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6
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Debtor and Debtor in Possession

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UNITED STATES BANKRUPTCY COURT

10

CENTRAL DISTRICT OF CALIFORNIA, LOS ANGELES DIVISION

11

In re

Case No. 2:08-bk-13518-SB

12

ESTYLE, INC., a Delaware corporation,
dba babystyle, Cadeau, and Cadeau
13 Designs,

Chapter 11

14

Debtor.

**DEBTOR'S EMERGENCY MOTION
PURSUANT TO SECTION 363(c) OF THE
BANKRUPTCY CODE AND RULE 4001(b)
OF THE FEDERAL RULES OF
BANKRUPTCY PROCEDURE FOR
INTERIM AND FINAL ORDERS
AUTHORIZING USE OF CASH
COLLATERAL; MEMORANDUM OF
POINTS AND AUTHORITIES**

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**[OMNIBUS DECLARATION OF ROBERT S.
KELLEHER IN SUPPORT "FIRST DAY
MOTIONS" AND RICHARD ALSTON FILED
CONCURRENTLY HEREWITH]**

19

TAX ID#: 95-4712564

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DATE: March 21, 2008
TIME: 10:00 a.m.
PLACE: Courtroom 1575
Roybal Building
255 East Temple Street
Los Angeles, CA 90012

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1 TO THE HONORABLE SAMUEL L. BUFFORD, UNITED STATES BANKRUPTCY
2 JUDGE, THE OFFICE OF THE UNITED STATES TRUSTEE, SECURED CREDITORS
3 OF RECORD, THE TWENTY LARGEST UNSECURED PARTIES, AND INTERESTED
4 PARTIES:

5 **EMERGENCY MOTION**

6 Through this Emergency Motion for Interim and Final Orders Authorizing
7 Use of Cash Collateral Pursuant to Section 363(c) of the Bankruptcy Code and Rule
8 4001(b) of the Federal Rules of Bankruptcy Procedure (the "Motion"), eStyle, Inc., a
9 Delaware corporation, dba babystyle, Cadeau, and Cadeau Designs (the "Debtor"), the
10 debtor and debtor in possession in the above-captioned case, seeks the entry of interim
11 and final orders authorizing the Debtor to use cash collateral pursuant to 11 U.S.C. §
12 363(c)(2)(B) and (c)(3) and Rule 4001(b)(2) of the Federal Rules of Bankruptcy
13 Procedure. This Motion is brought in accordance with Local Bankruptcy Rule 2081-1(c).

14 This Motion is made and based upon the moving papers, the attached
15 Memorandum of Points and Authorities and the concurrently filed Omnibus Declaration of
16 Robert S. Kelleher In Support of "First Day Motions" and the Declaration of Richard
17 Alston, the arguments and representations of counsel and any oral or documentary
18 evidence presented at the time of the hearing.

19 **WHEREFORE** the Debtor respectfully requests that the Court enter an
20 order:

- 21 (1) granting this Motion;
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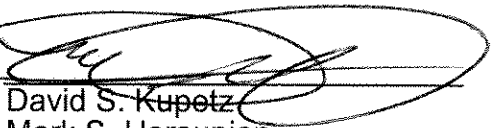
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(2) authorizing the use of cash collateral pursuant to 11 U.S.C. §
363(c)(2)(B) and (c)(3) and Rule 4001(b)(2) of the Federal Rules of Bankruptcy
Procedure; and

(3) granting such other and further relief as this Court deems just and
proper under the circumstances.

DATED: March 19, 2008

SulmeyerKupetz
A Professional Corporation

By: 

David S. Kupetz
Mark S. Horoupian
Bankruptcy Counsel for eStyle, Inc., a
Delaware corporation, dba babystyle, Cadeau
and Cadeau Designs, Debtor and Debtor in
Possession

1 **MEMORANDUM OF POINTS AND AUTHORITIES**

2 I.

3 **JURISDICTION AND SUMMARY OF RELIEF REQUESTED**

4 This Court has jurisdiction to consider the Motion under 28 U.S.C. §§ 157
5 and 1334. This matter is a core proceeding pursuant to 28 U.S.C. § 157(b)(2)(A), (M)
6 and (O). Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409. By
7 this Motion, the Debtor seeks authority to use cash collateral to pay its ordinary and
8 necessary operating expenses. The statutory predicates for the relief requested herein
9 are 11 U.S.C. §§ 363(c)(2)(B) and (c)(3) under which the Debtor seeks authority to use
10 cash collateral.

11 II.

12 **PRELIMINARY STATEMENT AND NEED FOR HEARING ON AN EMERGENCY**

13 **BASIS**

14 eStyle, Inc., a Delaware corporation, dba babystyle, Cadeau and Cadeau
15 Designs (the "Debtor" or "eStyle"), commenced this case by filing a voluntary chapter 11
16 petition on March 19, 2008 (the "Petition Date"). The Debtor continues to manage and
17 operate its business as a debtor in possession. By this Motion, the Debtor seeks
18 authority from the Court to use cash collateral to pay its ordinary and necessary
19 expenses and generally operate its business. The Debtor's immediate access to cash is
20 absolutely critical to maintaining going concern value. The Debtor, which operates 23
21 retail stores, and an internet retail business and direct mail program¹, requires the use of
22 cash collateral to maintain its operations, pay ordinary operating expenses, and replenish
23 its inventory. In order to maintain operations without disruption thereby preserving the
24 value of the estate, the Debtor must be permitted to pay in the ordinary course, among
25 others, its employees, landlords, vendors, utility providers, and product suppliers. As
26 such, a hearing on an emergency basis is required and appropriate.

27 _____
28 ¹ The Debtor also sells its Cadeau brand products to wholesale accounts.

1 The Debtor has two different tranches of secured debt. Wachovia Capital
2 Finance Corporation (Western) ("Wachovia") is the senior secured lender, with a first
3 priority lien asserted against the Debtor's assets, pursuant to a revolving credit line. As of
4 the Petition Date, the balance owed under the Wachovia line was approximately
5 \$2,486,000. The second priority secured creditors are a group of the Debtor's investors
6 (the "Subordinated Secured Creditors"), who, in November of 2007, made a bridge loan
7 made to the Debtor in the amount of \$2 million. This loan is subordinate to the Wachovia
8 secured claim, and is convertible into equity at the investors' option.

9 The Debtor presently has approximately \$541,000 in cash (this amount
10 could be greater or lesser depending upon whether checks outstanding as of the Petition
11 Date clear the bank(s) prior to the Chapter 11 filing—as soon as feasible—following the
12 Chapter 11 filing, the Debtor will determine this amount with specificity). As of March 22,
13 2008, the Debtor estimates that its cash on hand will be \$794,000. The Debtor also has
14 accounts receivable with a face value of approximately \$380,000, which the Debtor
15 contends is essentially entirely collectible (the vast majority of the Debtor's sales are
16 credit card transactions, with other store-based retail sales are cash sales or pre-
17 authorized checks, and inventory at landed cost (net of reserves) of \$7.14 million, and
18 with an orderly liquidation value of approximately \$6.2 million. As set forth below, the
19 Debtor contends that Wachovia's claims are adequately protected by a combination of (a)
20 an equity cushion in the Debtor's assets (value of collateral over amount of secured
21 debt); (b) the continued operation of the Debtor's business; and (c) a replacement lien on
22 post-petition receivables to the extent of any diminution in value of Wachovia's collateral
23 as a result of the Debtor's use of cash collateral. As discussed below, the substantial
24 equity cushion alone provides Wachovia with adequate protection for the use of cash
25 collateral requested pursuant to this Motion. The replacement lien would be on all post-
26 petition assets in the same priority and to same extent and validity (or invalidity) as
27 Wachovia's asserted pre-petition security interest.

28

1 Pending a final hearing on the Motion, the Debtor requests emergency
2 authority to use cash collateral in accordance with the budget (the "Budget") attached
3 hereto as Exhibit "1".²

4 The Debtor also requests that the order approving this Motion include a
5 direction to all financial institutions with which the Debtor has bank accounts, including
6 Wachovia Bank, N.A.³; Wells Fargo Bank, N.A.; and Bank of America, N.A. to comply
7 with the Order, and abide by the Debtor's directions as to the disbursement of its funds,
8 notwithstanding any account control agreements, or "lock box" agreements that may be
9 in effect as of the Petition Date.

