

STATE OF MINNESOTA

DISTRICT COURT

COUNTY OF HENNEPIN

FOURTH JUDICIAL DISTRICT
Case Type: Civil/Miscellaneous

In Re: Wayzata Home Products, LLC and
cliqstudios.com LLC.

Court File No. 27-CV-20-4326

Honorable David L. Piper

ASSIGNEE INTERIM REPORT

June 18, 2020

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I. Summary

Assignment – On March 13, 2020, Wayzata Home Products, LLC, (“WHP”) and its wholly-owned subsidiaries, cliqstudios.com LLC (“Cliqstudios”), 6 Square Cabinets LLC f/k/a Itasca Cabinets LLC, (“6 Square”) and Wayzata Cabinetry LLC (hereinafter collectively the “Assignor”), executed and delivered to Lighthouse Management Group, Inc. (the “Assignee” or “Lighthouse”) an assignment for the benefit of creditors (“Assignment”) which was filed with the Hennepin County District Court and comports with the requirements of Minn. Stat. § 577.13 (Court File No. 27-CV-20-4326).

Assignor’s Business – Prior to the Assignment, the Assignor operated Cliqstudios, an online retail store which made, marketed, and sold kitchen cabinets. The Assignor employed approximately 300 employees with operations in four leased locations including a 70,000 sq. ft. headquarters in Edina, Minnesota (“Edina Location”), design centers in St. Louis, Missouri (“St. Louis Location”), and Indianapolis (“Indianapolis Location”), and a 1.8 million sq. ft. warehouse and manufacturing facility in Connersville, Indiana (“Connersville Location”).

Assignor Ownership – Based on the Assignee’s understanding, Andrew Juang holds a majority interest in the Assignor through his controlling ownership interests in Wayzata Holdings, LLC and Equus Holdings, Inc. Wayzata Holdings, LLC holds 67% of the Assignor’s shares and Equus Holdings, Inc. holds 1%. Cliq Holdings, Corp., a subsidiary of Great Hills, Partners L.P., holds 27% interest in the Assignor. The remaining 5% is held by management and other individuals.

Assignment Property –All Assignment Property, except cash and receivables, has been sold or abandoned by the Assignee generating gross proceeds of approximately \$1.9 million. The Assignor did not own any real property. The Assignee estimates that approximately \$1 million to \$1.5 million may be available after expenses for distribution to unsecured creditors.

Creditor Claims – The Assignor has identified approximately 1,300 unsecured creditors including customers, trade vendors, and employees holding claims that may total approximately \$48 million. Well Fargo holds a secured interest in \$1.7 million that it is holding as a reserve against chargebacks and a secured interest in \$150,000 held in a cash account as collateral securing a Letter of Credit. It is unknown at this time what reserves have been withheld by AMEX and Bread or whether these creditors have a secured interest in any funds they have withheld. The Assignee is not aware of any other creditors holding a secured interest in Assignment Property.

II. Assignor Operations

Operations have Ceased – The Assignor ceased its business operations and terminated the majority of its 300 employees immediately prior to filing the Assignment on March 13, 2020. This included all employees at the St. Louis Location and Indianapolis Location. A skeleton crew of 14 employees were retained for a short period of time at the Edina and Connersville Locations. On April 3, 2020, the Assignor exited the Connersville Location; and operations ceased at the Edina Location on April 17, 2020.

Organizational Structure – Although WHP’s subsidiaries are separate legal entities, actual operations were consolidated. All of the Assignor’s employees worked for WHP and substantially all operating activities, vendor relations, IT infrastructure, and other primary business functions were operated as WHP. Cliqstudios and 6 Square were essentially marketing channels. While Cliqstudios was the Assignor’s direct-to-consumer retail channel and the face of the business for most customers, 6 Square was the direct-to-contractor channel for sales to kitchen designers and other contractors. At the time the Assignment was filed, Wayzata Cabinetry was no longer in operation.

Customer Order and Payment Process – Most of the Assignor’s revenue was derived from direct-to-consumer retail sales received via the cliqstudios.com website. Most customers paid for 100% of their order in advance, usually via credit card, and received their cabinets 6-8 weeks later. At the time of filing, the Assignor’s had customer deposits totaled approximately \$4.3 million. Since their orders were not fulfilled, these customers

have claims against either the Assignor or the customer's credit card provider. Any refund paid by a customer's credit card provider will result in the Assignor's merchant card services providers, Wells Fargo and American Express, holding a chargeback claim against the Assignor.

