

**UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF NORTH CAROLINA
STATESVILLE DIVISION**

In re:

Systematic Audio, LLC,¹

Debtor.

Chapter 11

Case No. 26-50236 (LTB)

DEBTOR'S STATEMENT IN SUPPORT OF THE CHAPTER 11 CASE

Systematic Audio, LLC (the "Company" or "Debtor", as applicable), by and through its proposed undersigned counsel, respectfully states as following in support of the Debtor's chapter 11 case.²

1. The Debtor is a leading designer, manufacturer, and distributor of high-performance audio systems for automobiles, including subwoofers, amplifiers, and speakers. Operating under the Sundown Audio brand, the Debtor has cultivated a loyal, worldwide customer base, a reputation for product quality among enthusiast and competition communities, and productive vendor and supplier relationships.

2. The Debtor did not commence this chapter 11 case because its business is failing. In about three years since acquiring the operating assets, the Company and its management team have transformed what was a *negative* \$2 million EBITDA business into one that generates nearly \$4 million of *positive* EBITDA annually. The Company intends to continue that growth trajectory into additional markets in the very near term.

¹ The debtor in this chapter 11 case, along with the last four digits of its federal tax identification number is: Systematic Audio, LLC (6927). The Debtor's headquarters and the mailing address for the Debtor is 2847 John Deere Drive, Suite 102, Knoxville, TN 37917.

² The evidentiary support for the various first day motions filed by the Debtor in this case is being filed concurrently herewith (the "Strubeck Declaration").

3. Rather, the Debtor is here because it needed an opportunity to leverage the “breathing space” Congress has made available to companies facing imminent and existential creditor threats to their businesses. Commencing this chapter 11 case—thereby unlocking the automatic stay—was the only viable path to preserve and maximize going-concern value for the benefit of all parties in interest. That became clear in a three-week span leading up to the Petition Date.

- On **May 15 and 18, 2026**, a jury in the pending Soleymani Litigation³ returned verdicts against defendants that, in the aggregate, exceeded \$21 million. The Debtor and its Chief Executive Officer, Mr. Scottie Johnson, are among the defendants in that litigation.
- On **June 3, 2026**, KeyBank, the Debtor’s first lien lender with approximately \$19 million of claims, noticed certain events of default in relation to financial covenants (max leverage ratio), borrowing base compliance, and the Soleymani Litigation, and restricted distributions. The Debtor’s cash is held almost entirely with KeyBank.

Although constructive, good faith discussions occurred prepetition, the Debtor and KeyBank were unable to reach agreement on a mutually acceptable forbearance by the Petition Date.

- On **June 4, 2026**, the Soleymani Litigation Plaintiffs⁴ submitted a proposed judgment to the state court asserting damages against the Debtor in the amount of approximately \$21.5 million, exclusive of interest and fees.
- On **June 9, 2026**, Medallion Capital, the Debtor’s second lien lender with approximately \$6 million of claims, noticed certain events of default in relation to the Soleymani Litigation, restricted distributions, and declared default interest due and payable.

4. In considering its alternatives, the Debtor was mindful that, under North Carolina law, the entry of a judgment would trigger an automatic, springing lien on any real estate owned

³ The “Soleymani Litigation” means that certain litigation styled as *Blue Building, LLC, et al. vs. Sundown Audio, LLC, et al.*, Case No. 23CVS001091-170, currently pending in the Superior Court Division, of Catawba County, North Carolina.

⁴ The “Soleymani Litigation Plaintiffs” means, collectively, David Soleymani, Joshua Soleymani, Daniel Soleymani, and Krubim 26 International, Inc. d/b/a WoofersEtc. WoofersEtc is a competitor of the Debtor.

by the defendant in the county where the underlying litigation was pending. Here, the Soleymani Litigation is pending in Catawba County, North Carolina—the same county where the Debtor owns a 180,000 square foot commercial property that is the primary operating unit for its business. At this Newton, North Carolina location, the Debtor designs, manufactures, assembles, warehouses, and otherwise manages the majority of its inventory and products. Most of the Debtor’s employees operate out of this location. It would be hugely value destructive if a creditor were to exercise remedies against—e.g., foreclose—such real property, to the detriment of the Debtor and all of its other stakeholders. The Debtor was also mindful of, through inaction, potentially elevating what was then an *unsecured* creditor to become a *secured* creditor, and the negative consequence that may have on other creditors of the Debtor.

