

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

In re:

BASIC FUN, INC., *et al.*,¹

Debtors.

Chapter 11

Case No. 24-11432 (CTG)

(Joint Administration Requested)

**DECLARATION OF FRANK MCMAHON, CHIEF FINANCIAL
OFFICER OF THE DEBTORS, IN SUPPORT OF CHAPTER 11
PETITIONS AND FIRST DAY PLEADINGS**

I, Frank McMahon, hereby declare under penalty of perjury:

1. I am the Chief Financial Officer of Basic Fun, Inc., and its affiliates that are debtors and debtors in possession (collectively, the “**Debtors**”, or the “**Company**”). I have served as the Debtors’ Chief Financial Officer since March 2021. I received my Bachelor of Science in Accounting from the University of Florida and my Master of Science in Accounting from the University of Central Florida. In addition to my role with the Debtors, I have over 20 years of financial experience, including nine years in public accounting and 12 years working elsewhere in the private sector. I have also been a licensed CPA since 2004.

2. In my capacity as Chief Financial Officer, working with the Debtors’ advisors, I have provided long-term strategic planning, financial modeling, evaluation of acquisition targets, annual budget review, asset disposition, and forecasting guidance. I have personal knowledge of, and am familiar with, the business affairs, day-to-day operations, books and records, and financial condition of the Debtors, and I am authorized to submit this declaration (this “**Declaration**”) on

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number or United Kingdom registration number, as applicable, are: Basic Fun, Inc. (9742), Basic Fun Holdco, LLC (0066), TGS Acquisition, LLC (3011), TBDUM, LLC (9615), and K’NEX UK Limited (1398). The location of the Debtors’ principal place of business and the Debtors’ mailing address is 301 Yamato Road, Suite 4200, Boca Raton, Florida 33431.

behalf of the Debtors. Except as otherwise noted, I have personal knowledge of the matters set forth herein or have gained knowledge of such matters from the Debtors' employees, agents, attorneys, and advisors, the accuracy and completeness of which information I relied upon to provide this Declaration.

3. I submit this Declaration to assist the Court and parties in interest in understanding the circumstances that led to the commencement of the above-captioned chapter 11 cases (the "**Chapter 11 Cases**") and in support of: (a) the Debtors' voluntary petitions for relief under Chapter 11 of Title 11 of the United States Code (the "**Bankruptcy Code**") filed on June 28, 2024 (the "**Petition Date**") in the United States Bankruptcy Court for the District of Delaware (the "**Court**"); and (b) the relief that the Debtors have requested from the Court pursuant to the motions and pleadings filed on or about that same date (collectively, the "**First Day Pleadings**").

4. The Debtors remain in possession of their assets and continue to operate their businesses as debtors-in-possession pursuant to Bankruptcy Code sections 1107 and 1108.

5. References to the Bankruptcy Code, the chapter 11 process, and related legal matters are based on my understanding of such matters in reliance on the explanation provided by, and the advice of, counsel or from my personal experience. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

6. To familiarize the Court with the Debtors and the relief the Debtors seek early in these Chapter 11 Cases, this Declaration is organized into four sections. Section I provides an introduction to the Debtors and detailed information on the Debtors' corporate history and business operations. Section II provides an overview of the Debtors' prepetition capital structure. Section III describes the circumstances leading to the commencement of the Chapter 11 Cases and the objectives of the Chapter 11 Cases. Section IV sets forth the relevant facts in support of each of

the First Day Pleadings filed in connection with the Chapter 11 Cases,² which the Debtors believe are critical to administering the Chapter 11 Cases and preserving and maximizing the value of the Debtors' estates. With respect to Section IV of this Declaration, capitalized terms not otherwise defined therein shall have the same meanings as defined in the relevant First Day Pleading being discussed.

I. Overview of the Debtors' Business

7. The Company is a global children's entertainment company that creates, designs, markets and distributes a diversified portfolio of innovative toys, games, products, and entertainment properties throughout the world. The Company's principal place of business is located in Florida. The Company maintains a website at the following address: www.BasicFun.com.

8. The Company's product lines consist of various products from both owned and licensed brands. Owned brands include, but are not limited to, K'nex, Mash'ems, Misfittens, Cutetitos, Playhut, and Uncle Milton. Licensed brands include, but are not limited to, Care Bears, Lite Brite, Tonka, Nintendo Amusement, Lincoln Logs, and My Little Pony Retro.

9. The Debtors' inventory is sold to various retail customers such as Target, Walmart, Amazon, Macy's, Costco, and other similar toy and game purchasers, as well as amusement parks and fun centers. Approximately 70% of the Company's revenue is generated from the Company's licensed products. The Company's relationships with its licensors are a key component of the Company, and they are overseen by the Company's management, including Jay Foreman and Steve Littman.

² The relevant facts in support of the DIP Motion are set forth more fully in the Declaration of Bruce Buchanan filed concurrently with the DIP Motion (the "**Buchanan Declaration**").

A. Corporate History and Business Operations

10. The Company was started by Jay Foreman in 2009 as a licensing and logistics business under the business entity name: The Bridge Direct, Inc. The Company then transitioned into the business of acquiring toy companies and products. The Company has focused on acquiring companies that have well-known, steady toys in order to build a consistent profit base. To that end, beginning in 2013, the Company engaged in a number of mergers and acquisitions.

11. In 2013, the Company acquired the assets of The Good Stuff Company, which was in the business of designing, manufacturing, marketing and selling plush toys, inflatable balls, soft-play sports sets, baseball caps, towels, and other novelty items to the amusement park, private label, and sporting goods markets, and also included a novelty toy business branded under the “Basic Fun” tradename.

12. In 2015, the Company acquired the Shopkins license for construction toys, which was a breakout toy line for the Company in 2015 and 2016.