10 III.

11 **BACKGROUND**

12 A. **Description of Business**

13 eStyle, is a multichannel retailer that sells maternity, baby and kids apparel,
14 and toys, gear and related products direct to the consumer. As of the Petition Date,
15 eStyle sells its product at its 23 retail stores (21 babystyle and 2 Cadeau stores), as well
16 as through its babystyle.com website, and a direct mail program. eStyle sells product
17 under the babystyle and Cadeau private labels, and under leading brands. eStyle also
18 sells its Cadeau brand product to wholesale accounts.

19 eStyle, with headquarters located in downtown Los Angeles, operates
20 babystyle.com. The babystyle.com website was launched in October 1999. eStyle
21 opened its first retail store in November 2002. As of the Petition Date, eStyle operated
22 retail stores located in California, Arizona, Texas, New York, Connecticut,
23 Massachusetts, New Jersey, Washington, and Colorado.

24 _____
25 ² The Debtor also requests some flexibility in connection with the Budget - namely, that the Debtor
26 be permitted to exceed the disbursements forecasted in the Budget by up to 15% on a line-by-line basis
and to exceed aggregate disbursements forecasted in the Budget by a total of 10%.

27 ³ The Debtor understands that Wachovia Bank, N.A. is a separate entity from Wachovia Capital
28 Finance Corporation.

1 B. Recent Financial Results

2 eStyle generated total revenues of approximately \$49.2 million for the year
3 ended January 26, 2008, and \$48.2 million for the year ended January 27, 2007. The
4 Debtor, however, has historically incurred substantial losses and negative cash flows
5 from operations as its growth strategies have evolved. For the year ended January 26,
6 2008, eStyle incurred a net loss available to common shareholders of approximately
7 \$10.4 million and negative cash flows from operations of \$11.4 million. For the year
8 ended January 27, 2007, eStyle incurred a net loss available to common shareholders of
9 approximately \$9.8 million and negative cash flows from operations of \$6.7 million.

10 C. Actions Taken to Stabilize Operational Results and Eliminate Losses

11 The Debtor has taken the following actions designed to stabilize operating
12 results and eliminate losses:

13 1. In April 2007, eStyle hired Emilia Fabricant as President and Chief
14 Merchandising Officer. Ms. Fabricant has over 20 years of merchandising and design
15 experience, and a well-defined sense of the target customer of babystyle. Most recently,
16 prior to joining eStyle, she operated her own maternity business that she founded. This
17 is an important factor in eStyle's hiring of Ms. Fabricant since the maternity category
18 represents a significant portion of eStyle's total sales. As part of the transaction to hire
19 Ms. Fabricant, eStyle acquired her company, Cadeau Maternity, and is selling the
20 Cadeau product in babystyle stores and online, as well as to wholesale accounts.

21 2. Historically, a large proportion of the Debtor's apparel purchases
22 were sourced in Asia. This sourcing structure requires longer lead times and higher
23 minimum order quantities than other sourcing options. Since mid-2007, eStyle has
24 expanded its sourcing options to provide more flexibility in purchasing in order to better
25 manage inventory productivity. New sources of supply require smaller order quantities
26 and shorter lead times.

27 3. In calendar year 2006, eStyle evaluated the operating contribution of
28 its direct to consumer (DTC) business and determined that the contribution would be

1 improved by reducing circulation and replacing the traditional mail order catalog with
2 smaller direct mail pieces. This change resulted in an increase in the profit contribution
3 as a percentage of sales.

4 4. In 2007, the Debtor outsourced its email delivery process, resulting
5 in a significant increase in sales productivity of its email, and greater flexibility and
6 segmentation of email communication.

7 5. eStyle has expanded certain merchandise classifications to increase
8 sales, while eliminating or reducing classifications that demonstrated unacceptable gross
9 margin productivity.

10 6. In February 2008, the Debtor reduced its corporate office staff by 13
11 employees as part of a broader series of initiatives to reduce overhead expense. The
12 staff reduction will result in an annual expense savings of approximately \$1.5 million.

13 7. During 2007, eStyle implemented a number of initiatives to improve
14 inventory management reporting and management processes to increase inventory
15 productivity and decrease carrying costs of inventory.

16 8. eStyle has implemented payroll scheduling and reporting tools to
17 assist store managers in meeting payroll expense targets. These tools have resulted in
18 lower store payroll expense as a percentage of sales.

19 9. The Debtor has identified six (6) unprofitable stores that it plans to
20 close in the near future (in conjunction with seeking to maximize the recovery from sale of
21 inventory pursuant to store closing sales at those locations) and will seek to negotiate
22 improved terms under the leases of stores it plans to continue to operate.

23 10. The actions described above were implemented at various times
24 from late 2006 through early 2008 or are still in the process of being implemented. Due
25 to the timing of implementation, the Debtor will realize the cumulative benefit of these
26 actions later in 2008 and beyond.

27
28

1 D. Turnaround Plan

2 The Debtor is in the process of implementing a turnaround plan, including
3 the following:

4 1. The turnaround plan is based on a sales plan of a low single digit
5 sales increase in the direct to consumer business combined with a planned decrease in
6 store sales reflecting the potential continuation of decreased mall traffic.

7 2. The plan includes a gross profit increase based on further
8 improvements in inventory management, a more well-balanced mix of private-label and
9 designer branded product, and more effective sourcing options that provide for shorter
10 lead-times and the ability to order smaller quantities of product closer to need.

11 3. The Debtor has taken action to significantly reduce operating
12 expenses. Recent staff reductions represent an annual savings of approximately \$1.5
13 million. Other planned operating expense reductions, including closing certain stores,
14 would result in savings of approximately \$5.0 million.

15 4. The Debtor is also exploring whether a sale of its business is a viable
16 alternative means for resolving its chapter 11 case.

17 E. Debt Structure

18 1. Senior Secured Revolving Credit Facility (Wachovia)

19 On December 22, 2006, eStyle entered into a Loan and Security
20 Agreement ("Senior Secured Loan Agreement") with Wachovia Capital Finance
21 Corporation (Western) ("Wachovia") for a secured revolving credit facility of up to
22 \$5 million to be used for ongoing working capital needs. The initial term of the credit
23 facility is 3 years from the date of closing. The lending formulas used to calculate the
24 facility availability are based on a portion of inventory and accounts receivable balances.
25 The interest rate is one-half of 1% per annum above the prime rate as announced by the
26 lender. As of the Petition Date, the outstanding balance on the facility was approximately
27 \$2,486,000.

28

1 2. **Subordinated Secured Loan**

2 In November 2007, eStyle received a \$2 million bridge loan from investors
3 in eStyle (Oak Investment Partners, IX, L.P., Oak IX Affiliates Fund, L.P., Oak IX Affiliates
4 Fund – A, L.P., GRP II, L.P., GRP II Partners, L.P., and GRP II Investors, L.P.) at an
5 interest rate (0.5% per annum in excess of the Wachovia Prime Rate) that was
6 comparable to what was being charged by Wachovia. This bridge loan is secured but
7 subordinated to Wachovia and convertible into the next equity round of eStyle at the
8 investors' option and due and payable the later of March 1, 2008, or the payoff in full of
9 the Senior Secured Loan.

10 3. **Unsecured Debt**

11 As of the Petition Date, the Debtor has unsecured debt in the amount of
12 approximately \$7,600,000 owed to trade vendors, suppliers, landlords, customers, and
13 other service providers. During the year prior to the Petition Date, payments made in the
14 ordinary course of business resulted in the amount of the balance outstanding to
15 unsecured creditors of the Debtor remaining relatively consistent.

16 F. **Equity Interests in the Debtor**

17 1. **Preferred Stock**

18 The Debtor has approximately 10,958,583 outstanding shares of preferred
19 stock held by approximately 17 different entities and persons (not counting affiliated
20 entities and persons separately). Between March 12, 1999 and May, 2007, the preferred
21 stock was issued in 11 different rounds in the total, cumulative funded amount of
22 approximately \$134,730,000.

23 2. **Common Stock**

24 The Debtor has approximately 12,259,584 shares of common stock
25 outstanding (this does not include 4,056,376 shares outstanding with respect to options
26 that are available for issuance or those common shares related to the final working
27 capital adjustment for the Cadeau acquisition). The Debtor has a total of approximately
28

1 77 equity holders. This includes the 17 preferred shareholders referenced above, 39
2 individual common stock holders, and 21 other entities/funds that hold common stock, but
3 are not preferred shareholders of the Debtor.

