors to exit all of their retail locations by the end of December 2024. In particular, Hilco's extensive expertise in conducting liquidation sales, as well as its familiarity with the Debtors' business, generally will allow it to oversee and implement the Store Closing Sales, with the assistance of the Debtors' management and other outside advisors, in the most efficient and cost-effective manner. I believe that soliciting bids from other potential liquidation firms was not in the estates' best interest since it was unrealistic to assume that any competitor would have liquidated the Debtors' inventory without charging a substantial fee. Accordingly, I believe that entry into the Agency Agreement, which will enable the Debtors to utilize the experience, skills, and resources of Hilco, together with the uninterrupted continuation of the Store Closing Sales, will generate maximum return for the estates and all interested parties. By contrast, I believe that delaying the Store Closing Sales—which commenced prepetition and already have the momentum generated by assigned labor and utilization of extensive signage—would increase administrative costs incurred by the Debtors and have a dramatic impact on the recovery realized with respect to the Store Closing Assets.

67. Through the Store Closing Motion, the Debtors also seek authority, but not direction, to pay Store Closing Bonuses to certain store-level or corporate, non-insider employees who remain employed by the Debtors during the Store Closing Sales. The use and cooperation of the Debtors' employees during the Store Closing Sales is imperative to achieving a successful

result. I believe that the Store Closing Bonuses will motivate employees during the Store Closing Sales and will enable the Debtors to retain those employees necessary to complete the Store Closing Sales successfully. The amount of the Store Closing Bonuses will vary depending upon a number of factors, including the employee's position with the Debtors and the performance of the closing store in which the relevant employees work. The total aggregate cost of the Store Closing Bonus program will not exceed 10% of the base payroll for all Retained Employees, including payroll taxes, and, importantly, the Store Closing Bonuses are Expenses for which Hilco is unconditionally responsible. Each eligible employee does not exercise control over the Debtors' financial or operations decisions, do not report directly to the Board, and do not hold an officer or director title with the Company. No eligible employee will receive a retention bonus that exceeds $2,500.00, and in the aggregate the proposed retention bonuses shall not exceed $1.4 million. Given the need to maintain an engaged and motivated employee workforce throughout the store closing process, which is critical to maximizing value for all interested parties, I believe that the proposed bonus program is justified under the circumstances, and its benefits far outweigh its cost. Absent the authority to pay these bonuses to these non-insider employees, I believe that the store closing sales will not achieve optimal results, thereby prejudicing all interested parties.

68. Because the relief sought in the Store Closing Motion is imperative to the Debtors' ability to maximize the value of their estates for the benefit of their creditors through the Store Closing Sales, and for the other reasons set forth above and in the Store Closing Motion, the Debtors respectfully request that the Store Closing Motion be approved.

J. Cash Collateral Motion

69. In the Cash Collateral Motion, the Debtors seek authorization, on an interim basis, to (a) use cash collateral and (b) provide adequate protection to certain of the Prepetition Secured Parties. For the avoidance of doubt, Hilco will not receive any adequate protection or

releases under the proposed cash collateral orders.

70. As discussed above, the Debtors' need to utilize cash collateral to fund ongoing operating expenses while the Debtors conduct the Store Closing Sales. Without the use of cash collateral, the Debtors would be unable to pay for necessary operating expenses or business functions critical to the success of their sale efforts, particularly since the Prepetition Secured Parties were unwilling to consent to the use of cash collateral outside of the protection afforded under the proposed interim order. The Debtors' ability to operate during these Chapter 11 Cases depends on obtaining the interim and final relief requested in the Cash Collateral Motion. After extensive negotiation with BMO, the Debtors believe that the relief sought in the Cash Collateral Motion is market, appropriate under the facts and circumstances of these cases, and best positions the Debtor to maximize value for its stakeholders. Moreover, I believe that the proposed budget is sufficient to ensure that these proceedings remain administratively solvent while the Debtors liquidate subject Collateral.

VI. Conclusion

71. In conclusion, for the reasons stated herein and in each of the First Day Motions filed concurrently or in connection with the commencement of these Chapter 11 Cases, the Debtors respectfully request that each First Day Motion be granted in its entirety, together with such other and further relief as the Court deems just and proper.