13. In 2017, the Company acquired assets of Uncle Milton Industries, Inc. through an assignment for the benefit of creditors. Uncle Milton Industries, Inc. was a leader in the science and educational toy category, with a portfolio that includes many top entertainment and educational licenses as well as proprietary brands. The Uncle Milton brands include products that span across many product categories including science toys, activity and outdoor toys, room décor, games and puzzles, seasonal toys, gifts, and more.

14. Also in 2017, the Company entered into a business combination with Tech 4 Kids, Inc., a Canadian toy company, which included The Bridge Direct, Tech 4 Kids, K’nex, Good Stuff and Uncle Milton. The Company was renamed Basic Fun, Inc. (“**Basic Fun**”), and the Company and its subsidiaries generally ceased to use the Bridge Direct and Tech 4 Kids tradenames.

15. In 2018, the Debtors acquired in a foreclosure sale the assets of Smart Brands International Co, LLC d/b/a K'NEX Brands, which sells the K'nex toy product line, which are building toys made up of rod and connector building systems specially designed for every age group and skill level. The Company also acquired the licenses to manufacture and sell the following toy brands: Lincoln Logs, Tinker Toys and My Little Pony.

16. In 2018, the Company acquired in a sale pursuant to Section 363 of the Bankruptcy Code certain assets of Playhut, Inc., which produced a line of indoor and outdoor play structures, including lightweight popup playhouses, tents, tunnels and games.

17. Also in 2018, the Company launched a successful proprietary brand, Cutetitos, a line of plush, stuffed animals.

18. In 2020, the Company acquired the master license for Care Bears and Tonka, two iconic, well-known toy brands.

19. Despite the Company's successful acquisition of many major toy companies and products over 10 years, in fiscal year 2023, the Company recognized total net sales of approximately \$144.1 million, representing a decrease of \$15.3 million, or 9.6%, compared to fiscal year 2022. The decrease in the net sales from 2022 to 2023 was in large part attributable to decreased consumer spending on toys and games, coupled with a surplus in inventory, as discussed in more detail below.

II. Prepetition Corporate and Capital Structure.

A. Corporate Structure

20. As set forth on the organizational chart attached hereto as Exhibit A, Basic Fun is a Delaware corporation and wholly owns Debtors (i) TBDUM, LLC, a Delaware limited liability company ("TBDUM"); (ii) TGS Acquisition, LLC, a Delaware limited liability company ("TGS"), and (iii) K'NEX UK Limited, a UK private limited company ("K'NEX"). Basic Fun is

wholly owned by Debtor Basic Fun Holdco, LLC, a Delaware LLC (“**Holdings**”). Holdings is wholly owned by non-debtor Basic Fun, LP, a Delaware limited partnership (“**Non-Debtor Parent**”).

21. BF GP, Inc., a Delaware corporation, is the general partner of the Non-Debtor Parent (the “**General Partner**”). Jay Foreman owns 100% of the equity interests in the General Partner. The following persons and entities own limited partnership interests in the Non-Debtor Parent: (i) Jay Foreman (6,471,498.12 Units of Class A-1 Limited Partnership Interests and 519,000 Units of Class A-2 Limited Partnership Interests), (ii) MacDonald Family Limited Partners (3,008,501.91 Class A-1 Limited Partnership Units), (iii) CCNAS Investment Holdings, LLC (468,000 Class A-1 Limited Partnership Units and 52,000 Class A-3 Limited Partnership Units), (iv) Falcon Structured Equity Partners, LP (1,712,558.31 Class A-1 Limited Partnership Units 190,284.26 Class A-4 Limited Partnership Units (subject to adjustment) and 400,000 Class C Limited Partnership Units), and (v) various employees of the Company (55,559.50 Class B Limited Partnership Units in aggregate).

22. Basic Fun also wholly owns the following non-Debtor affiliates: (i) Tech 4 Kids (Far East) Limited, a Hong Kong corporation (“**Tech 4 Kids HK**”), and (ii) The Bridge Direct (HK) Holdings Limited, a Hong Kong corporation (“**The Bridge Direct Holdings HK**”). The Bridge Direct Holdings HK wholly owns The Bridge Direct (HK) Limited, a Hong Kong Corporation (“**The Bridge Direct HK**”, together with The Bridge Direct Holdings HK and Tech 4 Kids HK, the “**Non-Debtor Affiliates**”). The Non-Debtor Affiliates provide manufacturing support for the Company’s business.

23. The Non-Debtor Affiliates operations in Hong Kong are funded weekly by transfers from the Debtors to the Non-Debtor Affiliates’ Hong Kong bank accounts based on management’s

determination of funding needs. The Non-Debtor Affiliates provide a cash flow forecast of what their projected disbursements will be for each week. Based on the cash flow forecast, the director of accounting sends a list of payments to be approved, which includes payments for, *inter alia*, rent, utilities, payroll, quality control. Then Debtor Basic Fun funds those payments through a wire to the Hong Kong bank accounts.

24. Each of the Debtors is an obligor under one or more of the Company's Prepetition Secured Obligations (defined below), by way of being a borrower or a guarantor.

25. Debtor Basic Fun is governed by a Board of Directors (the "**Board**"), which is composed of five (5) members: Jay Foreman, John MacDonald, Lisa Buchanan, Mike Swartz, and Berj Garabedian. Prior to the Petition Date, the Company appointed Lisa Buchanan as an independent director for the Debtors, replacing Steve Littman.

26. The Board of Managers for Holdings is identical to the Board for Basic Fun. Each of TGS, TBDUM and K'Nex is managed by Basic Fun, its sole member. The Board of Directors of K'NEX is composed of the following three directors: Messrs. Foreman, MacDonald and Littman.

27. The Debtors employ approximately 112 employees in the United States, three (3) employees in Canada, five (5) employees in the United Kingdom, and [sixty (60)] employees in Hong Kong. None of the Debtors' employees are subject to a collective bargaining agreement or represented by a trade or labor union.

B. Equity Ownership

28. Basic Fun is a Delaware corporation. Basic Fun is authorized to issue 100 shares of Common Stock, all of which is issued and outstanding, and owned by Holdings.

