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**UNITED STATES BANKRUPTCY COURT
CENTRAL DISTRICT OF CALIFORNIA
LOS ANGELES DIVISION**

In re:

Koi Design LLC,

Debtor.

Case No. 2:19-bk-10762-NB

Chapter 11

**DEBTOR'S FIRST AMENDED DISCLOSURE
STATEMENT DESCRIBING DEBTOR'S FIRST
AMENDED CHAPTER 11 PLAN OF
REORGANIZATION DATED NOVEMBER 13,
2019¹**

**Plan Objection Deadline: 10:00 p.m. Pacific time
on December 3, 2019**

**Ballot Deadline: 10:00 p.m. Pacific time on
December 3, 2019**

**Disclosure Statement and
Plan Confirmation Hearing:**

Date: December 17, 2019

Time: 2:00 p.m.

Place: Courtroom 1545

255 East Temple Street

Los Angeles, CA 90012

¹ This Disclosure Statement is identical to the Disclosure Statement filed on November 5, 2019 except that it has the correct hearing dates and related deadlines, and clarifications were made on page 39 (footnote 8) and on page 40, lines 24-26.

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I. INTRODUCTION

Koi Design LLC is the debtor (the “Debtor”) in the above-captioned chapter 11 bankruptcy case. On January 25, 2019, the Debtor commenced its bankruptcy case (the “Case”) by filing a voluntary petition under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101 *et seq.* (the “Bankruptcy Code”). The Case is pending before the United States Bankruptcy Court for the Central District of California, Los Angeles Division, before the Honorable Neil W. Bason (the “Bankruptcy Court” or “Court”). This document is the Debtor’s First Amended Disclosure Statement (as may be further amended or modified, the “Disclosure Statement”) which describes the Debtor’s First Amended Plan of Reorganization Dated November 13, 2019 (as may be further amended or modified, the “Plan”).

Chapter 11 allows the Debtor, and, under some circumstances, creditors and other parties in interest, to propose a plan of reorganization. A plan may provide for the Debtor to reorganize by continuing to operate, to liquidate by selling the assets of its estate, or a combination of both. The Debtor is the party proposing the Plan sent to you in the same envelope as this document.

THIS DOCUMENT IS THE DISCLOSURE STATEMENT FOR THE DEBTOR’S CHAPTER 11 PLAN.

The effective date (“Effective Date”) of the plan will be the first business day after entry of the order confirming the Plan (the “Confirmation Order”), provided the Bankruptcy Court has waived the provisions of Bankruptcy Rule 3020(e) and no stay of the Confirmation Order is in effect.² The Debtor following the Effective Date is referred to herein as the “Reorganized Debtor.”

The Plan described in this Disclosure Statement is a reorganizing plan. The Plan described in this Disclosure Statement provides for the Debtor’s emergence from its chapter 11 case, which the Debtor anticipates will occur in December 2019. Under the Plan, the Debtor will satisfy its debt and other claims as set forth in Article IV below and implement a recapitalization with approximately

² If the Bankruptcy Court does not waive the provisions of Bankruptcy Rule 3020(e), then the Effective Date will be the first business day which is at least fifteen (15) days following the date of entry of the Confirmation Order, assuming there has been no appeal from and order staying the effectiveness of the Confirmation Order. If there has been an order entered staying the effectiveness of the Plan Confirmation Order, the Effective Date shall be the first business day after the stay is no longer in effect with respect to the Confirmation Order.

\$12 million of new capital. The Plan described below has been designed to position the Reorganized Debtor to succeed.

The following is a summary of the Plan:

1. Recapitalization: The Plan provides for a recapitalization as follows: (a) an \$8 million contribution from Dragon Crowd Garment Inc. (the “New Equity Investor”) in exchange for 2,000 membership units to be issued by the Reorganized Debtor to the New Equity Investor on the Effective Date; (b) a \$250,000 contribution from the Debtor’s founder, sole shareholder, managing member and Chief Executive Officer Kathy Peterson (“Old Equity Holder”) in exchange for keeping her original 1,000 membership units (which will be diluted from a 100% ownership interest to a 33.33% ownership interest on the Effective Date); and (c) \$4 million of presently available New Secured Debt³ through a loan and/or line of credit which will have a first priority lien⁴ against substantially all of the Reorganized Debtor’s assets. This \$12.25 million will be used to, among other things, fund the Plan and provide the Reorganized Debtor with sufficient working capital.

2. The Plan segregates Claims⁵ into Classes and treats them as summarized immediately below, which summaries are subject to the more detailed provisions specified in Article IV below and in Article III of the Plan. The following is a summary of the Plan:

Class No.	Description	Estimated Amount or Value of Claims as of the Effective Date	Estimated Projected Payment / Treatment for Allowed Claims
N/A	Administrative Claims (Professional Fees)	Approximately \$900,000	Full payment, subject to Bankruptcy Court approval as may be required, except as otherwise agreed by such Professionals.
N/A	Administrative Claims (Incurred in the Ordinary Course of Business)	Approximately \$800,000	Allowed Administrative Claims representing post-Petition Date liabilities incurred by the Debtor in the ordinary course of business, for which no approval by the Bankruptcy Court is required, shall be paid in full in accordance with the terms and conditions of the particular

³ The New Equity Investor reserves the right to lend the Reorganized Debtor the New Secured Debt and/or to increase its capital contribution by an amount up to \$4 million in the event the Debtor is not able to secure a loan or line of credit from a traditional lender prior to the Effective Date.

⁴ Pursuant to the SPI Settlement Agreement, SPI shall have a first priority lien against the proceeds to the Fiduciary Duty Action on the Effective Date.

⁵ Any capitalized term not yet defined will be defined in Article II of this Disclosure Statement.

1	Class No.	Description	Estimated Amount or Value of Claims as of the Effective Date	Estimated Projected Payment / Treatment for Allowed Claims
2				transaction giving rise to such liabilities and any agreements relating thereto.
3	N/A	Priority Tax Claims	\$0	If there are any Allowed Priority Tax Claims on the Effective Date, full payment consistent with Bankruptcy Code section 1129(a)(9)(C).
4	N/A	Non-Tax Priority Claims	\$0	If there are any Allowed Non-Tax Priority Claims on the Effective Date, payment in full on the Effective Date or as soon as practicable thereafter.
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8	1	The secured claim of Wells Fargo Collateral Description: 1 st Priority Lien on substantially all assets of the Debtor's Estate.	Approximately \$4 million	The Wells Fargo Secured Claim will be paid in full on the Effective Date. Unimpaired. This Class 1 Claim is a Secured Claim and will be paid in full on the Effective Date. Presumed to accept the Plan and not entitled to vote.
9				
10				
11				
12	2	Secured claim of Strategic Partners, Inc. ("SPI") Collateral Description: Junior judgment lien on substantially all of the Debtor's assets.	\$5,921,894.90 pursuant to SPI's Proof of Claim No. 14 \$5,266,380.68 pursuant to the SPI Settlement Agreement	The SPI Secured Claim will be paid pursuant to the SPI Settlement Agreement as follows: <ul style="list-style-type: none">• \$3.5 million within five business days of the Effective Date.• SPI shall obtain an interest, secured by a first priority lien, in the net proceeds from the Fiduciary Duty Action as set forth in detail pursuant to the SPI Settlement Agreement attached hereto as Exhibit D.• The Debtor is seeking Court approval of the SPI Settlement Agreement pursuant to the Plan. Impaired; Entitled to Vote
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21	N/A	Priority Unsecured Claims	Estimated at \$0.00	If there are any allowed priority unsecured claims as of the Effective Date, these claims will be paid in full by the Reorganized Debtor on the Effective Date. Unimpaired; not entitled to vote.
22				
23				
24	3	General Unsecured Claims	Approximately \$7 million. (This number is subject to change based upon the resolution of Disputed Claims.)	Holders of Allowed General Unsecured Claims shall receive their pro rata share of \$2 million on the Effective Date (or as soon as practicable thereafter), and their pro rata share of \$1 million within one year of the Effective Date. Holders of Allowed General Unsecured Claims shall also receive 25% of any net
25				
26				
27				
28				

Class No.	Description	Estimated Amount or Value of Claims as of the Effective Date	Estimated Projected Payment / Treatment for Allowed Claims
			<p>recovery (net of fees and costs) in connection with the Fiduciary Duty Action.</p> <p>Estimated recovery: At least 42% of their Allowed General Unsecured Claim.</p> <p>The foregoing treatment is in full settlement and satisfaction of all obligations of the Debtor to holders of Claims in Class 3.</p> <p>Impaired; Entitled to Vote</p>
4	Equity Interests of Kathy Peterson (Previously defined as "Old Equity Holder")	The Debtor's current shareholder who owns 100% of the Debtor's equity (i.e., 1,000 membership units).	<p>As set forth more fully in Section IV.D.3 below, the Debtor's sole shareholder and Chief Executive Officer, Kathy Peterson, will keep her 1,000 membership units in the Debtor but such interest will be diluted by the Reorganized Debtor's issuance of 2,000 membership units to the New Equity Investor. Ms. Peterson will contribute \$250,000 and waive her prepetition unsecured claims of \$212,007.34.</p> <p>Impaired; Entitled to Vote</p>

A. Purpose of this Disclosure Statement.

This Disclosure Statement summarizes what is in the Plan, and tells you certain information relating to the Plan and the process the Bankruptcy Court follows in determining whether or not to confirm the Plan.

READ THIS DISCLOSURE STATEMENT CAREFULLY IF YOU WANT TO KNOW ABOUT:

- (1) WHO CAN VOTE OR OBJECT,**
- (2) WHAT THE TREATMENT OF YOUR CLAIM IS (i.e., what your Claim will receive if the Plan is confirmed) AND HOW THIS TREATMENT COMPARES TO WHAT YOUR CLAIM WOULD RECEIVE IN A CHAPTER 7 LIQUIDATION,**
- (3) THE HISTORY OF THE DEBTOR AND SIGNIFICANT EVENTS DURING ITS BANKRUPTCY CASE,**
- (4) WHAT THINGS THE COURT WILL LOOK AT TO DECIDE WHETHER OR NOT TO CONFIRM THE PLAN,**

1 **(5) WHAT IS THE EFFECT OF CONFIRMATION, AND**

2 **(6) WHETHER THE PLAN IS FEASIBLE.**

3 This Disclosure Statement cannot tell you everything about your rights. The Debtor's
4 counsel cannot tell you about your rights or offer any advice. You are strongly encouraged to
5 consult your own lawyer to obtain more specific advice on how the Plan will affect you and what is
6 the best course of action for you. This Disclosure Statement may not be relied on for any purpose
7 other than to determine whether to vote to accept or reject the Plan.

8 Be sure to read the Plan as well as this Disclosure Statement. If there are any inconsistencies
9 between the Plan and this Disclosure Statement, the Plan provisions will govern.

10 The Bankruptcy Code requires a Disclosure Statement to contain "adequate information"
11 concerning the Plan. The Bankruptcy Court has approved this document on a conditional basis as an
12 adequate Disclosure Statement, containing enough information to enable parties affected by the Plan
13 to make an informed judgment about the Plan. Any party can now solicit votes for or against the
14 Plan.

15 **B. Purpose and Effect of Plan.**

16 Chapter 11 is the principal business reorganization chapter of the Bankruptcy Code. Under
17 chapter 11, a debtor is authorized to reorganize its business for the benefit of its creditors and
18 shareholders. If reorganization is not feasible, chapter 11 allows a debtor to formulate and
19 consummate a plan of liquidation, which sets forth the process for the orderly satisfaction of claims
20 against and interests in a debtor pursuant to the priority rules of the Bankruptcy Code.

21 Confirmation of a plan of reorganization by a bankruptcy court makes the plan binding upon
22 the debtor and any creditor of or interest holder in a debtor, whether or not such creditor or interest
23 holder (i) is impaired (i.e., will receive less than 100% of its allowed claim) under the plan, (ii) has
24 accepted the plan, or (iii) receives or retains any property under the plan.

25 In this chapter 11 Case, the Plan provides for the Debtor to emerge from bankruptcy and for
26 the distribution of certain funds to various holders of Allowed Claims as set forth under the Plan, and
27 for the pursuit of certain claims and Causes of Action. Under the Plan, Claims against, and Equity
28 Interests in, the Debtor are divided into Classes according to their relative seniority and other criteria

1 as required under the Bankruptcy Code. If the Plan is confirmed by the Bankruptcy Court and
2 ultimately consummated, the Claims and Equity Interests of the various Classes will be treated in
3 accordance with the provisions in the Plan established for each Class.

4 A summary of the Classes of Claims and Equity Interests, as well as their treatment under the
5 Plan, is set forth above. A more detailed description of the Classes of Claims against the Debtor
6 created under the Plan, the treatment of those Classes under the Plan and the property to be
7 distributed under the Plan is described in Section IV below and in Section III of the Plan.

8 **C. Deadlines for Voting and Objecting; Date of Plan Confirmation Hearing.**

9 THE BANKRUPTCY COURT HAS NOT YET CONFIRMED THE PLAN DESCRIBED
10 IN THIS DISCLOSURE STATEMENT. IN OTHER WORDS, THE TERMS OF THE PLAN ARE
11 NOT YET BINDING ON ANYONE. HOWEVER, IF THE BANKRUPTCY COURT LATER
12 CONFIRMS THE PLAN, THEN THE PLAN WILL BE BINDING ON ALL CREDITORS,
13 INTEREST HOLDERS AND PARTIES IN INTEREST IN THIS CASE.

14 **1. Time and Place of the Plan Confirmation Hearing**

15 The hearing where the Bankruptcy Court will determine whether or not to confirm the Plan
16 (the “Confirmation Hearing”) will take place on **December 17, 2019 at 2:00 p.m.**, before the
17 Honorable Neil W. Bason, United States Bankruptcy Judge for the Central District of California, in
18 Courtroom “1545” of the United States Bankruptcy Court, Central District of California, Los
19 Angeles Division, located at 255 East Temple Street, Los Angeles, California 90012.

20 **2. Deadline for Voting For or Against the Plan**

21 If you are entitled to vote, it is in your best interest to timely vote on the enclosed ballot
22 (“Ballot”) and return the Ballot to Susan K. Seflin, Esq., of Brutzkus Gubner, 21650 Oxnard St.,
23 Suite 500, Woodland Hills, California 91367, ssseflin@bg.law, via U.S. Mail, personal delivery,
24 overnight mail or email. **Your Ballot must be received by 10:00 p.m. Pacific time on December**
25 **3, 2019** or it will not be counted.

26 **3. Deadline for Objecting to the Confirmation of the Plan**

27 Objections to the Confirmation of the Plan must, by **10:00 p.m. Pacific time, on December**
28 **3, 2019**, be filed with the Bankruptcy Court and served upon the following:

Debtor (Service Must be by Overnight, U.S. Mail or Messenger)

Koi Design LLC
1757 Stanford Street
Santa Monica, CA 90404

Counsel for the Debtor

Susan K. Seflin
Brutzkus Gubner
21650 Oxnard St., Suite 500
Woodland Hills, CA 91367-4977
Fax: (818) 827-9099
Email: sseflin@bg.law

Office of the United States Trustee

Dare Law
Office of the U.S. Trustee
915 Wilshire Blvd., Suite 1850
Los Angeles, CA 90017
Email: dare.law@usdoj.gov

D. Identity of Persons to Contact for More Information Regarding the Plan.

Any interested party desiring further contact information about the Plan should contact Susan K. Seflin, Esq., of Brutzkus Gubner, 21650 Oxnard St., Suite 500, Woodland Hills, California 91367-4911, Phone: (818) 827-9000, Email: sseflin@bg.law.

E. Disclaimer.

The financial data relied upon in formulating the Plan is based on the Debtor's books and records which, unless otherwise indicated, are unaudited. Except as expressly stated, the information contained in this Disclosure Statement is provided by the Debtor. The Debtor represents that everything stated in this Disclosure Statement is true to the best of the Debtor's knowledge. The Bankruptcy Court has not yet determined whether or not the Plan is confirmable and makes no representation as to whether or not you should support or oppose the Plan.

The contents of the Disclosure Statement should not be construed as legal, business or tax advice from the Debtor or its counsel.

THIS DISCLOSURE STATEMENT IS NOT INTENDED TO REPLACE A CAREFUL AND DETAILED REVIEW OF THE PLAN BY EACH HOLDER OF A CLAIM OR INTEREST. THIS DISCLOSURE STATEMENT IS INTENDED TO AID AND SUPPLEMENT SUCH REVIEW. THIS DISCLOSURE STATEMENT IS QUALIFIED IN

1 ITS ENTIRETY BY REFERENCE TO THE PLAN. THE PLAN IS THE OPERATIVE
2 CONTROLLING LEGAL DOCUMENT. AS SUCH, IF THERE IS ANY INCONSISTENCY
3 BETWEEN THE TERMS AND PROVISIONS OF THIS DISCLOSURE STATEMENT AND
4 THE PLAN, THEN THE TERMS AND PROVISIONS OF THE PLAN SHALL CONTROL.
5 NEITHER THE PLAN, NOR THE DISCLOSURE STATEMENT, SHOULD BE
6 CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE FROM THE DEBTOR OR ITS
7 COUNSEL.

8 BRUTZKUS GUBNER COMMENCED REPRESENTATION AS GENERAL
9 RESTRUCTURING COUNSEL TO THE DEBTOR IN DECEMBER OF 2018 AND HAS
10 RELIED UPON INFORMATION DEVELOPED SINCE THEN IN CONNECTION WITH
11 THE PREPARATION OF THIS DISCLOSURE STATEMENT.

12 **F. Forward-Looking Statements.**

13 CERTAIN OF THE INFORMATION CONTAINED IN THIS DISCLOSURE
14 STATEMENT IS BY ITS NATURE FORWARD LOOKING AND CONTAINS ESTIMATES
15 AND ASSUMPTIONS THAT MAY BE MATERIALLY DIFFERENT FROM ACTUAL,
16 FUTURE RESULTS. Except as otherwise specifically and expressly stated herein, this Disclosure
17 Statement does not reflect any events that may occur subsequent to the date hereof and that may
18 have a material impact on the information contained in this Disclosure Statement. The Debtor does
19 not anticipate that any amendments or supplements to this Disclosure Statement will be distributed
20 to reflect such occurrences. Accordingly, the filing of this Disclosure Statement shall not under any
21 circumstance imply that the information herein is correct or complete as of any time *subsequent* to
22 the date hereof.

23 THE FINANCIAL INFORMATION CONTAINED HEREIN HAS NOT BEEN AUDITED
24 BY A CERTIFIED PUBLIC ACCOUNTING FIRM AND HAS NOT BEEN PREPARED IN
25 ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING POLICIES.

26 **II. DEFINITIONS AND EXHIBITS**

27 **A. Definitions.**

28 For the purposes of this Disclosure Statement, except as expressly provided or unless the

1 context otherwise requires, all capitalized terms not otherwise defined shall have the meanings
2 ascribed to them in this Article II. Any term used in this Disclosure Statement that is not defined
3 herein, but is defined in the Bankruptcy Code or the Bankruptcy Rules, shall have the meaning
4 ascribed to such terms in the Bankruptcy Code or the Bankruptcy Rules, in that order or priority.
5 Throughout this Disclosure Statement, the use of the masculine, feminine, neuter, plural or singular
6 shall be understood to include each of the others as the context may reasonably dictate. As used in
7 this Disclosure Statement, the following definitions shall apply:

8 **1. Administrative Claim.** A Claim for costs and expenses of administration
9 allowed under Section 503(b) of the Bankruptcy Code and referred to in Section 507(a)(2) of the
10 Bankruptcy Code including, without limitation: (a) the actual and necessary costs and expenses
11 incurred after the Petition Date of preserving the Estate and operating the business of the Debtor
12 (such as wages, salaries or commissions for services); (b) compensation for legal, financial advisory,
13 accounting and other services, and reimbursement of expenses awarded or allowed under Sections
14 330(a) or 331 of the Bankruptcy Code; and (c) all fees and charges assessed against the Estate under
15 28 U.S.C. § 1930.

16 **2. Administrative Claims Bar Date.** The date which is thirty (30) days after
17 the Effective Date.

18 **3. Allowed Administrative Claim.** An Administrative Claim which is an
19 Allowed Claim.

20 **4. Allowed Claim.** A Claim against the Debtor and/or the Estate as to which no
21 objection has been filed, or if an objection has been filed, has either been overruled or otherwise
22 resolved by the allowance of such Claim by the Bankruptcy Court, if the Claim was: (1) scheduled in
23 the list of creditors prepared and filed with the Bankruptcy Court by the Debtor and not listed as
24 disputed, contingent or unliquidated as to amount; or (2) the subject of a timely filed proof of claim;
25 or (3) which has been allowed by order of the Bankruptcy Court.

26 **5. Allowed Priority Claim.** A Priority Claim which is an Allowed Claim.

27 **6. Allowed Priority Tax Claim.** A Priority Tax Claim which is an Allowed
28 Claim.

1 7. **Allowed Professional Fees.** The amount of fees and costs incurred by
2 Professionals engaged by the Debtor in connection with the Case which are (1) timely requested by
3 application filed on or prior to the Administrative Claims Bar Date; and (2) which are allowed by
4 order of the Bankruptcy Court.

5 8. **Allowed Secured Claim.** A Secured Claim which is an Allowed Claim.

6 9. **Allowed General Unsecured Claim.** A General Unsecured Claim which is
7 an Allowed Claim.

8 10. **Assets.** All tangible and intangible assets of every kind and nature of the
9 Debtor and its Estate, and all proceeds thereof, as of the Effective Date.

10 11. **Avoidance Actions.** Causes of Action arising under Bankruptcy Code
11 sections 510, 541, 542, 544, 545, 547 through 551 and/or 553, or under related state or federal
12 statutes and common law including, without limitation, fraudulent transfer laws, whether or not
13 litigation is commenced to prosecute such Causes of Action.

14 12. **Ballot.** The form of ballot or ballots that will be distributed with the
15 Disclosure Statement to holders of Claims entitled to vote under the Plan in connection with the
16 solicitation of votes to accept or to reject the Plan.

17 13. **Bankruptcy Code.** Title 11 of the United States Code (11 U.S.C. §§ 101 *et*
18 *seq.*), as now in effect or hereafter amended. All citations in the Disclosure Statement or in the Plan
19 to section numbers are to the Bankruptcy Code unless otherwise expressly indicated.

20 14. **Bankruptcy Court.** The United States Bankruptcy Court for the Central
21 District of California, Los Angeles Division, or such other federal court with competent jurisdiction
22 over the Case.

23 15. **Bankruptcy Rules.** Federal Rules of Bankruptcy Procedure, as now in effect
24 or hereafter amended.