The Assignor also generated a small amount of revenue from direct-to-contractor sales to kitchen designers and other contractors. These orders were billed net 30. Receivables for direct-to-contractor orders at the time of filing were \$266,421. It is unknown at this time what portion of these receivables are collectable.

III. Assignment Property

Assignment Property – Assignment Property is defined in the Assignment as,

“all real property, fixtures, goods, stock, inventory, equipment, furniture, furnishings, accounts receivable, general intangibles, bank deposits, cash, promissory notes, cash value and proceeds of insurance policies, claims, and demands belonging to the assignor, wherever the property may be located.”

The Assignor does not own any real property. The Assignee has identified the following tangible and intangible assets held by the Assignor at the time the Assignment was filed:

- Cash totaling \$951,469;
- Chargeback reserves totaling approximately \$1.7 million held by Wells Fargo;
- Approximately \$150,000 held by Well Fargo as collateral against a line of credit;
- Accounts Receivable totaling \$266,421;
- Prepayments and security deposits to insurance providers and other creditors;
- Inventory primarily located at the Connersville Location;
- Woodworking and finishing production at the Connersville Location;
- Intellectual Property (including trademarks, a digital footprint, website, other digital assets);
- Customer lists;
- IT infrastructure equipment; and
- Furniture and office equipment located at the Assignor's operating locations.

Assignment Property Value – The book value of the Assignor's manufacturing equipment, including unrecoverable leasehold improvements, was \$3.1million; and inventory was \$15.3 million. Estimates provided by Grafe Auction assessed the market

value of the manufacturing equipment to be under \$250,000 and the market value of the inventory in its unassembled state to be essentially zero since the components were unique to the Assignor's product line and assemblies were custom designed for each customer order. Furthermore, any value that could be obtained from liquidating Assignment Property at any location would be offset by the liquidation and occupancy expenses that would be incurred during the time it would take to complete the liquidation process (on the date the Assignment was filed, March 13, 2020, the Assignor had monthly lease and CAM obligations that totaled over \$170,000 per month). This concern was exasperated by COVID-19 and the resulting travel limitations that were implemented by state and local governmental authorities shortly after the Assignment was filed.

The Assignee determined that there was value, for the right buyer, in the Assignor's online presence including its brand identify, digital footprint, customer lists, and IT infrastructure. The Assignee also determined that a buyer interested in the Assignor's online presence would also be willing to pay more for the Assignor's manufacturing equipment and inventory than would be obtained from a liquidation sale. The primary concern was that the value the Assignor's online presence diminished the longer the business remained dormant. Accordingly, the Assignee initiated an aggressive marketing strategy aimed at locating one or more buyers capable of purchasing the buyer's entire online presence and tangible assets on an extremely expediated basis.

Assignment Property Sold – The Assignee's marketing efforts resulted in interest from over 30 potential bidders. Approximately 20 bidders executed non-disclosure agreements and received access to the information necessary to perform due diligence. The Assignee also scheduled several online "Q&A" sessions, in which the marketing team presented information and entertained questions from potential bidders.

The result of this process was that seven bids were received. On April 2, 2020, after negotiating with the bidders, the Assignee accepted a bid from CliqStudios Cabinets, LLC ("CliqStudios Cabinets"), an Ohio limited liability company, unaffiliated with the

Assignor, formed for the sole purpose of purchasing the following Assignment Property for \$1,800,000:

- Direct to Trade (Pro) customer lists;
- Consumer leads for past 12 months;
- Cliqstudios Digital Footprint (SEO), including the Cliqstudios name, trademark, website, and all digital assets;
- Inventory;
- Manufacturing equipment; and
- IT infrastructure equipment.

On April 28, 2020, the Court issued an order approving the sale of the Assignment Property to CliqStudios Cabinets. It is the Assignee's understanding that subsequent to the sale, CliqStudios Cabinets has hired at least 70 of the Assignor's former employees and reestablished an active online presence.

In a separate transaction, CliqStudios Cabinets purchased computer equipment located in the Edina Location for \$20,000. The remaining office equipment and furniture at the Edina Location was sold to Equus Holdings, Inc., an entity owned by Mr. Juang, for \$50,000.