C. Prepetition Secured Debt

a. 2017 RBC Credit Agreements – The Initial Loans

29. In 2017, as part of the business combination of Tech 4 Kids and the Bridge Direct, the Company began the process of raising third party capital through two tranches of loans provided by Royal Bank of Canada (“**RBC**”) and certain other senior lenders. In the initial round, the Company borrowed approximately \$40 million in senior loans and \$15 million in mezzanine loans from RBC, along with access to a \$20 million accordion line for acquisitions (the “**Initial Debt Raise**”).

30. On August 3, 2017, Basic Fun Canada Holdings, Inc., Basic Fun, Ltd., Holdings, the subsidiaries of Holdings from time to time party thereto, as borrowers, the lenders from time to time party thereto (the “**2017 Senior Lenders**”), and RBC, as administrative agent, entered into that certain Credit Agreement (the “**2017 RBC Senior Credit Agreement**”), pursuant to which the 2017 Senior Lenders made available to the Company \$40,000,000 in senior term loans and a \$20 million accordion line for acquisitions (the “**2017 RBC Senior Obligations**”).

31. On the same date, Basic Fun, as borrower, Holdings, the subsidiaries of Holdings party thereto, and RBC, as collateral agent for the lenders (in its capacity as collateral agent, the (“**2017 Mezzanine Agent**”)) for the several financial institutions from time to time party thereto (“**2017 Mezzanine Lenders**”) and for itself as lender entered into that certain Subordinate Credit Agreement (as amended by amending agreements dated November 30, 2017, February 6, 2018, June 11, 2018, August 1, 2018, February 5, 2019, March 29, 2019, May 3, 2019, June 28, 2019, November 8, 2019 and July 15, 2020 and by consents dated May 14, 2020 and June 9, 2020, the “**2017 Mezzanine Credit Agreement**”), pursuant to which the Mezzanine Lenders made available to the Company up to \$15,000,000.00 in subordinate loans (the “**Original Mezzanine Loans**”).

32. In December of 2017 the company commenced due diligence toward acquiring the assets of K’Nex. The transaction closed in February 2018 and the 2017 Senior Lenders advanced

\$5,000,000 through the accordion facility, matched by a former investor in K’Nex, CCNAS Investment Holdings, Jay Foreman and John MacDonald.

33. On July 15, 2020, the 2017 Mezzanine Credit Agreement was amended pursuant to that certain Amendment No. 10 to Subordinate Credit Agreement, pursuant to which the Mezzanine Lenders agreed to make an additional loan to Basic Fun in the principal amount of \$2,500,000 (the “**First Out Loan I**”) by way of a single advance in the full amount thereof.

34. Also on July 15, 2020, Jay Foreman and John MacDonald entered into those certain Participation Agreements, pursuant to which (i) Jay Foreman purchased a 100% participation interest in RBC’s right, title and interest in, to the First Out Loan I in the amount of \$1,750,000 outstanding, which represented a 70% share of the First Out Loan I; and (ii) John MacDonald purchased an undivided 100% participation interest in RBC’s right, title and interest in, to the First Out Loan I in the amount of \$750,000 outstanding, which represented a 30% share of the First Out Loan I.

b. SLR Credit Agreement – The 2020 Refinancing Transaction

35. In late 2019, uncertainty in the market as a result of the Toys R Us Bankruptcy (defined below) and the Covid-19 Pandemic led RBC to advise the Company that RBC would not extend the 2017 RBC Senior Obligations beyond its stated maturity date of September 30, 2020. RBC moved the account to their Special Loan’s Group and hired A&M to monitor cashflow and report on the company’s performance. A Term Sheet negotiated with PNC was ultimately withdrawn as a result of Covid-19 impact uncertainty. As a result, the Company needed to refinance its 2017 RBC Senior Obligations (the “**2020 Refinancing Transaction**”).

36. On October 30, 2020, Debtor Basic Fun, Inc., as borrower and borrower representative, and Debtors Holdings, K’NEX, TBDUM, and TGS as guarantors, entered into that certain Credit Agreement (as amended by that certain Waiver and First Amendment to Credit

Agreement, dated as of April 26, 2021, that certain Second Amendment to Credit Agreement, dated as of October 27, 2021, that certain Waiver and Third Amendment to Credit Agreement Dated December 30, 2021, and as further amended, restated, amended and restated, supplemented or otherwise modified, the “**2020 SLR Credit Agreement**”) with Crystal Financial LLC d/b/a SLR Credit Solutions (“**SLR**”) and each other lender from time to time party thereto (the “**Prepetition Senior Lenders**”), and SLR as administrative agent (the “**Prepetition Senior Agent**”).

37. Pursuant to the 2020 SLR Credit Agreement, the Prepetition Senior Lenders made available to the Debtors (i) a revolving credit facility in the maximum aggregate principal amount of \$20,000,000.00 (the “**Prepetition Senior Credit Facility**”), subject to a traditional ABL borrowing base; and (ii) a term loan in the maximum principal amount of \$20,000,000.00 (the “**Prepetition Senior Term Loan**”, together with the Prepetition Senior Credit Facility, the “**Prepetition Senior Secured Obligations**”). The Prepetition Senior Secured Obligations are secured by a first-priority security interest in favor of the Prepetition Senior Agent, for the benefit of the holders of the Prepetition Senior Secured Obligations, in substantially all of the Debtors’ assets.