25 16. **Bar Date.** May 17, 2019, for non-governmental creditors; and July 24, 2019,
26 for governmental units.

27 17. **Business Day.** Any day, other than a Saturday, Sunday or legal holiday as
28 defined in Bankruptcy Rule 9006(a).

1 **18. Case.** This Chapter 11 bankruptcy case, filed by the Debtor, pending in the
2 Bankruptcy Court as Case No. 2:19-bk-10762-NB.

3 **19. Cash.** Currency, checks, negotiable instruments and wire transfers of
4 immediately available funds.

5 **20. Causes of Action.** Any and all causes of action, Avoidance Actions, suits,
6 rights of action, rights to legal remedies, rights to equitable remedies, rights to payment of any
7 amounts owing to the Debtor or the Estate for any reason whatsoever, whether known, unknown,
8 reduced to judgment, not reduced to judgment, liquidated, unliquidated, fixed, contingent, matured,
9 unmatured, disputed, undisputed, secured or unsecured, and whether asserted or assertable directly
10 or derivatively, in law, equity or otherwise, that the Debtor and/or Estate may hold against any
11 Person but excluding those Persons who are released or exculpated, or against whom claims were
12 waived, pursuant to the Plan.

13 **21. Claim.** Any right to payment, whether or not such right is reduced to
14 judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed,
15 legal, equitable, secured or unsecured, against the Debtor and/or the Estate, and any right to any
16 legal or equitable remedy for breach of any obligation giving rise to a right to payment, whether or
17 not such right is an equitable remedy or is reduced to judgment, liquidated, unliquidated, fixed,
18 contingent, matured, unmatured, disputed, undisputed, secured or unsecured, against the Debtor
19 and/or the Estate.

20 **22. Claimant.** A Person who holds a Claim.

21 **23. Claim Chart.** **Exhibit A** to the Plan and Disclosure Statement which lists all
22 Claims scheduled by the Debtor and/or filed against the Debtor as of the date reflected therein.

23 **24. Claims Objection Deadline.** One hundred eighty (180) days following the
24 Effective Date, which date may be extended by the Bankruptcy Court upon motion of any party in
25 interest for cause.

26 **25. Class.** A category of Claims which are substantially similar to each other and
27 into which Allowed Claims are grouped and classified pursuant to the Plan, unless a member of the
28 Class has agreed to a subordinated treatment. The Classes provided for in the Plan are summarized

1 in Article IV of the Disclosure Statement and Article III of the Plan.

2 **26. Confirmation.** The entry of the Confirmation Order on the docket of the
3 Bankruptcy Court.

4 **27. Confirmation Date.** The date upon which the Confirmation occurs.

5 **28. Confirmation Hearing.** The hearing or hearings held by the Bankruptcy
6 Court to consider and rule upon the Debtor's request for confirmation of the Plan.

7 **29. Confirmation Order.** The order entered by the Bankruptcy Court confirming
8 the Plan.

9 **30. Creditor.** A Person asserting a Claim; *aka* a Claimant.

10 **31. Debtor.** Koi Design LLC is the chapter 11 debtor in the Case.

11 **32. DIP Financing.** The post-petition credit facility of up to \$4.5 million
12 extended by Wells Fargo to the Debtor and approved by the Bankruptcy Court by the Final DIP
13 Order.

14 **33. Disallowed.** With respect to a Claim, or any portion thereof, that (a) has been
15 disallowed by a Final Order, (b) is Scheduled at zero, or as contingent, disputed or unliquidated and
16 as to which no Proof of Claim has been filed by the applicable Bar Date or deemed timely filed
17 pursuant to either the Bankruptcy Code or any Final Order or under applicable law, or (c) is not
18 Scheduled, and as to which (i) no Proof of Claim has been filed by the applicable Bar Date or
19 deemed timely filed pursuant to either the Bankruptcy Code or any Final Order or under applicable
20 law, or (ii) no request for payment of an Administrative Claim has been filed by the Administrative
21 Claims Bar Date, as appropriate, or deemed timely filed pursuant to either the Bankruptcy Code or
22 any Final Order or under applicable law.

23 **34. Disbursing Agent.** The Reorganized Debtor is the Disbursing Agent.

24 **35. Disclosure Statement.** This Disclosure Statement Dated November 13, 2019
25 (as may be further amended or modified) prepared by the Debtor as required by § 1125 of the
26 Bankruptcy Code describing the Plan.

27 **36. Disputed Claim.** Disputed Claims include: (i) a Claim which has been
28 scheduled as disputed, contingent or unliquidated where a Proof of Claim has not been timely filed

1 thereafter; (ii) a Claim as to which an objection has been timely filed with the Bankruptcy Court, and
2 which objection has not been withdrawn on or before any date fixed for filing such objections by the
3 Plan or by order of the Bankruptcy Court and has not been overruled or denied by a Final Order; and
4 (iii) any Claim listed as a Disputed Claim on the Claim Chart.

5 **37. Distribution(s).** Any distribution by the Reorganized Debtor to any Class,
6 Claimant or Creditor.

7 **38. Effective Date.** The first Business Day after the Confirmation Date, provided
8 that the Bankruptcy Court has waived the provisions of Bankruptcy Rule 3020(e) and no stay of the
9 Confirmation Order is in effect. If the Bankruptcy Court does not waive the provisions of
10 Bankruptcy Rule 3020(e), then the Effective Date will be the first Business Day which is at least
11 fifteen (15) days following the date of entry of the Confirmation Order, providing there has been no
12 appeal from and order staying the effectiveness of the Confirmation Order. If there has been an
13 order entered staying the effectiveness of the Confirmation Order, the Effective Date shall be the
14 first Business Day after the stay is no longer in effect with respect to the Confirmation Order.

15 **39. Equity Interest.** An “equity security” as defined in § 101(16) of the
16 Bankruptcy Code, including units.

17 **40. Equity Holders.** A holder of any Unit or an Equity Interest. Kathy Peterson
18 was the only Equity Holder of the Debtor on the Petition Date.

19 **41. Estate.** The estate of the Debtor created upon commencement of the Case
20 pursuant to Section 541 of the Bankruptcy Code.

21 **42. Exit Financing.** Financing in the sum of approximately \$12 million
22 consisting of the following: (a) an \$8 million contribution from the New Equity Investor; (b) a
23 \$250,000 contribution from the Original Equity Holder; and (c) New Secured Debt in the amount of
24 a \$4 million loan and/or line of credit (the New Equity Investor reserves the right to either provide a
25 loan and/or make a further contribution with respect to this \$4 million).

26 **43. Fiduciary Duty Action.** The Debtor’s lawsuit pending before District Court
27 Judge Terry J. Hatter, Jr. in the United States District Court, Central District of California, Case No.
28 2:19-cv-07154-TJH, styled *Koi Design LLC v. A. Douglas Mastroianni dba Mastroianni Law Firm*;

1 *Marron Lawyers, APC; The Bloom Firm, APC; and DOES 1 through 25.* By the Fiduciary Duty
2 Action, the Debtor seeks damages for intentional breaches of fiduciary duty, legal malpractice,
3 negligent supervision, etc. against its former counsel in the Infringement Action.

4 **44. Fiduciary Duty Action Recovery.** Any recovery obtained from the
5 prosecution of the Fiduciary Duty Action.

6 **45. Fiduciary Duty Action Net Recoveries.** All sums remaining from Fiduciary
7 Duty Action Recovery after reimbursement of actual fees and expenses incurred in connection with
8 prosecuting the Fiduciary Duty Action.

9 **46. Final Fee Application(s).** The final request for payment of Professional Fee
10 Claims.

11 **47. Final DIP Order.** *The Final Order Pursuant to 11 U.S.C. §§ 105, 361, 362,*
12 *363, 364, 503(b) and 507 and Fed. R. Bankr. P. 2002, 4001 and 9014: (I) Authorizing Debtor and*
13 *Debtor in Possession to Obtain Postpetition Financing; (II) Authorizing Use of Cash Collateral;*
14 *(III) Granting Liens and Super-Priority Claims; (IV) Granting Adequate Protection to Prepetition*
15 *Secured Lender; (V) Modifying the Automatic Stay; and (VI) Granting Related Relief [Doc. #177]*
16 *entered by the Bankruptcy Court on May 14, 2019.*

17 **48. Final Order.** An order or judgment of the Bankruptcy Court, as entered on
18 the applicable docket, that has not been reversed, stayed, modified or amended, and as to which the
19 time to appeal, petition for certiorari, or move for re-argument or rehearing has expired, and as to
20 which no appeal, petition for certiorari, or other proceedings for re-argument or rehearing shall then
21 be pending, or as to which any right to appeal, petition for certiorari, reargue, or rehear shall have
22 been waived in writing in form and substance satisfactory to the Debtor prior to the Effective Date,
23 or to the Reorganized Debtor after the Effective Date, or, in the event that an appeal, writ of
24 certiorari, or re-argument or rehearing thereof has been sought, such order or judgment of the
25 Bankruptcy Court shall have been affirmed by the highest court to which such order or judgment
26 was appealed, or certiorari has been denied, or from which re-argument or rehearing was sought and
27 denied, and the time to take any further appeal, petition for certiorari or move for re-argument or
28 rehearing shall have expired.

1 **49. General Unsecured Claim.** A Claim against the Debtor that is not secured
2 by a charge against, or interest in, any of the Debtor’s Assets, that is not an Administrative Claim, a
3 Priority Claim, or a Priority Tax Claim.

4 **50. Holder(s).** A Person holding a Claim or Interest against the Debtor, provided,
5 however, with respect to transfers of Claims governed by Bankruptcy Rule 3001(e), in order for the
6 transferor to be deemed the Holder of the Claim for distribution purposes, the deadline for any
7 objection to the proposed transfer of a Claim must have passed with either (1) no objection to the
8 transfer having been filed, or (2) any objection to such transfer having been resolved in favor of the
9 transferor by no later than the Confirmation Date. In other words, after the Effective Date, without
10 the express consent of the Reorganized Debtor, no transfer of Claims will be recognized by the
11 Reorganized Debtor for Distributions made pursuant to the Plan.

12 **51. Impaired.** When used in reference to a Claim, Interest or Class, a Claim,
13 Interest or Class that is impaired within the meaning of Section 1124 of Bankruptcy Code.

14 **52. Interest.** When “Interest” is used in the context of holding an equity security
15 or unit of the Debtor (and not used to denote (i) the compensation paid for the use of money for a
16 specified time and usually denoted as a percentage rate of interest on a principal sum of money, or
17 (ii) a security interest in property), then “Interest” shall mean an interest or share in the Debtor of the
18 type described in the definition of “Equity Interest.”

19 **53. Litigation Claims.** Any and all Causes of Action of the Effective Date,
20 including without limitation all causes of action arising under chapter 5 of the Bankruptcy Code,
21 including without limitation those causes of actions which could be brought by the Debtor under one
22 or more of Sections 542, 543, 544, 545, 547, 548, 549, 550, 551, 552, and 553 of the Bankruptcy
23 Code against any Person or other entity, including any governmental entity, who received an
24 avoidable transfer from the Debtor, including but not limited to insiders, employees, officers, and
25 equity holders of the Debtor. Although the Debtor has not concluded its investigation of all the
26 potential Litigation Claims and all the potential parties to such claims, a non-exclusive summary of
27 known potential Litigation Claims is described in the Disclosure Statement.

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1 **54. New Equity Units.** The 2,000 previously unissued units of the Reorganized
2 Debtor issued to the New Equity Investor on the Effective Date.

3 **55. New Equity Investor.** Dragon Crowd Garment, Inc. is the New Equity
4 Investor who will be contributing at least \$8 million to the Debtor in Exit Financing in exchange for
5 the issuance of 2,000 units of the Reorganized Debtor on the Effective Date.

6 **56. New Secured Debt.** The new loan and/or line of credit with at least \$4
7 million available on or about the Effective Date obtained in connection with the Exit Financing,
8 which will be senior secured debt with first priority liens⁶ on substantially all of the Reorganized
9 Debtor's assets, except as otherwise provided for in the Plan and the Disclosure Statement. The
10 New Equity Investor reserves the right to lend the Reorganized Debtor the New Secured Debt and/or
11 to increase its capital contribution by an amount up to \$4 million in the event the Debtor is not able
12 to secure a loan or line of credit from a traditional lender prior to the Effective Date.

13 **57. Old Equity Holder.** Kathy Peterson, the Debtor's sole shareholder, Chief
14 Executive Officer and managing member who holds 1,000 membership units in the Debtor.

15 **58. OUST.** Office of the United States Trustee.

16 **59. Person.** Person shall have the same meaning as in Section 101(41) of the
17 Bankruptcy Code.

18 **60. Petition Date.** January 25, 2019, the date on which the Debtor filed its
19 voluntary petition for relief under Chapter 11, thereby commencing this Case.

20 **61. Plan.** The *Plan of Reorganization Dated November 13, 2019* (as may be
21 further amended or modified) proposed by the Debtor and including, without limitation, all exhibits,
22 supplements, appendices and schedules thereto, either in its present form or as it may be altered,
23 amended, supplemented, or modified from time to time.

24 **62. Post-Confirmation Status Report.** The status report to be filed by the
25 Reorganized Debtor within 120 days of the Confirmation Date, and each 120 days thereafter or as
26 otherwise ordered by the Bankruptcy Court.

27 _____
28 ⁶ Pursuant to the SPI Settlement Agreement, SPI shall have a first priority lien against the proceeds
to the Fiduciary Duty Action on the Effective Date.

1 **63. Priority Claim.** A Claim entitled to priority under § 507(a) of the
2 Bankruptcy Code, other than a Priority Tax Claim pursuant to 11 U.S.C. § 507(a)(8).

3 **64. Priority Tax Claim.** A Claim entitled to priority under § 507(a)(8) of the
4 Bankruptcy Code.

5 **65. Professional Fee Applications.** Applications filed pursuant to 11 U.S.C.
6 §§ 330, 331 or 503(b)(4) for allowance of Administrative Claims relating to the compensation and
7 reimbursement of expenses of Professionals employed pursuant to an order of the Bankruptcy Court
8 under Sections 327 or 1103 of the Bankruptcy Code for services provided and expenses incurred
9 prior to the Effective Date.

10 **66. Professional Fee Claims.** (A) a claim under Bankruptcy Code §§ 327, 328,
11 330, 331, 503(b), 1103 or 1106 for compensation for professional services rendered or expenses
12 incurred on and after the Petition Date and prior to the Effective Date on behalf of the Estate by a
13 Professional duly employed and authorized by an Order of the Bankruptcy Court; or (b) a claim
14 under Bankruptcy Code Section 503(b)(4) for reasonable compensation for professional services
15 rendered by an attorney or accountant of an entity whose expense is allowable under Section
16 503(b)(3)(D) for making a substantial contribution to the Estate.

17 **67. Professionals.** Those Persons (i) that are subject to the retention pursuant to
18 an order of the Bankruptcy Court in accordance with Sections 327, 1103 and/or 1106 of the
19 Bankruptcy Code and to be compensated for services rendered prior to the Effective Date pursuant
20 to Sections 327, 328, 329, 330 and 331 of the Bankruptcy Code or (ii) for which compensation and
21 reimbursement has been allowed by the Bankruptcy Court pursuant to Sections 330 and 503(b)(2) of
22 the Bankruptcy Code.

23 **68. Proponent.** The proponent of the Plan is the Debtor.

24 **69. Pro Rata.** Pro rata means proportionate so that the ratio of (a) the amount of
25 consideration distributed on account of an Allowed Claim to (b) the amount of the Allowed Claim is
26 the same as the ratio of (x) the amount of consideration available for distribution on account of all
27 Allowed Claims in the Class in which the Allowed Claim is included to (y) the amount of all
28 Allowed Claims in that Class.

1 **70. Reorganized Debtor.** The Debtor following the occurrence of the Effective
2 Date.

3 **71. Reserve Account.** An account created, and in an amount determined, by the
4 Reorganized Debtor pending the resolution of a Disputed Claim, containing a sufficient amount to
5 satisfy such Disputed Claim in a manner consistent with that Claim's treatment under the Plan
6 should it ultimately become an Allowed Claim.

7 **72. Scheduled.** Scheduled means the information set forth in the Schedules.

8 **73. Schedules.** The Schedules of Assets and Liabilities filed by the Debtor in
9 accordance with 11 U.S.C. § 521 and Bankruptcy Rule 1007 [Doc. #80], as the same may be
10 amended from time to time in accordance with Bankruptcy Rule 1009 prior to the Effective Date.

11 **74. Secured Claim.** A Claim that is secured by a lien against any Assets to the
12 extent of the value of the Estate's interest in such Assets, or to the extent of the amount of such
13 Claim subject to setoff in accordance with Section 553 of the Bankruptcy Code, in either case
14 determined pursuant to Section 506(a) of the Bankruptcy Code.

15 **75. SPI.** Judgment lien holder and secured creditor Strategic Partners, Inc.

16 **76. SPI Settlement Agreement.** That certain settlement agreement entered into
17 between the Debtor and SPI which resolves all of their outstanding disputes and provides for the
18 treatment of SPI's Allowed Secured Claim. The SPI Settlement Agreement is attached hereto as
19 **Exhibit D.**

20 **77. Unclaimed Distribution.** Any Distribution made by the Reorganized Debtor
21 to the address of the recipient reflected in the Schedules (or on any Proof of Claim filed by the
22 Claimant), by: (a) checks which have been returned as undeliverable without a proper forwarding
23 address; (b) checks which were not mailed or delivered because of the absence of a proper address to
24 which to mail or deliver the same; (c) checks which have not been cashed for a period of ninety (90)
25 days after the date such checks were issued, or (d) disbursements that were not made because the
26 Holder of such Allowed Claim failed to provide required tax information within forty-five (45) days
27 after the Reorganized Debtor has sent any request for same to such Claimant's address as reflected in
28 the Schedules and/or such Claimant's Proof of Claim.

78. Unclassified Claim. Any Claim which is not part of any Class, including Administrative Claims and Priority Tax Claims.

79. **Unimpaired.** A Claim is unimpaired when it is within a class that is not impaired within the meaning of Section 1124 of the Bankruptcy Code.

80. Unsecured Claim. Any Claim, including without limitation any claim arising under Section 502(g) of the Bankruptcy Code, that is not secured by a lien on, security interest in, or charge against, any Asset.

81. **Wells Fargo.** The Debtor's senior secured lender Wells Fargo Trade Capital Services, Inc.

B. Exhibits.

All Exhibits to this Disclosure Statement are incorporated into and are part of this Disclosure Statement as if set forth in full herein.

C. Computing Time Periods.

In computing any period of time prescribed or contemplated by the Plan, Bankruptcy Rule 9006(a) shall apply.

D. Notices and Delivery of Documents.

All notices, correspondence, and other deliveries under the Plan must be directed as follows:

To the Debtor or Reorganized Debtor: Koi Design LLC
1757 Stanford St.
Santa Monica, CA 90404

With a Copy to:

Susan K. Seflin
Brutzkus Gubner
21650 Oxnard St., Suite 500
Woodland Hills, CA 91367
Fax: (818) 827-9099
Email: sseflin@bg.law

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III. BACKGROUND

A. Description and History of the Debtor's Business and a Summary of the Circumstances that Led to the Filing of the Debtor's Chapter 11 Case.

1. General Background.

Formed in 2006 as a California limited liability company, the Debtor has grown into a viable business enterprise with sales of approximately \$26 million annually and over 45 employees. The Debtor manufactures and sells clothes, which sales are concentrated in the high fashion "work clothes" of the garment business. The Debtor primarily manufactures and sells "scrubs" for professionals employed in the medical industry. The Debtor's products are available through on-line sales and from various retail business operations such as Amazon, Uniform Advantage, and Scrubs & Beyond. The Debtor is one of the only independently owned and woman-run companies in this industry.

The Debtor's principal place of business is located at 1757 Stanford Street, Santa Monica, California 90404. The Debtor's website is www.koihappiness.com.

For the fiscal year 2018, the Debtor's gross revenue was \$26,280,801. The Debtor's gross revenue for fiscal year 2017 was \$26,262,475.50. The Debtor was profitable from its inception in 2007 to 2016, and experienced minor losses in 2017 and 2018. The Debtor expects that its gross revenue for 2019 will be approximately \$26 million.

Kathy Peterson is the founder, Chief Executive Officer, and managing member of the Debtor, and is the sole equity holder of the Debtor. Jeremy Husk is the Chief Financial Officer and Executive Vice President of Operations for the Debtor, and has extensive knowledge regarding the Debtor's day-to-day business operations and its finances.

2. The Debtor's Prepetition Lender and Other Lienholders.

The Debtor's prepetition lender is Wells Fargo Trade Capital Services, Inc. ("Wells Fargo"). On or about January 23, 2013, the Debtor and Wells Fargo entered into that certain Credit and Security Agreement, which provided the Debtor with, among other things, a \$10,000,000 revolving line of credit to fund its business operations. As of January 25, 2019, Wells Fargo was owed approximately \$2,719,602.32. Wells Fargo has a security interest in all of the Debtor's assets.

1 Wells Fargo perfected its security interest by recording UCC-1 financing statements with the
2 California Secretary of State.

3 Other than Wells Fargo, two other creditors asserted security interests against the Debtor on
4 the Petition Date. The first is U.S. Bank Equipment Finance, which has a security interest in certain
5 printers and copiers that the Debtor leases. The second is a judgment creditor, Strategic Partners,
6 Inc. (“SPI”), which filed two notices of judgment lien during the 90-day preference period.

7 **3. The Debtor’s Other Indebtedness.**

8 Aside from the Debtor’s obligations to Wells Fargo and SPI described above, the Debtor had
9 an additional approximately \$7 million in general unsecured debt as of the Petition Date which is
10 owed to approximately 30 entities.

11 **B. Principals/Affiliates of the Debtor’s Business.**

12 At the time of the Petition Date, the Debtor’s President, Chief Executive Officer and 100%
13 shareholder was Kathy Peterson. Ms. Peterson founded the Debtor in 2006 and is the Debtor’s sole
14 managing member.

15 As of the Petition Date, the Debtor’s only other officer was Jeremy Husk as the Debtor’s
16 Executive Vice President of Operations. Mr. Husk has worked for the Debtor since May 2008. In
17 February of 2019, Mr. Husk was also appointed as the Debtor’s Chief Financial Officer. Because
18 the Debtor is a limited liability company, it does not have a board of directors. The Debtor does not
19 have any “affiliates” as that term is defined under Section 101(2) of the Bankruptcy Code.

20 **C. Management of the Debtor Before the Bankruptcy.**

21 As set forth above, the Debtor’s President, Chief Executive Officer and 100% shareholder
22 was Kathy Peterson, and the Debtor’s Executive Vice President of Operations was Jeremy Husk.