4 G. **Cadeau Acquisition**

5 In April 2007, eStyle purchased certain assets and assumed certain
6 liabilities of Cadeau Designs, LLC and various affiliated entities (collectively, "Cadeau")
7 for the initial purchase price of \$1,722,840, which was subject to a working capital
8 adjustment. The initial purchase price was determined as follows: \$1 million paid in
9 cash, \$200,000 issued in preferred stock, \$522,840 to be issued as common stock as
10 earned per the Purchase Agreement. The common stock amount was subject to the
11 working capital adjustment. After the working capital adjustment, the final purchase price
12 was adjusted to \$1,590,824 with the final common stock to be issued at \$390,824.

13 The Cadeau Acquisition had a positive impact on eStyle. The acquisition
14 facilitated the Debtor's recruitment of Emelia Fabricant to lead the merchandising and
15 design efforts for eStyle. Ms. Fabricant's experience with the maternity category at
16 Cadeau is directly relevant to the maternity category at babystyle, which represents a
17 significant portion of the Debtor's sales. In addition, the acquisition gave the Debtor
18 access to a number of high quality merchandise vendors. These vendors operate with
19 smaller order quantities and shorter lead-times than some of eStyle's other suppliers.
20 The Cadeau product is sold in all babystyle stores and on the babystyle.com website.

21 H. **Real Estate Leases**

22 eStyle is the lessee (or the assignee of the lessee in the instance of 2
23 Cadeau leases) of 23 retail store locations in 9 states. These retail locations are a
24 mixture of street, lifestyle center, regional and local mall spaces. eStyle also leases its
25 business headquarters in downtown Los Angeles.

26 I. **The Debtor's Cash Collateral**

27 As of the Petition Date, the Debtor had cash on hand totaling approximately
28 \$541,000 in cash (this amount could be greater or lesser depending upon whether

1 checks outstanding as of the Petition Date clear the bank(s) prior to the Chapter 11
2 filing—as soon as feasible—following the Chapter 11 filing, the Debtor will determine this
3 amount with specificity). As of March 22, 2008, the Debtor estimates that its cash on
4 hand will be \$794,000. In addition, the value of the Debtor's inventory, Wachovia's
5 primary collateral, as of the Petition Date is approximately \$7,137,340 at cost (net of
6 reserves), and approximately \$6,164,203 at orderly liquidation recovery values (See
7 discussion below). During the first month of the case, while it conducts store closing
8 stores at targeted unprofitable locations, the Debtor projects to earn approximately \$4.8
9 million. Thereafter, the Debtor expects to earn approximately \$3.5 million in May, and
10 \$3.1 million in June. The Debtor requires the use of its cash collateral to pay its monthly
11 operating expenses, which includes salaried and hourly payroll, insurance, suppliers,
12 vendors, and real property lease payments.

13 **J. Liquidation Analysis of Wachovia's Collateral**

14 As stated above, the Debtor believes that its inventory as of the Petition Date, has
15 a liquidation value of \$6,164,203. The figure was arrived at by taking the current
16 inventory, net of reserves, at landed cost, and extrapolating the estimated retail value of
17 said inventory based on historical mark-ups. The retail figure was then multiplied by an
18 average liquidation value of 37%, which was derived from an analysis that included
19 consideration of Differing rates of recovery assigned to the different product categories,
20 based on the progressive markdown strategy that would be applied to each product
21 during the course of the sale. See separately filed Declaration of Richard Alston. In
22 addition to the Debtor's inventory, Wachovia's claim is secured by other assets of the
23 Debtor, including, accounts receivable (primarily from credit card receipts), furniture,
24 fixtures and equipment, which have a combined estimated liquidation value of
25 approximately \$680,000. The Debtor is in the process of analyzing Wachovia's loan and
26 security agreements to determine whether it has a security interest in the Debtor's
27 customer lists, and intellectual property, such as its trade name and trademarks. The
28

1 Debtor has not conducted a liquidation analysis of its trade name and trademarks, but
2 believes that its customer list has a substantial and quantifiable liquidation value.

3 **K. Debtor's Operating/Cash Collateral Budget**

4 Attached hereto as Exhibit 1, is the Debtor's proposed cash
5 collateral/operating budget (the "Budget"), which was prepared by the Debtor's chief
6 financial officer, Yvonne Besvold, and outside financial consultant Richard Alston, of
7 Kibel Green, Inc. The Budget was reviewed and approved by the Debtor's chief
8 executive officer, Robert Kelleher. The Budget takes into account the Debtor's cost-
9 cutting measures discussed above, including its plans to close certain of its non-profitable
10 stores, and conduct discount sales at those locations. All payments described in the
11 Budget, are necessary to maintain and continue the Debtor's operations and preserve its
12 going concern value for the benefit of the Debtor's creditors. Failure to make payment in
13 accordance with the Budget could result in immediate and irreparable harm to the
14 Debtor's operations, going concern value, and the interest of the Debtor, the estate and
15 its creditors.

16 **IV.**

17 **NO CASH COLLATERAL AGREEMENT WITH WACHOVIA; NEED FOR ORDER**
18 **AUTHORIZING USE OF CASH COLLATERAL**

19 The Subordinated Secured Creditors have consented to the use of cash
20 collateral, but as of yet, Wachovia has not.⁴ The Debtor will be commencing negotiations
21 with Wachovia, but it was impractical for the Debtor to do so pre-petition. Therefore, the
22 Debtor makes this Motion pursuant to and Rule 4001(b) for an order authorizing it to use
23 cash collateral. The Debtor is hopeful that a cash collateral stipulation can be reached
24 with Wachovia and presented to the Court for its approval. If an agreement cannot be
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26 ⁴ The Debtor will separately move for approval of its stipulation with the Second
27 Priority Secured Creditors. If an agreement is reached with Wachovia regarding the use
28 of cash collateral, it is likely that the Debtor will seek approval of both agreements in the
same motion.

1 reached, the Debtor will request permanent use of cash collateral at the Final Hearing on
2 this motion.

3
4 **V.**

5 **REQUEST FOR USE OF CASH COLLATERAL**

6 The Debtor requests (i) pending a final hearing, emergency authority to use
7 cash collateral to satisfy administrative expenses (including the payment of rents to real
8 property lessors, and pre and post-petition wages, salaries⁵) in accordance with the
9 Budget and (ii) at the final hearing, final authority to use cash collateral through June 21,
10 2008. The Debtor also requests some flexibility in connection with the Budget: it
11 requests authority to exceed the disbursements forecasted in the Budget by up to 15%
12 on a line-by-line basis, and to exceed aggregate disbursements forecasted in the Budget
13 by a total of 10%. In addition to the equity cushion protecting the Lenders' claims, the
14 Debtor proposes to give Wachovia replacement liens on inventory, fixtures, furniture,
15 equipment, accounts receivable and the proceeds thereof generated or acquired by the
16 Debtor after the Petition Date if and to the extent that (i) the pre-petition security interests
17 of Wachovia are valid, enforceable, properly perfected, and unavoidable, and (ii) the
18 Debtor's use of cash collateral results in diminution in the value of Wachovia's collateral.
19 Absent emergency interim relief, the Debtor will not be able to pay its employees, satisfy
20 its rent or utilities obligations, purchase new supplies, or to otherwise operate its
21 business.

22 **VI.**

23 **ARGUMENTS AND AUTHORITIES**

24 **A. The Relief Requested is Authorized by 11 U.S.C. § 363**

25 Section 363 of the Bankruptcy Code governs the Debtor's use of property of
26 its estate. Section 363(c)(1) provides in pertinent part that:

27 ⁵ Concurrently herewith, the Debtor has filed a motion for authority to pay the pre-
28 petition wages and salaries of its employees.

1 If the business of the debtor is authorized to be operated
2 under section . . . 1108 . . . and unless the court orders
3 otherwise, the trustee may enter into transactions, including
4 the sale or lease of property of the estate, in the ordinary
course of business, without notice or a hearing, and may use
property of the estate in the ordinary course of business
without notice or a hearing.

5 11 U.S.C. § 363(c)(1).

6 A debtor in possession has all the rights and powers of a trustee with
7 respect to property of the estate, including the right to use property of the estate in
8 compliance with Section 363 of the Code. 11 U.S.C. § 1107(a). Section 363(c)(2)
9 establishes a special requirement with respect to "cash collateral", by providing that the
10 trustee or debtor in possession may not use, sell or lease "cash collateral" under
11 subsection (c)(1) unless (i) such entity that has an interest in such collateral consents or
12 (ii) the court, after notice and a hearing, authorizes such use, sale or lease.

