

UNITED STATES BANKRUPTCY COURT  
FOR THE DISTRICT OF NEW JERSEY

In re: Love Culture Inc.

Case No. 14-24508 (NLW)  
Reporting Period: July 16, 2014 - August 2, 2014

MONTHLY OPERATING REPORT

REQUIRED DOCUMENTS	Form No.	Document Attached	Explanation Attached	Affidavit/Supplement Attached
Schedule of Cash Receipts and Disbursements	MOR-1	X		
Bank Reconciliation (or copies of debtor's bank reconciliations)	MOR-1a			X
Schedule of Professional Fees Paid	MOR-1b	X		
Copies of bank statements				
Cash disbursements journals				
Statement of Operations	MOR-2	X		
Balance Sheet	MOR-3	X		
Status of Postpetition Taxes	MOR-4			X
Copies of IRS Form 6123 or payment receipt				
Copies of tax returns filed during reporting period				
Summary of Unpaid Postpetition Debts	MOR-4	X		
Listing of aged accounts payable	MOR-4	X		
Accounts Receivable Reconciliation and Aging	MOR-5	X		
Debtor Questionnaire	MOR-5	X		

I declare under penalty of perjury (28 U.S.C. Section 1746) that this report and the attached documents are true and correct to the best of my knowledge and belief.



Signature of Debtor

9/22/14

Date

The information contained herein is provided to fulfill the requirements of the Office of the United States Trustee. All information contained herein is unaudited and is subject to future adjustment. Certain assumptions have been made as noted herein. The unaudited consolidated financial statements presented herein have been derived from the Debtors' books and records. Certain financial information, however, has not been subject to procedures that would typically be applied to financial information presented in accordance with US GAAP, and upon the application of such procedures, the Debtor believes that the financial information could be subject to further changes, and these changes could be material. Nothing contained in this Monthly Operating Report shall constitute a waiver of any of the Debtor's rights or an admission with respect to their Chapter 11 Proceedings (as defined herein), but not limited to, matters involving objections to claims, substantive consolidation, equitable subordination, defenses, characterization or recharacterization of contracts, assumption or rejection of contracts under the provisions of chapter 3 of Title 11 of the United States Code (the "Bankruptcy Code") and / or causes of action under the provisions of the chapter 5 of the Bankruptcy Code or any other relevant applicable laws to recover assets or avoid transfers.

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**SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS <sup>1</sup>**  
**MOR-1**

	CURRENT MONTH July 16, 2014 - August 2, 2014	CUMULATIVE FILING TO DATE July 16, 2014 - August 2, 2014
<b>CASH BEGINNING OF MONTH<sup>2</sup></b>	\$ (64,279.02)	\$ (64,279.02)
<b>RECEIPTS</b>		
Cash Receipts from Sales	4,175,407.00	4,175,407.00
Cash Receipts from Asset Sales	0.00	0.00
Revolver Advances	5,644,607.91	5,644,607.91
Cash Collateral Advances	0.00	0.00
Other Cash Receipts	0.00	0.00
<b>TOTAL RECEIPTS</b>	<b>\$ 9,820,014.91</b>	<b>\$ 9,820,014.91</b>
<b>DISBURSEMENTS</b>		
<b>Operating Disbursements</b>		
Merchandise Vendor Payments	1,630,138.76	1,630,138.76
Salaries and Benefits	824,538.07	824,538.07
Occupancy	47,068.98	47,068.98
Taxes	654,834.56	654,834.56
Credit Card Deposit Transaction Fees	0.00	0.00
Wells Fargo Deposit Related Disbursements	194,464.14	194,464.14
Shipping	51,479.04	51,479.04
Insurance	94,931.62	94,931.62
Utilities	20,180.13	20,180.13
Marketing	0.00	0.00
Other Operating	21,988.90	21,988.90
Remittance to Agent	0.00	0.00
Finance Charges (excl. Loan Interest and Fees)	2,240.00	2,240.00
<b>Total Operating Disbursements</b>	<b>\$ 3,541,864.20</b>	<b>\$ 3,541,864.20</b>
<b>Non-Operating Disbursements</b>		
Daily Revolver Paydowns (cash sweep)	4,071,848.00	4,071,848.00
Revolver Interest and Fees	794,607.91	794,607.91
Professional Fees	32,912.82	32,912.82
Professional Fees - Escrow Payments	900,000.00	900,000.00
Deposits & Other	-	0.00
<b>Total Non-Operating Disbursements</b>	<b>\$ 5,799,368.73</b>	<b>\$ 5,799,368.73</b>
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 9,341,232.93</b>	<b>\$ 9,341,232.93</b>
<b>NET CASH FLOW</b>	<b>\$ 478,781.98</b>	<b>\$ 478,781.98</b>
<b>(RECEIPTS LESS DISBURSEMENTS)</b>		
<b>CASH - END OF MONTH<sup>2</sup></b>	<b>\$ 414,502.96</b>	<b>\$ 414,502.96</b>