23 The Reorganized Debtor’s post confirmation management is described more fully in Article
24 IV.D.3 below.

25 **D. Events Leading to the Debtor’s Chapter 11 Filing.**

26 The primary factor that precipitated the filing of this case arose out of a default judgment
27 relating to certain pre-petition litigation. On or about January 11, 2017, SPI filed a complaint (the
28 “SPI Complaint”) against the Debtor in the United States District Court for the Central District of

1 California, commencing the action styled, *Strategic Partners, Inc. v. Koi Design LLC*, U.S.D.C. No.
2 17-cv-00236 TJH (GJSx) (the “Infringement Action”). By the SPI Complaint, SPI asserted claims
3 for relief against the Debtor for, among other things, trademark infringement and intentional
4 interference with prospective economic advantage.

5 On October 4, 2018, the District Court entered default judgment against the Debtor and in
6 favor of SPI in the amount of \$5,266,380.68 (the “Default Judgment”). Pre-petition, SPI recorded an
7 abstract of judgment against the Debtor’s assets and recorded judgment liens against the Debtor
8 (collectively, the “SPI Liens”).

9 In the Infringement Action, the Debtor was represented by A. Douglas Mastroianni, Esq. dba
10 Mastroianni Law Firm (“Mastroianni”), Marron Lawyers, APC (“Marron”) and The Bloom Firm,
11 APC (“Bloom”). Pre-petition and during the course of its bankruptcy case, the Debtor worked
12 diligently to appeal the Default Judgment (and related orders) and have the judgment liens
13 expunged, on grounds of, among other things, incompetent counsel. Since entry of the Default
14 Judgment, Mr. Mastroianni has been charged with a 21-count indictment by the State Bar of
15 California for charges relating to acts of moral turpitude and incompetent legal representation for
16 many other clients resulting in terminating sanctions. On August 15, 2019, the State Bar of
17 California filed its “Brief Re: Culpability and Discipline” in connection with the trial on the State
18 Bar complaint against Mr. Mastroianni, and the State Bar has recommended that Mr. Mastroianni’s
19 “serious misconduct, which consists of misappropriation of client funds and acts of dishonesty
20 designed to conceal the misappropriation from his clients, and well as willful failures to perform,
21 warrant disbarment”. See, State Bar of California’s Brief Re: Culpability and Discipline filed
22 August 15, 2019 in Case Nos. 17-O-03416, 17-O05972 and 17-O-06077, pgs. 1-2.

23 Notwithstanding the Debtor’s pre-petition efforts to unwind the SPI Liens, the Debtor found
24 itself in a perilous financial situation directly caused by the Default Judgment and the SPI Liens.

25 Specifically, on or about December 11, 2018, the Debtor’s prepetition secured lender Wells
26 Fargo sent the Debtor a Notice of Events of Default and Reservation of Rights letter, giving notice to
27 the Debtor of its alleged default under the Wells Loan because of the SPI Liens. Subsequently, as of
28 December 20, 2018, Wells Fargo ceased all advances to the Debtor. As a result, the Debtor had no

1 access to its cash in order to pay its employees and fund other expenses, and was forced to seek
2 bankruptcy protection.

3 **E. Significant Events During the Bankruptcy.**

4 The following is a list of significant events which have occurred during this case:

5 **1. Cash Collateral and Cash Management.**

6 The Debtor's efforts during the early part of this Case focused on obtaining use of
7 cash collateral and obtaining authority to maintain certain prepetition accounts as both were critical
8 elements of the continuation of the Debtor's business operations. SPI objected to the Debtor's use of
9 cash collateral [Doc. #76]. The Court entered its first interim order authorizing the use of cash
10 collateral on January 30, 2019 [Doc. #29], its second interim order was entered on March 6, 2019
11 [Doc. #97], and its third interim order was entered on April 10, 2019 [Doc. #143]. The Court
12 entered its final order authorizing use of cash collateral on April 23, 2019 [Doc. #160].

13 The Court entered its interim order authorizing the continued use of the Debtor's cash
14 management system on January 30, 2019 [Doc. #27] and the Court entered its final order on March
15 13, 2019 [Doc. #115].

16 **2. DIP Financing.**

17 Because the Debtor's cash flow fluctuates throughout the year, the Debtor determined
18 that it was necessary to enter into a postpetition financing agreement with its secured lender Wells
19 Fargo. On March 22, 2019, the Debtor filed its *Emergency Motion For Entry Of Interim And Final*
20 *Orders: (I) Authorizing The Debtor To Obtain Postpetition Financing; (II) Authorizing Use Of Cash*
21 *Collateral; (III) Granting Liens And Super-Priority Claims; (IV) Granting Adequate Protection To*
22 *Prepetition Secured Lender; (V) Modifying The Automatic Stay; (VI) Scheduling A Final Hearing;*
23 *And (VII) Granting Related Relief* [Doc. #129] (the "DIP Motion") pursuant to which it sought to
24 obtain postpetition financing ("DIP Financing") from Wells Fargo. SPI objected to the DIP Motion
25 [Doc. #134, Doc. #168]. The DIP Motion was granted on an interim basis pursuant to Court order
26 entered on April 23, 2019 [Doc. #159], and on a final basis pursuant to Court order entered on May
27 14, 2019 [Doc. #177] (the "DIP Final Order"). The DIP Final Order authorized the Debtor to
28 borrow up to \$4.5 million from Wells Fargo, and authorized the Debtor to operate within a budget

1 approved by Wells Fargo through and including October 31, 2019, subject to extension by
2 agreement between the Debtor and Wells Fargo. The DIP Final Order also granted Wells Fargo a
3 valid, enforceable, non-avoidable and fully perfected first priority security interest on substantially
4 all of the Debtor's assets pursuant to Section 364 of the Bankruptcy Code (the "Wells Fargo Liens").
5 The Debtor and Wells Fargo entered into a stipulation extending the DIP Financing maturity date to
6 December 6, 2019, which stipulation was approved pursuant to Court order entered on October 14,
7 2019 [Doc. #205].

8 **3. Employment of Professionals.**

9 The Debtor filed its *Application to Employ Brutzkus Gubner Rozansky Seror Weber*
10 *LLP as General Bankruptcy Counsel Effective as of the Petition Date* [Doc. #67] (the "BG
11 Application") on February 19, 2019. The BG Application was approved pursuant to Court order
12 entered on March 12, 2019 [Doc. #114] (the "BG Order"). The Debtor filed its *Application to*
13 *Employ Broadway Advisors, LLC as Financial Advisor Effective as of January 29, 2019* [Doc. #83]
14 (The "Broadway Application") on February 27, 2019. The Broadway Application was approved
15 pursuant to Court order entered on March 19, 2019 [Doc. #122] (the "Broadway Order").

16 On February 28, 2019, the Debtor filed its *Application to Employ Cohn Handler*
17 *Sturm as Accountant* [Doc. #86] (the "CHS Application"). The CHS Application was approved
18 pursuant to Court order entered on March 19, 2019 [Doc. #123] (the "CHS Order").

19 **4. Plan Exclusivity.**

20 The Debtor's original exclusive periods to file its Plan and obtain acceptances thereof
21 expired on May 25, 2019 and July 24, 2019 respectively. The Debtor filed its first motion (the "First
22 Exclusivity Motion") to extend its exclusive period to file its Plan and obtain acceptances thereof on
23 May 15, 2019. The First Exclusivity Motion was granted pursuant to Court order entered on June
24 18, 2019 [Doc. #186], and the Debtor's exclusive period was extended to August 23, 2019 and
25 October 22, 2019 respectively. The debtor filed its second motion (the "Second Exclusivity
26 Motion") to extend its exclusive period on August 22, 2019. The Second Exclusivity Motion was
27 granted pursuant to Court order entered on September 25, 2019 [Doc. #199]. Pursuant to the Second
28 Exclusivity Motion, the Debtor's exclusive periods to file its Plan and obtain acceptances thereof is

December 21, 2019 and February 19, 2020 respectively.

5. Legal Proceedings.

The Infringement Action and Related Appeals.

As referenced in Section III.D above, the Infringement Action was commenced on January 11, 2017 by SPI's filing of the SPI Complaint in the District Court for the Central District of California (the "District Court"). [Case No. 17-cv-00236 TJH (GJSx)]. By the Infringement Action, SPI asserted claims for relief against the Debtor for, among other things, trademark infringement and intentional interference with prospective economic advantage.

The Debtor has, at all times, disputed all claims for relief asserted by SPI in the Infringement Action. However, as a direct result of numerous gross errors and intentional misconduct of the Debtor's former counsel in the Infringement Action, the District Court entered an order on May 17, 2018 [D.C. Doc. #105] (the "Criminal Sanction Order") imposing sanctions in the amount of \$250,000 jointly and severally against the Debtor and its former counsel. The Debtor filed a notice of appeal of the Criminal Sanction Order on June 15, 2018. [9th Cir. Case No. 18-55798]. On June 27, 2018, the District Court imposed terminating sanctions against the Debtor for failure to pay the \$250,000 sanction, and the Debtor's answer in the Infringement Action as stricken. On August 10, 2018, the Debtor's default was entered, and on October 4, 2018, the Default Judgment was entered in the amount of \$5,266,280.68. On November 2, 2018, the Debtor filed a notice of appeal of the Default Judgment [9th Cir. Case No. 18-56478]. The Debtor filed a motion for limited remand as to a motion to vacate the Default Judgment on January 16, 2019, and the Ninth Circuit granted that motion on January 22, 2019.

On January 25, 2019, the Debtor commenced its chapter 11 bankruptcy case. On February 15, 2019, the Debtor obtained relief from the automatic stay to allow the District Court to rule on the its motion to vacate the Default Judgment. On June 11, 2019, the District Court entered an order denying the Debtor's motion to vacate [D.C. Doc. #162]. On June 12, 2019, the Debtor filed its notice of appeal of the order denying the motion to vacate, which commenced 9th Cir. Case No. 19-55678. The Infringement Action and three related Ninth Circuit appeals were resolved as described below.

1 **The SPI Adversary.** On May 7, 2019, the Debtor filed its *Complaint for Avoidance*
2 *of Judicial Liens and Declaratory Relief* [Adv. Doc. #1 in Adv. Case No. 2:19-01135-NB (the “SPI

3 Adversary”)] pursuant to which it sought to avoid the SPI Liens as preferential transfers and for

4 declaratory relief. On June 3, 2019, the Debtor filed its *Second Amended Complaint for Avoidance*

5 *of Judicial Liens, Declaratory Relief, and Objection to Claim* [Adv. Doc. #8] in the SPI Adversary

6 pursuant to which the Debtor amended its initial complaint to include an objection to SPI’s Proof of

7 Claim No. 14 in the amount of a \$5,921,894.90 secured claim (the “SPI Claim”). On June 21, 2019,

8 SPI filed its *Answer and Affirmative Defenses to Second Amended Complaint for (1) Avoidance of*

9 *Judicial Liens, (2) Declaratory Relief, and (3) Objection to Claim* [Adv. Doc. #11]. The Bankruptcy

10 Court ordered the SPI Adversary to mediation pursuant to Court order entered August 9, 2019 [Adv.

11 Doc. #17].

12 **Mediation and Settlement with SPI**

13 On September 18, 2019 and October 2, 2019, the Debtor and SPI attended mediation

14 with the Honorable Meredith Jury, United States Bankruptcy Judge (retired), serving as mediator.

15 As a result of mediation and good faith negotiations during and after the mediation sessions, the

16 Debtor and SPI reached a mutually agreeable resolution of all disputes between them and entered

17 into a settlement agreement (the “SPI Settlement Agreement”) which is attached hereto as **Exhibit**

18 **D**. The Debtor is seeking approval of the SPI Settlement Agreement by the Plan. In sum, the

19 Settlement Agreement proposes to treat the SPI Claim as follows: (i) the SPI Claim shall be deemed

20 an allowed, secured claim in the amount of \$5,266,380.68; (ii) the Debtor shall pay \$3.5 million to

21 SPI within five business days of the Effective Date (and upon timely payment of the \$3.5 million,

22 the SPI Liens shall be released as to all of the Debtor’s assets except such release shall not cover or

23 release SPI’s interests in the Fiduciary Duty Action; (iii) SPI shall obtain an interest, secured by a

24 first priority lien, in net proceeds that may be generated from the trial and/or resolution of the

25 Fiduciary Duty Action as described in more detail in the attached SPI Settlement Agreement. The

26 SPI Settlement Agreement also resolves all disputes between the Debtor and SPI including, but not

27 limited to, the Infringement Action and the three related Ninth Circuit appeals and the SPI

28 Adversary. The SPI Settlement Agreement includes mutual general releases that are effective after

1 Court approval of the Settlement Agreement and after all payments due by the Debtor to SPI have
2 been paid.

3 **The Breach of Fiduciary Duty Action.** As mentioned above, on July 1, 2019, the
4 Debtor filed a complaint against Mastroianni, Marron and Bloom, commencing Adversary
5 Proceeding No. 2:19-ap-01197-NB (the “Fiduciary Duty Action”). By the Fiduciary Duty Action,
6 the Debtor seeks damages for intentional breaches of fiduciary duty, legal malpractice, negligent
7 supervision, etc. against its former counsel in the Infringement Action.

8 Mastroianni did not file an answer to the Complaint. On August 7, 2019, the Debtor
9 filed its request for entry of default against Mastroianni. On August 8, 2019, the Clerk of the Court
10 entered default against Mastroianni. On August 12, 2019, Marron and Bloom each filed an answer
11 to the complaint [Adv. Doc. #'s 20 and 25 in the Fiduciary Duty Action].

12 The Fiduciary Duty Action was originally pending before the Bankruptcy Court but
13 on October 7, 2019, District Court Judge Terry J. Hatter, Jr. issued an order withdrawing the
14 reference such that the case is now pending before Judge Hatter in the United States District Court,
15 Central District of California, Case No. 2:19-cv-07154-TJH.

16 As of the date this Disclosure Statement was filed, the Debtor and the defendants in
17 the Fiduciary Duty Action are in the process of attempting to mediate. The Debtor will continue to
18 prosecute the Breach of Fiduciary Duty Action after the Effective Date.

19 **Objections to Claims.** The Debtor plans on objecting to multiple claims that were
20 filed against it, and intends to file such objections shortly.

21 **6. Prosecution of Avoidance Actions & Other Potential Claims.**

22 The Debtor has not yet filed any actions seeking to recover any fraudulent
23 conveyances or preferential transfers other than the Fiduciary Duty Action. The Debtor is currently
24 investigating potential claims under, among others, Sections 544, 547, 548 and 550 of the
25 Bankruptcy Code. The Debtor does not believe that it has other claims that it will be pursuing.
26 However, the Debtor will amend this Disclosure Statement if it discovers any.

27 ///

1 **IV. CLASSIFICATION AND TREATMENT OF CLAIMS AND INTERESTS**
2 **UNDER THE PLAN**

3 **A. What Creditors and Interest Holders Will Receive Under the Plan.**

4 As required by the Bankruptcy Code, the Plan classifies Claims and Interests in various
5 Classes according to their right of priority under the Bankruptcy Code. The Plan states whether each
6 Class of Claims or Interests is impaired or unimpaired. The Plan provides the treatment each Class
7 will receive.

8 **B. Unclassified Claims.**

9 Certain types of Claims are not placed into voting Classes; instead they are unclassified.
10 They are not considered impaired and they do not vote on the Plan because they are automatically
11 entitled to specific treatment provided for them in the Bankruptcy Code. As such, the Debtor has not
12 placed the following Unclassified Claims in a Class.

13 **1. Administrative Claims.**

14 Administrative Claims are for costs or expenses of administering the Debtor's Chapter 11
15 Case which are allowed under Bankruptcy Code Section 507(a)(1). Allowed Administrative Claims
16 representing post-Petition Date liabilities incurred by the Debtor in the ordinary course of business,
17 for which no approval by the Bankruptcy Court is required, shall be paid in full in accordance with
18 the terms and conditions of the particular transaction giving rise to such liabilities and any
19 agreements relating thereto. The Bankruptcy Code requires that all Administrative Claims be paid
20 on the Effective Date unless a particular Claimant agrees to a different treatment. After the Effective
21 Date, while the Debtor's Chapter 11 Case remains open, the Reorganized Debtor will (i) file with the
22 United States Trustee quarterly operating reports; and (ii) timely pay fees incurred pursuant to 28
23 U.S.C. Section 1930(a)(6).

24 The following chart lists all of the Debtor's Section 507(a)(1) administrative claims and their
25 treatment under the Plan.

NAME	AMOUNT OWED ⁷	TREATMENT
Clerk's Office Fees	\$0 (Estimate)	Paid in full on the Effective Date
Office of the U.S. Trustee Fees	\$0 (Estimate)	Paid in full on the Effective Date
Brutzkus Gubner, bankruptcy counsel to the Debtor	Approximately \$700,000 in addition to the pre-petition retainer (\$100,00) and post-petition payments to BG pursuant to the BG Order (\$200,000)	Paid in full on the later of the Effective Date and the date the Court enters an order allowing such fees and expenses.
Broadway Advisors, LLC, financial advisor to the Debtor	Approximately \$200,000 in addition to the post-petition payments made by the Debtor or expected to be made by the Debtor prior to the Effective Date pursuant to the Broadway Order (\$166,452)	Paid in full on the later of the Effective Date and the date the Court enters an order allowing such fees and expenses
Cohn Handler Sturm, accountant to the Debtor	\$0	Cohn Handler Sturm has continued to be paid its monthly flat fee amount pursuant to the CHS Order.
TOTAL	\$900,000 est.	Paid in the manner described above

Court Approval of Fees Required:

The Bankruptcy Court must approve, or must have previously approved on a final basis, all Professional Fee Claims listed in the foregoing chart before they may be paid. Only the amount of fees and expenses approved by the Bankruptcy Court is required to be paid under the Plan. The administrative claim amounts set forth above for professional fees and expenses simply represent the Debtor's best estimate as to the amount of Allowed Professional Fee Claims, which estimates assume that the Debtor makes all of the post-petition professional fee monthly payments that the Bankruptcy Court has authorized the Debtor to make. The actual Administrative Claims for Professional fees and expenses may be higher or lower. By voting to accept the Plan, Creditors are not acknowledging the validity of, or consenting to the amount of, any of these Administrative

⁷ The amounts set forth in this chart are estimates of the administrative claim amount that the Debtor believes each administrative claimant will be entitled to on the Effective Date. The amounts set forth in this chart are subject to change.

1 Claims for professional fees and expenses, and Creditors are not waiving any of their rights to object
2 to the allowance of any of these Professional Fee Claims. Also, the Professionals employed in this
3 Case may, prior to the Effective Date, seek Court approval of interim fees and expenses incurred in
4 excess of the post-petition professional fee monthly payments received by such Professionals,
5 pursuant to prior orders of the Bankruptcy Court. To the extent any such interim fees and expenses
6 are allowed by the Bankruptcy Court and paid by the Debtor prior to the Effective Date, that will
7 reduce the amount of professional fees and expenses to be paid by the Reorganized Debtor.

8 **The last day to file any Administrative Claims (but NOT for ordinary post-petition**
9 **operating obligations or Professional Fee Claims) is thirty (30) days after the Effective Date.**

10 Administrative expenses will be paid on the later of the Effective Date or 10 days after the entry of a
11 Final Order allowing the administrative expense, unless the administrative claimant has consented
12 otherwise in writing.

13 **2. Priority Tax Claims.**

14 Priority tax claims include certain unsecured income, employment and other taxes described
15 by Section 507(a)(8) of the Bankruptcy Code. The Bankruptcy Code requires that each holder of
16 such a Section 507(a)(8) priority tax claim receive the present value of such claim in deferred cash
17 payments, over a period not exceeding five years from the Petition Date. The Debtor does not
18 believe that there are any Section 507(a)(8) priority tax claims. If there are any Priority Tax Claims
19 as of the Effective Date, these claims will be paid in full by the Reorganized Debtor over a period
20 not exceeding five years from the Petition Date.

21 **C. Classified Claims and Interests.**

22 **1. Class of Secured Claims.**

23 Secured Claims are claims secured by liens on property of the Estate. The following chart
24 sets forth the description and treatment of each of the Debtor's known Secured Claims. The Debtor
25 has listed the below Creditors based on the priority of their liens.

26 ///

27 ///

CLASS #	DESCRIPTION	IMPAIRED (Yes/No)	TREATMENT
1	Wells Fargo Collateral Description: 1 st Priority Lien on all assets of the Debtor's Estate. Amount of Claim: Approximately \$4 million	No.	The Wells Fargo Secured Claim will be paid in full on the Effective Date. Upon the occurrence of the Effective Date and payment in full of the Wells Fargo Claim, the commitments and obligations under the Wells Fargo loan agreements and the Final DIP Order are terminated. Unimpaired. This Class 1 Claim is a Secured Claim and will be paid in full on the Effective Date. Presumed to accept the Plan and not entitled to vote.
2	SPI Collateral Description: Judgment lien on all assets of the Debtor's Estate. Amount of Filed Proof of Claim No. 14: \$5,921,894.90 Amount of Claim Per the SPI Settlement Agreement: \$5,266,380.68	Yes.	The SPI Secured Claim will be paid pursuant to the SPI Settlement Agreement as follows: <ul style="list-style-type: none">• \$3.5 million within five business days of the Effective Date.• SPI shall obtain an interest, secured by a first priority lien, in the net proceeds from the Fiduciary Duty Action as set forth in detail pursuant to the SPI Settlement Agreement attached hereto as Exhibit D.• The Debtor is seeking Court approval of the SPI Settlement Agreement pursuant to the Plan. Impaired; Entitled to Vote

2. Classes of Priority Unsecured Claims.

Certain Priority Claims that are referred to in Bankruptcy Code Sections 507(a)(3), (4), (5), (6), and (7) are required to be placed in Classes. These types of Claims are entitled to priority treatment as follows: the Bankruptcy Code requires that each holder of such a Claim receive cash on the Effective Date equal to the allowed amount of such claim. However, a class of unsecured priority claim holders may vote to accept deferred cash payments of a value, as of the Effective Date, equal to the allowed amount of such claim. The Debtor does not believe that there are any valid outstanding Section 507(a)(3), (4), (5), (6), or (7) priority unsecured claims. If there are any allowed priority unsecured claims as of the Effective Date, these claims will be paid in full by the

Reorganized Debtor on the Effective Date (or as soon as practicable thereafter). All allowed Section 507(a)(3), (4), (5), (6), or (7) priority unsecured claims, if any, will be characterized as Priority Claims.