13
14 "Cash collateral" is defined by the Code as follows:

15 [C]ash, negotiable instruments, documents of title, securities,
16 deposit accounts, or other cash equivalents whenever
17 acquired in which the estate and an entity other than the
18 estate have an interest and includes the proceeds, products,
19 offspring, rents, or profits of property subject to a security
20 interest as provided in section 552(b) of this title, whether
21 existing before or after the commencement of a case under
22 this title.

23 11 U.S.C. § 363(a).

24 The definition of "cash collateral" set forth in Section 363(a) refers to
25 Section 552(b) of the Code, which provides:

26 Except as provided in sections 363, 506(c), 522, 544, 545,
27 547 and 548 of this title, if the debtor and an entity entered
28 into a security agreement before the commencement of the
case and if the security interest created by such security
agreement extends to property of the debtor acquired before
the commencement of the case and to proceeds, products,
offspring, rents, or profits of such property, then such security
interest extends to such proceeds, products, offspring, rents
or profits acquired by the estate after the commencement of
the case to the extent provided by such security agreement
and by applicable non-bankruptcy law, except to the extent

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that the court, after notice and a hearing and based on the equities of the case, orders otherwise.

11 U.S.C. § 552(b)(1).

It is universally acknowledged that the debtor's cash "is the life blood of the business" and the bankruptcy court must assure that such life's blood "is available for use even if to a limited extent". In re Mickler, 9 B.R. 121, 123 (Bankr. M.D. Fla. 1981). Courts typically authorize a debtor to use cash collateral to continue its operations so long as the interests asserted by affected creditors in such cash are adequately protected.

As this Motion establishes, the standards for authorizing the Debtor to utilize cash collateral are satisfied in this case because (i) there is a sufficient equity cushion protecting Wachovia's claim (this alone provides more than sufficient basis for authorization of the requested use of cash collateral); (ii) the Debtor's ongoing business operations will adequately protect and preserve the value of the Lenders' cash collateral, and (iii) if necessary, Wachovia will be further adequately protected by the grant of replacement liens on post-petition inventory, fixture, furniture, equipment, accounts receivable and proceeds to the extent of any diminution in the value of the Wachovia's cash collateral.

B. The Wachovia's Interests in Cash Collateral Will be Adequately Protected Under 11 U.S.C. § 361 Because There Will be no Diminution in Cash Collateral Under the Proposed Budget

As noted above, a debtor's authority to use cash collateral is typically conditioned on providing "adequate protection" to entities that assert an interest in such cash. 11 U.S.C. § 361. Although the term "adequate protection" is not defined in the Bankruptcy Code, Section 361 provides the following three non-exclusive examples of what may constitute adequate protection:

- (1) requiring the trustee to make a cash payment or periodic cash payments to such entity, to the extent that the . . . use . . . under section 363 of this title . . . results in a

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decrease in the value of such entity's interest in such property.

(2) providing to such entity an additional or replacement lien to the extent that such . . . use . . . results in a decrease in the value of such entity's interest in such property; or

(3) granting such other relief . . . as will result in the realization by such entity of the indubitable equivalent of such entity's interest in such property.

Neither Section 361 nor any other provision of the Code defines the nature and extent of "interest in property" of which a secured creditor is entitled to adequate protection under Section 363. However, the statute plainly provides that a qualifying interest demands protection only to the extent that the use of the creditor's collateral will result in a decrease in "the value of such entity's interest in such property". United Savings Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd., 484 U.S. 365, 108 S. Ct. 626, 98 L. Ed. 2d 740 (1988).

Timbers teaches that a secured creditor is entitled to "adequate protection" only against the diminution in value of the collateral securing its allowed secured claim. Where the value of Wachovia's collateral is not diminishing by the Debtor's use, sale, or lease, it follows that Wachovia's interests in cash collateral are adequately protected. Moreover, separate and independent of any question of diminution in value, a secured creditor has no right to preservation of the equity cushion in its collateral. The Supreme Court in Timbers determined that the property interest the Debtor must adequately protect is the lien that secures the creditor's claim. Timbers, 108 S. Ct. at 630. Further, the value of the lien may not exceed the allowed amount of the secured claim.

Accordingly, the property interest of an oversecured creditor (Wachovia in this case) that the Debtor must adequately protect, namely the lien value, is the allowed amount of the secured claim (Wachovia is owed approximately \$2,486,000), and does not include the equity cushion. In In re Alyucan Interstate Corp, 12 B.R. 803 (Bankr. D. Utah 1981), the court ruled that an equity cushion is not a requirement of adequate protection because a secured creditor is only entitled to protection against a decline in the value of its lien. The

1 existence of an equity cushion (the value of the property above the lien) is not a
2 necessary component of adequate protection. The court reasoned that Section 361
3 speaks not in terms of preserving equity, but in terms of compensating for any "decrease
4 in the value of [an] interest in property". Id., at 803. The Supreme Court's decision in
5 Timbers confirms the interpretation of Section 361.

6 Applying the foregoing authorities to the instant case, Wachovia is
7 adequately protected by an enormous equity cushion (well in excess of 100% of its
8 secured claim). See discussion above, and Exhibit 2 which is an analysis (the
9 "Liquidation Analysis") prepared by the Debtor, with the assistance of Mr. Alston of Kibel
10 Green, discussing the liquidation value of the Wachovia's collateral as of the Petition
11 Date. The liquidation value of Wachovia's collateral is also noted in the Budget, and the
12 total equity cushion is valued at the end of each week thereof. The Liquidation Analysis
13 shows that as of the Petition Date, Wachovia's collateral has a total liquidation value of
14 \$6,844,203⁶, while its secured claim is only approximately \$2,486,000. Therefore,
15 Wachovia has an equity cushion of approximately \$4.36 million, or 175% as of the
16 Petition Date. Further, the Liquidation Analysis demonstrates that during the Budget
17 Period, while there will be some decrease in the amount of the equity cushion protecting
18 Wachovia's position, at no time will it fall below 135%. Accordingly, Wachovia's claim
19 will remain adequately protected throughout the Budget Period. As such, pending a final
20 hearing, the Debtor requests emergency authority to use cash collateral according to the
21 Budget during the Interim Budget Period.

22 The Debtor proposes providing Wachovia with adequate protection beyond
23 what is required. Accordingly, the Debtor thus proposes to grant Wachovia a lien on
24 cash, inventory, fixtures, furniture, equipment, and accounts receivable and the proceeds
25 thereof acquired post-petition, but only if and to the extent that (i) Wachovia's pre-petition
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27 ⁶ Comprised of liquidation value of inventory, accounts receivable (credit card
28 receipts), and furniture, fixtures and equipment.

1 security interests are valid, enforceable, properly perfected, and unavoidable, and (ii) the
2 Debtor's use of cash collateral results in diminution in the value of Wachovia's cash
3 collateral. These replacement liens more than adequately protect Wachovia's position in
4 that its interests in cash generated from post-petition operations would otherwise, as
5 discussed elsewhere, be limited solely to the proceeds from the collection of pre-petition
6 receivables and liquidation of inventory and other fixed assets and then only to the extent
7 of the value of Wachovia's interests therein. Finally, should all the foregoing protections
8 prove inadequate, Wachovia should also be entitled to superpriority claims, to the extent
9 permitted by Section 507(b).

10 C. **Wachovia's Interests, if any, in Cash Collateral Will be**
11 **Adequately Protected Under 11 U.S.C. § 361 Because the**
12 **Debtor's Use of Cash Collateral Will Preserve the Going**
13 **Concern Value of the Collateral and Wachovia's Interest are**
14 **Adequately Protected by an Equity Cushion**

15 It must be emphasized that the value of the Debtor's assets is primarily the
16 value of its inventory, accounts receivable, and its equipment, in addition to the good will
17 associated with the Debtor's business. The Debtor's ability to maximize the value of
18 these assets is inextricably tied to maintaining the going the concern value of the
19 Debtor's business. If the Debtor does not have access to cash, it may be forced to shut
20 down operations and the Debtor's assets would be liquidated for less than fair value.
21 The Debtor is a retail business, and without continuity of its operations, and an
22 uninterrupted delivery of inventory to its stores, the Debtor's could face a significant
23 customer defection, which would have an immediate and devastating effect upon the
24 Debtor's future revenues and opportunity for reorganization. Accordingly, the use of cash
25 collateral to conduct the Debtor's business will not only preserve and protect the value of
26 the Wachovia's collateral generally and enhance and maximize the potential recovery for
27 all creditors of the this estate.