38. As of the Petition Date, the outstanding principal amount owed by the Debtors with respect to the Prepetition Senior Term Loan was not less than \$20,000,000.00 and \$326,164.74 with respect to the Prepetition Senior Credit Facility.

c. RBC Amended and Restated Mezzanine Debt

39. On October 30, 2020, Basic Fun as borrower, Holdings, K’NEX, TBDUM, and TGS as other loan parties, RBC as collateral agent (“**Prepetition Mezzanine Agent**”, together with the Prepetition Senior Agent, the “**Prepetition Agents**”) for the several lenders from time to time party thereto (“**Prepetition Mezzanine Lenders**”, together with the Prepetition Senior

Lenders, the “**Prepetition Secured Lenders**”) and for itself as lender entered into that certain Amended and Restated Subordinate Credit Agreement (the “**Amended And Restated Mezzanine Credit Agreement**”), pursuant to which the parties agreed to amend and restate the terms of the 2017 RBC Mezzanine Credit Agreement. Pursuant to the terms of the Amended and Restated Mezzanine Credit Agreement, the Mezzanine Lenders agreed to advance an additional \$2,500,000 to the Company (the “**First Out Loan II**”), which has been fully repaid. The Original Mezzanine Loans, First Out Loan I, and First Out Loan II shall be collectively referred to herein as the “**Prepetition Mezzanine Secured Obligations**”. The Prepetition Mezzanine Secured Obligations are secured by a second-priority security interest in favor of the Prepetition Mezzanine Agent, for the benefit of the holders of the Prepetition Mezzanine Secured Obligations, in substantially all of the Debtors’ assets.

40. As of the Petition Date, the outstanding principal amount owed by the Debtors with respect to the Prepetition Mezzanine Secured Obligations was not less than \$[16,436,335.00].

41. The Prepetition Mezzanine Secured Obligations together with the Prepetition Senior Secured Obligations shall be collectively referred to herein as the “**Prepetition Secured Obligations**”.

d. The Falcon Investment

42. In January 2018, the Company and the Non-Debtor Parent also sought out a private equity partner to invest in the business, hiring BMO Capital Markets. Though there were initially several interested parties, due to factors including the Toys R Us Bankruptcy (discussed in more detail below), only one party, Falcon Structured Equity Partners, LP (“**Falcon**”), committed to an investment that the Non-Debtor Parent and its existing equity holders deemed to be acceptable. Due Diligence was commenced in March 2018 and concluded in July 2018.

43. On August 1, 2018, Falcon and the Non-Debtor Parent entered into that certain Partnership Interest Purchase Agreement, pursuant to which Falcon invested \$40 million in consideration for 400,000 units of Series C Preferred Partnership Interests, which accrue a preferred return of 10% per annum, and 178,533.48 Class A-4 Limited Partnership Interests (subject to certain adjustments) which represented approximately 14% of the “common equity” of the Non-Debtor Parent (the “**Falcon Investment**”).

44. Ten Million (\$10,000,000) of the proceeds of the Falcon Investment were loaned by Non-Debtor Parent to the Company pursuant to a Term Note (the “**Falcon Contribution Note**”). The Falcon Contribution Note is subordinated in payment to all of the current and past secured debt obligations of the Company.

45. In addition, at the time of the Falcon Investment there was an outstanding \$5,000,000 of Notes documenting \$5,000,000 loaned by Non-Debtor Parent to the Company in connection with the K’Nex acquisition (the “**K’Nex Note**”). The Non-Debtor Parent had borrowed the \$5,000,000 from Messrs. Foreman and MacDonald pursuant to notes issued by Non-Debtor Parent, which notes to Messrs. Foreman and MacDonald were repaid by Non-Debtor Parent from the proceeds of the Falcon Investment. The K’Nex Note is subordinated in payment to all of the current and past secured debt obligations of the Company. The remainder of the \$40,000,000 equity investment repaid Foreman and MacDonald and a former unit holder \$17,000,000 for his 26% interest in the company, senior employee distributions and transaction fees.

D. Additional Owner Loans and Capital Investments.

46. During 2019 and in connection with negotiations with RBC and to obtain forbearance from certain defaults pursuant to the 2017 RBC Senior Credit Agreement and the 2017 Mezzanine Credit Agreement, the Company, and ultimately amendments to those loan Agreement, the Company was required to obtain additional liquidity.

47. On March 29, 2019, Messrs. Foreman and MacDonald loaned the Non-Debtor Parent an aggregate of \$5,000,000 pursuant to Term Notes (the “**March Owner Notes**”). All of the proceeds of the March Owner Notes were used by the Non-Debtor Parent to make a loan to the Company pursuant to a term note (the “**March LP Note**”).

48. On June 28, 2019, Messrs. Foreman and MacDonald loaned the Non-Debtor Parent an aggregate of \$8,000,000 pursuant to Term Notes (the “June Owner Notes”). All of the proceeds of the June Owner Notes were used by the Non-Debtor Parent to make a loan to the Company pursuant to a term note (the “**June LP Note**”).

49. On September 30, 2019, Messrs. Foreman and MacDonald loaned the Non-Debtor Parent an aggregate of \$5,000,000 pursuant to Term Notes (the “**September Owner Notes**”, and collectively with the March Owner Notes and the June Owner Notes, the “**Owner Notes**”). All of the proceeds of the September Owner Notes were used by the Non-Debtor Parent to make a loan to the Company pursuant to a term note (the “**September LP Note**”, and together with the K’Nex Note, the Falcon Contribution Note, the March LP Note and the June LP Note, the “**LP Notes**”).

50. The LP Notes were all amended and restated as of October 30, 2020 and have a Maturity Date of April 29, 2024, and are fully subordinated to the debt pursuant to the Prepetition Senior Facility and the Prepetition Mezzanine Facility.

51. The \$18 million in principal amount of Owner Notes were amended and restated on October 30, 2020 and provide that on April 1, 2021 they were converted into Junior Preferred Securities (as defined below). “Junior Preferred Securities” is a newly created class of Partnership Interests of Non-Debtor Parent which (w) is entitled to aggregate liquidation preference distributions equal to the amount of any principal and interest of the converted Owner Note plus a preferred return, (x) is not convertible to any other equity security of Borrower, (y) has no voting

rights or other rights under the LP Agreement, other than rights to approve amendments to the terms of the Junior Preferred Securities and (z) has rights to distributions (including upon liquidation and redemption) junior to the Class C Units and only after payment in full of the Class C Liquidation Preference (but senior to the rights of the Class A Units and Class B Units of the Non-Debtor Parent).