3. Class of General Unsecured Claims.

General Unsecured Claims are classified and treated as follows:

<u>CLASS #</u>	<u>DESCRIPTION</u>	<u>IMPAIRED</u> <u>(Yes/No)</u>	<u>TREATMENT</u>
3	All General Unsecured Claims Amount: Approximately \$7 million (this number is subject to change based upon the resolution of Disputed Claims).	Yes. Impaired.	Holders of Allowed General Unsecured Claims shall receive their pro rata share of \$2 million on the Effective Date (or as soon as practicable thereafter), and their pro rata share of \$1 million within one year of the Effective Date. Holders of Allowed General Unsecured Claims shall also receive 25% of any net recovery (net of fees and costs) in connection with the Fiduciary Duty Action. Estimated recovery: At least 42% of their Allowed General Unsecured Claim. The foregoing treatment is in full settlement and satisfaction of all obligations of the Debtor to holders of Claims in Class 3. Impaired; Entitled to Vote

4. Classes of Interest Holders.

Interest holders are the parties who hold an ownership interest (i.e., equity interest) in the Debtor. The following chart identifies the Plan's treatment of the class of interest holders:

<u>CLASS #</u>	<u>DESCRIPTION</u>	<u>IMPAIRED</u> <u>(Yes/No)</u>	<u>TREATMENT</u>
4	Equity Interests of Kathy Peterson (Previously defined as "Old Equity Holder")	Yes. Impaired.	The Debtor's sole shareholder and Chief Executive Officer, Kathy Peterson, will keep her 1,000 membership units in the Debtor but such interest will be diluted by the Reorganized Debtor's issuance of 2,000 membership units to the New Equity Investor. Ms. Peterson will contribute \$250,000 and waive her prepetition unsecured claim of \$212,007.34.

D. Means of Effectuating the Plan and Implementation of the Plan.

1. Plan Funding.

The Plan will be funded by the Exit Financing in the aggregate amount of approximately \$12,250,000, plus the Debtor's Cash on hand of approximately \$150,000. Of this amount, the Reorganized Debtor anticipates that it will require at least \$1 million for working capital to meet the Debtor's operating needs, thereby reducing available funds to implement the Plan to \$11,400,000.

Such proceeds will be utilized as follows:

Administrative (Professional)	\$900,000
Administrative (Accounts Payable)	\$800,000
Wells Fargo Secured Claim	\$4,000,000
SPI Secured Claim	\$3,500,000
Lease/Contract Cures	\$200,000
Unsecured Claims	<u>\$2,000,000</u>
Total	\$11,400,000

Based on the foregoing, the Debtor is confident that sufficient funds will exist to make all required Effective Date payments. The balance of Allowed Claims will be satisfied over time by the Reorganized Debtor.

2. Release of Liens.

Within 30 days of satisfaction of Secured Claims as set forth in the Plan, holders of such Claims shall file releases of their liens with the appropriate government agencies (the "Release Procedures"). In the event that the foregoing Claimants do not complete the Release Procedures, the Reorganized Debtor shall be granted, pursuant to the Confirmation Order, power of authority for the limited purpose of implementing and consummating the Release Procedures.

3. Composition of the Reorganized debtor and Post-Confirmation Management.

On the Effective Date, the Reorganized Debtor will remain a California limited liability company. The Reorganized Debtor's managing member shall be Kathy Peterson. Ms. Peterson will own a 1/3 (or 33.33%) interest in the Reorganized Debtor as of the Effective Date. The other member of the Debtor shall be the New Equity Investor, who shall own a 2/3's (or 66.67%) interest in the Reorganized Debtor as of the Effective Date. More information about the terms of the New Equity Investor's investment is set forth on the term sheet entered into between the Debtor and the

1 New Equity Investor, which is attached hereto as **Exhibit B**.

2 The Debtor currently anticipates that the management of the Reorganized Debtor
3 immediately following the Effective Date will remain the same. Kathy Peterson will remain the
4 Reorganized Debtor's Chief Executive Officer, and Jeremy Husk will remain the Reorganized
5 Debtor's Chief Financial Officer and Executive Vice President of Operations.

6 It is contemplated that shortly after the Effective Date, the Reorganized Debtor will appoint
7 Edward Zhou as an officer of the Reorganized Debtor. Mr. Zhou is the sole shareholder of Dragon
8 Crowd Garment Inc. ("Dragon Crowd" and previously also defined as the "New Equity Investor").
9 Dragon Crowd was founded in 1998 by Mr. Zhou and is one of the largest privately held China
10 based manufacturers of young men and women's lifestyle apparel. Dragon Crowd's website is:
11 <http://dragon-crowd.com>. Mr. Zhou has been in the business of fashion and building brands for over
12 20 years. The Debtor believes that Mr. Zhou's expertise, insight and capabilities will enable the
13 Reorganized Debtor to succeed post Confirmation.

14 **4. Disbursing Agent.**

15 The Reorganized Debtor will act as the Disbursing Agent for purposes of making all
16 Distributions under the Plan. The Disbursing Agent will serve without bond and will receive no
17 compensation for distribution services and expenses incurred pursuant to the Plan. The Disbursing
18 Agent may employ others to assist it in making Distributions under the Plan.

19 **5. Objections to Claims.**

20 The claims Bar Date in this Case was May 17, 2019. Attached as **Exhibit A** to this
21 Disclosure Statement is a Claim Chart, which identifies all of the Debtor's scheduled claims and all
22 proofs of claims which have been timely filed against the Debtor. Following Confirmation of the
23 Plan, the Reorganized Debtor shall be the sole entity with the standing and authority to file
24 objections to Claims in this Case, and shall have the right to file objections to all Claims which are
25 inconsistent with the Debtor's books and records unless the Reorganized Debtor deems the
26 inconsistency to be insignificant. Any proof of claim that is filed with the Bankruptcy Court and/or
27 served on the Debtor after the Effective Date will be deemed invalid unless the claimant files a
28 motion for leave of Court to file such claim (without the need for the Reorganized Debtor to file an

1 objection to such late-filed claim). With respect to disputed claims which are not resolved prior to
2 the Effective Date, the Reorganized Debtor shall have the authority, in its sole discretion, in the
3 reasonable exercise of its business judgment to settle or compromise any Claim following the
4 Effective Date by submitting a stipulation to the Bankruptcy Court without a notice or hearing
5 thereon.

6 As provided by Section 502(c) of the Bankruptcy Code, the Bankruptcy Court may estimate
7 any contingent or unliquidated disputed claim for purposes of Confirmation of the Plan. The
8 Bankruptcy Court shall retain jurisdiction over the Debtor, the Reorganized debtor, this Case and
9 this Estate to resolve and to adjudicate any and all such objections to Claims which are commenced
10 or continued following the Confirmation of the Plan. Nothing contained in the Plan shall constitute
11 a waiver or release by the Debtor or the Reorganized Debtor of any rights of setoff or recoupment, or
12 of any defense, the Debtor or the Reorganized Debtor may have with respect to any claim, or of any
13 basis that the Reorganized Debtor Trustee may have to object to any such claim.

14 **Any Proof of Claim or Interest that is filed with the Bankruptcy Court and/or served on**
15 **the Debtor or Reorganized Debtor after the Effective Date will be deemed invalid unless the**
16 **Claimant files a motion for leave of Court to file such Claim.**

17 The Debtor specifically reserves the right to file objections to any and all Claims set forth in
18 **Exhibit A** to this Disclosure Statement. An order confirming the Plan shall not be *res judicata*,
19 collateral estoppel, or other bar to the Reorganized Debtor's or other party in interest's right to
20 object to such Claims after the Effective Date.

21 **6. Investigation and Prosecution of Claims and Avoidance Actions.**

22 Under the Plan, the Debtor's current General Unsecured Creditors will receive their pro rata
23 share of \$3 million in Cash and their pro rata share of 25% of Fiduciary Duty Action Net
24 Recoveries. Based on the foregoing, any recoveries from preference litigation would be retained by
25 the Reorganized Debtor and only indirectly benefit the Debtor's current General Unsecured
26 Creditors. The Debtor believes that such preference litigation would cause substantial ill-will
27 against the Reorganized Debtor with its vendors, which the Debtor believes would negatively
28 interfere with the Reorganized Debtor's business operations and reorganization efforts.

1 Furthermore, the Debtor's finances prohibited it from paying many of its creditors during the
2 preference period and the Debtor does not believe that any significant preferences were paid. As a
3 result, the Debtor has determined that neither the Debtor nor the Reorganized Debtor will pursue any
4 preference litigation based on monetary transfers. Notwithstanding the foregoing, the Reorganized
5 Debtor, as the representative of the Debtor's Estate and for the benefit of the Estate, shall have the
6 right to pursue any preference actions based on non-monetary transfers, including, without
7 limitations, transfers of security interests to creditors in the event that the SPI Settlement Agreement
8 attached hereto as **Exhibit D** is not approved as part of the Plan and/or SPI does not otherwise accept
9 its treatment under the Plan.

10 The Debtor specifically reserves the right to continue to prosecute the Fiduciary Duty Action.
11 An order confirming the Plan shall not be *res judicata*, collateral estoppel, or any other bar to the
12 Reorganized Debtor's right to prosecute the Fiduciary Duty Action after the Effective Date.

13 With respect to the Fiduciary Duty Action, BG and Michelman & Robinson, LLP ("MR")
14 shall serve as counsel for the Reorganized Debtor as set forth more fully in the SPI Settlement
15 Agreement. BG and MR shall be compensated by the Reorganized Debtor and SPI with the
16 Reorganized Debtor paying three-quarters (3/4) and SPI paying one-quarter (1/4) of reasonable
17 future litigation fees and costs.

18 Once the Fiduciary Duty Action is resolved, whether by settlement, trial or otherwise, the
19 Reorganized Debtor shall receive the first one million dollars (\$1,000,000) (net of fees and costs)
20 and the Reorganized Debtor and SPI shall share equally in any additional proceeds (net of fees and
21 costs) exceeding \$1,000,000. Payment of any amount due to SPI on account of its interest in the
22 Fiduciary Duty Action shall be made within ten business days from the Reorganized Debtor's receipt
23 of such funds. The Reorganized Debtor's 50% share of the net proceeds from resolution of the
24 Fiduciary Duty Action ("Fiduciary Duty Action Net Recoveries") shall be divided equally between
25 the Reorganized Debtor and Holders of Allowed General Unsecured Claims.

26 **7. Payment of Professional Fees and Expenses Incurred After the Effective Date.**

27 The Reorganized Debtor shall be entitled to employ such professionals that the Reorganized
28 Debtor deems appropriate and to pay the fees and expenses incurred by such professionals in the

1 ordinary course without any further order of the Bankruptcy Court.

2 **8. Distributions to Be Made Pursuant to the Plan.**

3 Except as otherwise agreed to by the Reorganized Debtor in writing, Distributions to be
4 made to holders of Allowed Claims pursuant to the Plan may be delivered by regular mail, postage
5 prepaid, to the address shown in the Debtor's Schedules, as they may from time to time be amended
6 in accordance with Bankruptcy Rule 1000, or, if a different address is stated in a proof of claim duly
7 filed with the Bankruptcy Court, to such address. Checks issued to pay Allowed Claims shall be null
8 and void if not negotiated within ninety (90) days after the date such check was mailed to the
9 intended recipient. Those funds represented by voided checks that were not timely negotiated shall
10 become the property of the Reorganized Debtor.

11 **9. Corporate Matters.**

12 Upon Entry of the Plan Confirmation Order, Kathy Peterson shall be the Reorganized
13 Debtor's 1/3 (or 33.33%) shareholder and the New Equity Investor shall be the Reorganized
14 Debtor's 2/3 (or 66.67%) shareholder. Therefore, entry of the Plan Confirmation Order shall
15 constitute all approvals, consents and actions required by any member of the Debtor under
16 applicable law, and shall enable the Debtor or the Reorganized Debtor to execute any documents,
17 instruments or agreements, and to take all corporate and other actions that are specified in the Plan or
18 the Plan Confirmation Order that are necessary or appropriate to perform, implement and effectuate
19 the Plan.

20 **10. Exemption from Transfer Taxes.**

21 Pursuant to section 1146(c) of the Bankruptcy Code, the issuance, transfer or exchange of a
22 security, or the making or delivery of an instrument of transfer under a plan confirmed under section
23 1129 of the Bankruptcy Code, may not be taxed under any law imposing a stamp tax or similar tax.
24 Transfers under the Plan that are exempt from taxes under section 1146(c) of the Bankruptcy Code
25 include all transfers by the Debtor after the commencement of its chapter 11 case in contemplation
26 of the Plan but prior to the Effective Date, and all transfers to and by the Reorganized Debtor. The
27 taxes from which such transfers are exempt include stamp taxes, recording taxes, sales and use taxes,
28 transfer taxes, and other similar taxes.

1 **11. Exculpations and Releases.**

2 To the maximum extent permitted by law, neither the Debtor, the Reorganized Debtor , nor
3 any of their successors and assigns, advisors, attorneys, employees, officers, directors, shareholders,
4 agents, members, representatives, or Professionals employed or retained by any of them whether or
5 not by Bankruptcy Court order, each in their capacity as such, shall have or incur liability to any
6 Person for an act taken or omitted to be taken in connection with, or related to formulating,
7 negotiating, soliciting, preparing, confirming, implementing, or consummating the Plan or the
8 transactions contemplated therein, or a contract, instrument, release or other agreement or document
9 created or entered into in connection with the Plan; provided, however, that each of the above
10 Persons shall be entitled to rely upon the advice of counsel concerning his or her duties pursuant to,
11 or in connection with, the Plan or any related document, instrument or agreement; provided further
12 that the foregoing exculpation shall have no effect on liability of any Person that results from any act
13 or omission that is determined in a Final Order to have constituted fraud, gross negligence, or willful
14 misconduct.

15 **12. Executory Contracts and Unexpired Leases.**

16 a. Assumptions.

17 The following is a list of the Debtor's executory contracts and unexpired leases which the
18 Debtor intends to assume on the Effective Date with the obligations of the Debtor to the other parties
19 to such executory contracts and unexpired leases to become obligations of the Reorganized Debtor.
20 Also set forth below is an itemization of the defaults which the Debtor contends exist and must be
21 cured in connection with the Debtor's assumption of such executory contracts and unexpired leases
22 (the "Cure Amounts"), unless the other parties to such executory contracts and unexpired leases
23 agree to the contrary. The Debtor estimates that the total Cure Amounts that the Reorganized Debtor
24 will be required to pay on the Effective Date will be approximately \$200,000. The Confirmation
25 Order will constitute a Bankruptcy Court order approving the Debtor's assumption of all such
26 executory contracts and unexpired leases and fixing the Cure Amounts for each such executory
27 contract and unexpired lease in the amounts asserted by the Debtor as set forth below.

28 ///

Non-Residential Real Property Lease To Be Assumed:⁸

Landlord	Landlord Address	Location Address	Cure Amount	Cure Terms
Stanford/Nebraska Properties, Ltd.	C/O Westport Realty, Inc. 433 N. Camden Dr., Suite 820 Beverly Hills, CA 90210	1757 Stanford Street Santa Monica, CA 1716 Berkeley Street Santa Monica, CA	\$71,639.39	Paid in Full on the Effective Date

Executory Contracts/Unexpired Leases To Be Assumed:

Vendor/Lessor	Description	Vendor/Lessor Address	Cure Amount	Cure Terms
Citistaff Solutions, Inc.	Staffing contract	1111 W. Town & Country Rd. Suite 27 Orange, CA 92868	\$57,315.11	Paid in Full on the Effective Date
Exenta (fka Simparel)	Software Contract	8 West 38th Street 7th Floor New York, NY 10018	\$7,663.30	Paid in Full on the Effective Date
Lyneer Staffing Solutions	Staffing contract	12100 Imperial Highway Suite 209 Norwalk, CA 90650	\$57,817.20	Paid in Full on the Effective Date
US Bank Equipment Finance	Equipment Lease	1310 Madrid Street Suite 110 Comstock, MN 56525-8700	\$8,456.39	Paid in Full on the Effective Date in Full Satisfaction of Proof of Claim No. 1-1.

b. Rejections.

The Debtor believes that it is assuming all of its executory contracts and unexpired leases. However, to the extent the Debtor is a party to any executory contract and/or unexpired lease that is not set forth in section a above, such executory contract or unexpired lease will be deemed rejected, and the Court order confirming the Plan will constitute a Court order approving the Debtor's rejection of all such executory contracts and unexpired leases.

c. Cures.

The Cure Amounts that the Debtor believes are required are set forth in the charts in section a above. Any party who wishes to object to the Debtor's assumption of any of the unexpired leases or executory contracts and/or to the Cure Amounts of any defaults the Debtor believes exist must file a

⁸ The Debtor and its landlord are in discussions with respect to the possibility of the Debtor consensually subletting to a third party and/or assigning the non-residential real property lease to a third party. The Debtor is not seeking to assume and assign the lease under the Plan (and is only seeking to assume the lease).

1 written objection with the Bankruptcy Court no later than 14 days prior to the date first set for the
2 Plan Confirmation Hearing, and serve such objection on counsel to the Debtor. The Bankruptcy
3 Court may deem the failure of any party to file such a timely objection to constitute consent to the
4 Debtor's assumption of the unexpired leases and executory contracts set forth above and to the Cure
5 Amounts of any defaults the Debtor must cure in connection with the Debtor's assumption of these
6 unexpired leases and executory contracts.

7 THE BAR DATE FOR FILING A PROOF OF CLAIM BASED ON A CLAIM ARISING
8 FROM THE REJECTION OF ANY EXECUTORY CONTRACT OR UNEXPIRED LEASE
9 WHICH IS REJECTED ON THE EFFECTIVE DATE SHALL BE THIRTY (30) DAYS AFTER
10 THE EFFECTIVE DATE. Any claim based on the rejection of an unexpired lease or executory
11 contract will be barred if the proof of claim is not timely filed, unless the Bankruptcy Court orders
12 otherwise. Any Allowed Claim resulting from the rejection of an unexpired lease or executory
13 contract will be classified and treated as a Class 3 Allowed Claim.

14 **13. Risk Factors.**

15 The primary risk of implementing the Plan would be the Debtor's failure to confirm the Plan
16 before the end of 2019. The equity contribution by the New Equity Investor is conditioned upon the
17 Debtor's ability to confirm the Plan and for the Effective Date to occur on or before December 31,
18 2019. The New Equity Investor's terms and contribution are the most favorable terms available to
19 the Debtor. The Debtor believes that its ability to confirm a plan with as favorable terms as the Plan
20 will be significantly diminished if the Debtor cannot confirm the Plan by the end of the year.

21 If the Confirmation of the Plan occurs before the end of the year, the Debtor does not believe
22 that it will have any risk with respect to paying all Effective Date payments as the New Equity
23 Investor transferred its \$8 million contribution to a trust account maintained by the Debtor's
24 bankruptcy counsel on November 12, 2019 (which is well in advance of the Plan Confirmation
25 hearing date of December 17, 2019). If the Debtor is unable to timely obtain a traditional loan or
26 line of credit for the New Secured Debt, then the New Equity Investor will either agree to provide a
27 loan in the amount of \$4 million or will increase its equity contribution by \$4 million no later than
28 December 2, 2019. The only Plan payment due after the Effective Date is the \$1 million for

1 Allowed General Unsecured Claims within one year of the Effective Date. The Debtor believes that
2 it will have sufficient cash flow to make such payment as set forth in **Exhibit C**.

3 **14. Changes in Rates Subject to Regulatory Commission Approval.**

4 The Debtor is not subject to governmental regulatory commission approval of its rates.

5 **E. Retention of Jurisdiction.**

6 Following the Confirmation of the Plan and occurrence of the Effective Date, in addition to
7 jurisdiction which exists in any other court, the Bankruptcy Court shall retain such jurisdiction as is
8 legally permissible including for the following purposes:

9 1. To resolve any and all disputes regarding the operation and interpretation of
10 the Plan and the Confirmation Order;

11 2. To determine the allowability, classification, or priority of Claims and to
12 consider any objection to claim or interest whether such objection is filed before or after the
13 Effective Date;

14 3. To determine the extent, validity and priority of any lien asserted against any
15 Asset or property of the Debtor or the Debtor's Estate;

16 4. To construe and take any action to enforce the Plan, the Confirmation Order,
17 and any other order of the Bankruptcy Court, issue such orders as may be necessary or appropriate
18 for the implementation, execution, performance, and consummation of the Plan, the Confirmation
19 Order, and all matters referred to in the Plan and the Confirmation Order, and to determine all
20 matters that may be pending before the Bankruptcy Court in this Case on or before the Effective
21 Date;

22 5. To determine (to the extent necessary) any and all applications for allowance
23 of compensation and reimbursement of expenses of Professionals for the period on or before the
24 Effective Date;

25 6. To determine any request for payment of administrative expenses;

26 7. To determine motions for the rejection, assumption, or assignment of
27 executory contracts or unexpired leases filed before the Effective Date and the allowance of any
28 Claims resulting therefrom;

1 8. To determine all applications, motions, adversary proceedings, contested
2 matters, and any other litigated matters instituted during the pendency of this Case whether before,
3 on, or after the Effective Date, including Claims, Causes of Action, and Avoidance Actions, and the
4 Reorganized Debtor shall have the right to commence in the Bankruptcy Court any Causes of
5 Action, including any Avoidance Actions, after the Effective Date, and to continue with the
6 prosecution in the Bankruptcy Court of any such claims, Causes of Action and Avoidance Actions
7 which were commenced but not completed by the Debtor prior to the Effective Date;

8 9. To determine such other matters and for such other purposes as may be
9 contemplated by the Plan or Confirmation Order;

10 10. To modify the Plan under Section 1127 of the Bankruptcy Code in order to
11 remedy any apparent defect or omission in the Plan, or to reconcile any inconsistency in the Plan, so
12 as to carry out its intents and purposes;

13 11. Except as otherwise provided in the Plan or the Confirmation Order, to issue
14 injunctions, to take such other actions, or make such other orders, as may be necessary or
15 appropriate to restrain interference with the Plan or the Confirmation Order, or the execution or
16 implementation by any Person or other entity of the Plan or the Confirmation Order;

17 12. To issue such orders in aid of consummation, and in aid of implementation, of
18 the Plan and the Confirmation Order, notwithstanding any otherwise applicable nonbankruptcy law,
19 with respect to any Person or entity, to the fullest extent authorized by the Bankruptcy Code or
20 Bankruptcy Rules; and

21 13. To enter a final decree closing the Case.

22 **F. Amendments to Operating Agreement.**

23 On the Effective Date, the members of the Reorganized Debtor shall be authorized to amend
24 the operating agreement to accomplish the following: (i) authorize the issuance of 2,000 units to the
25 New Equity Investor; (ii) reflect the new ownership percentages of the Reorganized Debtor; and (iii)
26 take all actions necessary and appropriate to carry out the terms of the Plan.