28

1 It is well established that a bankruptcy court, where possible, should resolve
2 issues presented in favor of reorganization rather than to force a liquidation because the
3 business cannot use cash or other property to operate for a short time. In re Dynaco
4 Corp., 162 B.R. 389 (Bankr. D. N.H. 1993); In re Hoffman, 51 B.R. 42 (Bankr. W.D. Ark.
5 1985); In re A&B Hearing & Air Conditioning, Inc., 48 B.R. 401 (Bankr. M.D. Fla. 1985); In
6 re Heatron, Inc., 6 B.R. 493 (Bankr. W.D. Mo. 1980). As the Heatron court stated in
7 granting a debtor's motion to use cash collateral:

8 The policy of the Code, as was that of the predecessor
9 statutes, is to encourage reorganization if there is a
10 reasonable possibility of success. At the beginning of the
11 reorganization process, the court must work with less
12 evidence than might be desirable and should resolve issues in
13 favor of the reorganization, where the evidence is conflicting.

14 Id., at 496.

15 In In re O'Connor, 808 F.2d 1393 (10th Cir. 1987), the court eloquently
16 summarized the foregoing principle as follows:

17 Because the ultimate benefit to be achieved by a successful
18 reorganization inures to all the creditors of the estate, a fair
19 opportunity must be given to the Debtor to achieve that end.
20 Thus, while interests of the secured creditor . . . are of
21 concern to the court, the interests of all other creditors also
22 have bearing upon the question of whether use of cash
23 collateral shall be permitted during the early stages of
24 administration.

25 The first effort of the court must be to insure the value of the
26 collateral will be preserved. Yet prior to confirmation for a
27 plan of reorganization, the test of that protection is not by the
28 same measurements applied to treatment of a secured
29 creditor in a proposed plan. In order to encourage the
30 Debtor's efforts in the formative period prior to the proposal of
31 a reorganization, the court must be flexible in applying the
32 adequate protection standard.

33 Id., at 1397-98.

34 This important sentiment is echoed in other cases. In In re Prime, Inc., 15
35 B.R. 216, 218 (Bankr. W.D. Mo. 1981), the court succinctly stated that "[I]t is not the
36 purpose of a Chapter 11 proceeding to close a business at the beginning". Similarly, in In
37 re Shockley Forest Industries, Inc., 5 B.R. 160, 162 (Bankr. N.D. Ga. 1980), the
38

1 bankruptcy court held "Chapter 11 is designed for the purpose of preventing dissolution
2 of an otherwise viable corporation. A court should not precipitously sound the death knell
3 for a debtor by prematurely determining that the debtor's prospects for economic revival
4 are poor. At this time the Court has no basis on which to conclude the debtor cannot be
5 rehabilitated."

6 Applying the foregoing, courts have frequently allowed a debtor to use cash
7 collateral in circumstances where such use would enhance or preserve the debtor's
8 reorganization value. Thus, for example, in In re Stein, 19 B.R. 458 (Bankr. E.D. Pa.
9 1982), the court allowed a debtor to sue cash collateral where the bank was
10 undersecured and had no cushion for protection. The court in Stein found that the use of
11 cash collateral was necessary to the continued operations of the debtor and "the
12 creditor's secured position can only be enhanced by the continued operation of the
13 [debtor's business]". Id., at 460. See also In re Pine Lake Village Apartment Co., 16 B.R.
14 750 (Bankr. S.D.N.Y. 1981) (marginally secured creditor adequately protected by lien in
15 post-petition property acquired by debtor; debtor can use cash collateral "in the normal
16 course of their business").

17 The conclusion that preservation of value is sufficient, without more, to
18 provide adequate protection follows from the principle that a secured creditor is only
19 entitled to adequate protection of the secured creditor's interest in its collateral to the
20 extent that such collateral secured the creditor's allowed claim. See Timbers, 108 S.Ct.
21 at 629-30. Here, Wachovia is protected by a substantial equity cushion. Moreover, the
22 use of cash collateral will maximize value for creditors for the estate while protecting the
23 interests of Wachovia in cash collateral.

24 In addition, as indicated above, courts have recognized that the existence
25 of an equity cushion, alone, if sufficient in size, can constitute adequate protection where
26 the equity cushion is not likely to erode to the point where no cushion remains. See In re
27 Mellor, 714 F.2d 1396, 1402 (9th Cir. 1984) (20% equity cushion sufficient); In re Hawaii
28 Pacific Industries, 17 B.R 670 (Bankr. Hawaii 1982) (15% equity cushion sufficient). In

1 the context of a case involving real estate collateral the Ninth Circuit has specifically held
2 that a 20% equity cushion constitutes adequate protection. Mellor, supra, 714 F.2d at
3 1402. This principle is equally applicable here, when Wachovia's more than 100% equity
4 cushion. Further when viewing the equity cushion in *conjunction* with the post -petition
5 replacement lien that the Debtor proposes to provide to Wachovia, it is clear that
6 Wachovia is more than adequately protected.

7 As stated above, the Debtor has inventory valued at orderly liquidation of
8 \$6,164,203, accounts receivable (namely credit card receipts) of \$380,000 and fixtures,
9 furniture, and equipment with an approximate liquidation value of \$300,000. The total
10 amount of Wachovia's secured debt, as of the Petition Date, is only approximately
11 \$2,486,000, well below the value of the Debtor's assets. Therefore, Wachovia has an
12 equity cushion well in excess of 175% of its debt. Applying the case law discussed
13 above, it is clear that such an equity cushion, in and of itself, provides adequate
14 protection of Wachovia's claim.

15 While the Debtor's use of cash collateral will reduce the pre-petition cash
16 collateral, the Debtor's provision of replacement liens will continue to replenish the
17 consumed cash collateral. The equity cushion overrides the effect of any minor
18 variations that may occur between the Budget and the Debtor's actual experience and
19 thus provides adequate protection to Wachovia

20
21 D. **Emergency Authority to Use Cash Collateral is Warranted Under**
22 **11 U.S.C. § 363(c)(3) and Rule 4001(b) to Allow the Debtor to**
23 **Operate its Business**

24 The Debtor has requested an emergency hearing to consider the relief
25 requested in this Motion. Section 363(c)(3) and Rule 4001(b)(2) require the Court to
26 schedule a cash collateral hearing in accordance with the needs of the debtor and
27 conduct a preliminary hearing for the purpose of authorizing the use of cash collateral to
28 the extent necessary to avoid irreparable harm to the Debtor. Section 363(c)(3)

1 mandates that “[a]ny hearing [on the use of cash collateral] . . . shall be scheduled in
2 accordance with the needs of the debtor”. The Ninth Circuit has recognized that
3 emergency relief is often crucial to the success of a corporate reorganization:

4 We realize that “in certain circumstances, the entire
5 reorganization effort may be thwarted if emergency relief is
6 withheld” and that reorganization under the Bankruptcy Code
7 “is a perilous process, seldom more so than at the outset of
8 the proceedings when the debtor is often without sufficient
9 cash flow to fund essential business operations”. It is for this
10 very reason that Congress specified that hearings concerning
11 the use of cash collateral “shall be scheduled in accordance
12 with the needs of the debtor”. 11 U.S.C. § 363(c)(3).

9 In re Center Wholesale, Inc., 759 F.2d 1440, 1449 n. 21 (9th Cir. 1985) (citations omitted).

10 In the present case, emergency use of cash collateral by the Debtor,
11 pending a final hearing, is necessary to prevent immediate and irreparable harm to the
12 Debtor and its creditors. Absent such use, the Debtor will have little or no funds from
13 which to conduct its operations, and may be forced to permanently discontinue its
14 business to the detriment of all creditors.

15 On the other hand, Wachovia will suffer little, if any, harm if interim relief is
16 granted. To the extent that the Wachovia has an interest in property of the estate which
17 is worthy of adequate protection, that interest is adequately protected by the preservation
18 of the value of its collateral through the Debtor’s continued business operations and by
19 the proposed replacement liens.

20 As such, the Debtor requests that the Court permit the Debtor to use cash
21 collateral to the extent necessary to avoid irreparable harm pending a final hearing in
22 accordance with the Budget, schedule a final hearing on this Motion under Rule
23 4001(b)(2), following the final hearing authorizing the Debtor to use cash collateral in
24 order to pay its ordinary and necessary operating expenses and generally operate its
25 business for the next 3 months in accordance with the Budget, grant Wachovia with
26 replacement liens described above on cash, inventory, fixtures, furniture, equipment,
27 accounts receivable, and the proceeds thereon acquired by the Debtor after the
28 conversion date, but only to the extent that (a) Wachovia's security interest are valid,

1 enforceable, properly perfected, and unavoidable, and (b) the Debtor's use of cash
2 collateral results in diminution in the value of Wachovia's cash collateral.