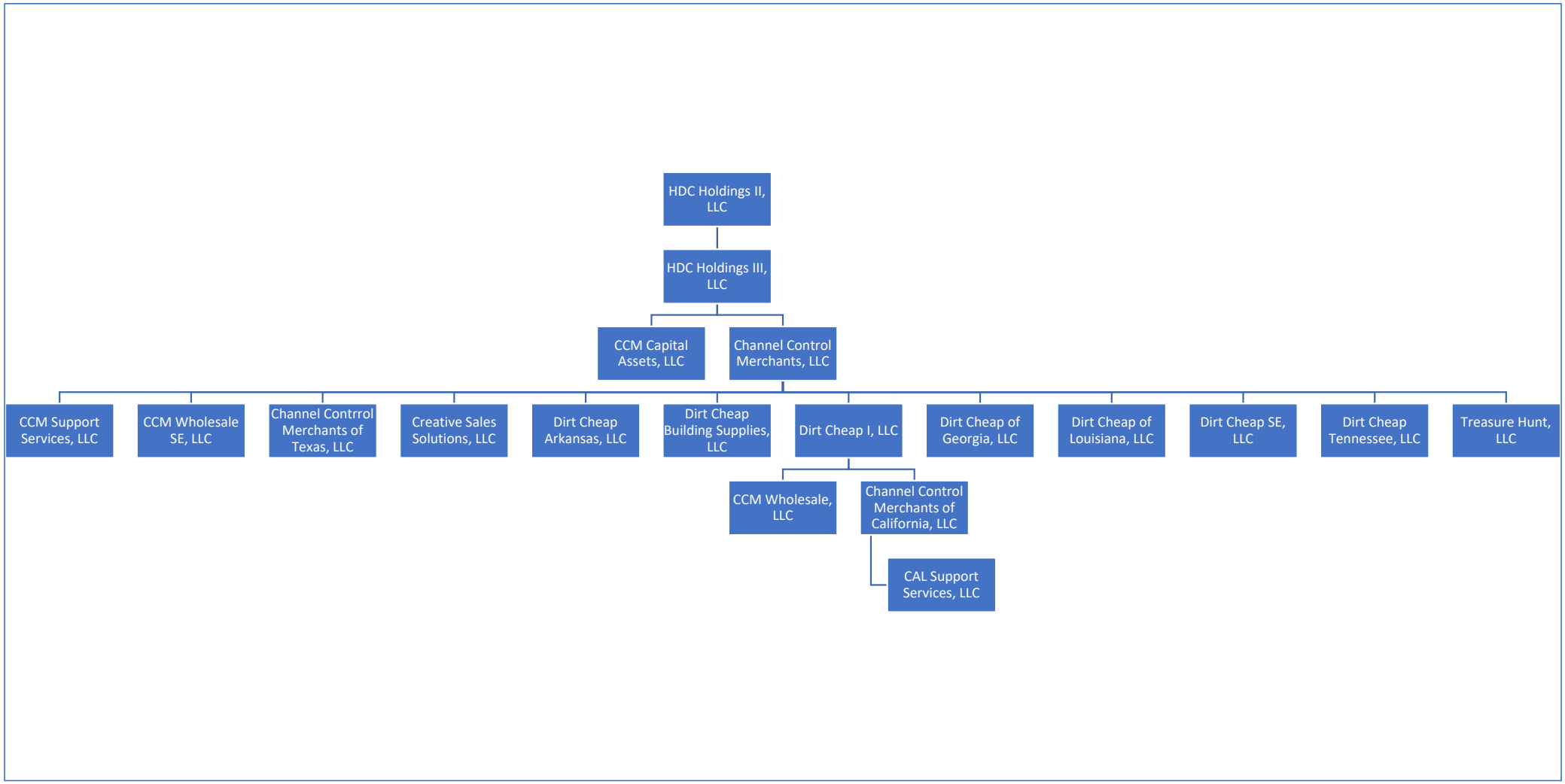
Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: October 10, 2024

/s/ Jeffrey Martin
Jeffrey Martin
Chief Restructuring Officer
HDC Holdings II, LLC

EXHIBIT A

Corporate Organization Chart


HDC Holdings II, LLC
HDC Holdings III, LLC
CCM Capital Assets, LLC
Channel Control Merchants, LLC
CCM Support Services, LLC
CCM Wholesale SE, LLC
Channel Contrrol Merchants of Texas, LLC
Creative Sales Solutions, LLC
Dirt Cheap Arkansas, LLC
Dirt Cheap Building Supplies, LLC
Dirt Cheap I, LLC
Dirt Cheap of Georgia, LLC
Dirt Cheap of Louisiana, LLC
Dirt Cheap SE, LLC
Dirt Cheap Tennessee, LLC
Treasure Hunt, LLC
CCM Wholesale, LLC
Channel Control Merchants of California, LLC
CAL Support Services, LLC