

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

In re

Smallhold, Inc.

Debtor.¹

Chapter 11

Case No. 24-10267 (CTG)

DECLARATION OF JAMES DUNN IN SUPPORT OF FIRST DAY RELIEF

I, James Dunn, hereby declare as follows:

1. Since February 7, 2024, I have the Chairman of the board of directors (the “Board”) of Smallhold, Inc. (the “Debtor” or “Smallhold”).

2. As the Debtor’s Chairman, I am generally familiar with the Debtor’s business, day-to-day operations, financial affairs, and books and records. Except as otherwise indicated, the statements set forth in this First Day Declaration are based upon my personal knowledge of the Debtor’s operations, information learned from my review of relevant documents, information supplied to me from the Debtor’s advisors, or my own opinion based on my knowledge, experience and information concerning the Debtor’s operations and financial condition. I am authorized to submit this declaration on behalf of the Debtor. If called to testify, I could and would testify competently to the matters set forth in this declaration.

3. On February 18, 2024, (the “Petition Date”), the Debtor filed a voluntary petition commencing this chapter 11 case (the “Chapter 11 Case”). The Debtor is eligible, and has elected, to proceed under Subchapter V of title 11 of the United States Code (the “Bankruptcy Code”).

¹ The last four digits of the Debtor’s federal tax identification number are 8880. The Debtor’s mailing is 285 Nostrand Avenue #1066, Brooklyn, NY 11216.

4. The Debtor continues to operate its business and manage its affairs in the ordinary course of business as a debtor in possession. The Debtor has filed various motions identified herein requesting “first day” relief. I submit this declaration in support of such first day relief, as well as to provide support for, and background concerning, the Chapter 11 Case and other pleadings filed or expected to be filed in this case.

I. OVERVIEW OF THE DEBTOR’S BUSINESS AND FINANCIAL AFFAIRS

A. The Debtor’s Business

1. Smallhold is a specialty mushroom farming company based in Brooklyn, New York. Smallhold currently operates indoor mushroom farms in New York City, Austin, and Los Angeles which are all leased. Using patented technology, Smallhold produces yellow oyster, blue oyster, lion's mane, maitake, shiitake, and trumpet mushrooms, along with selling kits for customers to cultivate mushrooms at home. Smallhold’s indoor mushroom farms are climate controlled for things like temperature and humidity to create the optimal conditions for the type of mushroom being grown. In 2023, Smallhold also began to produce and sell mushroom pesto among other specialty products.

2. Smallhold’s mushrooms, now sold in over 500 locations across ten states, are available nationwide at Whole Foods and other retailers, are particularly in demand because they are organically grown and provide customers with specialty varieties rarely sold.

3. Smallhold was founded in 2017 by Adam DeMartino and Andrew Carter (the “Founders”) with a mission to provide an ecologically sustainable product while building direct connections with mycophiles, artists, farmers, ranchers, and others looking to celebrate fungi, build soil fertility, and grow their own food and plants. The Founders noticed consumer trends in favor of supporting local supply chains, climate-friendly meatless eating, and upcycling from industrial waste streams, and anticipated that mushroom consumption would only grow as

consumers experienced better and different fungi at more accessible price points than imported competitors offer.

4. The Debtor employs approximately 81 individuals.

B. The Debtor's Capital Structure

5. The Debtor is a public benefit corporation organized under the laws of Delaware.

6. As of the Petition Date, the Debtor has no secured funded debt. The Debtor has approximately \$1.4 million in unsecured debt of non-insiders, consisting mostly of trade debt (the "Unsecured Debt").

7. As described below, the Debtor is party to five (5) real property leases and three (3) personal property leases (collectively, the "Leases").

- a. 3257 E. 26th Street, Vernon, CA 90058 (the "SoCal Lease"). The lessor of the SoCal Lease is 3251 EAST 26 STREET, LLC.
- b. 32-34 Taaffe Place, Brooklyn, NY 11205 (the "Brooklyn Facility Lease"). The lessor of the Brooklyn Facility Lease is JLS Holdings, LLC.
- c. 630 Flushing Avenue, Brooklyn, NY 11206 (the "Brooklyn Office Lease"). The lessor of the Brooklyn Office Lease is ACP BK I LLC.
- d. 1220 Satterwhite Rd, Buda, TX 78610 (the "Buda Lease"). The lessor of the Buda Lease is Sutterwhite, LLC.
- e. 10421 Old Manchaca Rd, Suite 420 Austin, TX 78748 (the "Austin Lease"). The lessor of the Austin Lease is MRBP, Ltd d/b/a Manchaca Road Business Park and the Manchaca.
- f. Further, the Debtor leases a range of farming equipment under the three (3) personal property lease agreements (the "Equipment Leases"). The lessor of the Equipment Leases is Camber Road Partners, Inc.

II. EVENTS LEADING TO FILING THE CHAPTER 11 CASE

8. While the Debtor has been growing its retail distribution and scaling over the past few years, the combination of a significant downturn in the venture capital fundraising

market as well as the fresh mushroom category remaining largely flat for the past year have led to difficulties in the Debtor's fundraising efforts.