Assignment Property Abandoned – The Assignee abandoned certain Assignment Property after determining that the expense of obtaining control and selling these assets exceeded their value. Assignment Property that was abandoned includes:

- Backup infrastructure equipment located near Arnold, Maryland;
- Prepaid human resources assessments to evaluate and assess potential employees;
- Computer equipment and furniture located at the Indianapolis Location; and
- Computer equipment and furniture located at the St. Louis Location.

Although the Assignee abandoned the computer equipment at the Indianapolis and St. Louis Locations, costs were incurred to erase the data on the computers to ensure protection of any sensitive customer information.

IV. Creditors & Claims Process

Notice of Assignment – On March 26, 2020, the Assignee mailed a notice of the Assignment to all known creditors of the Assignor. The recipients list included

approximately 1,300 creditors and parties of interest. The recipients are identified on the Affidavit of Service filed with the Court on March 26, 2020.

Claims Process – The Assignee has filed a motion to be heard on June 25, 2020, for approval of a claims process. In the motion, the Assignee seeks an order, pursuant to Minn. Stat. § 576.49, establishing a claims procedure to identify and determine the claims against the Assignment Property. Specifically, the Assignee seeks an order: (i) approving the proof of claim form and notice of claims procedure; (ii) setting a deadline to file claims where the creditor disagrees with the Assignee’s calculation of the creditor’s claim; (iii) authorizing the Assignee to use the Assignors’ books and records to create a preliminary claims register; and (iv) approving a review and objection process for claims. The Assignee maintains that the proposed claims procedure will best facilitate the efficient determination of creditors’ rights and the administration of this case and is appropriate under the circumstances of this case.

Unsecured Creditor Claims – The Assignee has reviewed the Assignor’s books and records and estimates that approximately \$1 million to \$1.5 million may be available to pay approximately 1,300 unsecured creditor claims that may total approximately \$48 million. These estimates could change significantly as more information is obtained. Any distribution to unsecured creditors will be made on a pro-rata basis in their respective orders of priority, as defined in Minn. Stat. § 576.49. Most unsecured creditors’ claims will likely be paid a distribution at 2%-4% of the amount owed to the given claimant.

Secured Creditor Claims – Wells Fargo and AMEX both provided merchant credit card servicing to the Assignor and Bread provided consumer financing to the Assignor’s customers. These creditors may have claims against the Assignor for chargebacks resulting from unfulfilled orders and warranty issues. Wells Fargo holds a secured interest in approximately \$1.7 million it is holding as a reserve against chargeback claims that could be as much as \$3.3 million. It is unknown at this time what reserves have been withheld by AMEX and Bread or whether these creditors have a secured interest in any funds they have withheld.

Wells Fargo also holds a secured interest in a \$150,000 cash account held by Wells Fargo as collateral securing potential claims against an Irrevocable Standby Letter of Credit provided for the Assignor's benefit. The exposure period for the letter of credit expires in November 2020, at which time the Assignee will take the actions necessary to release the collateral.

V. Motion to Extend Stay and Certain Other Relief

On April 7, 2020, the Assignee served and filed a Notice of Motion and Motion to extend the limited stay provided by Minn. Stat. § 576.42, subd. 4 by 90 days. On April 28, 2020, the Court granted the Assignee's request and extended the stay to July 11, 2020.

VI. Professionals Retained

Independent Contractors – After the Assignment was filed, the Assignee engaged 14 former employees of the Assignor to help with the winddown of the operation, including the sale process of the Assignor's assets. These professionals were assisting the Assignee in collection activities, bookkeeping, and the marketing of the Assignor's assets. The length of these engagements varied from a few days to six weeks. As of May 7, 2020, only one person remains, the Assignor's former controller, Krista Honsa. As of that date, Ms. Honsa has been employed as an independent contractor to continue to assist with the wind down of the Assignor's operations and assist the Assignee with the claims process.

Barnes & Thornburg – The Assignee has engaged the law firm of Barnes & Thornburg LLP, with a strong legal presence in Minnesota and Indiana, to advise and assist the Assignee in legal matters related to the Assignment.