27 **G. Miscellaneous Issues Regarding Plan Distribution.**

28 **1. No Fractional Distributions.**

1 No Distributions in fractions of hundredths of U.S. Dollars (\$0.00's) (i.e., cents) shall be
2 issued. If the Distribution amount allocated to an Allowed Claim at the time of a Distribution
3 hereunder would include fractions of cents, the amount to be distributed to the holder of such Claim
4 shall be rounded down to the highest integral number of cents in the applicable Claim amount.

5 **2. Name and Address of Holder of Claim.**

6 For purposes of all distributions under the Plan, the Disbursing Agent can rely on the name
7 and address of the holder of each Allowed Claim as shown on any timely filed proof of claim and, if
8 none, as shown on the Debtor's Schedules, except to the extent that the Disbursing Agent first
9 receives adequate written notice of a change of address, properly executed by the Holder or its
10 authorized agent.

11 **3. Unclaimed Distribution.**

12 Any Unclaimed Distribution under the Plan shall be forfeited to the Reorganized Debtor. An
13 Unclaimed Distribution is any Distribution made by the Reorganized Debtor to the address of the
14 recipient reflected in the Schedules (or on any Proof of Claim filed by the Claimant), by: (a) checks
15 which have been returned as undeliverable without a proper forwarding address; (b) checks which
16 were not mailed or delivered because of the absence of a proper address to which to mail or deliver
17 the same; (c) checks which have not been cashed for a period of ninety (90) days after the date such
18 checks were issued, or (d) disbursements that were not made because the Holder of such Allowed
19 Claim failed to provide required tax information within forty-five (45) days after the Reorganized
20 Debtor has sent any request for same to such Claimant's address as reflected in the Schedules and/or
21 such Claimant's Proof of Claim.

22 **V. IRS CIRCULAR 230 NOTICE**

23 To ensure compliance with IRS Circular 230, holders of Claims and Interests are hereby
24 notified that; (i) any discussion of federal tax issues contained or referred to in this Disclosure
25 Statement is not intended or written to be used, and cannot be used, by holders of Claims or Interests
26 for the purpose of avoiding penalties that may be imposed on them under the Internal Revenue Code;
27 (ii) such discussion is written in connection with the promotion or marketing by the Debtor of the
28 transactions or matters addressed herein; and (iii) holders of Claims and Interests should see advice

1 based on their particular circumstances from an independent tax advisor.

2 **VI. TAX CONSEQUENCES OF THE PLAN**

3 CREDITORS AND INTEREST HOLDERS CONCERNED WITH HOW THE PLAN MAY
4 AFFECT THEIR TAX LIABILITY SHOULD CONSULT WITH THEIR OWN ACCOUNTANTS,
5 ATTORNEYS, AND/OR ADVISORS. The following disclosure of possible tax consequences is
6 intended solely for the purpose of alerting readers about possible tax issues the Plan may present to
7 the Debtor. The Debtor CANNOT and DOES NOT represent that the tax consequences contained
8 below are the only tax consequences of the Plan because the Tax Code embodies many complicated
9 rules which make it difficult to state completely and accurately all of the tax implications of any
10 action.

11 The Debtor does not anticipate that confirmation of the Plan will have a significant or
12 material effect on its tax liability. The Debtor makes no representations regarding the potential tax
13 consequences to creditors or equity holders.

14 **VII. CONFIRMATION REQUIREMENTS AND PROCEDURES**

15 PERSONS OR ENTITIES CONCERNED WITH CONFIRMATION OF THE PLAN
16 SHOULD CONSULT WITH THEIR OWN ATTORNEYS BECAUSE THE LAW ON
17 CONFIRMING A PLAN OF REORGANIZATION IS VERY COMPLEX. The following
18 discussion is intended solely for the purpose of alerting readers about basic confirmation issues,
19 which they may wish to consider, as well as certain deadlines for filing claims. The Debtor
20 CANNOT and DOES NOT represent that the discussion contained below is a complete summary of
21 the law on this topic.

22 Many requirements must be met before the Bankruptcy Court can confirm a plan. Some of
23 the requirements include that the plan must be proposed in good faith, the acceptance of the plan,
24 whether the Plan pays creditors at least as much as Creditors would receive in a Chapter 7
25 liquidation, and whether the Plan is feasible. These requirements are not the only requirements for
26 confirmation.

27 **A. Who May Vote or Object.**

28 Any party in interest may object to the confirmation of the Plan, but, as explained below, not

1 everyone is entitled to vote to accept or reject the Plan.

2 **B. Who May Vote to Accept/Reject the Plan**

3 A Creditor or Interest holder has a right to vote for or against the Plan if that Creditor or
4 Interest holder has a Claim or Interest which is both (1) allowed or allowed for voting purposes and
5 (2) classified in an impaired class.

6 **C. What Is an Allowed Claim/Interest**

7 As noted above, a Creditor or Interest holder must first have an allowed claim or interest to
8 have the right to vote. Generally, any proof of claim or interest will be allowed, unless a party in
9 interest files an objection to the claim or interest. When an objection to a claim or interest is filed,
10 the creditor or interest holder holding the claim or interest cannot vote unless the Court, after notice
11 and hearing, either overrules the objection or allows the claim or interest for voting purposes.

12 THE BAR DATE FOR FILING A PROOF OF CLAIM IN THIS CASE ON ACCOUNT OF
13 PRE-PETITION CLAIMS WAS MAY 17, 2019. A creditor or interest holder may have an allowed
14 claim or interest even if a proof of claim or interest was not timely filed. A claim is deemed allowed
15 if (1) it is scheduled on the Debtor's Schedules and such claim is not scheduled as disputed,
16 contingent, or unliquidated, and (2) no party in interest has objected to the claim. An interest is
17 deemed allowed if it is scheduled and no party in interest has objected to the interest.

18 **D. What Is an Impaired Claim/Interest.**

19 As noted above, an allowed claim or interest has the right to vote only if it is in a class that is
20 impaired under the Plan. *See, e.g., In re Barakat*, 99 F.3d 1520 (9th Cir. 1996), *cert. denied*, 520
21 U.S. 1143 (1997)(a class that is not impaired is conclusively presumed to have accepted a chapter 11
22 plan). A class is impaired if the Plan alters the legal, equitable, or contractual rights of the members
23 of that class. For example, a class comprised of General Unsecured Claims is impaired if the Plan
24 fails to pay the members of that class 100% of what they are owed on the Effective Date.

25 In this case, the Debtor believes that members of Classes 2, 3 and 4 are impaired. Members
26 of Class 1 are not impaired because Wells Fargo is being paid in full on the Effective Date. Parties
27 who dispute the Debtor's characterization of their claim or interest as being impaired or unimpaired
28 may file an objection to the Plan contending that the Debtor has incorrectly characterized the Class.

1
2 **E. Who Is Not Entitled to Vote.**

3 The following four types of claims are not entitled to vote: (1) claims that have been
4 disallowed; (2) claims in unimpaired classes; (3) claims entitled to priority pursuant to Bankruptcy
5 Code Sections 507(a)(1), (a)(2), and (a)(8); and (4) claims in classes that do not receive or retain any
6 value under the Plan. Claims in unimpaired classes are not entitled to vote because such classes are
7 deemed to have accepted the Plan. Claims entitled to priority pursuant to Bankruptcy Code Sections
8 507(a)(1), (a)(2), and (a)(8) are not entitled to vote because such claims are not placed in classes and
9 they are required to receive certain treatment specified by the Bankruptcy Code. Claims in classes
10 that do not receive or retain any value under the Plan do not vote because such classes are deemed to
11 have rejected the Plan. Accordingly, Class 1 is not entitled to vote. EVEN IF YOUR CLAIM IS OF
12 THE TYPE DESCRIBED ABOVE, YOU MAY STILL HAVE A RIGHT TO OBJECT TO THE
13 CONFIRMATION OF THE PLAN.

14 **F. Who Can Vote in More Than One Class.**

15 A Creditor whose Claim has been allowed in part as a secured claim and in part as an
16 unsecured claim is entitled to accept or reject the Plan in both capacities by casting one ballot for the
17 secured part of the claim and another ballot for the unsecured claim. The Debtor does not believe
18 that there are any Creditors who have a claim that is partially secured and partially unsecured.

19 **G. Votes Necessary to Confirm the Plan.**

20 If impaired classes exist, the Bankruptcy Court cannot confirm the Plan unless (1) at least
21 one impaired class has accepted the Plan without counting the votes of any insiders within that class,
22 and (2) all impaired classes have voted to accept the Plan, unless the Plan is eligible to be confirmed
23 by "cramdown" on non-accepting classes, as discussed below.

24 **H. Votes Necessary for a Class to Accept the Plan.**

25 A class of claims is considered to have accepted the Plan when more than one-half (1/2) in
26 number and at least two-thirds (2/3) in dollar amount of the claims which actually voted on the plan,
27 voted in favor of the plan. A class of interests is considered to have "accepted" a plan when at least
28

1 two-thirds (2/3) in amount of the interest-holders of such class which actually voted on the plan,
2 voted to accept the plan.

3 **I. Treatment of Non-accepting Classes.**

4 As noted above, even if all impaired classes do not accept the Plan, the Bankruptcy Court
5 may nonetheless confirm the Plan if the non-accepting classes are treated in the manner required by
6 the Bankruptcy Code. The process by which non-accepting classes are forced to be bound by the
7 terms of a plan is commonly referred to as “cramdown.” The Bankruptcy Code allows the Plan to be
8 “cramped down” on non-accepting classes of claims or interests if it meets all consensual
9 requirements except the voting requirements of 1129(a)(8) and if the Plan does not “discriminate
10 unfairly” and is “fair and equitable” toward each impaired class that has not voted to accept the Plan
11 as referred to in 11 U.S.C. § 1129(b) and applicable case law.

12 **J. Request for Confirmation Despite Nonacceptance by Impaired Class(es).**

13 The Debtor will request the Bankruptcy Court to confirm the Plan by cramdown on impaired
14 classes if such classes do not vote to accept the Plan.

15 **K. Liquidation Analysis.**

16 Another confirmation requirement is the “Best Interest Test,” which requires a liquidation
17 analysis. Under the Best Interest Test, if a claimant or interest holder is in an impaired class and that
18 claimant or interest holder does not vote to accept the Plan, then that claimant or interest holder must
19 receive or retain under the Plan property of a value that is not less than the amount that such holder
20 would receive or retain if the Debtor was liquidated under Chapter 7 of the Bankruptcy Code.

21 In a Chapter 7 case, the debtor’s assets are usually sold by a Chapter 7 trustee. Secured
22 creditors are paid first from the sales proceeds of properties on which the secured creditor has a lien.
23 Administrative claims are paid next. Next, unsecured creditors are paid from any remaining sales
24 proceeds, according to their rights to priority. Unsecured creditors with the same priority share in
25 proportion to the amount of their allowed claim in relationship to the amount of total allowed
26 unsecured claims. Finally, interest holders receive the balance that remains after all creditors are
27 paid, if any.

1 For the Bankruptcy Court to be able to confirm the Plan, the Bankruptcy Court must find that
2 all creditors and interest holders who do not accept the Plan will receive at least as much under the
3 Plan as such holders would receive under a Chapter 7 liquidation of the Debtor. The Debtor
4 maintains that this requirement is clearly met.

5 The Debtor's liabilities, including disputed liabilities, include in excess of \$9.5 million in
6 alleged Secured Claims, in excess of \$7 million in alleged General Unsecured Claims,
7 approximately \$900,000 in Professional Fee Claims, and approximately \$800,000 in postpetition
8 payables. Thus, the Debtor's liabilities far exceed the value of its assets in any liquidation of its
9 assets or going concern sale of its business.

10 The Debtor has therefore clearly satisfied the Best Interest Test for Class 3 Claim holders
11 (general unsecured creditors) because under the Plan, holders of Class 3 Allowed Claims will
12 receive a pro rata distribution of at least \$3 million (or at least 42% of their Allowed Claim),
13 compared to receiving nothing in a Chapter 7 liquidation of the Debtor.

14 Moreover, in a Chapter 7 case, the Chapter 7 trustee would be required to replace the
15 professionals currently employed by the Debtor's Estate with new professionals, which would
16 burden the Estate with additional substantial fees as the trustee and his professionals would need to
17 familiarize themselves with this case, and the Estate would bear the significant financial burden of
18 their learning curve. These additional expenses are avoided through the confirmation of the Plan.
19 Moreover, the Reorganized Debtor will make all Effective Date Distributions under the Plan at no
20 charge to the Estate and thereby avoid the substantial fees that would otherwise be payable to a
21 Chapter 7 trustee for making such disbursements pursuant to Section 326 of the Bankruptcy Code.

22 Below is a demonstration, in balance sheet format, demonstrating that in a piecemeal Chapter
23 7 liquidation, the liquidation proceeds would be less than the outstanding amount of administrative
24 claims.

25 **ASSETS VALUED AT PROJECTED LIQUIDATION VALUES**
26 **(ESTIMATED AS OF OCTOBER 31, 2019):**

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			Liquidation Value
1			
2	Cash		\$ 150,000
3	Accounts Receivable		3,000,000
4	Inventory		6,000,000
5	Fixed Assets		20,000
6			
7		Total Liquidation Value of Assets	\$ 9,170,000
8	Less:		
9	Accrued Payroll Costs (Post-Petition)		(\$442,500.00)
10	Accounts Payable (Post-Petition)		(\$800,000.00)
11	Rent (Post-Petition)(3 months)		(\$288,000.00)
12		Total Liquidation Costs	\$1,530,500.00
13		Net Liquidation Value of Assets	\$ 7,639,500
14	Less:		
15	Credit Facility		(4,000,000)
16	SPI Secured Claim		(5,921,895)
17	Chapter 7 Fees and Expenses		(500,000)
18	Chapter 11 Administrative Expenses		(900,000)
19	Priority Tax Claims		-
20		Total Claims Before Unsecured Claims	\$ 11,321,895
21		Balance Available for Unsecured Claims	\$0.00
22		Total Unsecured Claims (est.)	\$7 million

**% OF THEIR CLAIMS WHICH CLASS 3 GENERAL UNSECURED CREDITORS
WOULD RECEIVE OR RETAIN IN A CHAPTER 7 LIQUIDATION: = 0%**

**% OF THEIR CLAIMS WHICH CLASS 3 GENERAL UNSECURED CREDITORS ARE
ESTIMATED TO RECEIVE OR RETAIN UNDER THE PLAN: = At Least 42% Cash**

1 **L. Feasibility.**

2 Another requirement for confirmation involves the feasibility of the Plan, which means that
3 confirmation of the Plan is not likely to be followed by the liquidation, or the need for further
4 financial reorganization, of the Debtor or any successor to the Debtor under the Plan, unless such
5 liquidation or reorganization is proposed in the Plan.

6 There are at least two important aspects of a feasibility analysis. The first aspect considers
7 whether the Debtor will have enough cash on hand on the Effective Date to pay all the claims and
8 expenses which are entitled to be paid on such date.

9 The Plan will be funded by the Exit Financing in the aggregate amount of approximately
10 \$12,250,000, plus the Debtor's Cash on hand of approximately \$150,000. Of this amount, the
11 Reorganized Debtor anticipates that it will require at least \$1 million for working capital to meet the
12 Debtor's operating needs, thereby reducing available funds to implement the Plan to \$11,400,000.

13 Such proceeds will be utilized as follows:

14	Administrative (Professional)	\$900,000
15	Administrative (Accounts Payable)	\$800,000
16	Wells Fargo Secured Claim	\$4,000,000
17	SPI Secured Claim	\$3,500,000
18	Lease/Contract Cures	\$200,000
19	Unsecured Claims	<u>\$2,000,000</u>
20	Total	\$11,400,000

21 Based on the foregoing, the Debtor is confident that sufficient funds will exist to make all required
22 Effective Date payments. The balance of Allowed Claims will be satisfied over time by the
23 Reorganized Debtor.

24 The second aspect considers whether the Reorganized Debtor will have enough cash over the
25 life of the Plan to make the required Plan payments. The only required payment over the life of the
26 Plan is the \$1 million payment for Allowed General Unsecured Claims. Attached hereto as **Exhibit**
27 **C** to this Disclosure Statement are cash flow projections prepared for the one year period following
28 the Effective Date, which demonstrate the ability of the Reorganized Debtor to make the \$1 million
payment for Allowed General Unsecured Claims. The Debtor believes that the projections are
realistic based on historical information adjusted for current market conditions.

1 V. EFFECT OF CONFIRMATION OF THE PLAN

2 M. Discharge.

3 On the Effective Date, the Debtor will receive a discharge under the Plan pursuant to and in
4 accordance with the provisions of Section 1141 of the Bankruptcy Code because there has not been a
5 liquidation of all or substantially all of the property of the Debtor's Estate. Pursuant to 11 U.S.C.
6 §1141(d)(1)(A), Confirmation of the Plan will discharge "the debtor from any debt that arose before
7 the date of such confirmation, and any debt of a kind specified in section 502(g), 502(h), or 502(i) of
8 this title, whether or not – (i) a proof of claim based on such debt is filed or deemed filed under
9 section 501 of this title; (ii) such claim is allowed under section 502 of this title; or (iii) the holder of
10 such claim has accepted the plan ...". 11 U.S.C. §§ 1141(d)(1)(A)(i), (ii) and (iii). **In other words,**

11 **Confirmation of the Plan will effectuate a discharge as to all debts or liabilities, whether**
12 **contingent, unliquidated, disputed, known or unknown, that were incurred or arose before**

13 **Confirmation of the Plan.** This includes all types of Claims and obligations arising out of and/or
14 including, but not limited to, (i) all causes of action under state and Federal law (e.g., breach of
15 contract, breach of fiduciary duty, etc.), (ii) trade payables, (iii) landlord claims, (iv) tax Claims
16 including interest, (v) environmental claims, and (vi) any other known or unknown Claim from any
17 debt arising prior to Plan Confirmation.

18 The Plan shall bind the holders of all Claims whether or not they vote to accept the Plan. The
19 rights afforded in the Plan and the treatment of all Claims therein shall be in complete satisfaction,
20 discharge and release of all Claims against the Debtor or its Assets of any nature whatsoever except
21 as otherwise specifically provided in the Plan. Except as set forth in the Plan, all Claims shall be
22 forever satisfied, discharged and released in full on the Effective Date, and all holders of Claims
23 shall be forever precluded and enjoined from asserting Claims against the Reorganized Debtor. Any
24 litigation pending prepetition and/or initiated postpetition in any court other than the Bankruptcy
25 Court where relief from stay was not obtained from the Bankruptcy Court shall be deemed
26 discharged upon Plan Confirmation and the occurrence of the Effective Date.

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1 **N. Continuing Stay/Injunction.**

2 The automatic stay is lifted upon the Effective Date as to property of the Estate. However,
3 the stay continues to prohibit collection or enforcement of prepetition Claims against the
4 Reorganized Debtor or the Reorganized Debtor's property until the earlier of the date: (1) the
5 Debtor's bankruptcy Case is closed, or (2) the Debtor's bankruptcy Case is dismissed. Therefore, all
6 parties bound by the Plan shall take no action with respect to, and are enjoined from, collecting or
7 enforcing their prepetition Claims against the Reorganized debtor as set forth herein, and as
8 otherwise provided by operation of law, until the earlier of the date that (1) the Debtor's bankruptcy
9 Case is closed, or (2) the Debtor's bankruptcy Case is dismissed.

10 The Confirmation Order shall enjoin the prosecution, whether directly, derivatively or
11 otherwise, of any Claim, obligation, suit, judgment, damage, demand, debt, right, cause of action,
12 liability or interest released, discharged or terminated pursuant to the Plan.

13 Except as provided in the Plan or the Confirmation Order, as of the Effective Date, all
14 entities that have held, currently hold or may hold a Claim or other debt or liability that is discharged
15 or an interest or other right of an equity holder that is impaired pursuant to the terms of the Plan are
16 permanently enjoined from taking any of the following actions against the Debtor, the Debtor's
17 Estate, the Reorganized Debtor or its property on account of any such discharged Claims, debts or
18 liabilities or terminated interests or rights: (i) commencing or continuing, in any manner or in any
19 place, any action or other proceeding; (ii) enforcing, attaching, collecting or recovering in any
20 manner any judgment, award, decree or order; (iii) creating, perfecting or enforcing any lien or
21 encumbrance; (iv) asserting a setoff, right of subrogation or recoupment of any kind against any
22 debt, liability or obligation due to the Debtor; and (v) commencing or continuing any action in any
23 manner, in any place that does not comply with or is inconsistent with the provisions of the Plan.

24 **By accepting distribution pursuant to the Plan, each holder of an Allowed Claim**
25 **receiving a Distribution pursuant to the Plan will be deemed to have specifically consented to**
26 **the injunctions set forth in this Section.**

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1 **O. Revesting of Property in the Reorganized Debtor.**

2 Except as provided elsewhere in the Plan, the Confirmation of the Plan revests all of the
3 property of the Debtor's Estate in the Reorganized Debtor, including, but not limited to, any
4 Litigation Claims and the Fiduciary Duty Action. From and after the Effective Date, the
5 Reorganized Debtor may operate its business and may use, acquire, and dispose of property,
6 including payment of all business expenses and professional fees and expenses, and compromise and
7 settle any claims or causes of actions without supervision or consent of the Bankruptcy Court, and
8 free of any restrictions of the Bankruptcy Code or Bankruptcy Rules.

9 The Reorganized Debtor shall have, retain, reserve and be entitled to assert all claims, causes
10 of action, rights of setoff and other legal or equitable defenses that the Debtor had immediately prior
11 to the Petition Date as fully as if the Debtor's bankruptcy Case had not been commenced; and all of
12 the Reorganized Debtor's legal and equitable rights respecting any such claims which are not
13 specifically waived, extinguished, or relinquished by the Plan may be asserted after the Effective
14 Date by the Reorganized Debtor.

15 **P. Modification of the Plan.**

16 The Debtor may modify the Plan at any time before confirmation. However, the Bankruptcy
17 Court may require a new disclosure statement and/or re-voting on the Plan if the Debtor modifies the
18 Plan before confirmation. The Debtor or the Reorganized Debtor, as the case may be, may also seek
19 to modify the Plan at any time after Confirmation of the Plan so long as (1) the Plan has not been
20 substantially consummated, and (2) the Bankruptcy Court authorizes the proposed modifications
21 after notice and a hearing.

22 **Q. Post-Confirmation Status Reports.**

23 Until a final decree closing the Debtor's Chapter 11 Case is entered, the Reorganized Debtor
24 shall file a quarterly status report with the Bankruptcy Court explaining what progress has been
25 made toward consummation of the confirmed Plan and shall serve such status reports upon the
26 OUST, counsel to the Debtor and those parties who have requested special notice.