3 **VII.**

4 **THE COURT MUST DIRECT THE DEPOSITORIES WITH WHICH THE DEBTOR HAS**
5 **BANK ACCOUNTS TO HONOR THIS ORDER**

6 The Debtor has depository accounts with Wachovia Bank, N.A., the Bank of
7 America, N.A., and Wells Fargo Bank, N.A. (hereinafter collectively the "Depositories"),
8 through which the funds generated from the sale of the Debtor's funds is processed and
9 released. Each of the Depositories is party to a Deposit Control Agreement with the
10 Debtor and Wachovia, pursuant to which certain protocols are mandated regarding the
11 egress and ingress of funds.⁷ In order to give effect to this Court's order authorizing the
12 Debtor's Use of Cash Collateral pursuant to this Motion, it is necessary that the Court
13 direct the Depositories to comply with the order, and abide by requests for use of funds
14 by the Debtor, notwithstanding any contrary direction from Wachovia or any other third
15 party. The Court may issue such an order pursuant to Section 105 of the Bankruptcy
16 Code, which authorizes the Court to issue "any order, process, or judgment that is
17 necessary or appropriate to carry out the provisions of this title".

18 **VII.**

19 **NOTICE**

20 The Debtor intends to provide notice of this Motion by overnight mail, e-
21 mail, facsimile, or hand delivery on (i) the Office of the United States Trustee, (ii) the
22 twenty largest unsecured creditors, (iii) all secured creditors, including Wachovia and the

23 _____
24 ⁷ Concurrently herewith, the Debtor has filed its Emergency Motion for Order
25 Authorizing Debtor to Maintain Certain Active Bank Accounts and Cash Management
26 System and Continue Use of its Existing Business Forms (the "Cash Management
27 Motion"). The Cash Management Motion contains a detailed description of the
28 Depository Accounts. In general, the Debtor requests authority to continue its existing
cash management/banking system as described above, with the modification that
Wachovia be precluded from asserting control over or otherwise sweeping (or
transferring in any manner) funds from the Debtor's accounts for the purpose of paying
down the Debtor's line of credit with Wachovia or for any other purpose.

1 Subordinated Secured Creditors, (iii) the Depositories; and (iv) any party requesting
2 special notice.

3 **VIII.**


4 **CONCLUSION**

5 Based on the foregoing, the Debtor respectfully requests that the Motion be
6 granted in all respects, and for such other and further relief as the Court deems just and
7 proper. Finally, while there is no cash collateral stipulation in affect with Wachovia time,
8 the Court has requested that the Debtor prepare the form required by 4001-2, a true and
9 correct copy of which is attached hereto as Exhibit 3.

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DATED: March 19, 2008

SulmeyerKupetz
A Professional Corporation

By: 
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EXHIBIT 1

eStyle, Inc.
Cash Collateral Model

April

	Week 1 3/23-3/29	Week 2 3/30-4/05	Week 3 4/06-4/12	Week 4 4/13-4/19	Week 5 4/20-4/26	MTD
Net Cash Receipts from DTC Sales	\$336,349	\$326,790	\$372,140	\$410,272	\$391,384	\$1,836,935
Liquidation receipts from warehouse/jobber	\$0	\$0	\$0	\$41,500	\$41,500	\$83,000
Net Cash Receipts from Retail Sales	\$388,505	\$439,479	\$453,863	\$425,405	\$453,887	\$2,161,140
Liquidation receipts from 6 stores****	\$110,648	\$175,111	\$171,510	\$153,922	\$154,445	\$765,636
Net Cash Receipts Total DTC & Stores	\$835,501	\$941,380	\$997,513	\$1,031,100	\$1,041,217	\$4,846,710
Other Cash Receipts						
List Rental & Misc Receipts, chase reserve*	(200,000)	(39,000)	-	-	-	(239,000)
Cash Payments:						
Inventory	-	286,431	323,529	190,430	178,903	979,292
UPS Freight Services (Imports)	134,000	40,866	67,780	47,790	46,150	336,386
Packing/Gift Supplies & Domestic Freight In	9,505	11,554	12,099	11,776	12,080	57,015
DTC Shipping (UPS & USPS)	71,866	29,017	33,044	40,115	38,438	212,480
New Breed/Bergen (Distribution center)	82,609	42,869	45,905	49,246	49,105	269,534
Freight to Stores	5,522	6,799	6,919	6,409	6,730	32,379
Salaries, Wages, Benefits	39,333	400,000	43,000	400,000	27,333	909,667
Credit Card Processing***	19,719	22,011	23,426	24,482	24,629	114,287
Rent	453,443	-	52,000	-	-	505,443
Direct Mail	-	-	51,000	26,800	26,800	104,600
Marketing	-	-	10,000	30,385	30,385	70,769
Technology & CAPEX & CAP Leases	8,644	8,166	20,657	25,005	23,981	86,452
Corporate/Homebase**	45,235	34,013	117,558	127,735	65,321	389,862
Retail Store Expenses*****	33,853	37,595	28,289	49,908	166,945	316,580
Sales & Use Tax	7,000	27,000	-	-	100,000	134,000
Administrative fees (see memof# 8 below)						
Total Cash Payments	\$910,729	\$945,921	\$835,205	\$1,030,080	\$796,799	\$4,518,734
Net Cash Flow	(\$275,228)	(\$43,541)	\$162,308	\$1,020	\$244,418	\$88,977
Roll forward B/S cash (beg of wk)	794,520	519,292	475,752	638,059	639,079	
Credit line change						
+/- Cash flow	(275,228)	(43,541)	162,308	1,020	244,418	
End of wk B/S cash fcst	519,292	475,752	638,059	639,079	883,497	
Memor:						
1. Ending inventory (net of reserves)	6,971,651	6,792,361	6,578,610	6,309,630	6,042,688	
2. Inventory @ retail (59.6% mark-up)	17,258,380	16,814,546	16,285,404	15,619,542	14,958,724	
3. Orderly liquidation @35% of retail	6,021,105	5,886,260	5,681,653	5,449,347	5,218,801	
4. Wachovia collateral inventory equity	3,591,459	3,436,614	3,252,007	3,019,701	2,789,155	
5. A/R Equity value	391,960	440,994	505,630	504,430	665,967	
6. Other estimated collateral (F&E, equip, etc.)	300,000	300,000	300,000	300,000	300,000	
7. Wachovia total collateral equity (4+5+6)	4,273,419	4,177,608	4,057,637	3,824,130	3,755,122	
8. Payment from prior retainer (not in model)	50,000	50,000	50,000	50,000	50,000	

Abbreviations:

DTC is short for Direct to consumer, CAPEX is short for capital expenditures; CAP leases is short for Capital leases

*Pledholder reserve estimated incase processor withholds additional funds (not anticipated as necessary)

** Corporate/homebase includes non-payroll overhead expenses such as insurance, employee expense reports, temp help, professional fees, samples, office supplies

***Credit card processing fees are deducted from cash payments received

**** Liquidation sales for Cadeau (Los Angeles) my happen in either the warehouse or in Cadeau (New York)

***** Retail store expenses include \$25k/store for 6 closing stores spread week 3 thru week 5

Note: There was uncertainty as to whether some checks had cleared at the time of preparing this cash collateral model. This is therefore an estimate of cash