5. Facing no access to its purportedly overdrawn line of credit, default notices from two separate secured lenders holding asserted claims of approximately \$25 million, and imminent enforcement actions from an unsecured litigation claimant holding asserted claims of not less than approximately \$21.5 million—i.e., nearly *double* the quantum of liabilities the Debtor faced immediately before the jury verdicts—the Debtor made the difficult choice to commence this chapter 11 case and use the “breathing space” afforded thereby to stabilize the business, ensure sufficient access to liquidity to fund mission critical disbursements like payroll, customs, and shippers, and ultimately pursue one or more value-maximizing restructuring transactions inside chapter 11.

6. Through this chapter 11 case, the Debtor intends to use the tools Congress has made available to successfully reorganize as follows:

- **“Breathing Space.”** Section 362 of the Bankruptcy Code enables the Debtor and its management team to focus on stabilizing, preserving, and maximizing the value of its business and maintaining customer and vendor relationships, while also addressing litigation claims in a fair and orderly manner.

- **Reliable Access to Interim Liquidity.** The Debtor needs reliable access to liquidity to operate its business and pursue a value-maximizing reorganization. Sections 363 and 364 of the Bankruptcy Code provide viable paths to fund the business, including through consensual use of cash collateral and/or debtor-in-possession financing.
- **Exit Financing / Sale / Reorganization.** The Debtor intends to use this chapter 11 case with a goal of reorganizing the business with a value-maximizing restructuring, which may include exit financing, one or more sale transactions, a chapter 11 plan of reorganization, and/or such other transaction or combination of transactions that will maximize value for the benefit of the Debtor's estate and its creditors.

The Newton, North Carolina real property will likely play a critical role in any such value-maximizing path forward.

7. This Statement is divided into two parts. Part I provides an introduction to the Debtor and information on its history and business operations. Part II provides a description of the circumstances leading to the commencement of this chapter 11 case.

I. THE DEBTOR'S HISTORY, OPERATIONS AND CORPORATE STRUCTURE

A. History & Company Overview

8. The Company, operating as Sundown Audio, is a designer, manufacturer, and distributor of high-performance car audio systems, including subwoofers, amplifiers, speakers, midrange drivers, and related accessories such as wiring and RCA cables. Founded in 2006 in North Carolina, the Company has developed a respected reputation in the high-performance car audio industry, serving both daily-driven and competition applications. The Company is a Tennessee limited liability company that primarily operates out of its Newton, North Carolina location.



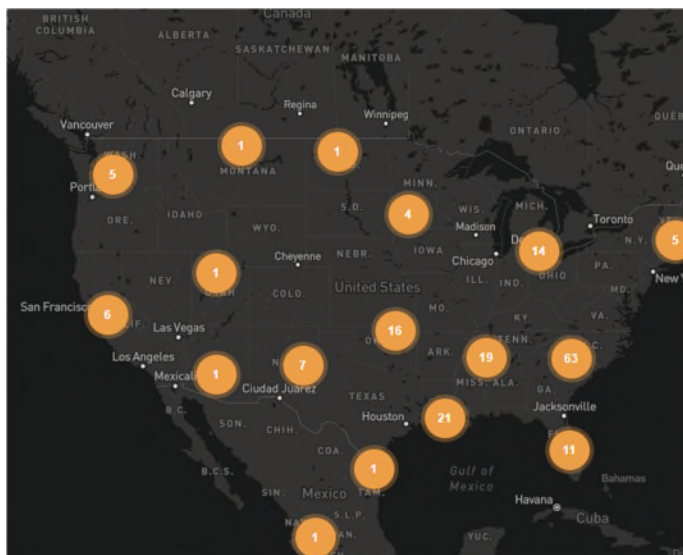
9. The Company's mission is to deliver premium sound solutions that empower enthusiasts to experience music the way it was meant to be heard: crisp, powerful, and uncompromising. The Company offers a diverse lineup of products designed to meet a wide range of needs, from high-output subwoofers built for SPL competitions to compact systems engineered for audiophile clarity. The Company's products are designed for daily-driven vehicles and competition-level applications alike, and its product lines include, among others, the Z-Series, LCS, X-Series, Nightshade, NeoPro, and VEX speaker lines, as well as the SALT and Team amplifier lines.