Donlin Recano – The Assignee hired Donlin, Recano & Company, Inc. to serve as a process server of pleadings filed in this matter; as well as maintain a website to provide parties an opportunity to review filed pleadings online:

<https://www.donlinrecano.com/Clients/whp/Index>.

VII. Sources and Uses of Cash

Exhibit 1 is a Sources and Uses of Cash Statement identifying all cash receipts and disbursements since the Assignment filing on March 13, 2020 through June 17, 2020.

Cash on Hand at Filing – Cash held by the Assignor when the Assignment was filed totaled \$1.2 million. This amount includes \$267,975 of customer sale tax payments held in trust by the Assignor pending payment to the appropriate taxing authorities.

Cash Receipts – Accounts receivable collections total \$126,150 and approximately \$1.9 million was received from the sale of Assignment Property resulting in total cash receipts by the Assignee of approximately \$2.0 million.

Labor Expense – Payroll and Contract Labor obligations totaling \$907,360 have been paid by the Assignee including \$502,702 for the pre-assignment payroll period immediately prior to the filing. The pre-assignment payroll was paid since these employee obligations have priority over other creditors pursuant to Minn. Stat. § 576.51, subd. 1(3).

Pre-assignment obligations to employees for PTO and commissions totaling approximately, \$508,553 have not been paid. Of these obligations, approximately \$279,622 were incurred within 90 days of the filing and are expected have priority over other creditors pursuant to Minn. Stat. § 576.51, subd. 1(3).

Sales Tax – Sales tax collections held in trust by the Assignor totaling \$267,875 have been distributed to the appropriate taxing authorities.

General & Administrative – Payments totaling \$89,842 were made for general and administrative expenses including shipping expenses totaling \$58,479, bank fees totaling \$19,995 and miscellaneous expenses totaling \$11,369. Shipping expenses were incurred to complete orders in transit at the time of filing under the expectation that the resulting receivable collections would be in excess of the shipping expense paid.

Professional Fees – Professional Fees totaling \$420,659 have been paid including: \$366,983 paid to the Assignee; and \$53,676 paid to the Barnes & Thornburg law firm.

VIII. Notice of Objection

Notice of Objection Period – Any objection to a monthly report must be filed with the Court and served on the assignee and all interested parties no later than seven calendar days from the date of the filing of the monthly report. The objection must identify with specificity all items of the monthly report to which objection is made, the grounds for the objection, the facts supporting the objection and any legal authority therefor. Failure to timely and properly object to a monthly report constitutes a waiver of all objections to the monthly report and the monthly report shall be deemed approved for all purposes.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read 'S. Sigelman', is written over a horizontal line.

Lighthouse Management Group Inc. as Receiver

By: Samuel Sigelman

Its: Director

IX. Schedule of Exhibits

Exhibit 1 Source and Uses of Cash

Exhibit 1

Wayzata Home Products
Sources and Uses of Cash by Month
March 13, 2020 to June 17, 2020

Account	(All)				
Sum of Amount Source/(Use) of Cash	Month Mar	Apr	May	Jun	Total
Cash In					
Starting Cash	\$1,219,444				\$1,219,444
Accounts Receivable	\$60,889	\$11,910	\$9,802	\$43,549	\$126,150
Sale of Assets		\$1,871,242			\$1,871,242
Cash In Total	\$1,280,333	\$1,883,152	\$9,802	\$43,549	\$3,216,835
Cash Out					
Payroll	(\$567,728)	(\$318,218)	(\$16,009)	(\$5,406)	(\$907,360)
Sales Tax			\$498	(\$268,473)	(\$267,975)
Shipping	(\$23,218)	(\$24,794)	(\$8,599)	(\$1,868)	(\$58,479)
Bank Fees	(\$23,668)	\$7,158	\$0	(\$3,485)	(\$19,995)
G&A	(\$9,927)	(\$1,442)		(\$53,676)	(\$65,045)
Professional Fees	(\$122,019)	(\$127,902)	(\$61,100)	(\$55,962)	(\$366,983)
Cash Out Total	(\$746,560)	(\$465,196)	(\$85,210)	(\$388,871)	(\$1,685,836)
Transfer	\$0	(\$0)	\$0		(\$0)
Total	\$533,773	\$1,417,956	(\$75,408)	(\$345,322)	\$1,530,999
Ending Cash	533,773	1,951,729	1,876,321	1,530,999	