52. On October 30, 2020, in connection with, and as condition to, the 2020 Refinancing Transaction, the Non-Debtor Partner sold \$1,000,000 of Class A-1 Units in the Non-Debtor Partner to the existing Class A Unitholders. In that transaction, Mr. Foreman acquired 6,292,348.31 Class A-1 Units for \$562,793.75, Mr. MacDonald acquired 2,707,651.72 Class A-1 Units for \$242,175.00, Falcon acquired 1,712,558.31 Class A-1 Units for \$153,172.88 and CCNAS Investment Holdings, LLC acquired 468,000 Class A-1 Units for 41,858.37.

E. Lease Obligations

53. The Debtors are parties to certain leases from which it operates its businesses, including: (i) The Company Headquarters in Boca Raton, Florida (“**FL Headquarters**”); (ii) The storage facility in Boca Raton, Florida (the “**FL Storage Facility**”); (iii) a showroom in Los Angeles, California (the “**CA Showroom**”); and a showroom in Hong Kong (the “**HK Showroom**”) (collectively, the “**Leased Facilities**”).

54. Debtors estimate that no amounts are currently due and owing on account of the Leased Facilities as of the Petition Date.

F. Shippers, Freight Forwarders, and Warehousemen

55. In the normal course of operations, the Debtors heavily rely on a variety of shippers, carriers, delivery companies, and similar service providers (collectively, the “**Shippers**”) to ship and deliver their products to various locations around the world. The Debtors also rely on certain freight forwarders to manage shipments (collectively, the “**Freight Forwarders**”) and

warehousing companies (collectively, the “**Warehousemen**”) to store certain inventory. This distribution system is critical to the Debtors’ business operations.

56. The Debtors’ Shippers include the following companies: (i) Cargomatic, (ii) Delamode International Logistics, (iii) Aeronet Worldwide, and (iv) Unity Trucking.

57. The Debtors’ Freight Forwarders include the following companies: (i) Stile Associates LTD, (ii) Janel Group, and (iii) Scan Global Logistics.

58. The Debtors’ inventory is located in the following warehouses: (i) The Faro Warehouse in Los Angeles, CA; (ii) The Berks Warehouse in New Jersey; (iv) The Elm Warehouse in New Jersey; (v) The PIL Warehouse in the United Kingdom; (vi) The Santa Fe Warehouse in Ontario, CA; and (vii) The Santa Fe Warehouse in Commerce, CA (collectively, the “**Warehouses**”).

59. As of the Petition Date, the Debtors owe an estimated \$900,000.00 to its Shippers, Freight Forwarders, and Warehousemen (the “**Warehouse and Shipper Obligations**”).

G. Unsecured Debt

60. In addition to the Prepetition Secured Obligations and the Warehouse and Shipper Obligations, as of the Petition Date, the Debtors owe an estimated \$11,600,000.00 to third party suppliers, vendors, and other ordinary course unsecured creditors (the “**Unsecured Obligations**”, together with the Prepetition Secured Obligations and the Warehouse and Shipper Obligations, the “**Debt Obligations**”).

III. Events Leading to Chapter 11 Filing

A. Despite its Growth, the Debtors’ Business has Experienced Significant Economic Challenges

a. Initial Debt Raise and the Toys R Us Bankruptcy

61. Within weeks of the Initial Debt Raise, Toys “R” Us, Inc. and its affiliated debtors (“**Toys R Us**”) each filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia (Richmond Division) (jointly administered under Case No. 17-34665) on September 18, 2017 (the “**Toys R Us Bankruptcy**”).

62. Prior to the Toys R Us Bankruptcy, Toys R Us was the Company’s largest customer, with annual sales of approximately \$35 million. The Toys R Us Bankruptcy left the Company with approximately \$6 million in uncollectable receivables, of which the Company eventually collected approximately \$1 million through insurance, and a significant hole in its sales projections. In March 2018, the Toys R Us bankruptcy converted to a chapter 7 liquidation, and Toys R Us closed all of its stores.

63. Despite the volatility in the toy market, the Company acquired additional toy and game entities between Q4 2017 and Q1 2018. Throughout 2019, the Company struggled to transition its volume of inventory from the now-defunct Toys R Us to Amazon. And, having acquired multiple operating entities, the Company further began to scale up its operations and its management team in order to more effectively handle all lines of business and run more efficiently.

b. Effects of the COVID-19 Pandemic

64. In 2020, the spread of the COVID-19 pandemic and the ensuing mandatory stay-at-home orders left widespread uncertainty across consumer markets. As a result of this uncertainty and a variety of other factors, RBC advised the Company that RBC would not extend the Company’s senior term loan beyond September 30, 2020.

65. As a result, the Company found itself in the position of having to refinance its senior debt in an historically difficult market. Doing so via the 2020 Refinancing Transaction with SLR was costly and resulted in a constraint on the Company’s liquidity due to suppressed borrowing

base availability and other restrictions. Also, from 2019 to 2020, John MacDonald and Jay Foreman invested, through the Owners Notes and the 2020 sale of Class A-1 Units, an additional \$20.7 million, of what is now equity of the Non-Debtor Parent, as capital into the Company.

66. By July 2020, the Company began to recover from the effects of COVID-19 under which the “stay-at-home” economy ultimately drove demand for toys and games higher than usual as consumers were purchasing toys and games for kids and families at home. Despite these sales, the Company still suffered its worst year in its amusement division, as all amusement parks and fun centers were closed, costing the Company over \$10 million in sales in 2020.