**THE FOLLOWING SECTION MUST BE COMPLETED**

**DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES:**

<b>TOTAL DISBURSEMENTS</b>	<b>\$ 9,341,232.93</b>
LESS: TRANSFERS TO DEBTOR IN POSSESSION ACCOUNTS	900,000.00
PLUS: ESTATE DISBURSEMENTS MADE BY OUTSIDE SOURCES (i.e. from escrow accounts)	0.00
<b>TOTAL DISBURSEMENTS FOR CALCULATING U.S. TRUSTEE QUARTERLY FEES</b>	<b>\$ 8,441,232.93</b>

<sup>1</sup> This schedule of cash receipts and disbursements has been presented in a manner consistent with the Debtor's historical external financial reporting and would be unduly burdensome to produce in a different or modified format.

<sup>2</sup> Reflects cash in the Debtor's Wells Fargo Bank Concentration Account only (i.e. excludes cash in stores and Store Depository Accounts in transit to the Concentration Account).

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**BANK RECONCILIATIONS**  
Continuation Sheet for MOR-1

**Bank Account Reconciliations & Cash Disbursement Journals**

The Debtor affirms that bank account reconciliations have been prepared for all open and active bank accounts to the Debtor's books for the reporting period without exception. The Debtor affirms that within the financial accounting systems, check registers and / or disbursement journals are maintained for each disbursement account.

**Bank Statements**

The Debtor affirms that bank statements for all open and active bank accounts are retained by the Debtor and will be available upon request.

	As of August 2, 2014
BBCN Bank 253 N. Western Avenue Los Angeles, CA 90004 Checking Account Number:4360	2,760.30
BBCN Bank 1400 W. Redondo Beach Boulevard Gardena, CA 90247 Checking Account Number: 8271	2,458.10
BBCN Bank 1400 W. Redondo Beach Boulevard Gardena, CA 90247 Checking Account Number: 9189	1,259.80
Wells Fargo N.A. P.O. Box 63030 San Francisco, CA 63020 Concentration Account Number:5982	414,502.96
Wells Fargo N.A. P.O. Box 63030 San Francisco, CA 63020 Payroll Account Number:6014	-
Wells Fargo N.A. P.O. Box 63030 San Francisco, CA 63020 E-Commerce Deposit Account Number:1066	13,891.32
Wells Fargo N.A. P.O. Box 63030 San Francisco, CA 63020 Store Deposit Account Number:5990	135,225.61
<b>Total</b>	<b>570,098.09</b>

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**SCHEDULE OF PROFESSIONAL FEES AND EXPENSES PAID<sup>1</sup>**  
 Continuation Sheet for MOR-1

Professional	Amount Paid in Period			Cumulative Amounts Paid Since Petition Date		
	Fees	Expenses	Total	Fees	Expenses	Total
N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Total Professional Fees</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

<sup>1</sup> Note: the following amounts were disbursed into an escrow account for professional fees: Lowenstein Sandler - Debtor Counsel (\$350,000), PwC - Debtor Advisor (\$350,000), and Creditor Committee Professionals (\$200,000) for a total of \$900,000.

