

EXHIBIT B

Hypothetical Chapter 7 Recovery Analysis

HYPOTHETICAL CHAPTER 7 RECOVERY ANALYSIS

The chapter 7 recovery analysis presented herein (the “Hypothetical Chapter 7 Recovery Analysis”) reflects the projected recovery values and percentages of the Debtors’ creditors pursuant to a hypothetical, orderly liquidation of the Debtors’ assets under chapter 7 of the Bankruptcy Code.

Underlying the Hypothetical Chapter 7 Recovery Analysis are a number of estimates and assumptions that, although developed and considered reasonable by the Debtors, are inherently subject to contingencies beyond the control of the Debtors and, therefore, subject to change. In preparing the Hypothetical Chapter 7 Recovery Analysis, the Debtors projected amounts of Allowed Claims based upon a review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors’ books and records. No order or finding has been entered by the Bankruptcy Court estimating or otherwise fixing the amount of Allowed Claims at the projected amounts of Allowed Claims set forth in the Hypothetical Chapter 7 Recovery Analysis. The actual amounts of Allowed Claims could be materially different than the amounts of Allowed Claims estimated in the Hypothetical Chapter 7 Recovery Analysis. ACCORDINGLY, NEITHER THE DEBTORS, THEIR PROFESSIONALS NOR THEIR ADVISORS MAKE ANY REPRESENTATION OR WARRANTY THAT ACTUAL RESULTS WOULD OR WOULD NOT APPROXIMATE THE ASSUMPTIONS REPRESENTED HEREIN. ACTUAL RESULTS COULD VARY MATERIALLY.

The following notes describe the significant assumptions reflected in the Hypothetical Chapter 7 Recovery Analysis:

- (1) All bank balances are as of December 7, 2004.
- (2) Cash of approximately \$11.7 million is projected to be available for distribution to creditors. Cash consists of cash balances held by the Debtors in the form of interest-bearing deposits with banks. Cash is assumed to be fully recoverable and available for distribution to creditors. The Hypothetical Chapter 7 Recovery Analysis does not include potential recoveries resulting from any preference claims, fraudulent conveyance litigation, or other avoidance actions.
- (3) Section 326 of the Bankruptcy Code limits the chapter 7 trustee fees to 3.0% of all monies disbursed or turned over in the case by the chapter 7 trustee to parties in interest, excluding the Debtors, but including holders of secured claims. In this analysis, chapter 7 trustee fees were estimated at the cap imposed by section 326 of the Bankruptcy Code.
- (4) Fees payable to attorneys, investment bankers and other professionals that a chapter 7 trustee may retain to administer the liquidation of the Debtors’ assets for distribution to creditors in accordance with the Bankruptcy Code.
- (5) Assumes \$300,000 in wind-down costs for illustrative purposes. However, there is no assurance that the figures illustrated will accurately reflect some wind-down costs that are reasonably required to preserve, protect and dispose of property in an organized manner.
- (6) As discussed in further detail in Article II.C.1(b) of the Disclosure Statement, (i) the Debtors have previously made certain payments to the Prepetition Lenders during the Chapter 11 Cases on behalf of the Prepetition Lenders Claim pursuant to certain orders entered by the Bankruptcy Court and (ii) \$154,886.01 constitutes the remaining unpaid amount of the Prepetition Lenders Claim. Pursuant to the Appeal Settlement (as discussed in further detail in Article II.C.1(c) of the Disclosure Statement), the Prepetition Lenders shall receive \$25,000 on behalf of the remaining unpaid amount of the Prepetition Lenders Claim, pursuant to the terms of, and in accordance with, the Plan. However, if the Plan is not confirmed by the Bankruptcy Court, the Debtors would likely be required to liquidate their assets under chapter 7 of the Bankruptcy Code, and the Prepetition Lenders may assert entitlement to the full remaining unpaid amount of the Prepetition Lenders Claim in the amount of \$154,886.01.

(7) Total Other Secured Claims of approximately \$0.9 million are estimated based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records.

(8) Total Administrative and Priority Claims of approximately \$2.24 million are estimated based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records.

(9) As discussed in further detail in Articles II.C.2 and II.C.3 of the Disclosure Statement, pursuant to the Indenture, (i) all obligations on the Subordinated Notes are subordinated in right of payment to the prior payment in full in cash of all senior indebtedness under the Indenture, including, without limitation, the Guaranteed Line of Credit, and (ii) until all obligations with respect to senior indebtedness under the Indenture are paid in full in cash, any distribution to which the holders of the Subordinated Notes would be entitled shall be made to the holders of senior indebtedness, including, without limitation, the holders of Guaranteed Line of Credit Claims. Therefore, the Subordinated Note Share shall be distributed directly to the Holders of the Guaranteed Line of Credit Claims, until the Guaranteed Line of Credit Claims have been paid in full in cash pursuant to the terms of the Indenture. As a result, the Holders of Subordinated Notes are expected to receive no recovery.

(10) Total Unsecured Claims of approximately \$167.8 million are estimated based upon the Debtors' review and analysis of scheduled claims, proofs of claim that have been filed in the Chapter 11 Cases, and the Debtors' books and records, and include trade payables, the Guaranteed Line of Credit and the Subordinated Notes. As of the Petition Date, (i) the Guaranteed Line of Credit had an outstanding principal amount of \$15 million and \$159,059 of unpaid, pre-petition interest and (ii) the Subordinated Notes had an aggregate outstanding principal in the amount equal to \$130 million and approximately \$6.2 million of unpaid, pre-petition interest.

DESA HOLDINGS CORPORATION
DESA INTERNATIONAL LLC

Hypothetical Chapter 7 Recovery Analysis	<u>Recovery</u>	<u>Note</u>
Bank Balances	\$ 11,768,753	1
Total Cash/Consideration	<u>\$ 11,768,753</u>	2
Less: Estimated Costs Associated with Chapter 7 Liquidation		
Chapter 7 Trustee Fees	\$ 353,063	3
Chapter 7 Trustee Professional Fees	\$ 1,000,000	4
Other Wind-down/Operating Costs	<u>\$ 300,000</u>	5
Total Chapter 7 Priority Claims	\$ 1,653,063	100%
<i>Proceeds available for payment of Prepetition Lenders Claim</i>	\$ 10,115,690	
Less: Prepetition Lenders Claim	\$ 154,886	100% 6
<i>Proceeds available for payment of Other Secured Claims</i>	\$ 9,960,804	
Less: Other Secured Claims	\$ 922,524	100% 7
<i>Proceeds available for payment of Chapter 11 Administrative and Priority Claims</i>	\$ 9,038,280	
Less: Chapter 11 Administrative and Priority Claims		
Estimated Professional Fees	\$ 631,169	
Other Administrative Claims	\$ 1,331,650	
Priority Tax and Other Priority Claims	<u>\$ 281,541</u>	
Total Administrative and Priority Claims	\$ 2,244,360	100% 8
<i>Proceeds available for payment of Unsecured Claims</i>	\$ 6,793,920	
Less: Unsecured Claims		
Childs Guaranteed Line of Credit - Principal and Interest	\$ 15,159,059	4%
Trade Payables	\$ 16,492,601	4%
Subordinated Notes- Principal and Interest	<u>\$ 136,204,792</u>	0% 9
Total Unsecured Claims	\$ 167,856,452	10
<i>Proceeds available for distribution to shareholders</i>	-	