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28 ///

1 **R. Post-Confirmation Conversion/Dismissal.**

2 A Creditor or any other party in interest may bring a motion to convert or dismiss the Case
3 under Section 1112(b) of the Bankruptcy Code after the Plan is confirmed if there is a default in
4 performing the Plan. If the Bankruptcy Court orders the Case converted to Chapter 7 after the Plan
5 is confirmed, then all property that had been property of the Chapter 11 Estate, and that has not been
6 disbursed pursuant to the Plan, will revert in the Chapter 7 estate, and the automatic stay will be re-
7 imposed upon the revested property, but only to the extent that relief from stay was not previously
8 authorized by the Bankruptcy Court during this Case. The Plan Confirmation Order may also be
9 revoked under very limited circumstances. The Bankruptcy Court may revoke the Plan
10 Confirmation Order if it was procured by fraud and if a party in interest brings an adversary
11 proceeding to revoke confirmation within 180 days after the entry of the Plan Confirmation Order.

12 **S. Final Decree.**

13 Once the estate has been fully administered as referred to in Bankruptcy Rule 3022, the
14 Reorganized Debtor shall file a motion with the Bankruptcy Court to obtain a final decree to close
15 this case. The Reorganized Debtor shall be responsible for the timely payment of all fees incurred
16 pursuant to 28 U.S.C. § 1930(a)(6).

17 Dated: November 13, 2019

Koi Design LLC

18
19 By: 

Kathy Peterson, CEO

20 BRUTZKUS GUBNER

21 By: /s/ Susan K. Seflin

Susan K. Seflin

22 Attorneys for Chapter 11 Debtor and Plan Proponent
23
24
25
26
27
28

DECLARATION OF JEREMY HUSK

I, Jeremy Husk, hereby declare as follows:

1. Unless otherwise indicated herein, I have personal knowledge of the facts set forth below and, if called upon to testify to such facts, I could and would testify competently thereto.

2. I am the Chief Financial Officer and Executive Vice President of Operations at Koi Design LLC, the chapter 11 debtor and plan proponent (the "Debtor"). I have worked for the Debtor since 2008. I am responsible for overseeing the operations and financial performance of the Debtor, and am intimately familiar with the Debtor, its operation and its financial affairs. I have a bachelor's degree in Economics from UCLA and an MBA from the UCLA Anderson School of Business. I have over 20 years of experience in the apparel industry.

3. I have reviewed the Disclosure Statement to which this Declaration is annexed and believe that all of the contents contained therein are true and correct to the best of my knowledge, information and belief.

4. Attached hereto as **Exhibit A** is a true and correct copy of the Claim Chart, which lists all Proofs of Claims and Interests filed in the Debtor's bankruptcy Case, as well as all Scheduled Claims.

5. Attached hereto as **Exhibit B** is a true and correct copy of the term sheet entered into by and between the Debtor and the New Equity Investor. As set forth in the term sheet, the New Equity Investor is requiring that the Debtor seek and obtain confirmation of the Plan before the end of the year.

6. Attached hereto as **Exhibit C** is a true and correct copy of a pro forma cash flow projection for a period of one year, which was prepared in conjunction with the Debtor's financial advisor, Broadway. I actively participated with Broadway in the preparation of the cash flow projection.

7. Attached hereto as **Exhibit D** is a true and correct copy of the SPI Settlement Agreement. I believe that the SPI Settlement Agreement is in the best interest of the Debtor and its Estate as it results in the cessation of litigation against SPI in multiple courts, which enables the Debtor to focus on reorganizing its business.

1 I declare under penalty of perjury that the foregoing is true and correct to the best of my
2 knowledge.

3 Executed this 13th day of November, 2019, at Santa Monica, California.

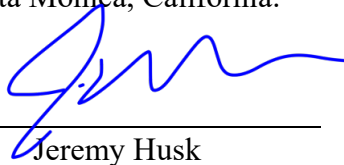
4 
5 _____
6 Jeremy Husk

Exhibit A

CLAIM CHART

Name	SCHEDULED CLAIMS						FILED PROOF OF CLAIMS					Comments	Proposed Allowed Claim Amounts			Objection?
	C	U	D	Schedule	Scheduled Claim Amount	Scheduled Priority/Sec Amount	Claim No.	Date Filed	Priority	Secured	General Unsecured		Priority and Administrative Claims	Secured Claims	Unsecured Claims	
7-Insider Room B318, No. 458 Gexin Avenue Dongxihu District Wuhan 430040 CHINA				F	\$53,720.00							See POC 13-1 filed by Creditors Adjustment Bureau Inc. as assignee of Shanghai Hua Shen Import and Export CO., LTD.			\$0.00	
Acorn Paper Products PO Box 23965 Los Angeles, CA 90023-0965				F	\$20,599.98							Scheduled amount. No POC filed.			\$20,599.98	
American Diagnostic Corporation Commerce Dr Hauppauge, NY 11788	55			F	\$0.00							For notice purpose only			\$0.00	
AmTrust North America, Inc. on behalf of Security National Insurance Company c/o Maurice Wutscher LLP 23611 Chagrin Blvd., Suite 207 Beachwood, OH 44122							7-1	3/8/2019			\$127.00	POC describes balance due as "insurance premium."			\$127.00	Maybe. Not in Debtor's books and records but amount is de minimus.
Apropos Ste 1510 Gangseo Hanwha Biz Metro 1st Bldg., 551-17, Yangcheonro Gangseo-Gu, Seoul KOREA				F	\$177,695.91							Scheduled amount. No POC filed.			\$177,695.91	
Atlas Levy Sewing Machine Co 1733 S Los Angeles St Los Angeles, CA 90015				F	\$0.00		9-1	3/18/2019			\$1,075.67	POC describes balance due as "goods sold." Detail reflects multiple parts, supplies and service calls between 12/10/18 - 1/9/19.			\$1,075.67	
CAB assignee of Shanghai Hua Shen Imp & Exp 14226 Ventura Blvd Sherman Oaks, CA 91423							13-1	5/2/2019			\$53,720.00	POC confirms claim amount scheduled for 7-Insider, \$53,720. POC filed by Creditors Adjustment Bureau Inc.			\$53,720.00	
California State Bd of Equilization Account Information Group, MIC: 29 PO Box 942879 Sacramento, CA 94279-0029				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Changshu Cosmo Leathergoods Co Ltd Rm 508 5th Block C Gangao City No 263 Huanghe Rd Changshu City Jiangsu 21550 CHINA				F	\$0.00							For notice purpose only			\$0.00	
CitiStaff Solutions Inc. c/o Wells Fargo Business Credit PO Box 845510 Los Angeles, CA 90084-5510				F	\$57,315.11							Scheduled amount. No POC filed. To be paid in full on Effective Date. Cure amount = 57,315.11	\$57,315.11			
City of Santa Monica Operations Div Business Revenue Operations Div PO Box 2200 Santa Monica, CA 90407-2200		x		E	\$19,054.44	\$19,054.44						City gross receipts tax in the amount of \$31,146.50 were paid on 08/28/19. No balance due.	\$0.00			
COGS 1180 N Town Center Suite 100 Las Vegas, NV 89144				F	\$0.00							For notice purpose only			\$0.00	
Cohn Handler Sturm 11620 Wilshire Blvd. Suite 875 Los Angeles, CA 90025				F	\$5,500.00							Pursuant to Declaration of Barry Cohn attached to Debtor's Application to Employ Cohn Handler Sturm, CHS has waived claim of \$5,500.			\$0.00	
ColorGraphics Cerveo Worldwide Ltd. PO Box 31001-1283 Pasadena, CA 91110-1283				F	\$19,470.79		3-1	2/12/2019			\$19,470.79	POC confirms claim amount scheduled, \$19,470.79.			\$19,470.79	
Danken Enterprise 5F No 222 Sec 4 ChengDE Road 1167 Taipei TAIWAN				F	\$0.00							For notice purpose only			\$0.00	

EXHIBIT A

Name	SCHEDULED CLAIMS						FILED PROOF OF CLAIMS					Comments	Proposed Allowed Claim Amounts			Objection?
	C	U	D	Schedule	Scheduled Claim Amount	Scheduled Priority/Sec Amount	Claim No.	Date Filed	Priority	Secured	General Unsecured		Priority and Administrative Claims	Secured Claims	Unsecured Claims	
Department of Labor Industries Collections PO Box44171 Olympia, WA 98504-4171				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Don Thornburgh 466 Foothill Blvd, #220 La Canada Flintridge, CA 91011				F	\$0.00							For notice purpose only			\$0.00	
Empire Cleaning Supply 7733 Telegraph Rd. Montebello, CA 90640				F	\$1,463.71		4-1	2/8/2019			\$1,463.71	POC confirms claim amount scheduled, \$1,463.71.			\$1,463.71	
Employment Development Department Bankruptcy Group MIC 92E PO Box 826680 Sacramento, CA 94280-0001				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Endless Ammo 5655 West Adams Blvd. Los Angeles, CA 90016				F	\$973.00							Scheduled amount. No POC filed.			\$973.00	
Exenta, Inc. 8 West 38th St., 7th Floor New York, NY 10018				F	\$7,663.30							Scheduled amount. No POC filed. Contract to be assumed. Cure amount = \$7,663.30	\$7,663.30			
First Choice Services 18840 Parthenia St. Northridge, CA 91324				F	\$1,560.15							Scheduled amount. No POC filed.			\$1,560.15	
Franchise Tax Board Bankruptcy Section, MS: A 340 PO Box 2952 Sacramento, CA 95812-2952				E	\$0.00	\$0.00	6-1	2/27/2019			\$800.00	FTB filed claim for estimate of 2019 tax due 4/15/19. Tax was paid by Debtor on 4/5/19 in the amount of \$800. No balance due			\$0.00	
Hollywood Model Management 953 Cole Ave. Los Angeles, CA 90038				F	\$720.00							Scheduled amount. No POC filed.			\$720.00	
I-MAR 5150 Rancho Rd Huntington Beach, CA 92647				F	\$3,708,340.40							Scheduled amount. No POC filed.			\$3,708,340.40	
Inex Customs Boker 11222 La Cienega Blvd. #355 Inglewood, CA 90304				F	\$5,027.14							Scheduled amount. No POC filed.			\$5,027.14	
Internal Revenue Service POB 7346 Philadelphia, PA 19101-7346				E	\$0.00	\$0.00	5-2	2/21/2019			\$0.00	POC confirms there is no balance due to IRS.			\$0.00	
Kathy Peterson 1757 Stanford St. Santa Monica, CA 90404				F	\$205,000.00							K. Peterson to waive scheduled claim of \$205,000 pursuant to Plan			\$0.00	
Kathy Peterson 1757 Stanford St. Santa Monica, CA 90404				F	\$7,007.34							K. Peterson to waive scheduled claim of \$7,007.34 pursuant to Plan			\$0.00	
Lithographix, Inc. 12250 S Crenshaw Blvd Hawthorne, CA 90250				F	\$0.00							For notice purpose only			\$0.00	
Los Angeles County Tax Collector PO Box 54110 Los Angeles, CA 90054-0110				E	\$0.00	\$0.00	2-1	2/7/2019			\$3,833.50	POC included an estimated tax amount of \$3,833.50. Debtor paid Los Angeles County Tax Collector \$2,904.99 on 7/1/19. Check cleared on 7/3/19.			\$0.00	Yes.
Lyneer Staffing Solutions PO Box 75414 Chicago, IL 60675-5414				F	\$53,164.71		17-1	5/21/2019			\$57,817.20	POC updated amount to include missing invoices at time of filing. Contract to be assumed. Cure amount is \$58,817.20.	\$57,817.20		\$0.00	
MailFinance 478 Wheelers Farms Road Milford, CT 06461				F	\$0.00							For notice purpose only			\$0.00	
Michigan Department of Revenue Bankruptcy Unit PO Box 475 Jefferson City, MO 65105-0475				E	\$0.00	\$0.00						For notice purpose only			\$0.00	

EXHIBIT A

Name	SCHEDULED CLAIMS						FILED PROOF OF CLAIMS					Comments	Proposed Allowed Claim Amounts			Objection?
	C	U	D	Schedule	Scheduled Claim Amount	Scheduled Priority/Sec Amount	Claim No.	Date Filed	Priority	Secured	General Unsecured		Priority and Administrative Claims	Secured Claims	Unsecured Claims	
Michigan Department of Treasury Attn Litigation Liaison 2nd Floor, Austin Bldg 4300 Allegan St Lansing, MI 48922				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
NC Dept of Commerce Division of Employment Security PO Box 26504 Durham, NC 27711-6504				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
North Carolina Dept of Revenue Office Services Division Attn: Bankruptcy Unit PO Box 1168 Raleigh, NC 27602-1168				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Ofc of Unemployment Ins Operations Ohio Dept of Job Family Services Attn Program Services/Revenu Recov PO Box 182404 Columbus, OH 43218-2404				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Ohio Bureau of Workers' Compensation Attn: Law Section Bankruptcy Unit PO Box 15567 Columbus, OH 43215-0567				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Ohio Dept of Taxation Attn: Bankruptcy Division PO Box 530 Columbus, OH 43216-0530				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Ohio Dept of Taxation c/o Atty Gen Collection Enforcement Section Attn Bankruptcy Staff 150 E Gay St, 21st Floor Columbus, OH 43215				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Oklahoma Employment Security Claim Legal Division PO Box 53039 Oklahoma City, OK 73512-3039				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
Oklahoma Tax Commission General Counsel's Office 100 N Boradway Ave, Suite 1500 Oklahoma City, OK 73102-8601				E	\$0.00	\$0.00						For notice purpose only			\$0.00	
OTT Trading #3 Huaxiazhichun, Room #702 No 2, Dongting Mid Road Wuxi, Jiangsu CHINA				F	\$63,734.02							Scheduled amount. No POC filed.			\$63,734.02	
Rebecca Biggers c/o Hilaire McGriff PC 601 S. Figuera St., Suite 4050 Los Angeles, CA 90017				F	\$0.00							For notice purpose only			\$0.00	
Reina Palacios Vasquez c/o Mahoney Law Group 249 East Ocean Blvd. #814 Long Beach, CA 90802							15-1	5/15/2019			\$117,184.36	No record of this claim in Debtor's books and records. No basis for claim.			\$0.00	Yes.
Shanghai Nex-T Inc. Ltd. 7F. Sheng Gao International Bldg. No. 137 Xianxia Rd. Shanghai 20051 CHINA				F	\$157,839.50							Scheduled amount. No POC filed.			\$157,839.50	
SoCal Office Technologies 5700 Warland Drive Cypress, CA 90630				F	\$0.00							For notice purpose only			\$0.00	

EXHIBIT A

Name	SCHEDULED CLAIMS						FILED PROOF OF CLAIMS					Comments	Proposed Allowed Claim Amounts			Objection?
	C	U	D	Schedule	Scheduled Claim Amount	Scheduled Priority/Sec Amount	Claim No.	Date Filed	Priority	Secured	General Unsecured		Priority and Administrative Claims	Secured Claims	Unsecured Claims	
Stanford/Nebraska Properties, Ltd. c/o Westport Realty, Inc. 433 N. Camden Drive, Suite 820 Beverly Hills, CA 90210				F	\$72,310.45		11-1	4/8/2019			\$71,639.39	POC updated amount necessary to cure any default as of petition date. Lease to be assumed. Cure amount is 71,639.39. Paid in full on the Effective Date.	\$71,639.39			
Strategic Partners, Inc. 9800 De Soto Ave. Chatsworth, CA 91311			x	D	\$5,295,859.28	\$5,295,859.28	14-1	5/15/2019		\$5,921,894.40		Settlement reached on 9/18/19. See Exhibit D to Disclosure Statement for Exact Terms. Claimant to receive \$3.5 million on Effective Date.		See Exhibit D for Treatment		
Studio Effects 1825 G West 169th St Gardena, CA 90247				F	\$0.00							For notice purpose only			\$0.00	
Sullivan Curtis Monroe Attn Accounting 1920 Main St, Suite 600 Irvine, CA 92614				F	\$0.00							For notice purpose only			\$0.00	
tokidoki LLC 5655 West Adams Blvd Los Angeles, CA 90016				F	\$6,147.59							Scheduled amount. No POC filed.			\$6,147.59	
Tracy Combs 614 South Crest Dr. Kelowna BC V1W4Y6 CANADA				F	\$210.41							Scheduled amount. No POC filed.			\$210.41	
U.S. Bank Equipment Finance, Inc. 1310 Madrid Street, Suite 101 Comstock, MN 56525-8700				D	\$8,456.39	\$8,456.39	1-1	2/6/2019			\$90,740.46	Debtor to assume lease and objects to POC filed by creditor. Cure cost = \$8,456.39.	\$8,456.39			Maybe. Debtor asserts that assumption and payment of cure amount under plan is in full satisfaction of Claim No. 1-1.
U.S. Customs and Border Protection Attn: Rvenue Division, Bankruptcy Team 6650 Telcom Dr., Suite 100 Indianapolis, IN46278	x	x					18-1	7/1/2019			UNKOWN	No custom duties pending at time of filing. No goods came in a month before filing.			\$0.00	Maybe if amended claim is filed.
Uline PO Box 88741 Chicago, IL 60680-8107				F	\$987.07		8-1	3/11/2019			\$987.07	POC confirms claim amount scheduled, \$987.07.			\$987.07	
Weihai Hishi Textile Imp & Exp Co No. 79 Shichang St. Weihai CHINA				F	\$2,011,687.78		10-1	3/25/2019			\$2,018,616.89	POC updated amount to include missing invoices at time of filing.			\$2,018,616.89	
Wells Fargo Bank, N.A. Wells Fargo Equipment Finance Manufacturer Services Group 300 Tri-State International Ste 400 Lincolnshire, IL 60069-8000				F	\$0.00							For notice purpose only			\$0.00	
Wells Fargo Trade Capital Services, Inc. 333 South Grand Ave., 12th Floor Los Angeles, CA 90071				D	\$2,720,186.02	\$2,720,186.02	16-1	5/17/2019		\$2,719,602.32		DIP Financing. Paid in Full on Effective Date.		Paid in Full.		
Widen Enterprises, Inc. PO Box 8801 Carol Stream, IL 60197-8801				F	\$15,350.00		12-1	4/30/2019			\$7,388.89	POC updated amount to include missing payments at time of filing.			\$7,388.89	
Wilhelmina International, Inc. PO Box 650002 Dept. 8107 Dallas, TX 75265-8107				F	\$1,440.00							Scheduled amount. No POC filed.			\$1,440.00	

EXHIBIT A

Exhibit B

INVESTOR TERM SHEET

Term Sheet Re: Equity Contribution and Loan

1. The purpose of this Term Sheet is to memorialize the terms of the agreement reached between Koi Design LLC, the chapter 11 debtor and debtor in possession in Bankruptcy Case No. 2:19-bk-10762-NB (“Koi”), on the one hand, and Dragon Crowd Garment Inc. (“Investor”), on the other hand, with respect to an equity investment in Koi and loan to Koi in connection with Koi’s reorganization efforts. Koi and Investor are referred to herein as the “Parties.” This term sheet (“Term Sheet”) shall be binding and enforceable as a final and complete agreement, and shall be the basis for Bankruptcy Court approval.
2. **Contribution.** Investor shall contribute \$8 million (\$8,000,000) to Koi in exchange for a 2/3 (66.66%) equity interest in Koi. Koi shall issue to Investor 2,000 membership units upon confirmation of Koi’s chapter 11 plan of reorganization (the “Plan”). This contribution will dilute Kathy Peterson’s current 100% ownership interest to a 1/3 (33.33%) equity interest in Koi.
3. **Loan.** If Koi is unable to obtain a conventional loan or line of credit to pay off its existing loan from Wells Fargo Capital Trade Services, Inc. (“Wells Fargo”), Investor (or one of its affiliates) shall provide a loan to Koi which will have a first priority lien against substantially all of Koi’s assets, or Investor shall increase its contribution under Paragraph 2 above to \$12 million.
4. **Use of Contribution and Loan Proceeds.** Koi’s Plan and disclosure statement shall provide that the contribution and loan described above will be used for the following purposes:
 - a. To provide Koi (on the effective date of the Plan) with working capital between \$1 million and \$1.5 million for meeting Koi’s operating needs.
 - b. To pay all allowed administrative claims.
 - c. To pay Wells Fargo in full.
 - d. To pay Strategic Partners, Inc. in the amount of Three Million Five Hundred Thousand (\$3,500,000).
 - e. To pay allowed general unsecured claims \$2 million on or around the effective date of the Plan.

5. **Assumed Liabilities.** The Parties agree that the following liabilities shall be assumed by Koi as of the effective date of the Plan:

- a. all post-petition accounts payable existing as of the effective date;
- b. all employees and related liabilities;
- c. Koi's \$1 million distribution to allowed general unsecured claims due under the Plan; and
- d. the nonresidential real property lease located at 1757 Stanford Street, Santa Monica, CA 90404.

6. **Time is of the Essence.** Koi must obtain approval of the terms herein as soon as possible, but in no circumstance shall the effective date of the Plan occur after December 31, 2019.

7. **Court Approval.** This Term Sheet is subject to Bankruptcy Court approval in connection with the Bankruptcy Court's consideration of Koi's Plan.

8. This Term Sheet may be signed in counterparts.

Dated: November 4, 2019

KOI DESIGN LLC

By: 

Kathy Peterson

Chief Executive Officer of Koi Design LLC

Dated: November 4, 2019

DRAGON CROWD GARMENT, INC.

By: See attached signature page

Edward Zhou

Chief Executive Officer of Dragon Crowd Garment Inc.

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Dated: November 4, 2019

KOI DESIGN LLC

By: _____
Kathy Peterson
Chief Executive Officer of Koi Design LLC

Dated: November 4, 2019

DRAGON CROWD GARMENT, INC.

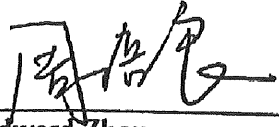
By:  peiliang Zhou.
Edward Zhou
Chief Executive Officer of Dragon Crowd Garment Inc.