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**STATEMENT OF OPERATIONS <sup>1</sup>**  
**MOR-2**

<b>REVENUES</b>	<b>Month</b>	<b>Cumulative Filing to Date</b>
<b>Gross Sales</b>	\$ 3,965,259.55	\$ 3,965,259.55
Less: Returns and Allowances	206,158.22	206,158.22
Less: Discounts	131,760.67	131,760.67
<b>Net Sales</b>	\$ 3,627,340.66	\$ 3,627,340.66
<b>COST OF GOODS SOLD</b>		
Cost of Goods Sold	1,827,645.96	1,827,645.96
<b>Gross Profit</b>	\$ 1,799,694.70	\$ 1,799,694.70
<b>OPERATING EXPENSES</b>		
Salaries and Benefits	848,776.23	848,776.23
Occupancy Expense	1,439,260.66	1,439,260.66
Supplies	156,206.14	156,206.14
Utilities and Cleaning	249,840.88	249,840.88
Repairs and maintenance	35,404.97	35,404.97
Travel Expenses	2,836.15	2,836.15
Information Technology	24,872.02	24,872.02
Marketing expenses	21,068.03	21,068.03
<b>Total Operating Expenses Before Depreciation</b>	\$ 2,778,265.08	\$ 2,778,265.08
Depreciation and amortization	936,428.24	936,428.24
<b>Net Profit (Loss) Before Other Income &amp; Expenses</b>	\$ (1,914,998.62)	\$ (1,914,998.62)
<b>OTHER INCOME AND EXPENSES</b>		
Interest Expense	48,136.77	48,136.77
Other Expense	25,767.81	25,767.81
<b>Net Profit (Loss) Before Reorganization Items</b>	\$ (1,988,903.20)	\$ (1,988,903.20)
<b>REORGANIZATION ITEMS</b>		
Professional Fees	1,001,031.36	1,001,031.36
U. S. Trustee Quarterly Fees	-	-
<b>Total Reorganization Expenses</b>	\$ 1,001,031.36	\$ 1,001,031.36
Income Taxes	-	-
<b>Net Profit (Loss)</b>	\$ (2,989,934.56)	\$ (2,989,934.56)

<sup>1</sup> This schedule of cash receipts and disbursements has been presented in a manner consistent with the Debtor's historical external financial reporting and would be unduly burdensome to produce in a different or modified format.

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**BALANCE SHEET <sup>1</sup>**  
**MOR-3**

<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	<b>8/2/2014</b>
Cash and Equivalents	\$ 1,100,457.29
Accounts Receivable (Net)	8,396,785.28
Inventories	-
Due from Officer <sup>2</sup>	1,649,108.92
Prepaid Expenses and Other Current Assets	904,887.83
Receivable from Lessor	218,394.59
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 12,269,633.91</b>
<b>NON-CURRENT ASSETS</b>	
Property and Equipment, Net	52,693,752.03
Due from Officer	4,344,870.00
Other Assets	773,392.51
<b>TOTAL NON-CURRENT ASSETS</b>	<b>\$ 57,812,014.54</b>
<b>TOTAL ASSETS</b>	<b>\$ 70,081,648.45</b>