A. Recent Financial Performance, Operational Footprint, and Workforce

10. The Company manufactures and distributes audio systems, primarily amplifiers, subwoofers, and speakers, and maintains an inventory of finished goods, components, and raw materials necessary for production. The Company primarily operates out of Newton, North Carolina, which it owns. KeyBank, as first lien lender, has a recorded mortgage on such real property. The Debtor also uses a distribution center in Las Vegas, Nevada primarily to service west coast customers. This space is leased. The Debtor's corporate office is located in Knoxville, Tennessee. And the Debtor is actively expanding further into Canada near Toronto.

11. The Company primarily sells its products through a network of authorized brick-and-mortar dealers located across the United States and internationally.



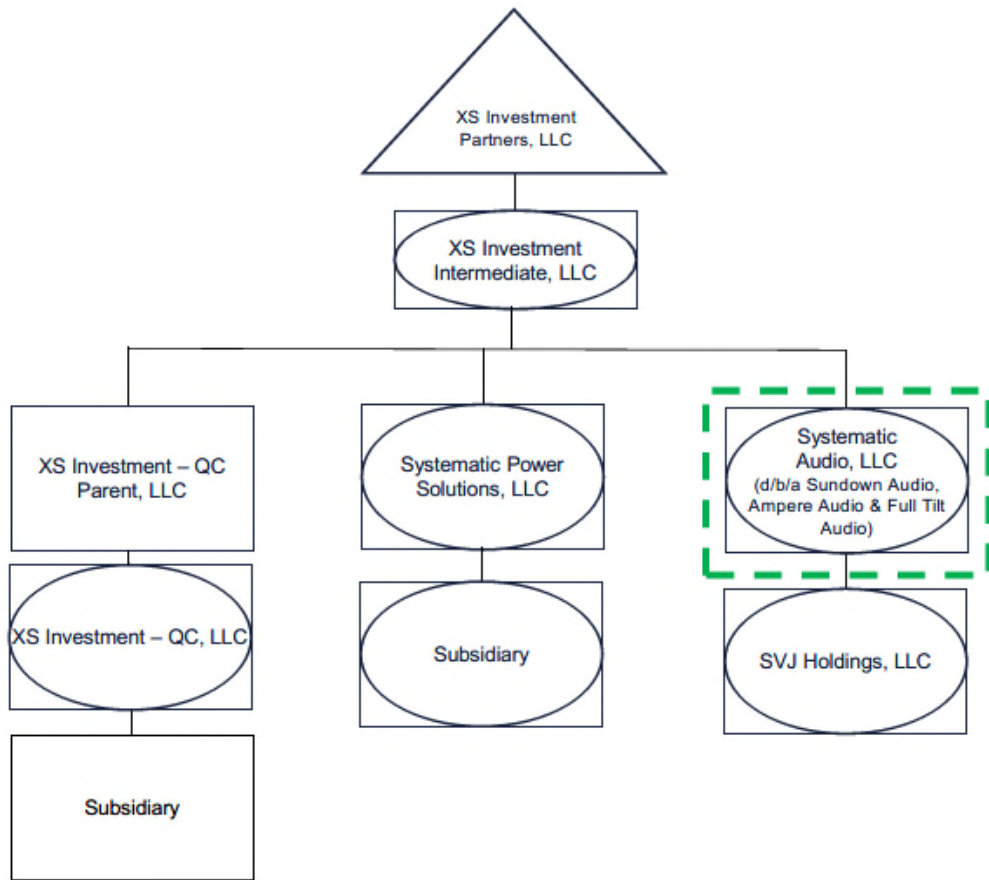
12. The Company also sells its products through authorized online dealers and operates a robust direct-to-consumer e-commerce platform on its website.


13. The Company employs approximately 30 active employees that handle design, manufacturing, assembly, other production, shipping, sales, customer service, administrative, accounting, data, management, and operational functions that are essential to the Debtor's continued operations. The employees are primarily located at the Newton, North Carolina operating facility. Other employees are located at the Company's distribution center in Las Vegas, Nevada and corporate office in Knoxville, Tennessee. In addition, certain employees of non-debtor affiliates may perform services for the benefit of the Debtor from time to time.

14. In fiscal year 2025, the Company reported approximately \$18 million in revenue and approximately \$3.4 million in EBITDA. The Company maintains more than 225 SKUs for products sold under the Sundown Audio brand worldwide.