9. Those financial difficulties led my company, Monomyth, LLC ("Monomyth"), which was originally a minority investor, to take control of Smallhold by acquiring the shares formerly held by the largest minority shareholder. As of the Petition Date, Monomyth owns 90.77% of the Debtor's common stock. That transaction closed on February 7, 2024.

10. Following the acquisition, around February 10, 2024, the Founders resigned from the Debtor's board of directors (the "Board"), and Gustavo Reichmann and Tariq Jawad were appointed interim CEO and interim CFO of the Debtor, respectively.

11. Monomyth's recent assessment of Smallhold's current business model revealed that Smallhold was in substantially worse financial shape than previously disclosed. Accordingly, the Debtor determined that it was no longer feasible to keep all of its farms open, and it has been implementing an orderly shutdown of its farming operations in Texas and New York, including reductions in workforce. The Debtor hopes that these closures are only temporary measures as the Debtor reviews its longer-term cost structure.

12. The Los Angeles farm will remain fully operational as a bridge to the Debtor's interim business strategy, which will be focused primarily on: (i) building connections with partner farms across key geographies; (ii) negotiate competitive shipping and packaging costs; and (iii) negotiating long-term contracts with partner farms.

13. Concurrently with implementing its new business strategy, the Debtor started exploring restructuring alternatives to right-size its balance sheet. In connection therewith, in February 2024, the Debtor retained Pashman Stein Walder Hayden, P.C. to serve as its counsel. Under pressure from certain of their lessors, the Debtor chose to file a voluntary petition under

Subchapter V to implement the automatic stay and provide the Debtor with the necessary breathing room to successfully complete its restructuring. The Debtor files this case with the goal of right-sizing its balance sheet and confirming a plan of reorganization that will provide value to its creditors and other stakeholders. The Debtor is in a strong position upon entering chapter 11, and it looks forward to working with its creditors, vendors, and other parties in interest as it charts the path to continue providing its customers with high-quality, sustainable, and organically grown mushrooms at a competitive price point. Indeed, the Debtor has already had multiple productive discussions with key supportive customers and vendors.

III. FIRST DAY MOTIONS

14. Concurrently with the filing of its chapter 11 petition, the Debtor has filed a number of motions identified herein requesting “first day” relief (the “First Day Motions”) that the Debtor believes are necessary to enable it to maximize the value of its estate while the Chapter 11 Case is pending.

15. The facts set forth in the First Day Motions are incorporated herein in their entirety. The Debtor requests that the Court grant the First Day Motions as critical elements in ensuring a smooth transition into, and stabilizing and facilitating the Debtor’s operations during, the pendency of this Chapter 11 Case.

16. I have reviewed each of the First Day Motions, and the facts set forth in each First Day Motion are true and correct to the best of my knowledge, information, and belief with appropriate reliance on the Debtor’s personnel and advisors. To this end, the Debtor has filed the following First Day Motions:²

- i. Debtor’s Motion for Entry of Interim and Final Orders (I) Authorizing Continued Use of Cash Management System, (II) Authorizing Use of*

² The Debtor also intends to file additional first-day motions (the “Supplemental Motions”) as soon as practicable. I will submit a supplemental declaration providing additional factual support for the Supplemental Motions.

Prepetition Bank Accounts and Payment Methods, (III) Authorizing Use of Existing Business Forms, (IV) Extending Time to Comply with the Requirements of 11 U.S.C. § 345(b), (V) Scheduling a Final Hearing, and (VI) Granting Related Relief

- ii. *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Wages, Benefits, and Other Compensation Obligations, (II) Authorizing Financial Institutions to Honor All Obligations Related Thereto, and (III) Granting Related Relief*
- iii. *Application of Debtor for Entry of an Order (I) Approving the Retention and Appointment of Epiq Corporate Restructuring, LLC as the Claims and Noticing Agent to the Debtor, Effective as of the Petition Date, and (III) Granting Related Relief*

17. It is my belief that the relief sought in each of the First Day Motions is necessary for a successful reorganization and to maximize creditor recoveries. It is my further belief that, with respect to those First Day Motions requesting the authority to pay specific prepetition claims or continue selected prepetition programs, the relief requested is essential to avoid immediate and irreparable harm to the Debtor's estate. The success of this Chapter 11 Case depends upon the Debtor's ability to maintain its operations and maximize estate value while contemplating a plan of reorganization. The relief requested in the First Day Motions is a critical component of maintaining uninterrupted business operations and the confidence of key constituencies necessary to implement a successful chapter 11 process.

CONCLUSION

18. I believe approval of the relief requested in the First Day Motions is in the best interests of all stakeholders and respectfully request that the Court grant all relief requested in the First Day Motions and such other further relief as may be just.

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Dated: February 20, 2024
Brooklyn, NY

/s/ James Dunn
James Dunn