<b>LIABILITIES AND OWNER EQUITY</b>	
<b>LIABILITIES NOT SUBJECT TO COMPROMISE (Postpetition)</b>	
Accounts Payable	1,793,103.75
Accrued Expenses and Other Current Liabilities	263,257.65
DIP Financing	8,755,424.16
<b>TOTAL POSTPETITION LIABILITIES</b>	<b>\$ 10,811,785.56</b>
<b>LIABILITIES SUBJECT TO COMPROMISE (Pre-Petition)</b>	
Secured Debt	6,312,000.00
Unsecured Debt	92,652,545.32
<b>TOTAL PRE-PETITION LIABILITIES</b>	<b>\$ 98,964,545.32</b>
<b>TOTAL LIABILITIES</b>	<b>\$ 109,776,330.88</b>
<b>STOCKHOLDERS' EQUITY</b>	
Common Stock	3,410,160.00
Additional Paid-In Capital	22,330,182.31
Retained Earnings - Pre-Petition	(62,445,090.18)
Retained Earnings - Postpetition	(2,989,934.56)
<b>NET STOCKHOLDERS' EQUITY</b>	<b>\$ (39,694,682.43)</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>	<b>\$ 70,081,648.45</b>

<sup>1</sup> This schedule of cash receipts and disbursements has been presented in a manner consistent with the Debtor's historical external financial reporting and would be unduly burdensome to produce in a different or modified format.

<sup>2</sup> Due from Officer relates to loan to Jai Rhee, former Chief Executive Officer and Shareholder of Love Culture Inc.

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**STATUS OF POSTPETITION TAXES**  
**MOR-4**

The Debtor has received approval to pay prepetition tax and fee obligations, including, without limitation, sales, use and excise taxes, franchise taxes, real and property taxes, and certain other taxes due in the normal course of business through certain First Day Motions. As such, the applicable taxes had been paid when due except for amounts that are in dispute, if any. The Debtors are currently working with external tax advisors in order to file their 2013 Federal and State income tax returns. All other post-petition tax obligations to the proper taxing authorities are current. No post-petition tax returns were required to be filed during the current period.

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**SUMMARY OF UNPAID POSTPETITION DEBTS**  
 Continuation Sheet for MOR-4

	Current	Number of Days Past Due				Total
		0-30	31-60	61-90	Over 90	
Accounts Payable	1,793,103.75	-	-	-	-	1,793,103.75
Accrued Expenses and Other Current Liabilities	263,257.65	-	-	-	-	263,257.65
<b>Total Postpetition Debts</b>	<b>\$ 2,056,361.40</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,056,361.40</b>

\* The Debtor is currently in the process of reconciling post-petition AP balances with vendors, which may or may not be indispute.



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ACCOUNTS RECEIVABLE RECONCILIATION AND AGING  
MOR-5

<b>Accounts Receivable Aging</b>	<b>Amount</b>
0 - 30 days old	8,396,785.28
31 - 60 days old	-
61 - 90 days old	-
91+ days old	-
<b>Total Accounts Receivable</b>	<b>\$ 8,396,785.28</b>
Amount considered uncollectible (Bad Debt)	-
<b>Accounts Receivable (Net)</b>	<b>\$ 8,396,785.28</b>

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**DEBTOR QUESTIONNAIRE**  
 Continuation Sheet for MOR-5

Must be completed each month	Yes	No
1. Have any assets been sold or transferred outside the normal course of business this reporting period? If yes, provide an explanation below.	X <sup>1</sup>	
2. Have any funds been disbursed from any account other than a debtor in possession account this reporting period? If yes, provide an explanation below.		X
3. Have all postpetition tax returns been timely filed? If no, provide an explanation below.	N/A <sup>2</sup>	N/A <sup>2</sup>
4. Are workers compensation, general liability and other necessary insurance coverages in effect? If no, provide an explanation below.	X <sup>3</sup>	
5. Has any bank account been opened during the reporting period? If yes, provide documentation identifying the opened account(s). If an investment account has been opened provide the required documentation pursuant to the Delaware Local Rule 4001-3.		X

<sup>1</sup> On August 1, 2014, the Debtor completed the court-approved sale of its inventory to the Great American Group.

<sup>2</sup> The Debtor is working with external tax advisors in order to file their 2013 Federal and State income tax returns. No postpetition tax returns were required to be filed during the current period.

<sup>3</sup> The Debtor currently has pre- and post-petition amounts outstanding with its insurance carriers.