67. In 2021, though demand for core toys remained strong, the amusement division continued to suffer as amusement parks remained closed. Moreover, COVID-19’s impact on the supply chain caused additional issues for the Company. The Company experienced supply chain difficulties related to goods being manufactured in China, as there were not enough ships or container boxes to pick up all the goods being produced to fill demand. As a result of a shortage in container boxes and ships, the goods being produced were not being shipped on time to meet demand. Moreover, any ships that were available faced delays getting in and out of ports due to COVID-19 testing protocols. Finally, the cost of shipping and receiving these containers in 2021 and 2022 increased as much as 7-10 times, a cost increase that could not be passed along to customers that had already negotiated terms at the previous shipping rates. Cost pressures hit the Company’s bottom line and were difficult for the Company’s teams in the US and Hong Kong. Cash flow was drained by the extra costs of dealing with Covid and the supply chain. The Company continued to face increased costs associated with its 2020 Refinancing Transaction from RBC to SLR and the RBC mezzanine debt. Accordingly, the extra trade costs associated with COVID-19,

supply chain issues, and the refinance from RBC to SLR significantly impacted the Company's profits and cash flow in 2021.

c. Continued Demand and Inventory Concerns

68. By 2022, with consumers spending less time at home post-COVID, consumers were flush with stimulus money but stopped buying home goods, including toys and games, and instead spent more heavily on experiences, like travel and entertainment. This demand shift helped the Company's smaller amusement business segment, which experienced a record year, but it was incredibly challenging for the retail business segment as demand for retail toys and games dropped, especially in the last half of the year. Moreover, at the same time, the supply chain finally regulated and shipments caught up to speed, leaving a surplus of inventory at the same time that demand for retail dipped. The Company continued to be strained by the high cost of shipping and the markdowns needed to support the overstocks of inventory.

69. From 2018 through 2022, over a dozen accretive acquisitions were assessed by the Company and in many cases letters of intent were submitted. The Company developed a playbook for acquisitions and retained a VP of Business Development focused on leveraging the platform established by Jay Foreman to grow through acquisitions. The anticipated benefits of a business partner with \$3 billion of assets to deploy to grow the Company have not materialized as letters of intent requiring equity were not available and additional equity contributions from Foreman and MacDonald could not be invested with priority to the Falcon Investment.

70. In 2023, despite increased demand for amusement products, consumer demand remained weak, and the Company turned its lowest overall volume since 2020. Given the scale of the Company's platform and the difference in the actual sales and forecast, the Company's margins shrank dramatically in 2023. These troubles have carried in to 2024, as the experiential economy,

and therefore the amusement business, is suffering from a spending slump and the average consumer spends less money on toys and games.

d. Negotiations with the Company's Prepetition Secured Lenders and Falcon

71. In October 2023, the Company's trailing twelve months of financial data ("TTM") declined to below the requirements set forth in the 2020 SLR Credit Agreement. In December 2023, the Company's forecast declined for the upcoming fiscal year.

72. In June 2024, certain defaults under the 2020 SLR Credit Agreement remained outstanding. Additionally, the SLR facilities were scheduled to mature on July 2, 2024, in accordance with the existing springing maturity clause set 90 days prior to the RBC maturity. Although the outstanding defaults triggered SLR's right to implement cash dominion over the Company's accounts, SLR chose not to exercise this right at that time but reserved the right to do so in the future.

73. In light of the continuing events of default, SLR implemented discretionary funding and declined a large revolver advance, considering the Company's cash position at that time. The Company voluntarily complied with SLR's request to transfer daily receipts to SLR's collection account, with funds being re-advanced to the Company upon request. The Company needs greater liquidity and more certain access to their line of credit during the summer months, their busiest production period, to meet customer demands later in the year.

74. The Company was also in a covenant-based default under the Mezzanine Credit Agreement. Both RBC and SLR sent the Company notices of default. As a condition to renewing the mezzanine loans, RBC signaled its desire to see (i) the Company's access to capital to support operations, including through an acquisition strategy as a means to grow EBITDA, and (ii) realignment of management and equity interests in order to ensure that management was properly incentivized, and their interests were aligned with those of the Company.

75. By December 2023, the Company's default under the 2020 SLR Credit Agreement caused, among other things: (i) the Company to accrue contractual fees and default interest to SLR, (ii) the amortization under the First Out Loans to end after only one month, and (iii) interest payments to RBC to end, resulting in a PIK 18% rate.

76. In December 2023, the Company was showing a significant decline in its Q4 earnings. The Company received initial terms from a new potential takeout lender to replace SLR. RBC had further discussions with the Company's management and Falcon and responded to the prospective takeout lender terms with the view that RBC would not renew with SLR or the potential takeout lender unless the conditions discussed above were satisfied. RBC held individual calls with Falcon, Foreman, and MacDonald to communicate the position of RBC regarding the September 2024 maturity and the bases on which an additional term might be available.

77. The Company's management confirmed that replacement mezzanine financing would be prohibitively expensive if even possible given the declining TTM, EBITDA, and resulting depressed valuation of the Company.

78. In January 2024, the Company hired an advisor to further explore a relationship with a potential takeout lender as a replacement for SLR on the basis that the RBC requests would be met. The parties made good progress and resulted in a financing proposal by such takeout lender with improved economics to SLR.

79. In February 2024, the Company's management had further conversations with Falcon related to RBC's conditions. The Company held an in-person Board meeting in March, which included discussion of this increasingly critical gap as SLR notified the Company that their springing maturity under the 2020 SLR Credit Agreement would be July 2, 2024 due to RBC not extending the maturity date under the Mezzanine Credit Agreement. The parties were unable to

make progress in March 2024. The RBC maturity inside the 2020 SLR Credit Agreement maturity was not resolved as part of the last credit amendment negotiated among the parties, complicating the negotiations.

80. In April 2024, the Company's CFO and John MacDonald, the Chair of the Debtors' governing boards (the "**Boards**"), held rounds of discussion with SLR, RBC, and Falcon. Following multiple calls with RBC and Falcon, the Company received a response from Falcon that did not adequately provide for access to capital or management alignment. RBC recommended that the Company retain an investment banker to provide valuation and strategic assistance in moving past the impasse with SLR, RBC, and Falcon.

