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10 Attorneys for Plaintiff
11 LMAJ, LLC

12 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
13 **FOR THE COUNTY OF SANTA BARBARA**

14 LMAJ, LLC, a Delaware limited liability
15 company;

16 Plaintiffs,

17 vs.

18 JULIAN MICHALOWSKI, an individual;
19 COASTAL HOLDING COMPANY, LLC, a
20 California limited liability company;
21 MALANTE HAYWORTH, an individual;
22 JOSHUA GINSBERG, an individual; and
23 STEVEN LOEB, an individual; and JASON
24 LOEB, an individual; and, DOES 1,through
25 100,

26 Defendants.

CASE NO. 21CV03773

COMPLAINT FOR:

- (1) BREACH OF FIDUCIARY DUTY;**
- (2) BREACH OF FIDUCIARY DUTY; AND**
- (3) BREACH OF CONTRACT – OPERATING AGREEMENT**

1 COMES NOW Plaintiff LMAJ, LLC, who complains of Defendants Julian Michalowski,
2 Coastal Holding Company, LLC, Malante Hayworth, Joshua Ginsberg, Steven Loeb, and Jason
3 Loeb, and DOES 1 through 100, as follows:

4 5 INTRODUCTION

6 1. In a clear disregard of their fiduciary duties, Defendant Julian Michalowski is
7 conducting a fire sale of Defendant Coastal Holding Company, LLC (“Coastal” or the
8 “Company”) designed to benefit himself and Defendants Malante Hayworth, Joshua Ginsberg,
9 Steven Loeb, and Jason Loeb at the expense of the other equity members of the Company.

10 2. Michalowski is a founder, controlling member of Coastal, its CEO, and a member
11 of its Board of Managers. Hayworth and Ginsberg are also founders, members, and Managers,
12 and together with Michalowski, they are the majority members and dominate the Board of
13 Managers. Steven Loeb is the beneficial owner of member Treasure Dragon Holdings, LLC
14 (“Treasure Dragon”) and Jason Loeb is the designee of Treasure Dragon on Coastal’s Board of
15 Managers. Led by Michalowski, Defendants Michalowski, Malante Hayworth, Joshua Ginsberg,
16 Steven Loeb, and Jason Loeb (collectively, the “Individual Defendants”) have abused their
17 power and treat Coastal as their possession to do with as they please without regard to Coastal’s
18 operating agreement or their fiduciary duties owed to the Coastal’s other equity holders.

19 3. With upcoming loan payments due by Michalowski, Hayworth, and Ginsberg,
20 Michalowski has been negotiating an immediate sale of Coastal in order pay those loan
21 payments, rather than for these Individual Defendants to repay the sums they borrowed. While
22 negotiating for the sale of Coastal, Michalowski, Hayworth, Ginsberg, and Steven Loeb then
23 provided a recent loan to Coastal to obtain additional unique benefits for themselves from the
24 sale. Plaintiff is informed that the Individual Defendants are about to imminently sign a bridge
25 loan with the buyer to lock up the sale of Coastal.

26 4. Plaintiff seeks a temporary restraining order to enjoin the proposed bridge loan
27 and sale transaction to avoid Defendants enriching themselves at the expense of Plaintiff and
28 other equity holders. Absent injunctive relief, Plaintiff will be left without an adequate remedy

1 once the deal is signed and the transactions have been completed. In addition, Plaintiffs seek a
2 declaratory judgment to declare invalid *ultra vivres* transactions Defendants have recently taken
3 to further enrich themselves and restrain the Company from issuing any additional equity to
4 Defendants under the void transaction.

6 **PARTIES**

7 5. Plaintiff LMAJ, LLC is a limited liability company duly organized under the laws
8 of the State of Delaware with its principal place of business in Newport Beach, California.

9 6. Upon information and belief, Defendant Julian Michalowski is a member of
10 Coastal, its CEO, and a manager. Upon information and belief, Michalowski resides in Santa
11 Barbara because he maintains a residence in Santa Barbara that is owned through a family trust,
12 and Michalowski, on his public LinkedIn page, states that he is a partner of West Bluff Capital,
13 Inc. located in Goleta, California and that he “has been a Santa Barbara Resident for 10 years.”

14 7. Upon information and belief, Defendant Coastal Holding Company, LLC is a
15 limited liability company duly organized under the laws of the State of California with its
16 principal place of business in Santa Barbara, California.

17 8. Upon information and belief, Defendant Malante Hayworth is a member of
18 Coastal, an officer, and a manager, and resides in the State of Nevada.