Exhibit C

CASH FLOW PROJECTION

Koi Design LLC
Pro Forma Cash Flow Projection
For the Periods Indicated

		January	February	March	April	May	June	2020 July	August	September	October	November	December	Totals
Income														
Sales Cash Receipts	(1)	-	1,213,537	1,986,517	2,428,620	2,501,651	2,176,654	2,114,571	2,029,668	2,153,754	2,186,860	2,181,174	2,142,444	23,115,449
A/R Collections for Balance Due as of December 31, 2019		2,000,000	1,032,000	-	-	-	-	-	-	-	-	-	-	3,032,000
4010 - Freight Income	(2)	40,451	38,682	52,520	43,431	41,442	45,135	43,358	48,172	41,517	44,453	41,779	30,108	511,049
Total Income		2,040,451	2,284,219	2,039,037	2,472,051	2,543,093	2,221,789	2,157,928	2,077,840	2,195,270	2,231,313	2,222,953	2,172,552	26,658,497
Cost of Goods Sold														
5000 - Cost of Goods Sold	(3)	1,193,311	1,157,867	1,616,231	1,382,470	1,218,730	1,266,841	1,151,279	1,350,338	1,250,187	1,311,363	1,232,495	1,154,644	15,285,757
5020 - Royalties	(4)	16,180	15,700	21,915	18,745	16,525	17,178	15,611	18,310	16,952	17,781	16,712	15,656	207,265
5040 - Chargebacks Returns Allowances	(5)	50,564	49,062	68,484	58,579	51,641	53,680	48,783	57,218	52,974	55,566	52,224	48,926	647,702
Total COGS		1,260,056	1,222,629	1,706,631	1,459,794	1,286,896	1,337,699	1,215,673	1,425,866	1,320,113	1,384,710	1,301,431	1,219,226	16,140,723
Gross Profit		780,395	1,061,590	332,406	1,012,257	1,256,197	884,090	942,255	651,974	875,158	846,603	921,522	953,326	10,517,774
Expense														
6020 - Automobile Expense	(6)	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	9,000	108,000
6040 - Bank Service Charges														
6046 - Merchant Credit Card Fees	(7)	24,271	23,550	32,873	28,118	24,788	25,766	23,416	27,465	25,428	26,672	25,068	23,484	310,897
6040 - Bank Service Charges - Other	(8)	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	1,800	21,600
Total 6040 - Bank Service Charges		26,071	25,350	34,673	29,918	26,588	27,566	25,216	29,265	27,228	28,472	26,868	25,284	332,497
6060 - Charitable Contributions	(9)	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	1,667	20,000
6080 - Computer Expense	(10)	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
6120 - Design Expenses	(8)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
6140 - Dues and Subscriptions	(8)	50	50	50	50	50	50	50	50	50	50	50	50	600
6160 - Equipment Lease	(8)	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	66,000
6180 - Filing Fees	(8)	200	200	200	200	200	200	200	200	200	200	200	200	2,400
6200 - Freelance	(11)	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	13,000	156,000
6280 - Freight	(12)	46,519	45,137	63,006	53,893	47,510	49,385	44,880	52,640	48,736	51,121	48,046	45,012	595,885
6290 - Guaranteed payments	(13)	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000
6295 - HR Expense	(8)	325	325	325	325	325	325	325	325	325	325	325	325	3,900
6300 - Insurance	(14)	35,833	35,833	35,833	35,833	35,833	35,833	35,833	35,833	35,833	35,833	35,833	35,833	430,000
6400 - Interest Expense	(20)	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	16,667	200,000
6460 - Licenses and Permits	(15)	-	-	-	-	-	-	-	-	-	-	-	9,000	9,000
6500 - Marketing Expenses														
6510 - Advertising	(8)	750	750	750	750	750	750	750	750	750	750	750	750	9,000
6520 - Catalog expense	(15)	33,956	8,669	12,632	33,623	2,711	22,103	17,972	16,685	5,084	14,304	7,864	20,191	195,794
6530 - Marketing & Promo Materials	(15)	13,539	18,867	4,814	25,000	4,785	15,668	2,385	1,996	1,503	281	1,323	37	90,197
6535 - Website	(8)	-	-	-	-	-	-	-	-	-	-	-	-	-
6500 - Marketing Expenses - Other	(15)	-	-	-	9,000	-	2,778	943	196	1,734	100	-	-	14,751
Total 6500 - Marketing Expenses		48,245	28,286	18,196	68,372	8,246	41,300	22,050	19,627	9,072	15,434	9,937	20,978	309,742
6620 - Postage and Delivery	(8)	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	33,000
6630 - Preproduction Expenses	(8)	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	1,875	22,500
6660 - Professional Fees	(8)	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	36,000
6680 - Rent	(16)	83,240	93,075	93,075	83,240	95,405	95,405	85,570	95,405	95,405	85,570	95,405	95,405	1,096,200
6720 - Retirement Plan Expense	(8)	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	6,417	77,000

EXHIBIT C

Koi Design LLC
Pro Forma Cash Flow Projection
For the Periods Indicated

		January	February	March	April	May	June	2020 July	August	September	October	November	December	Totals
6800 - Salaries														-
6810 - Design Salaries	(17)	35,191	23,460	23,460	23,460	23,460	23,460	35,191	23,460	23,460	23,460	23,460	23,460	304,984
6820 - Operations Salaries	(17)	59,675	39,783	39,783	39,783	39,783	39,783	59,675	39,783	39,783	39,783	39,783	39,783	517,181
6830 - Finance Salaries	(17)	35,868	23,912	23,912	23,912	23,912	23,912	35,868	23,912	23,912	23,912	23,912	23,912	310,860
6840 - Product Development Salaries	(17)	23,137	15,424	15,424	15,424	15,424	15,424	23,137	15,424	15,424	15,424	15,424	15,424	200,518
6845 - Preproduction Salaries	(17)	37,062	24,708	24,708	24,708	24,708	24,708	37,062	24,708	24,708	24,708	24,708	24,708	321,207
6850 - Customer Service Salaries	(17)	44,449	29,633	29,633	29,633	29,633	29,633	44,449	29,633	29,633	29,633	29,633	29,633	385,226
6860 - Sales Salaries	(17)	33,589	22,393	22,393	22,393	22,393	22,393	33,589	22,393	22,393	22,393	22,393	22,393	291,104
6870 - Marketing Salaries	(17)	58,133	38,756	38,756	38,756	38,756	38,756	58,133	38,756	38,756	38,756	38,756	38,756	503,823
6880 - Warehouse Salaries	(17)	16,320	10,880	10,880	10,880	10,880	10,880	16,320	10,880	10,880	10,880	10,880	10,880	141,442
Total 6800 - Salaries		343,424	228,950	228,950	228,950	228,950	228,950	343,424	228,950	228,950	228,950	228,950	228,950	2,976,345
6900 - Sales Expense	(8)	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	7,083	85,000
6920 - Sales Rep Commission	(18)	56,000	62,875	55,622	68,001	70,046	60,946	59,208	56,831	60,305	61,232	61,073	59,988	732,129
6940 - Supplies	(8)	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	48,000
6950 - Taxes														
6952 - Local	(8)	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	2,750	33,000
6953 - Payroll Tax Expense	(19)	30,908	20,605	20,605	20,605	20,605	20,605	30,908	20,605	20,605	20,605	20,605	20,605	267,871
6954 - Property	(15)	-	-	-	3,000	-	-	-	-	-	-	-	-	3,000
6955 - Sales Tax	(15)	-	-	750	-	-	750	-	-	750	-	-	750	3,000
6956 - State	(15)	-	-	12,590	-	-	-	-	-	-	-	-	-	12,590
Total 6950 - Taxes		33,658	23,355	36,695	26,355	23,355	24,105	33,658	23,355	24,105	23,355	23,355	24,105	319,461
6960 - Travel & Entertainment	(8)	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	20,833	250,000
6970 - Utilities	(8)	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000	72,000
6990 - Warehouse Expense	(8)	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	900,000
Total Expense		879,190	749,061	772,250	800,763	742,133	769,691	856,040	748,106	735,834	736,168	735,667	750,756	9,275,659
Net Ordinary Income		(98,795)	312,529	(439,844)	211,494	514,064	114,399	86,216	(96,131)	139,324	110,435	185,854	202,571	1,242,115
U.S. Trustee Fees	(21)	(158,655)	-	-	(85,898)	-	-	(63,970)	-	-	(63,016)	-	-	(371,539)
Total Net Income (Loss)		(257,450)	312,529	(439,844)	125,595	514,064	114,399	22,246	(96,131)	139,324	47,419	185,854	202,571	870,576
Beginning Cash Balance		1,000,000	742,550	1,055,079	615,235	740,831	1,254,895	1,369,294	1,391,540	1,295,409	1,434,732	1,482,151	1,668,006	1,000,000
Plus Total Net Income / Less Net Loss		(257,450)	312,529	(439,844)	125,595	514,064	114,399	22,246	(96,131)	139,324	47,419	185,854	202,571	870,576
Less 2nd Payment to General Unsecured Creditors		-	-	-	-	-	-	-	-	-	-	-	1,000,000	1,000,000
Ending Cash Balance		742,550	1,055,079	615,235	740,831	1,254,895	1,369,294	1,391,540	1,295,409	1,434,732	1,482,151	1,668,006	870,576	870,576
Estimated Roll of Accounts Receivable														
Starting Accounts Receivable		3,032,000	3,095,013	2,850,645	3,656,023	3,614,003	3,219,437	3,235,108	3,115,216	3,422,429	3,429,152	3,509,394	3,458,975	3,032,000
Plus Invoices		2,063,013	2,001,169	2,791,895	2,386,600	2,107,085	2,192,324	1,994,679	2,336,881	2,160,478	2,267,102	2,130,754	1,987,132	26,419,112
Less Returns / Credits		(50,564)	(49,062)	(68,484)	(58,579)	(51,641)	(53,680)	(48,783)	(57,218)	(52,974)	(55,566)	(52,224)	(48,926)	(647,702)
Less Payments		(1,949,436)	(2,196,475)	(1,918,032)	(2,370,041)	(2,450,010)	(2,122,974)	(2,065,788)	(1,972,450)	(2,100,780)	(2,131,294)	(2,128,949)	(2,093,519)	(25,499,747)
Ending Accounts Receivable		3,095,013	2,850,645	3,656,023	3,614,003	3,219,437	3,235,108	3,115,216	3,422,429	3,429,152	3,509,394	3,458,975	3,303,663	3,303,663

Koi Design LLC
2020 Pro Forma Footnotes

Note	Description
1	Sales Cash Receipts are projected based upon 2020 annual sales of \$25.9M (calculated based upon the two year trailing average) with collections occurring over a 4 - 8 week period subsequent to the sale.
2	Freight Income is forecast at 2% of sales based upon trailing twelve month average.
3	Cost of Goods Sold is forecast at 59% of sales (including duty and customs fees) based upon trailing twelve month average.
4	Royalty Expense is forecast at .8% of sales based upon trailing twelve month average.
5	Chargebacks, Returns and Allowances are forecast at 2.5% of sales based upon trailing twelve month average.
6	Auto expense represents car allowance for CEO and CFO totaling \$2,500 per month plus employee mileage reimbursement for sales related travel based upon trailing twelve month average.
7	Merchant credit card fees are forecast at 1.2% of sales based upon trailing twelve month average.
8	Forecast at trailing twelve month average.
9	Reflects monthly contributions to Breast Cancer Research (based upon trailing twelve month average) as required under current licensing agreement being assumed.
10	Computer expense is forecast based upon trailing twelve month average and includes email, webservices, EDI, ERP system, and software license agreements.
11	Reflects monthly fees paid to independent contracts for warehouse and design consulting respectively.
12	Freight expense is forecast at 2.8% of sales based upon trailing twelve month average.
13	Guaranteed Payments reflect salary paid to CEO.
14	Insurance expense reflects monthly premiums for Health Insurance (annual - \$240K), Workers Comp (annual - \$84K), Dental/Life (annual - \$42K) and GL (annual - \$42K).
15	Projected based upon trailing twelve month payments.
16	Reflects the monthly rent (NNN) for the Stanford location per the real property lease (monthly - \$95,675 to increase May 2020 to \$98,005) net of sub-let revenue for parking (quarterly \$17,635)
17	Payroll expense is forecast based upon trailing 6 month average and converting to 26 payroll periods per year.
18	Sales Rep commissions are forecast at 2.8% of sales based upon trailing twelve month average.
19	Payroll tax expense reflects employers portion of payroll tax and is calculated at 9% of monthly payroll expense.
20	Interest expense is forecast at 5% interest on \$4M loan to be used to pay-off the existing senior secured lender pursuant to the plan.
21	Reflects trustee fees at 1% of projected quarterly disbursements beginning Q4 2019 through Q3 2020.

Exhibit D

SPI SETTLEMENT AGREEMENT

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This Settlement Agreement and Mutual Release (the “Agreement”) is entered into by and between Koi Design LLC, the chapter 11 debtor and debtor in possession herein (the “Debtor”), on the one hand, and Strategic Partners, Inc. (“SPI”), on the other hand. The Debtor and SPI (together referred to as the “Parties” and each individually a “Party”) agree as follows:

RECITALS

A. The Debtor commenced its bankruptcy case (the “Bankruptcy Case”) by the filing of a voluntary petition under chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) on January 25, 2019 (“Petition Date”). The Bankruptcy Case is pending before the Honorable Neil W. Bason, United States Bankruptcy Judge for the Central District of California (Los Angeles Division) (the “Bankruptcy Court”) as Case No. 2:19-bk-10762-NB. The Debtor continues to operate its business and manage its financial affairs as a debtor in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee, examiner or committee has been appointed in the Bankruptcy Case.

B. On May 14, 2019, the Bankruptcy Court entered a final order authorizing the Debtor to obtain post-petition financing and granting related relief [Bk. Doc. #177] (the “Final DIP Order”), pursuant to which the Court authorized the Debtor to borrow up to approximately \$4.5 million in post-petition financing (the “DIP Financing”) from Wells Fargo Bank, N.A. (“Wells Fargo”), and authorized the Debtor to operate within a budget approved by Wells Fargo through and including October 31, 2019, subject to extension by agreement between the Debtor and Wells Fargo. Among other things, the Final DIP Order grants to Wells Fargo a valid, enforceable, non-avoidable and fully perfected first priority security interest on substantially all of the Debtor's assets pursuant to section 364 of the Bankruptcy Code (the “Wells Fargo Lien”).

The Pre-Petition Infringement Action and Related Appeals

C. On January 11, 2017, SPI filed a complaint against the Debtor in the United States District Court for the Central District of California (the “District Court”), commencing the action styled, *Strategic Partners, Inc. v. Koi Design LLC*, U.S.D.C. No. 17-cv-00236 TJH (GJSx) (the “Infringement Action”). By the Infringement Action, SPI asserted claims for relief against the Debtor for, among other things, trademark infringement and intentional interference with prospective economic advantage.

D. The Debtor has, at all times, disputed all claims for relief asserted by SPI in the Infringement Action. On August 10, 2018, the District Court entered default against the Debtor. Thereafter, and on October 4, 2018, the District Court entered default judgment against the Debtor and in favor of SPI for \$5,266,380.68 (the “Default Judgment”).

E. Prior to entry of the Default Judgment, on April 19, 2018, the District Court magistrate judge issued a minute order granting attorneys’ fees and costs to SPI regarding discovery disputes in the Infringement Action, ordering the Debtor to pay SPI \$21,886.60 in attorneys’ fees and costs (the “Sanction Order”).

F. SPI purported to perfect the Sanction Order against the Debtor’s property as follows: (i) recordation of an Abstract of Judgment in the County of Los Angeles on October 30, 2018, bearing Instrument No. 20181101376, in the interest amount of \$7,044.50 and attorneys’ fees of \$21,886.60 (the “Sanction Order Abstract”), and (ii) the filing of a Notice of Judgment Lien with the California Secretary of State on November 5, 2018, bearing Instrument No. 18-7681289535, in the amount of \$28,931.10 (the “Sanction Order Judgment Lien”).

G. SPI purported to perfect the Default Judgment against the Debtor's property as follows: (i) recordation of an Abstract of Judgment in the County of Los Angeles on October 30, 2018, bearing Instrument No. 20181101375, in the principal amount of \$5,266,380.68 (the "Default Judgment Abstract" and collectively with the Sanction Order Abstract, the "Abstracts of Judgment") and (ii) the filing of a Notice of Judgment Lien with the California Secretary of State on November 5, 2018, bearing Instrument No. 18-7681285470, in the amount of \$5,266,928.18 (the "Default Judgment Lien" and collectively with the Sanction Order Judgment Lien, the "Judgment Liens").

H. Presently, the Debtor and SPI are parties to three consolidated appeals pending before the Ninth Circuit Court of Appeals, all of which arise out of the Infringement Action: Appeal Nos. 18-55798, 18-56478, and 19-55678 (collectively, the "Appeals").

I. On May 15, 2019, SPI timely filed Proof of Claim No. 14 (the "SPI Proof of Claim") in the Bankruptcy Case based upon the Default Judgment, the Abstracts of Judgment, and the Judgment Liens. The SPI Proof of Claim asserts a secured claim in the amount of \$5,921,894.90, comprised as follows: the principal amount of the Default Judgment of \$5,266,380.68 (including costs of \$13,310.00), plus alleged post-judgment interest of \$82,541.72, plus alleged attorneys' fees of \$572,972.50.

The Avoidance Action

J. On May 7, 2019, the Debtor filed a *Complaint for Avoidance of Judicial Liens and Declaratory Relief* against SPI, commencing Adversary Proceeding No. 2:19-ap-01135-NB (the "Avoidance Action"). By the Avoidance Action, the Debtor seeks avoidance and recovery of the Abstracts of Judgment and Judgment Liens as preferences pursuant to section 547 of the Bankruptcy Code, and objects to the SPI Proof of Claim. The operative complaint in the Avoidance Action is the Debtor's *Second Amended Complaint for Avoidance of Judicial Liens, Declaratory Relief, and Objection to Claim* [Adv. Doc. #8]. On June 21, 2019, SPI filed an Answer to Second Amended Complaint [Adv. Doc. #21] pursuant to which SPI denied the material allegations in the Adversary Proceeding and asserted certain affirmative defenses.

K. The Bankruptcy Court ordered the Avoidance Action to mediation in an order entered August 9, 2019 [Adv. Doc. #17].

The Fiduciary Duty Action

L. On July 1, 2019, the Debtor filed a complaint against A. Douglas Mastroianni dba Mastroianni Law Firm, Marron Lawyers, APC, and The Bloom Firm, APC, commencing Adversary Proceeding No. 2:19-ap-01197-NB (the "Fiduciary Duty Action"). By the Fiduciary Duty Action, the Debtor seeks damages for intentional breaches of fiduciary duty, legal malpractice, negligent supervision, etc. against its former counsel in the Infringement Action.

M. The Fiduciary Duty Action was originally pending before the Bankruptcy Court but on October 7, 2019, District Court Judge Terry J. Hatter, Jr. issued an order withdrawing the reference such that the case is now pending before Judge Hatter in the United States District Court, Central District of California, Case No. 2:19-cv-07154-TJH.

Mediation

N. On September 18, 2019 and October 2, 2019, the Debtor and SPI attended mediation with the

Honorable Meredith Jury, United States Bankruptcy Judge (retired), serving as mediator. As a result of mediation and good faith negotiations during and after the mediation sessions, the Debtor and SPI have reached a mutually agreeable resolution of all disputes between them, and wish to globally settle all matters pursuant to the terms contained herein, subject to Bankruptcy Court approval.

NOW, THEREFORE, in consideration of the promises and covenants set forth herein, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, it is hereby stipulated and agreed as follows:

DEFINITIONS

A. **Claim.** “Claim” means any actual or potential claim, action, cause of action, defense, liability, obligation, right, suit, debt, sum of money, damage, judgment, demand of any nature whatsoever, proceeding to recover money or property, or proceeding against a person or entity, whether or not reduced to judgment, and whether or not liquidated, unliquidated, fixed, contingent, matured, unmatured, known, unknown, disputed, undisputed, legal, equitable, secured or unsecured.

B. **Estate Related Parties.** “Estate Related Parties” means and refers to the Debtor and all of its present owners, affiliates, officers, directors, board members, related entities and employees, its bankruptcy estate, and the Debtor’s professionals including but not limited to Brutzkus Gubner Rozansky Seror Weber LLP and Broadway Advisors, LLC (and any other professional individual or firm employed by the Debtor by order of the Bankruptcy Court).

C. **SPI Related Parties.** “SPI Related Parties” means and refers to SPI and all of its present owners, affiliates, officers, directors, board members, related entities and employees, and SPI’s professionals including but not limited to Michelman & Robinson, LLP and Ervin Cohen & Jessup, LLP.

TERMS OF AGREEMENT

1. **Settlement Effective Date.** This Agreement is conditioned upon and shall become effective (the “Settlement Effective Date”) upon entry of a Bankruptcy Court order approving this Agreement.

2. **Validity and Treatment of the SPI Proof of Claim.** Upon the Settlement Effective Date, the SPI Proof of Claim shall be deemed an allowed, non-avoidable secured claim in the amount of \$5,266,380.68 (the “SPI Secured Claim”). The SPI Secured Claim shall be secured by all assets of the Debtor, regardless of their nature (subject to the terms of the Final DIP Order) and shall be junior in priority and subordinated only to the Wells Fargo Lien in all respects in an amount not to exceed \$4.5 million of principal outstanding balance for the Wells Fargo debt (or any take-out or substitute financing). In the event SPI actually and timely receives the \$3.5 million payment from the Debtor as contemplated in Paragraph 2(a) below, then (i) SPI agrees to execute all documents reasonably necessary to release SPI’s lien(s) in the Debtor’s assets except that such releases shall not cover or release SPI’s interests in the Fiduciary Duty Action described herein, and (ii) the aforementioned \$4.5 million limitation shall no longer apply.

SPI agrees that the SPI Secured Claim shall be deemed satisfied in full so long as it timely receives each and every one of the following payments, as follows;

a. The Debtor shall pay SPI \$3,500,000 within five business days of the effective date of the Plan (the “Plan Effective Date”). The Plan Effective Date shall be defined in the Debtor’s plan as one day after all conditions precedent to the effectiveness of the plan have been satisfied or otherwise waived.

b. SPI shall also obtain an interest, secured by a first priority lien, in any proceeds that

may be generated from the trial and/or resolution of the Fiduciary Duty Action as follows:

i. The Debtor and SPI shall share reasonable future litigation fees and costs related to the Fiduciary Duty Action with the Debtor paying three-quarters (3/4) and SPI paying one-quarter (1/4) of reasonable future litigation fees and costs. The Debtor shall employ SPI's counsel as special litigation co-counsel with respect to the Fiduciary Duty Action.

ii. Once the Fiduciary Duty Action is resolved, whether by settlement, trial or otherwise, the Debtor shall receive the first one million dollars (\$1,000,000) (net of fees and costs) and the Debtor and SPI shall share equally in any additional proceeds (net of fees and costs) exceeding \$1,000,000. Payment of any amount due to SPI on account of its interest in the Fiduciary Duty Action shall be made within ten business days from the Debtor's receipt of such funds. Notwithstanding the result of the Fiduciary Duty Action, SPI shall be entitled to retain the entire \$3.5 million payment referred to hereinabove even if there are insufficient proceeds to pay Debtor the full initial \$1,000,000 payment.

c. The SPI Secured Claim shall be deemed fully satisfied upon: (i) timely payment in full of the \$3.5 million due under Paragraph 2(a) above; and (ii) timely payments of any amounts due SPI on account of its lien in the Fiduciary Duty Action in the manner contemplated herein. In the event SPI actually and timely receives the \$3.5 million payment from the Debtor as contemplated in Paragraph 2(a) above, then SPI agrees to execute all documents reasonably necessary to release SPI's lien(s) in the Debtor's assets except that such releases shall not cover or release SPI's interests in the Fiduciary Duty Action described herein.