B. Corporate Structure

15. Systematic Audio, LLC was formed in the State of Tennessee on November 11, 2022, in connection with the acquisition of the operating assets that comprise Sundown Audio. XS Investment Intermediate, LLC is the sole member of Systematic Audio, LLC. Systematic Audio, LLC owns 100% of the membership interests of SVJ Holdings, LLC, a non-debtor affiliate.



 means chapter 11 debtor.

16. The Company is the only entity that has commenced a chapter 11 case. No petition has been filed by or on behalf of any non-debtor affiliate, including XS Investment Intermediate, LLC, SVJ Holdings, LLC, or any other entity in the corporate family.

II. EVENTS LEADING UP TO THE CHAPTER 11 CASE

17. As set forth herein, the Debtor did not make the decision to commence this chapter 11 case lightly. The Debtor remains a viable going concern with a recognized brand, a loyal customer base, productive vendor relationships, and a skilled workforce. However, in the period preceding the Petition Date, the Debtor faced a combination of financial and operational pressures that ultimately necessitated the protection of chapter 11.

18. For starters, the Debtor's continued access to liquidity was at risk based on the asserted events of default by its first lien lender. Substantially all of the Debtor's cash constitutes cash collateral of KeyBank under the Prepetition Credit Facility. That cash is held at KeyBank. As of the Petition Date, the Debtor's available cash was approximately \$55,000. The Debtor requires access to cash collateral and/or debtor-in-possession financing to fund payroll, customs, taxes, utilities, suppliers, customer programs, and other ordinary-course operating expenses necessary to preserve the going-concern value of the business. Entry of appropriate Court orders, pursuant to sections 363 and/or 364 of the Bankruptcy Code, provide predictable access to liquidity to fund the Debtor's business and reorganization efforts.

19. Furthermore, the Debtor faced significant uncertainty from the Soleymani Litigation. On May 4, 2023, the Soleymani Litigation Plaintiffs commenced a lawsuit in Catawba County Superior Court in May 2023 (Case No. 23CVS001091-170) against Blue Building, LLC and, subsequently, against the Company and certain co-defendants (collectively, the "Defendants"). The Soleymani Litigation Plaintiffs asserted claims including, among other things, allegations of tortious interference, fraud, and unfair and deceptive trade practices. Trial commenced on or about April 27, 2026. On May 15, 2026, the jury returned a verdict awarding compensatory damages of \$5,369,297.50, and on May 18, 2026, the jury returned a verdict awarding punitive damages of \$16,107,897.50. Judgment has not yet been entered against any of

the Defendants, including the Debtor and its Chief Executive Officer.⁵ And as described herein, the Debtor was mindful of the many adverse consequences that would follow from entry of such a judgment—including in relation to the Newton, North Carolina real property upon which the Debtor's business operations rely—in evaluating available alternatives.

20. On June 12, 2026, the Soleymani Litigation Plaintiffs filed a motion for relief from the automatic stay [Dkt. No. 10] in this Court to allow, among other things, the state court judge presiding over the Soleymani Litigation to enter judgment against the Debtor and its Chief Executive Officer and decide post-trial motions, including the Soleymani Litigation Plaintiffs' request for an award of attorneys' fees and costs against the Debtor and its Chief Executive Officer. The Debtor opposes such relief requested and will respond in accordance with applicable law and court procedures.

21. For the reasons set forth herein, the Debtor determined that commencing this chapter 11 case was the appropriate path to preserve the value of the Company's assets, stabilize operations, maintain customer, vendor, and employee relationships, obtain access to necessary liquidity through cash collateral and first-day relief, and pursue a value-maximizing restructuring process for the benefit of the Debtor's estate and all stakeholders. The protections afforded by the Bankruptcy Code, including the automatic stay, are essential to providing the Debtor with the breathing room necessary to stabilize its operations and pursue an orderly, value-maximizing reorganization.

22. The Debtor intends to use the chapter 11 process to stabilize the business, access necessary liquidity, maintain its workforce and operations, pursue exit financing alternatives, and

⁵ For the avoidance of doubt, the Debtor expressly reserves all rights, remedies, claims, causes of action, defenses, objections, and the like in connection with or related to the Soleymani Litigation. Nothing contained herein shall be construed as an admission of liability or as a waiver of any right or defense available to the Debtor.

ultimately implement a reorganization plan or one or more other value-maximizing restructuring transactions for the benefit of all stakeholders.

Dated: June 15, 2026
Newton, North Carolina

Respectfully submitted,

MOORE & VAN ALLEN PLLC

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