19 9. Upon information and belief, Defendant Joshua Ginsberg is a member of Coastal,
20 an officer, and a manager, and is a resident of the Territory of Puerto Rico, but lives in the State
21 of Colorado.

22 10. Upon information and belief, Defendant Steven Loeb is beneficial owner of
23 Treasure Dragon of Coastal, which is a member of Coastal manager, and resides in Hong Kong.

24 11. Upon information and belief, Defendant Jason Loeb is a manager of Coastal, and
25 resides in the State of Massachusetts.

26 12. Except as described herein, Plaintiff is ignorant of the true names and/or
27 capacities of the defendants sued as DOES 1 through 100, inclusive, and therefore Plaintiff sues
28 these Defendants by such fictitious names. Following further investigation and discovery,

1 Plaintiff will seek leave of this Court to amend this Complaint to allege their true names and
2 capacities when ascertained. These fictitiously named defendants are responsible in some
3 manner for the acts, occurrences and events alleged herein. These defendants aided and abetted
4 and/or conspired with the named defendants in the wrongful acts and course of conduct or
5 otherwise negligently caused the damages and injuries claimed herein and are responsible in
6 some manner for the acts, occurrences and events alleged in this Complaint.

7 13. Plaintiff is informed and believes that the Defendants herein, and each of them,
8 were agents and/or employees each of the other and in acting and/or failing to act as alleged
9 herein, the Defendants, and each of them, were acting in the course and scope of said agency
10 and/or employment relationship.

11 14. The true names of DOES 1 through 100, whether individual, corporate, associate,
12 or otherwise, are unknown to Plaintiff who, under California *Code of Civil Procedure* Section
13 474, sue these Defendants under fictitious names. Each of the fictitiously named Defendants is
14 responsible in some manner for the conduct alleged herein, including, without limitation, by way
15 of conspiracy, aiding, abetting, furnishing the means and/or acting in capacities that create
16 agency, respondeat superior, and/or predecessor-or successor-in-interest relationships with the
17 Defendants. The DOE Defendants are private individuals, associations, partnerships,
18 corporations, or otherwise that actively assisted and participated in the negligent and wrongful
19 conduct alleged herein in ways that are currently unknown to Plaintiff. Some or all of the DOE
20 Defendants may be residents of the State of California. Plaintiff may amend or seek to amend
21 this Complaint to allege the true names, capacities, and responsibility of these DOE Defendants
22 once they are ascertained, and to add additional facts and/or legal theories. Plaintiff makes all
23 allegations contained this Complaint against all Defendants, including DOES 1 through 100.

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25 **VENUE AND JURISDICTION**

26 15. Defendants, and each of them, are subject to the jurisdiction of this Court by
27 virtue of their business dealings, acts, and transactions in California, by having caused injuries
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1 through their acts and omissions in California. This Court has subject matter jurisdiction over all
2 causes of action asserted herein pursuant to Article VI, §10 of the California Constitution.

3 16. The damages suffered by the Plaintiff exceed this Court's jurisdictional minimum.

4 17. Venue is proper under Section 395(a) of the California Code of Civil Procedure
5 because Defendant Coastal resides in the County of Santa Barbara.

6
7 **FACTUAL ALLEGATIONS**

8 **The Individual Defendants Are Personally Obligated On Loans For The Coastal Business**

9 18. Upon information and belief, Michalowski, Hayworth, and Ginsberg founded
10 Coastal, which owns and operates licensed cannabis retail dispensaries in California, including in
11 Los Angeles, Santa Barbara, and other California counties.

12 19. Upon information and belief, on or about May 10, 2019, Michalowski, Hayworth,
13 Ginsberg, and Jones obtained a loan from Cangaltri, LLC in the principal amount of \$1,500,000
14 with interest accruing at the annual rate of ten percent (10%) in the form of a promissory note
15 (the "Cangaltri Note"). That note had an initial maturity date of November 10, 2019, that has
16 since been extended to October 25, 2021. Each of Michalowski, Hayworth, Ginsberg, and Jones
17 are jointly and severally liable for the note. Michalowski, Hayworth, and Ginsberg may have
18 used the proceeds of the note for the Coastal business.

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20 **LMAJ Invests In Coastal And Secures Contractual Minority Protections.**

21 20. In August 2020, LMAJ entered into a Series B Preferred Unit Purchase
22 Agreement with Coastal, pursuant to which LMAJ has invested a total of \$3.7 million in Coastal
23 in exchange for 925,000 of Series B Preferred Units. LMAJ became and has remained the
24 majority interest holder of Coastal's Series B Units.