81. After considering various investment banker options, the Company chose two well-known firms that went through three rounds of interviewing and discussions. The Company ultimately chose Oppenheimer & Co. as its investment banker ("**Oppenheimer**").

82. Oppenheimer stepped into role of weekly communication with the goal of advancing all parties to a comprehensive longer-term solution that would document a new equity path and re-align equity interests to extend RBC and substitute a new lender for SLR.

83. In June 2024, Oppenheimer presented two options to refinance SLR with more availability and a lower interest rate and proceeded with negotiations and discussions. Great Rock Capital Partners Management, LLC ("**Great Rock**") provided the best terms, met with the Company at its headquarters in Florida, and commenced its borrowing base audit. At the same time, Oppenheimer had further conversations with RBC, SLR, and Falcon.

84. Also in June 2024, SLR tightened oversight over the Company. Disbursements were strictly limited to deposits which is constraining during June, a busy month in the cycle of a toy company.

B. Prepetition Restructuring Efforts

85. As discussed in detail above, prior to the Petition Date, the Company and the Non-Debtor Parent engaged in extensive negotiations with the Prepetition Secured Lenders and Falcon to pursue a consensual restructuring of the Company's Prepetition Secured Obligations and Falcon's preferred equity position in the Non-Debtor Parent. The parties could not agree on a restructuring that would allow the Company the necessary liquidity to begin making acquisitions as a path to growing EBITDA. Without a fully consensual path forward or further extension on its Prepetition Secured Obligations, the Debtors are unable to make further acquisitions in support of the continued growth of the Company.

86. The Company's management was faced with (i) a growing liquidity shortfall, (ii) maturity of its Prepetition Secured Obligations on July 2, 2024, (iii) an impasse among the key stakeholders, (iv) below-target TTM for Q1 of 2024, and (v) inability to access the Prepetition Senior Credit Facility. As a result, the Company's management, in consultation with its advisors, determined that it was in the best interests of the Company to recommend to the Company's Boards that the Company pursue a restructuring through Chapter 11 of the Bankruptcy Code.

87. To that end, the Company began exploring post-petition financing options with Great Rock, RBC, and certain other lenders under the Mezzanine Credit Agreement. As set forth in more detail in the Buchanan Declaration and the Debtors' motion for post-petition financing (the "**DIP Motion**"), the terms Debtors have negotiated with the lenders under the post-petition financing facility (the "**DIP Lenders**") are more favorable to the Debtors than the current debt structure and provide the Company with more liquidity to be able to (i) pursue a restructuring through confirmation of a plan of reorganization in these Chapter 11 Cases, and (ii) ultimately continue its strategic goals of acquiring more toy brands and growing its business.

88. As set forth more fully in the Buchanan Declaration and the DIP Motion, subject to Court approval, the DIP Lenders have committed to providing DIP financing as follows:

- a. Great Rock has agreed to provide a \$50 million senior secured, super-priority revolving credit facility to refinance the Company's Prepetition Senior Secured Obligations and finance the ongoing general corporate needs of the Debtors during the Chapter 11 Cases in accordance with the approved budget (the "**DIP Revolving Loans**");
- b. Jay Foreman and John MacDonald, as Prepetition Mezzanine Lenders, have agreed to provide up to \$5 million in junior secured delay draw term loans, which loans shall also be subordinate to the Prepetition Mezzanine Secured Obligations, to finance any additional corporate needs of the Debtors during the Chapter 11 Cases (the "**Delay Draw Term Loans**"); and
- c. Upon entry of an interim order approving the DIP Motion, \$10,000,000 of the Prepetition Mezzanine Secured Obligations will be rolled up and shall be junior only to the DIP Revolving Loans.

IV. First Day Pleadings

89. Contemporaneously with the filing of their chapter 11 petitions, the Debtors have filed the following First Day Pleadings:

- a. Motion of Debtors for Entry of an Order Directing Joint Administration of Related Chapter 11 Cases;
- b. Application of Debtors for Authorization to Employ and Retain Stretto, Inc. as Claims and Noticing Agent Effective as of the Petition Date;
- c. Motion of Debtors for Entry of Interim and Final Orders Authorizing (I) Continued Use of Existing Cash Management System, Including Maintenance of Existing Bank Accounts, Checks, and Business Forms, and (II) Continuation of Existing Deposit Practices;
- d. Motion of Debtors for Entry of Interim and Final Orders Authorizing Payment of (I) Certain Prepetition Employee Claims, Including Wages, Salaries, and Other Compensation, (II) Certain Employee Benefits and Confirming Right to Continue Employee Benefits on Post-petition Basis, (III) Reimbursement to Employees for Prepetition Expenses, (IV) Withholding and Payroll-Related Taxes, (V) Workers' Compensation Obligations, and (VI) Prepetition Claims Owing to Administrators and Third-Party Providers;
- e. Motion of Debtors for Entry of Interim and Final Orders (I) Prohibiting Utility Providers From Altering, Refusing, or Discontinuing Service, (II)

Approving the Debtors' Proposed Adequate Assurance of Payment for Postpetition Services, and (III) Establishing Procedures for Resolving Requests for Additional Adequate Assurance of Payment;

- f. Motion of Debtors for Entry of Interim and Final Orders Authorizing Payment of Prepetition Obligations Owed to Shippers, Freight Forwarders, and Warehousemen;
- g. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Claims, (IV) Granting Adequate Protection, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief;
- h. Motion of Debtors for Entry of Interim and Final Orders Authorizing Payment of Prepetition Obligations Owed to Critical Vendors; and
- i. Motion of Debtors for Entry of Interim and Final Orders (I) Authorizing Debtors to File Consolidated Top 30 Creditors List, (II) Authorizing Redaction of Certain Personally Identifiable Information, and (III) Granting Related Relief.