eStyle, Inc.
Cash Collateral Model

May

	Week 1 4/27-5/03	Week 2 5/04-5/10	Week 3 5/11-5/17	Week 4 5/18-5/24	MTD
Net Cash Receipts from DTC Sales	\$346,485	\$392,447	\$356,749	\$425,352	\$1,521,033
Net Cash Receipts from Retail Sales	\$529,513	\$542,816	\$503,761	\$457,596	\$2,033,687
Net Cash Receipts Total DTC & Stores	\$875,998	\$935,264	\$860,511	\$882,948	\$3,554,720
Other Cash Receipts	-	-	-	99,145	99,145
List Rental & Misc Receipts, chase reserve*					
Cash Payments:					
Inventory	409,643	251,264	208,669	349,426	1,219,002
UPS Freight Services (Imports)	79,245	17,724	4,206	68,733	169,907
Packing/Gift Supplies & Domestic Freight In	9,439	10,413	9,060	9,144	38,056
DTC Shipping (UPS & USPS)	31,722	37,556	33,025	41,732	144,035
New Breed/Bergen (Distribution center)	44,713	48,078	44,429	47,073	184,294
Freight to Stores	5,858	6,005	5,573	5,062	22,489
Salaries, Wages, Benefits	329,730	11,638	332,730	20,971	695,068
Credit Card Processing***	20,713	22,208	20,415	21,194	84,529
Rent	399,599	52,000	-	-	451,599
Direct Mail	2,250	2,250	2,250	2,250	9,000
Marketing	10,258	10,258	10,258	10,258	41,034
Technology & CAPEX & CAP Leases	10,872	13,398	11,424	15,168	50,862
Corporate/Homebase**	53,479	56,851	24,232	29,266	163,828
Retail Store Expenses	24,092	24,472	3,354	2,033	53,951
Sales & Use Tax	90,000	-	-	210,455	300,455
Administrative fees (see memo# 8 below)			30,000	30,000	60,000
Total Cash Payments	1,521,612	564,115	739,627	862,765	3,688,118
Net Cash Flow	(\$645,613)	\$371,149	\$120,884	\$119,328	(\$34,253)
Roll forward B/S cash (beg of wk)	883,497	237,883	609,032	729,916	729,916
+/- Cash flow	(845,613)	371,149	120,884	119,328	119,328
End of wk B/S cash fcs1	237,883	609,032	729,916	849,244	
Memo:					
1. Ending inventory	5,995,351	5,920,035	5,878,290	5,821,487	
2. Inventory @ retail (59.6% mark-up)	14,841,542	14,655,096	14,551,755	14,411,139	
3. Orderly liquidation @35% of retail	5,177,918	5,112,871	5,076,818	5,027,759	
4. Wachovia collateral inventory equity	2,748,272	2,683,225	2,647,172	2,598,113	
5. A/R Equity value	415,371	445,340	409,381	425,510	
6. Other estimated collateral (F&E, equip, etc.)	300,000	300,000	300,000	300,000	
7. Wachovia total collateral equity (4+5+6)	3,463,643	3,428,565	3,356,553	3,323,623	
8. Payment from prior retainer (not in model)	50,000	50,000	-	-	

Abbreviations:

DTC is short for Direct to consumer; CAPEX is short for capital expenditures; CAP leases is short for Capital leases

* Placeholder reserve estimated incase processor withholds additional funds (not anticipated as necessary)

** Corporate/homebase includes non-payroll overhead expenses such as insurance, employee expense reports, temp help, professional fees, samples, office supplies

***Credit card processing fees are deducted from cash payments received

**** Miscellaneous receipts in week 4 includes \$15k/store for receipts from sale of fixture etc for 6 closing stores

Note: There was uncertainty as to whether some checks had cleared at the time of preparing this cash collateral model. This is therefore an estimate of cash

eStyle, Inc.
Cash Collateral Model

June

	Week 1 5/25-5/31	Week 2 6/01-6/07	Week 3 6/08-6/14	Week 4 6/15-6/21	MTD
Net Cash Receipts from DTC Sales	\$319,567	\$334,895	\$306,892	\$367,225	\$1,328,579
Net Cash Receipts from Retail Sales	\$438,664	\$451,037	\$428,205	\$424,184	\$1,742,089
Net Cash Receipts Total DTC & Stores	\$758,231	\$785,931	\$735,097	\$791,409	\$3,070,669
Other Cash Receipts					
List Rental & Misc Receipts, chase reserve*	-	-	-	9,269	9,269
Cash Payments:					
Inventory	289,850	260,647	224,561	278,865	1,053,922
UPS Freight Services (Imports)	39,383	39,383	39,383	52,776	170,926
Packing/Gift Supplies & Domestic Freight In	8,180	8,669	7,770	8,603	33,222
DTC Shipping (UPS & USPS)	33,221	35,167	31,612	39,270	139,270
New Breed/Bergen (Distribution center)	42,840	44,248	41,667	45,311	174,066
Freight to Stores	6,472	6,609	6,356	6,312	25,748
Salaries, Wages, Benefits	305,143	10,770	305,143	10,770	631,824
Credit Card Processing***	17,996	18,677	17,428	18,949	73,051
Rent	340,124	52,000	-	-	392,124
Direct Mail	2,250	2,250	2,250	2,250	9,000
Marketing	7,842	7,842	7,842	7,842	31,370
Technology & CAPEX & CAP Leases	11,937	12,783	11,238	14,545	50,503
Corporate/Homebase**	66,725	67,850	35,795	40,222	210,593
Retail Store Expenses	21,863	22,217	1,564	1,448	47,092
Sales & Use Tax	145,000	-	-	29,373	174,373
Administrative fees	30,000	30,000	30,000	30,000	120,000
Total Cash Payments	1,368,827	619,112	762,610	586,536	3,337,085
Net Cash Flow	(\$610,596)	\$166,819	(\$27,513)	\$214,142	(\$257,147)
Roll forward B/S cash (beg of wk)	849,244	238,649	405,468	377,955	
+/- Cash Flow	(610,596)	166,819	(27,513)	214,142	
End of wk B/S cash fcst	238,649	405,468	377,955	592,097	
Memo:					
1. Ending inventory	5,803,125	5,780,352	5,773,266	5,750,173	
2. Inventory @ retail (59.6% mark-up)	14,365,683	14,309,309	14,291,768	14,234,600	
3. Orderly liquidation @35% of retail	5,011,901	4,992,233	4,986,113	4,966,168	
4. Wachovia collateral Inventory equity	2,582,255	2,562,587	2,556,467	2,536,522	
5. A/R Equity value	366,741	371,402	354,825	371,741	
6. Other estimated collateral (F&E, equip, etc.)	300,000	300,000	300,000	300,000	
7. Wachovia total collateral equity (4+5+6)	3,248,996	3,233,989	3,211,293	3,208,263	

Abbreviations:

DTC is short for Direct to consumer. CAPEX is short for capital expenditures. CAP leases is short for Capital leases

*Placeholder reserve estimated increase processor withholds additional funds (not anticipated as necessary)

** Corporate/homebase includes non-payroll overhead expenses such as insurance, employee expense reports, temp help, professional fees, samples, office supplies

***Credit card processing fees are deducted from cash payments received

Note: There was uncertainty as to whether some checks had cleared at the time of preparing this cash collateral model. This is therefore an estimate of cash

ASSUMPTIONS USED IN PREPARATION OF BUDGET

Overview

This budget (the "Budget") demonstrates the estimated sources, uses and balance of cash for eStyle Inc (dba "babystyle") also referred to as the "Company". The budget covers a period of 13 weeks.

The Company operates its business on fiscal financial periods. For example, the month of March contains four fiscal weeks while the month of April contains five fiscal weeks. This fact may appear to distort the results from period to period. The forecast attached was prepared during the last week of fiscal March. A filing is contemplated at the end of this last week of March. All opening cash balances are consequently estimated.

The Company has not arranged post-petition "DIP" financing. It is assumed in this forecast that the Court authorizes the Company's use of cash collateral with or without the consent of the Company's senior secured lender ("Wachovia"). This assumption is based on the fact that Wachovia (owed approximately \$2,486,000 as of the Petition Date) is adequately protected by a substantial equity cushion (approximately \$4.4 million as of the week ending March 21, 2008) in its collateral. This collateral includes inventory which has a current estimated cost basis of approximately \$7.1 million, an estimated retail value of approximately \$17.7 million and an estimated liquidation value (under an orderly liquidation through the Company's network of stores and Internet website) of approximately \$6.164 million. This inventory alone, which is in addition to more than \$680,000 of other collateral including accounts receivable (primarily in the form of unpaid credit card receipts), provides Wachovia with collateral "equity" of approximately \$4.4 million as of the Petition Date. These calculations are more fully set forth in the "Liquidation Analysis", which is attached as Exhibit 2 to the Cash Collateral Motion.

Insiders who have provided second collateral bridge financing to the Company have stipulated to allow the Company the use of those funds. However, there are no assurances that Wachovia will agree to freezing the indebtedness at the date of filing.

Without a DIP financing arrangement in place, it is assumed that the Company will finance its own operations with internally generated cash from collections attributable to sales. If Wachovia obtains Court approval to sweep the accounts of the Company, it would be dependent on subsequent day to day cash and credit card receipts to support its operations.

Cash Receipts

There are two primary sources of revenue in the Company's business. The largest is from its sales to consumers through retail stores. Retail stores, primarily located in shopping malls in the eastern and the western regions of the United States, vary in size and inventory levels. Each store has an average inventory of between \$125,000 and \$175,000 at landed cost (as depicted on the financial statements). The second largest source of revenue is derived from the Company's direct to consumer "DTC" business which is operated by means of a website hosted by the Company that offers products on the Internet and which are shipped directly to the consumer from a warehouse located in Ontario, California.