25 21. As part of LMAJ's substantial investment, it negotiated for and received a series
26 of minority protection rights. As relevant here, those protections include that the majority-in-
27 interest of the Series B must approve any "sale or issuance of any Incentive Units or any other
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1 award under any Equity Incentive Plan to Julian Michalowski, Joshua Ginsberg, or Malanta
2 Hayworth.”

3 22. The majority of Series B unitholders also must approve any “transaction (A) not
4 at arm’s length, or (B) in excess of \$25,000 (or a series of transactions in excess of \$50,000),
5 between the Company and a Common Unit Holder or an Affiliate or other related parties
6 thereof.” In other words, any transaction between Coastal and any of Michalowski, Hayworth,
7 Ginsberg, Treasure Dragon, and Steven Loeb (because they are Common Unit Holders, or
8 Affiliates or related parties of Common Unit Holders) in the amount of \$25,000 or more requires
9 LMAJ’s approval.

10 23. LMAJ also received the right for a designee to sit on Coastal’s Board of
11 Managers, the governing body of Coastal. Adam Bierman has continuously served as LMAJ’s
12 board designee once LMAJ made its investment.

13 24. Since LMAJ’s investment, Coastal has received additional investments from new
14 members, including from Treasure Dragon, but these minority protections have remained and are
15 set forth in Coastal’s operative Fifth Amended and Restated Operating Agreement (the
16 “Operating Agreement”), respectively in Section 6.6(b)(iii) and (iv).

17
18 **Michalowski Operates Coastal In Disregard To His Fiduciary Duties And LMAJ’s Rights,**
19 **Including Executing A Self-Dealing Promissory Note In August 2021 And Negotiating A**
20 **Self-Interested Sale Of Coastal.**

21 25. Despite contractual protections in the Operating Agreement and statutory
22 fiduciary duties owed by Michalowski, he has operated Coastal in disregard for those basic
23 duties. For example, Michalowski secured new investments for Coastal, but failed to provide
24 written notice under the operating agreement to allow LMAJ to assert its matching rights to
25 receive additional units to avoid dilution. Michalowski told Bierman at the time there was
26 nothing to worry about because LMAJ could receive the additional units at a later time.

27 26. By August 2021, Coastal’s Board of Managers consisted of: Michalowski,
28 Hayworth, Ginsberg, Jason Loeb, and Bierman.

1 27. On or about August 30, 2021, Michalowski, Hayworth, Ginsberg, and Steven
2 Loeb engaged in *ultra vires* activity by providing a \$500,000 loan to Coastal at an annual interest
3 rate of twenty percent (20%) and maturity date of the earlier of a sale of Coastal or December 31,
4 2021 (the “August Note”). Further, Michalowski and the other Individual Defendants required
5 Coastal to issue warrants to acquire an additional 37,816 units of Coastal common units at the
6 exercise price of just one penny per unit.

7 28. Under Section 6.6(b) of the Operating Agreement, the majority of the Series B
8 unit holders have the absolute right to approve any transaction that is either not at arm’s length or
9 over \$25,000 with any common unit holder or related party, which Michalowski, Hayworth,
10 Ginsberg and Steven Loeb all are. Likewise, an issuance of equity to Michalowski, Hayworth,
11 or Ginsberg likewise requires approval by the Series B unitholders. Upon information and
12 belief, Michalowski “negotiated” this deal for himself and his friends; he even signed the August
13 Note both on behalf of the Company and as a lender, demonstrating his cavalier disregard for his
14 duties and how he stood on both sides of the transaction.

15 29. When Bierman became informed of the August Note, he immediately objected,
16 exercising LMAJ’s rights under Section 6.6(b) of the Operating Agreement. Defendants refused
17 to listen and claimed – falsely – that because Bierman sits on the Board of Managers, he is
18 somehow unable to object to or withhold his approval. Bierman can vote as a Manager of
19 Coastal at a Board of Managers meeting, and he can vote as the representative of LMAJ for any
20 required vote of Series B unitholders.

21 30. Moreover, even if LMAJ did not have minority protections in the Operating
22 Agreement, this interested transaction would require at least an independent, distinterested
23 majority of the Board of Managers to approve such a transaction. Upon information and belief,
24 Bierman was the only independent, distinterested Manager because the remaining Managers are
25 either interested in the transaction, such as Michalowski, Hayworth, Ginsberg because they will
26 receive the benefits of the August Note, or they are beholden to another beneficiary of the
27 transaction, such as Jason Loeb because he is Steven Loeb’s relative and board designee of
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1 Treasure Dragon. Yet, Bierman’s clear and unequivocal objection was not respected by the
2 Individual Defendants, who only sought to enrich themselves.