90. The Debtors seek the relief set forth in the First Day Pleadings to minimize the disruption to and adverse effects of the commencement of the Chapter 11 Cases on business operations and to maximize the value of their assets. I have reviewed the Debtors' petitions and the First Day Pleadings or have otherwise had their contents explained to me by the Debtors' advisors, and it is my belief that the relief sought therein is essential to ensure the uninterrupted operation of the Debtors' business and to successfully maximize the value of the Debtors' estates. Importantly, I understand that considering the size of these Chapter 11 Cases and the number of interested parties involved, the Debtors must engage a claims and noticing agent to assist with some of the noticing requirements of being a debtor in possession. Upon the guidance of the Debtors' advisors, I have obtained and reviewed engagement proposals from three Court-approved claims and noticing agents to ensure selection through a competitive process.

91. Certain of the First Day Pleadings request authority to pay certain prepetition claims. I understand that Rule 6003 of the Federal Rules of Bankruptcy Procedure provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the first twenty-one (21) days following the filing of a chapter 11 petition, “[e]xcept to the extent that relief is necessary to avoid immediate and irreparable harm.” In light of this requirement, the Debtors have narrowly tailored their request for immediate authority to pay certain prepetition claims to those circumstances where the failure to pay such claims would cause immediate and irreparable harm to the Debtors and their estates. Other relief will be deferred for consideration at a later hearing.

92. In sum, I believe that the relief sought in each First Day Pleading: (a) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of value; (b) is necessary to avoid immediate and irreparable harm; and (c) best serves the interests of the Debtors’ stakeholders.

I declare under penalty of perjury that the foregoing is true and correct:

Dated: July 1, 2024

/s/ Frank McMahon

Frank McMahon
Chief Financial Officer of Debtor Basic Fun,
Inc.

EXHIBIT A

Organizational Chart

Organizational Chart
of Basic Fun, LP
(and subsidiaries)
June 28, 2024

Debtors shaded in
blue

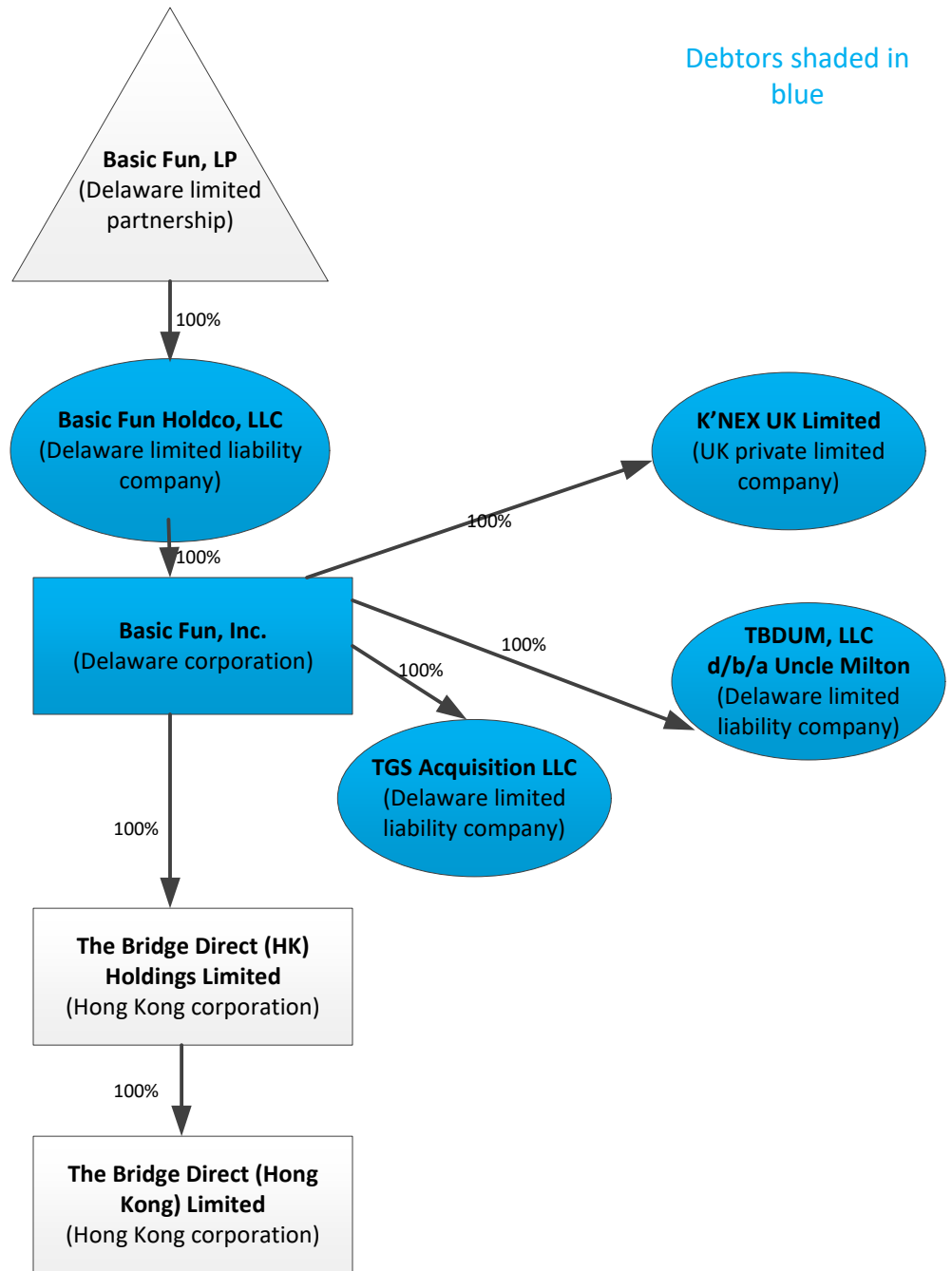


Exhibit A

Limited Partner		Number of Units
John MacDonald		2,717,346.64
Susan MacDonald		11,456.37
John and Susan MacDonald Trust		48,373.38
1972322 Ontario Inc.		231,325.52