3. **Additional Terms of Settlement.**

a. **Obligations of the Debtor.** As soon as practicable, the Debtor will file (i) a motion for approval of this Agreement pursuant to Rule 9019 of the Federal Rules of Bankruptcy Procedure and/or (ii) a plan and disclosure statement that includes approval of this Agreement. The Debtor agrees that any motion, plan and/or disclosure statement that it files shall incorporate and include all relevant terms of this Agreement and, further, shall not alter or otherwise reduce or diminish SPI's Secured Claim. The Debtor also acknowledges and agrees that its secured debt senior to SPI's Secured Claim does not now, and shall not (at any time prior to payment of the \$3.5 million to SPI in paragraph 2 above) exceed \$4.5 million in outstanding principal balance.

b. **Obligations of SPI.** SPI agrees to not oppose any extension of the term of the Debtor's DIP financing for the remainder of the Bankruptcy Case or to take any action in the Bankruptcy Court based upon its status as a secured creditor that is adverse to Wells Fargo. SPI further agrees to support the Debtor's plan and any motions filed in furtherance thereof and to not object to the Debtor plan other than as to feasibility, as long as the Debtor's proposed plan accurately reflects the terms of this Agreement and in no way alters, reduces, or otherwise diminishes SPI's Secured Claim.

4. **Dismissal of Avoidance Action and Appeals with Prejudice.** Within ten business days of the Settlement Effective Date and timely payment by the Debtor to SPI of the \$3.5 million in paragraph 2(a) above, the Parties shall cause the Appeals and the Avoidance Action to be dismissed with prejudice (with the Parties to bear their own fees and costs related thereto).

5. **Mutual General Releases.** The releases provided below (collectively, the “Releases”) will become mutually effective only upon the (i) Settlement Effective Date, and (ii) all payments from the Debtor to SPI having been timely and fully made:

a. **Releases by the Debtor / Estate Related parties.** Except as otherwise expressly provided for in this Agreement, the Debtor, on behalf of itself, its bankruptcy estate, the Estate Related Parties and on behalf of their respective predecessors, successors, and anyone claiming through or under any of the foregoing, and each of them, without the necessity of executing any other document or agreement, hereby fully releases and forever discharges SPI and the SPI Related Parties from any and all actual or potential claims, demands, obligations, losses, causes of action, damages, penalties, costs, expenses, attorneys’ fees, and liabilities, including, but not limited to claims for indemnity or contribution, whether known or unknown, suspected or unsuspected, arising from or relating to any Claims that the Debtor or Estate Related Parties have or may have had against SPI and the SPI Related Parties. It is intended that the scope of this release be construed as broadly as possible with respect to SPI and the SPI Related Parties.

b. **Releases by SPI / the SPI Related Parties.** Except as otherwise provided by this Agreement, SPI and the SPI Related Parties, on behalf of themselves and on behalf of their respective successors and assigns and any one claiming through or under any of the foregoing, and each of them, without the necessity of executing any other document or agreement, hereby fully release and forever discharge the Debtor and the Estate Related Parties from any and all actual or potential Claims, demands, obligations, losses, causes of action, damages, penalties, costs, expenses, attorneys’ fees and liabilities, including but not limited to claims for indemnity or contribution, whether known or unknown, suspected or unsuspected, arising from or relating to any Claims that the SPI Related Parties have or may have had against the Debtor and the Estate Related Parties. It is intended that the scope of this release be construed as broadly as possible with respect to the Debtor and the Estate Related Parties.

6. **General Release of Unknown Claims.** The Parties warrant, represent and agree that they are fully aware that certain jurisdictions may limit the general release of unknown Claims, of any nature whatsoever, such as, for example, California Civil Code Section 1542 (set forth below), but agree that the intent of the Parties is to waive such limitations to the fullest extent permitted by applicable law and otherwise.

CAL. CIV. CODE SEC. 1542. GENERAL RELEASE. A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR OR RELEASING PARTY DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY.

By executing this Agreement, the Parties hereby waive and relinquish every right or benefit that they have or might have under Section 1542 or any other similar or equivalent federal provision, provision of California state law, provision of any other State in the United States, provision of common law, or otherwise to the fullest extent under any such law that the Parties may lawfully waive such right or benefit with regard to the subject matter of this Agreement. The Parties acknowledge that they are aware that they might later discover facts in addition to or different from those which they now know or believe to be true with respect to the subject matter of this Agreement, but that it is their intention hereby fully, finally and forever to settle and release all matters, known or unknown, suspected or unsuspected, which now exist, might exist, or previously existed between the Parties.

7. **Authority.** Each of the signatories to this Agreement warrants that he or she or it has the authority to sign on behalf of the Party to this Agreement and that no other signature is required.

8. **Jurisdiction.** The Bankruptcy Court for the Central District of California shall retain jurisdiction over this Agreement, even after closure or dismissal of the Debtor's Bankruptcy Case, and the Bankruptcy Court has the authority and jurisdiction to resolve any disputes arising under this Agreement or the order approving it.

9. **Choice of Law.** This Agreement shall be governed and construed in accordance with the internal laws of the State of California and, where applicable, federal law including but not limited to the Bankruptcy Code.

10. **No Admission of Liability.** It is understood and agreed by the Parties hereto that this Agreement and the consideration therefor is a full, final and complete compromise and settlement of disputed Claims. This Agreement is not to be construed as an admission of liability on the part of any of the Parties. Neither this Agreement, nor any of its terms, nor any negotiations or proceedings in connection with this Agreement, shall constitute or be construed as or be deemed to be evidence of an admission on the part of any Party of any liability or wrongdoing whatsoever, or the truth or untruth, or merit or lack of merit, of any claim or defense of any party; nor shall this Agreement, or any of the terms hereof, or any negotiations or proceedings in connection herewith, or any performance or forbearance hereunder, be offered or received in evidence or used in any proceeding against any party, or used in any proceeding for any purpose whatsoever except with respect to the effectuation and enforcement of this Agreement. Notwithstanding the foregoing, the Debtor may file this Agreement as evidence in support of a motion to approve this Agreement pursuant to Federal Rules of Bankruptcy Procedure, Rule 9019, or any other motion, status report or pleading as may be required.

11. **Counterparts.** This Agreement may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument at such time as counterparts are executed which shall, in total, contain the signatures of all the Parties hereto.

12. **Construction.** This Agreement shall be construed as if all Parties hereto, and each of them, jointly prepared it, and any uncertainty or ambiguity shall not be interpreted against any one Party.

13. **Blue Penciling.** In the event that any provision of this Agreement is held to be overbroad as written, such provision shall be deemed amended to narrow its application to the extent necessary to make the provision enforceable according to applicable law and the intent of the parties and shall be enforced as amended.

14. **Severability.** The Parties agree not to challenge this Agreement as illegal, invalid, or unenforceable. If any portion, provision or part of this Agreement is held, determined or adjudicated to be invalid, unenforceable or void for any reason whatsoever, each such portion, provision or part shall be severed from the remaining portions, provisions or parts of this Agreement and shall not affect the validity or enforceability of such remaining portions, provisions or parts of this Agreement.

15. **Survival.** All of the representations, warranties and covenants provided herein shall survive the Effective Date.

16. **Binding Nature of Agreement.** This Agreement, to the fullest extent possible, shall be binding upon, and enforceable by, the Debtor and SPI, as well as their respective assigns, predecessors, successors, administrators, trusts, trustees, beneficiaries, heirs, spouses, creditors, officers, directors, employees, representatives, agents, partners, and associates. In addition to, and not limiting the generality

of the foregoing, the terms of this Agreement, any Order approving this Agreement, shall be binding on any Trustee appointed in the Bankruptcy Case (whether Chapter 11 or Chapter 7) as well as any committee that may be appointed during this, or any other case under Title 11 brought by or against the Debtor.

17. **Integration/Entire Agreement.** This Agreement constitutes a single, fully-integrated contract expressing the entire agreement of the Parties hereto. No promise, inducement or agreement other than that expressed herein has been made by any Party. Each Party for itself represents, warrants, covenants, understands and agrees that this Agreement sets forth all of the agreements, covenants and understandings of the Parties, superseding all other prior and contemporaneous oral and written agreements, discussions, or promises, if any, whether written or oral, express or implied. There are no third party beneficiaries to this Agreement other than the persons or entities released pursuant to the Releases or otherwise as expressly provided for in this Agreement.

18. **Voluntary Agreement.** This Agreement is freely and voluntarily executed by the Parties. Each Party represents, warrants, covenants, and agrees that: (a) they have carefully and thoroughly read this Agreement; (b) they have obtained the advice of counsel of their own choosing with respect to the Agreement and its legal interpretation and implications; (c) they fully understand the terms of this Agreement and their significance; (d) they have had a full and complete opportunity to review this Agreement and to make suggestions or changes; and (e) they have bargained for this Agreement in arms-length negotiations and without acting under duress.

19. **No Assignment or Transfer of Claims.** As a condition to this Agreement, the Parties each expressly represent, warrant, and covenant that they have not assigned, sold, conveyed, transferred, or otherwise disposed of any of the Claims or portion thereof that they may have possessed at any time that are being released by this Agreement.

20. **Attorneys' Fees and Costs.** Except as otherwise provided in this Agreement with respect to the Fiduciary Duty Action, the Parties each shall bear their own attorneys' fees and costs with regard to all past and pending matters between the Parties and this Agreement.

21. **Covenant Not To Sue.** Conditioned upon the timely and complete performance of each and every obligation of the Parties, each Party to this Agreement agrees not to sue the Parties they have released based on the released matters.

22. **Termination/Modification.** This Agreement can be amended, revised, modified or terminated only by a writing signed by the Parties to this Agreement, and any modifications, revisions, or changes to this Agreement must be done in a written instrument signed by all of the Parties to this Agreement.

23. **Facsimile, Copy and .pdf Signatures.** An original, facsimile, copy or .pdf signature on this Agreement shall have the same force and effect as an original signature thereto.

24. **Notices.** All notices and other communications required by or relating to this Agreement shall be in writing and shall be deemed given when delivered by a nationally recognized overnight courier service and email to the Parties at the following addresses (or at such other address for a Party as shall be specified in writing by like notice, provided that a notice of change of address(es) shall be effective only from the date of its receipt by the other Party):

(a) if to the Debtor, then to:

Nicholas A. Rozansky
Jason B. Komorsky
Susan K. Seflin
Jessica L. Bagdanov
BRUTZKUS GUBNER
21650 Oxnard St., Suite 500
Woodland Hills, California 91367
Tel.: (818) 827-9000
Email: nrozansky@bg.law, jkomorsky@bg.law, sseflin@bg.law,
jbagdanov@bg.law

(b) if to SPI, then to:

Howard I. Camhi
ERVIN COHEN & JESSUP LLP
9401 Wilshire Blvd., 9th Floor
Beverly Hills, CA 90212
Tel.: (310) 273-6333
Email: hcamhi@ecjlaw.com

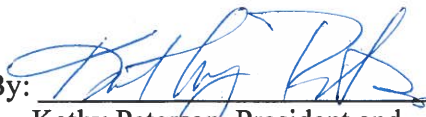
and

Todd Stitt
Taylor C. Foss
MICHELMAN & ROBINSON, LLP
17901 Von Karman Ave., 10th Floor
Irvine, CA 92614
Email: TStitt@mrlip.com
TFoss@mrlip.com

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates opposite their respective signatures.

Dated: 10/31, 2019

KOI DESIGN LLC

By: 
Kathy Peterson, President and
Chief Executive Officer

Dated: _____, 2019

STRATEGIC PARTNERS, INC.

By: _____
Robert Pierpoint, Chief Operating Officer
And Chief Financial Officer

(a) if to the Debtor, then to:

Nicholas A. Rozansky
Jason B. Komorsky
Susan K. Seflin
Jessica L. Bagdanov
BRUTZKUS GUBNER
21650 Oxnard St., Suite 500
Woodland Hills, California 91367
Tel.: (818) 827-9000
Email: nrozansky@bg.law, jkomorsky@bg.law, sseflin@bg.law,
jbagdanov@bg.law

(b) if to SPI, then to:

Howard I. Camhi
ERVIN COHEN & JESSUP LLP
9401 Wilshire Blvd., 9th Floor
Beverly Hills, CA 90212
Tel.: (310) 273-6333
Email: hcamhi@ecjlaw.com

and

Todd Stitt
Taylor C. Foss
MICHELMAN & ROBINSON, LLP
17901 Von Karman Ave., 10th Floor
Irvine, CA 92614
Email: TStitt@mrlip.com
TFoss@mrlip.com

IN WITNESS WHEREOF, the Parties have executed this Agreement on the dates opposite their respective signatures.

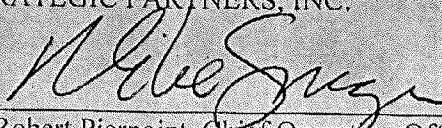
Dated: _____, 2019

KOI DESIGN LLC

By: _____
Kathy Peterson, President and
Chief Executive Officer

Dated: _____, 2019

STRATEGIC PARTNERS, INC.

By: 
Robert Pierpoint, Chief Operating Officer
And Chief Financial Officer

Mike Singer
CEO.

Approved as to Form:

Dated: 10/31, 2019

BRUTZKUS GUBNER

By: 

Susan K. Seflin
Attorneys for Chapter 11 Debtor and Debtor in
Possession Koi Design LLC

Approved as to Form:

Dated: _____, 2019

ERVIN COHEN & JESSUP LLP

By: _____

Howard I. Camhi
Attorneys for Strategic Partners, Inc.

Approved as to Form:

Dated: _____, 2019

BRUTZKUS GUBNER

By: _____
Susan K. Seflin
Attorneys for Chapter 11 Debtor and Debtor in
Possession Koi Design LLC

Approved as to Form:

Dated: 11-4, 2019

ERVIN COHEN & JESSUP LLP

By: Howard I. Camhi
Howard I. Camhi
Attorneys for Strategic Partners, Inc.

PROOF OF SERVICE OF DOCUMENT

I am over the age of 18 and not a party to this bankruptcy case or adversary proceeding. My business address is:
21650 Oxnard St., Suite 500, Woodland Hills, California 91367

A true and correct copy of the foregoing document entitled: **FIRST AMENDED DISCLOSURE STATEMENT DESCRIBING DEBTOR'S FIRST AMENDED CHAPTER 11 PLAN OF REORGANIZATION DATED NOVEMBER 13, 2019** will be served or was served (a) on the judge in chambers in the form and manner required by LBR 5005-2(d); and (b) in the manner stated below:

1. TO BE SERVED BY THE COURT VIA NOTICE OF ELECTRONIC FILING (NEF): Pursuant to controlling General Orders and LBR, the foregoing document will be served by the court via NEF and hyperlink to the document. On November 13, 2019, I checked the CM/ECF docket for this bankruptcy case or adversary proceeding and determined that the following persons are on the Electronic Mail Notice List to receive NEF transmission at the email addresses stated below:

- Elizabeth L Agolla notices@becket-lee.com, notices@becket-lee.com
- Jessica L Bagdanov jbagdanov@bg.law, ecf@bg.law
- Howard Camhi hcamhi@ecjlaw.com, tcastelli@ecjlaw.com; amatsuoka@ecjlaw.com
- Vernon L Ellicott vle@vlelaw.com
- Andy J Epstein taxcpaesq@gmail.com
- Steven T Gubner sgubner@bg.law, ecf@bg.law
- James Andrew Hinds jhinds@jhindslaw.com, mduran@jhindslaw.com
- Alan Craig Hochheiser ahochheiser@mauricewutscher.com, arodriguez@mauricewutscher.com
- Mark D Hurwitz mhurwitz@lsl-la.com, dsmall@lsl-la.com, kfinn@lsl-la.com
- John W Kim john@millerlawapc.com, johnkim@jwklawgroup.com
- Dare Law dare.law@usdoj.gov, ron.maroko@usdoj.gov; Alvin.mar@usdoj.gov
- John T Rosenthal jrosenthal@klinedinstlaw.com, zpereira@klinedinstlaw.com
- Heather L Rosing tweems@klinedinstlaw.com
- Susan K Seflin sseflin@bg.law
- United States Trustee (LA) ustprejon16.la.ecf@usdoj.gov

☐ Service information continued on attached page

2. SERVED BY UNITED STATES MAIL:

On _____, I served the following persons and/or entities at the last known addresses in this bankruptcy case or adversary proceeding by placing a true and correct copy thereof in a sealed envelope in the United States mail, first class, postage prepaid, and addressed as follows. Listing the judge here constitutes a declaration that mailing to the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

3. SERVED BY PERSONAL DELIVERY, OVERNIGHT MAIL, FACSIMILE TRANSMISSION OR EMAIL (state method

for each person or entity served): Pursuant to F.R.Civ.P. 5 and/or controlling LBR, on _____, I served the following persons and/or entities by personal delivery, overnight mail service, or (for those who consented in writing to such service method), by facsimile transmission and/or email as follows. Listing the judge here constitutes a declaration that personal delivery on, or overnight mail to, the judge will be completed no later than 24 hours after the document is filed.

☐ Service information continued on attached page

I declare under penalty of perjury under the laws of the United States that the foregoing is true and correct.

November 13, 2019 Susan K. Seflin
Date Printed Name

/s/ Susan K. Seflin
Signature

This form is mandatory. It has been approved for use by the United States Bankruptcy Court for the Central District of California.

File a Plan:[2:19-bk-10762-NB Koi Design LLC](#)

Type: bk

Chapter: 11 v

Office: 2 (Los Angeles)

Assets: y

Judge: NB

Case Flag: Incomplete, DEFER

U.S. Bankruptcy Court**Central District of California**

Notice of Electronic Filing

The following transaction was received from Susan K Seflin entered on 11/13/2019 at 5:14 PM PST and filed on 11/13/2019

Case Name: Koi Design LLC**Case Number:** [2:19-bk-10762-NB](#)**Document Number:** [214](#)**Docket Text:**

Amended Disclosure Statement *Debtor's First Amended Disclosure Statement Describing Debtor's First Amended Chapter 11 Plan of Reorganization Dated November 13, 2019 (with Proof of Service)* Filed by Debtor Koi Design LLC (RE: related document(s)[209] Disclosure Statement *Debtor's Disclosure Statement Describing Debtor's Chapter 11 Plan of Reorganization Dated November 5, 2019 (with Proof of Service)* Filed by Debtor Koi Design LLC.). (Seflin, Susan)

The following document(s) are associated with this transaction:

Document description:Main Document**Original filename:**First Amended Disclosure Statement.pdf**Electronic document Stamp:**

[STAMP bkecfStamp_ID=1106918562 [Date=11/13/2019] [FileNumber=96421593-0] [bd8a13173163c478ef9be1c41bb294cc504016a765cd3ded9a7e5f92701d523caf2933919b1eab3fd6a9bab756e1da9d673fa1451e76dc0f1e09c22b641c6f9c]]

2:19-bk-10762-NB Notice will be electronically mailed to:

Elizabeth L Agolla on behalf of Interested Party Courtesy NEF
notices@becket-lee.com, notices@becket-lee.com

Jessica L Bagdanov on behalf of Debtor Koi Design LLC
jbagdanov@bg.law, ecf@bg.law

Jessica L Bagdanov on behalf of Interested Party Courtesy NEF
jbagdanov@bg.law, ecf@bg.law

Jessica L Bagdanov on behalf of Plaintiff Koi Design LLC
jbagdanov@bg.law, ecf@bg.law

Howard Camhi on behalf of Creditor Strategic Partners, Inc.

hcamhi@ecjlaw.com, tcastelli@ecjlaw.com;amatsuoka@ecjlaw.com

Howard Camhi on behalf of Defendant Strategic Partners, Inc.
hcamhi@ecjlaw.com, tcastelli@ecjlaw.com;amatsuoka@ecjlaw.com

Howard Camhi on behalf of Interested Party Courtesy NEF
hcamhi@ecjlaw.com, tcastelli@ecjlaw.com;amatsuoka@ecjlaw.com

Vernon L Ellicott on behalf of Defendant The Bloom Firm, APC
vle@vlelaw.com

Vernon L Ellicott on behalf of Interested Party The Bloom Firm, APC
vle@vlelaw.com

Andy J Epstein on behalf of Interested Party Andy Epstein
taxcpaesq@gmail.com

Steven T Gubner on behalf of Interested Party Courtesy NEF
sgubner@bg.law, ecf@bg.law

James Andrew Hinds, Jr on behalf of Interested Party Courtesy NEF
jhinds@jhindslaw.com, mduran@jhindslaw.com

Alan Craig Hochheiser on behalf of Creditor AmTrust North America, Inc. on behalf of Security
National Insurance Company
ahochheiser@mauricewutscher.com, arodriguez@mauricewutscher.com

Mark D Hurwitz on behalf of Interested Party Wells Fargo Trade Capital Services, Inc.
mhurwitz@lsl-la.com, dsmall@lsl-la.com,kfinn@lsl-la.com

John W Kim on behalf of Defendant Marron Lawyers, APC
john@millerlawapc.com, johnkim@jwklawgroup.com

John W Kim on behalf of Interested Party Courtesy NEF
john@millerlawapc.com, johnkim@jwklawgroup.com

Dare Law on behalf of U.S. Trustee United States Trustee (LA)
dare.law@usdoj.gov

Matthew A Lesnick on behalf of Defendant Marron Lawyers, APC
matt@lesnickprince.com, matt@ecf.inforuptcy.com;jmack@lesnickprince.com

John T Rosenthal on behalf of Defendant The Bloom Firm, APC
jrosenthal@klinedinstlaw.com, zpereira@klinedinstlaw.com

Heather L Rosing on behalf of Defendant The Bloom Firm, APC
, tweems@klinedinstlaw.com

Susan K Seflin on behalf of Debtor Koi Design LLC

sseflin@bg.law

Susan K Seflin on behalf of Plaintiff Koi Design LLC
sseflin@bg.law

United States Trustee (LA)
ustpreion16.la.ecf@usdoj.gov

2:19-bk-10762-NB Notice will not be electronically mailed to:

Broadway Advisors, LLC

,

Cohn Handler Sturm

,