3 31. To compound matters, Michalowski and the Individual Defendants made the
4 August Note at a time when Michalowski has been unilaterally negotiating a sale of Coastal.
5 Michalowski and others stand to uniquely benefit in two (2) distinct ways from a sale. First,
6 Michalowski, Hayworth, Ginsberg, and Steven Loeb stand to gain a short term profit by having
7 their August Note repaid in a sale of Coastal at a 20% interest rate and by receiving additional
8 shares through the warrant at a nominal exercise price – which undoubtedly were motivations
9 for their loan in the first place. Second, Michalowski, Hayworth, and Ginsberg also will benefit
10 by having Coastal repay the Cangaltri Note before it comes due on October 25, 2021.

11 32. Despite Michalowski’s conflicted position due to the unique benefits he will
12 receive from a sale of Coastal, he has been unilaterally negotiating the terms of the sale.
13 Michalowski has failed to keep the Board of Managers (or at least Bierman, as the sole
14 independent, disinterested Manager) adequately informed of developments, to allow the
15 independent Manager to form a special committee, or to allow Bierman as the independent
16 Manager to meaningfully exercise his supervision and oversight. Bierman has objected to
17 Michalowski’s unilateral negotiations, his conflicted position, and the entire sham process to sell
18 the Company, but Bierman’s objections have not been heeded, nor have Michalowski and the
19 remaining Individual Defendants sought to remedy their unabashed self-dealing and conflicts of
20 interest.

21 33. On the afternoon of September 13, 2021, Bierman became informed that the
22 potential buyer is providing a \$1 million bridge loan to Coastal as early as September 14, 2021,
23 but Bierman has never been informed of any of the material terms of the loan. There was no
24 fully informed vote or approval from the Board of Managers to receive the loan with any full
25 knowledge of the terms of the loan; instead, Michalowski only offered an incomplete picture
26 without providing the loan documents. The conflicted Board members – Michalowski,
27 Hayworth, Ginsberg, and Jason Loeb - went along with the loan because they stand to gain from
28 that loan and the sale transaction. Because Berman is the only person who does not stand to

1 gain from that loan, he is the sole independent, disinterested Manager, and his vote was
2 necessary to lawfully approve the loan. But Bierman did not vote in favor of the loan.

3 34. Upon information and belief, the bridge loan will lock-up the deal that
4 Michalowski has been negotiating and preclude Coastal from considering any other offers or
5 negotiating to improve the terms of the unknown deal Michalowski is negotiating.

6
7 **FIRST CAUSE OF ACTION**

8 **Breach of Fiduciary Duty**

9 **(Against Defendants Michalowski, Hayworth, Ginsberg, Steven Loeb, Jason Loeb, and**

10 **DOES 1 through 100)**

11 35. Plaintiff incorporates and re-alleges each of the paragraphs above as though fully
12 set forth herein.

13 36. As controlling members, officers, and/or managers, Michalowski, Hayworth,
14 Ginsberg, Jason Loeb, and Steven Loeb owe fiduciary duties of loyalty and care to the other
15 unitholders of Coastal. The duty of loyalty requires the Individual Defendants to act in good
16 faith for the benefit of the Coastal and all of its members, refrain from conduct that would harm
17 the Coastal and its members, and refrain from self-dealing. The duty of care required the
18 Individual Defendants to engage in a deliberative process for considering before any proposed
19 transaction based on reasonably available, adequate information so as to make a good faith
20 decision in the best interests of Coastal and its members. The Individual Defendants also were
21 required keep the Board of Managers fully informed of any potential transaction and allow the
22 independent, disinterested member of the Board of Managers to exercise and discharge his duties
23 to review and approve any proposed transaction in accord with the Operating Agreement and
24 applicable law.

25 37. The Individual Defendants have breached their duty of loyalty by, among other
26 things:

27 a. Allowing and encouraging Michalowski to unilaterally negotiate a
28 proposed bridge loan and sale of Coastal without any meaningful oversight on terms that

1 uniquely benefit Michalowski and themselves at the expense of the other unitholders, including
2 LMAJ.

3 b. Pursuing a \$1 million bridge loan to lock-up a self-interested sale
4 transaction that Michalowski has been negotiating without any meaningful arm's length
5 negotiation or consideration of any alternative offers to sell Coastal; and

6 c. Pursuing a proposed sale of Coastal on terms to uniquely benefit and
7 enrich themselves, such as through the repayment of the Jones Note, Cangaltri Note, and August
8 Note, and exercise of the warrant under the August Note, to the detriment of the other
9 unitholders.