During the periods covered by the Budget, the Company also expects that it will derive certain revenues from the sale of inventory of six stores that have been identified to close due to lack of sufficient cash flow and profits from such stores. Subject to Court approval, these stores will each conduct a store closing sale during the month of April through a progressive mark-down sale in which customers are offered discounts from the retail selling prices marked on the merchandise. Cash derived from these sales will be kept by the Company to finance its operations. Inventory will not be purchased for these stores again as it is expected that such stores will be closed and leases associated with such stores will be rejected.

The budget assumes sales pattern as of the most recent monthly post holiday trends. In general the trend reflects stores open more than 1 year performing down 8% or more and the direct to consumer business trending at 0 to 3% up. This excludes any liquidation activity. This trend reflects the downtrending traffic rate given the current overall economic and retail environment

The Company has used its best efforts to accurately forecast sales in both store and DTC operations based on historical patterns and the current economic conditions. However, future sales are uncertain and dependent, among other things, upon the Company's ability to retain customers, retain vendors, retain employees and manage the disruption of operations that will likely occur following the filing for protection under the Bankruptcy Code.

ASSUMPTIONS USED IN PREPARATION OF BUDGET

Cash Disbursements

The Company has recently implemented a cost reduction plan, intended to enable it to operate on a cash flow positive basis in the future. Part of this plan called for the reduction of payroll expense through a reduction of employees. Another part of the plan calls for the reduction of operating expenses such as rent and utilities through the closure of six stores (referenced above). Yet another plank of the plan to make the business cash flow positive is a reduction of its inventory through more frequent purchases of smaller inventory quantities which is expected to generate more sales from a smaller amount of inventory and will also create the need for fewer mark-downs (discounts) in order to sell slow moving inventory. Through this restructuring plan, the Company has addressed the three largest cash disbursements - inventory, salaries and rent.

The Company intends to negotiate favorable terms with its vendors post-petition. However, the inability of the Company to successfully negotiate favorable terms with its existing vendors, nearly half of whom are exporters in Asia, may materially impact the ability to achieve revenues and to meet the forecasted levels of cash flow depicted in the attached Budget. Some of the Company's vendors may require terms that are less favorable, including letters of credit. The Company estimates the potential letter of credit requirement of approximately \$1.5 million to secure the shipment of goods. Consequently, while it is currently the intention of the Company to execute its business model with 16 stores plus its DTC website operations, it may be necessary in the future to close additional stores to further reduce expenses and to align the scale of operations with the Company's ability to procure inventory.

Being an importer of products, the Company is heavily dependent upon its providers of warehousing and logistics functions. Without the cooperation of such vendors, it would be nearly impossible to continue to function in its current form. Consequently, it will be necessary to seek approval of the Court in arranging for the use of post-petition cash to repay certain of its providers of such services.

EXHIBIT 2

DEPARTMENT SUMMARY

	(a)	(b)	(c)	(d)
	Total	Total	Estimated	Estimated
	On Hand	On Hand	Recovery	Recovery
	Inventory	Inventory @	Percentage	Dollars
	Landed Cost	Retail Value		
	Dollar Value			
Baby	\$ 1,447,411	\$ 3,985,916	35%	\$ 1,395,071
Kids	816,539	2,027,682	25%	506,921
Maternity	2,651,865	7,093,559	20%	1,418,712
Books	101,408	201,072	50%	100,536
Gear	1,065,146	1,751,135	65%	1,138,238
Home Decor	301,448	753,962	45%	339,283
Personal Care	61,769	110,699	40%	44,280
Toys	691,753	1,744,521	70%	1,221,164
Grand Total	\$ 7,137,340	\$ 17,668,545	35%	\$ 6,164,203

FOOTNOTES:

All values are estimates based on system quantity and costs provided by the Company's financial systems. Estimates of liquidation values are based on current market conditions which are subject to change due to conditions beyond the Company's control such as economic conditions and store traffic at malls.

- (a) Value of all units on hand, expressed in dollars at landed cost (as reflected on the Company's balance sheet)
- (b) Company's estimate of retail price based on marked up cost before discounts and promotions
- (c) Estimated recovery percentage from sale of inventory through a progressive mark-down sale on an orderly basis (90 days); recovery percentage before sale costs
- (d) Estimated recovery dollars from sale of inventory through a progressive mark-down sale on an orderly basis (90 days); recovery percentage before sale costs

EXHIBIT 3

Attorney or Party Name, Address, Telephone and Fax Number, CA State Bar No. David S. Kupetz Mark S. Horoupian SulmeyerKupetz, A Professional Corporation 333 South Hope St., 35 th Floor Los Angeles, CA 90071 Fax No.: 213-629-4520 Bar No.: 125062(D. Kupetz) 175373 (M. Horoupian) Attorney for Debtor and Debtor in Possession	FOR COURT USE ONLY
UNITED STATES BANKRUPTCY COURT CENTRAL DISTRICT OF CALIFORNIA	
In re: ESTYLE, INC., a Delaware corporation, dba babystyle, Cadeau, and Cadeau Designs, <div style="text-align: right;">Debtor.</div>	CHAPTER 11 CASE NUMBER 2:08-bk-13518-SB DATE: March 21, 2008 TIME: 10:00 a.m. COURTROOM: 1575

**STATEMENT PURSUANT TO LOCAL BANKRUPTCY RULE 4001-2
(CASH COLLATERAL STIPULATIONS)**

**(Secured Creditor: WACHOVIA CAPITAL
FINANCE CORPORATION)**

The Debtor, through a separately filed motion, has requested the approval of a stipulation providing for the use of cash collateral, or post-petition financing, or both. ****** The Debtor is not seeking approval of a cash collateral stipulation. The Debtor is providing this form solely on the Court's instruction.**
As there is no stipulation, there are no provisions to describe below.

Description of Provision	Page No:	Line No. (if Applicable)
<input type="checkbox"/> Cross-collateralization clauses	_____	_____
<input type="checkbox"/> Provisions or findings of fact that bind the estate or all parties in interest with respect to the validity, perfection or amount of the secured party's lien or debt	_____	_____
<input type="checkbox"/> Provisions or findings of fact that bind the estate or all parties in interest with respect to the relative priorities of the secured party's lien and liens held by persons who are not party to the stipulation, or which create a lien senior or equal to any existing lien.	_____	_____
<input type="checkbox"/> Waivers of 11 U.S.C. § 506(c), unless the waiver is effective only during the period in which the debtor is authorized to use cash collateral or borrow funds	_____	_____
<input type="checkbox"/> Provisions that operate, as a practical matter, to divest the debtor in possession of any discretion in the formulation of a plan or administration of the estate or to limit access to the court to seek any relief under other applicable provision of law	_____	_____
<input type="checkbox"/> Releases of liability for the creditors alleged prepetition torts or breaches of contract	_____	_____
<input type="checkbox"/> Waivers of avoidance actions arising under the Bankruptcy Code	_____	_____

(Continued on next page)


In re eStyle, Inc.	CHAPTER <u>11</u> CASE NUMBER <u>2:08-bk-13518-SB</u>
Debtor.	

Description of Provision	Page No:	Line No. (if Applicable)
<input type="checkbox"/> Automatic relief from the automatic stay upon default, conversion to chapter 7, or appointment of a trustee	_____	_____
<input type="checkbox"/> Waivers of procedural requirements, including those for foreclosure mandated under applicable non-bankruptcy law, and for perfection of replacement liens	_____	_____
<input type="checkbox"/> Adequate protection provisions which create liens on claims for relief arising under 11 U.S.C. §§ 506(c), 544, 545, 547, 548 and 549	_____	_____
<input type="checkbox"/> Waivers, effective on default or expiration, of the debtor's right to move for a court order pursuant to 11 U.S.C. § 363(c)(2)(B) authorizing the use of cash collateral in the absence of the secured party's consent	_____	_____
<input type="checkbox"/> Provisions that grant a lien in an amount in excess of the dollar amount of cash collateral authorized under the applicable cash collateral order	_____	_____
<input type="checkbox"/> Provisions providing for the paying down of prepetition principal owed to a creditor	_____	_____
<input type="checkbox"/> Findings of fact on matters extraneous to the approval process	_____	_____

Dated:

Mark S. Horoupian

 Type Name



 Signature