10 38. The heightened standard of entire fairness (and not the deferential business
11 judgment rule) applies to the above breaches because they are interested transactions with the
12 Individual Defendants receiving unique benefits that will not be shared with other unitholders.

13 39. As a result of the Individual Defendants' breach of fiduciary duty, LMAJ will be
14 harmed.

15 40. LMAJ has no adequate remedy at law.

16 41. LMAJ seeks temporary, preliminary and permanent injunctive relief enjoining the
17 Individual Defendants from completing the bridge loan financing and sale transactions, or, in the
18 alternative, temporary, preliminary and permanent injunctive relief enjoining the Individual
19 Defendants from completing the bridge loan financing and sale transaction, unless and until the
20 Individual Defendants (i) fully inform Bierman as the sole independent, disinterested Manager of
21 all of the negotiations, proposed terms, and alternative terms considered, (ii) permit only
22 Bierman as the independent Manager to vote on the proposed bridge loan and sale transaction,
23 and (iii) if necessary, hold a vote only by the majority of disinterested unitholders to approve the
24 sale transaction.

25 **SECOND CAUSE OF ACTION**

26 **Breach of Fiduciary Duty**

27 **(Against Defendants Michalowski, Hayworth, Ginsberg, and Steven Loeb,**
28 **and DOES 1 through 100)**

1 Hayworth, or Ginsberg likewise requires approval by the Series B unitholders under Section
2 6.6(b).

3 50. Coastal has breached the Operating Agreement, by among other things: entering
4 into the August Note with warrants for the issuance of additional Coastal common units to
5 Michalowski, Hayworth, and Ginsberg in disregard to the objection by Bierman on behalf of
6 LMAJ pursuant to LMAJ's rights and without approval by the majority-in-interest of the Series
7 B unitholders as required by the Operating Agreement.

8 51. LMAJ has suffered direct and foreseeable injury.

9 52. LMAJ has performed all of its obligations under the Operating Agreement, except
10 those that it was prevented or excused from performing.

11 53. LMAJ seeks rescission of the August Note and hereby gives notice hereof.

12 54. In the alternative, LMAJ is entitled to damages in an amount to be proven at trial.

13
14 **PRAYER FOR RELIEF**

15 WHEREFORE, Plaintiff prays for judgment against Defendants and DOES 1 through
16 100, each of them, as follows:

17 **On the First Cause of Action Against Julian Michalowski, Malante Hayworth,**
18 **Joshua Ginsberg, Steven Loeb, Jason Loeb, and DOES 1-100:**

19 1. LMAJ seeks temporary, preliminary and permanent injunctive relief enjoining the
20 Defendants Julian Michalowski, Malante Hayworth, Joshua Ginsberg, Steven
21 Loeb, Jason Loeb, and DOES 1-100 from completing the bridge loan financing
22 and sale transactions, or, in the alternative, temporary, preliminary and permanent
23 injunctive relief enjoining the Individual Defendants from completing the bridge
24 loan financing and sale transaction, unless and until the Individual Defendants (i)
25 fully inform Bierman as the sole independent, disinterested Manager of all of the
26 negotiations, proposed terms, and alternative terms considered, (ii) permit only
27 Bierman as the independent Manager to vote on the proposed bridge loan and sale
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transaction, and (iii) if necessary, hold a vote only by the majority of disinterested unitholders to approve the sale transaction;

- 2. An award for costs of suit; and
- 3. An order for such other and further relief as is just and equitable.

On the Second Cause of Action Against Julian Michalowski, Malante Hayworth, Joshua Ginsberg, Steven Loeb, and DOES 1-100:

1. LMAJ seeks temporary, preliminary and permanent injunctive relief enjoining the Individual Defendants from exercising any warrants issued to the Individual Defendants based upon the August Note. In the alternative, LMAJ also seeks rescission of the August Note unless and until there is specific performance for the rights of Series B unitholders to vote to approve the August Note or any similar transaction pursuant to the provisions of Section 6.6(b).

- 2. An award for costs of suit; and
- 3. An order for such other and further relief as is just and equitable.

On the Third Cause of Action Against Coastal Holding Company, LLC:

- 1. LMAJ seeks compensatory damages according to proof;
- 2. An award for costs of suit; and
- 3. And for such further or other relief as the Court deems just and proper.

DATED: September 22, 2021

THE LAW OFFICE OF NIGEL BURNS

By: 
 Nigel Burns, Esq.
 Nicholas Stahl, Esq.
 Attorneys for Plaintiff
 LMAJ, LLC