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LMAJ, LLC

**SUPERIOR COURT OF THE STATE OF CALIFORNIA**  
**FOR THE COUNTY OF ORANGE**  
**CENTRAL JUSTICE CENTER**

LMAJ, LLC, a Delaware limited liability  
company;

Plaintiffs,

vs.

JULIAN MICHALOWSKI, an individual;  
MALANTE HAYWORTH, an individual;  
JOSHUA GINSBERG, an individual; and  
STEVEN LOEB, an individual; and JASON  
LOEB, an individual; and, DOES 1,through  
100,

Defendants.

CASE NO. 30-2021-01221102-CU-MC-CJC

**Assigned for All Purposes**

Judge Linda Marks

**COMPLAINT FOR INJUNCTIVE  
RELIEF FOR:**

- (1) BREACH OF FIDUCIARY  
DUTY;**  
**(2) BREACH OF FIDUCIARY  
DUTY.**

COMES NOW Plaintiffs LMAJ, LLC, who complains of Defendants Julian Michalowski, Malante Hayworth, Joshua Ginsberg, Steven Loeb, and Jason Loeb, and DOES 1 through 100, as follows:

## INTRODUCTION

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

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

3. With upcoming loan payments due by Michalowski, Hayworth, and Ginsberg, Michalowski has been negotiating an immediate sale of Coastal in order pay those loan payments, rather than for these Defendants to repay the sums they borrowed. Michalowski, Hayworth, Ginsberg, and Steven Loeb provided a recent loan to Coastal to capitalize on the proposed sale by obtaining unique benefits. Indeed, Plaintiff is informed that Defendants are about to imminently sign an interim, bridge loan with the buyer to lock up the sale of Coastal.

4. Plaintiff seeks a temporary restraining order to enjoin the proposed bridge loan and sale transaction to avoid Defendants enriching themselves at the expense of Plaintiff and other equity holders. Absent injunctive relief, Plaintiff will be left without an adequate remedy once the deal is signed and the transactions are been completed. In addition, Plaintiff seeks an order of specific performance against to declare invalid *ultra vires* transactions

Defendants have recently taken to further enrich themselves and restrain the Company from issuing any additional equity to Defendants under the void transaction.

## **PARTIES**

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

6. Upon information and belief, Defendant Julian Michalowski is a member of Coastal, its CEO, and a manager, and resides in the State of Nevada.

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

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

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

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

11. Except as described herein, Plaintiff is ignorant of the true names and/or capacities of the defendants sued as DOES 1 through 100, inclusive, and therefore Plaintiff sues these Defendants by such fictitious names. Following further investigation and discovery, Plaintiff will seek leave of this Court to amend this Complaint to allege their true names and capacities when ascertained. These fictitiously named defendants are responsible in some manner for the acts, occurrences and events alleged herein. These defendants aided and abetted and/or conspired with the named defendants in the wrongful acts and course of conduct or otherwise negligently caused the damages and injuries claimed herein and are responsible in some manner for the acts, occurrences and events alleged in this Complaint.

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

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

#### VENUE AND JURISDICTION

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

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

16. Venue is proper because the acts and omissions and otherwise wrongful conduct which are the subject of this Complaint caused harm in the County of Orange, State of

1 California, and because none of the Defendants reside in the State of California, venue is  
2 proper in the county where Plaintiff resides under Section 395(a) of the California Code of  
3 Civil Procedure.

## 4 5 **FACTUAL ALLEGATIONS**

### 6 **Defendants Are Personally Obligated On Loans For The Coastal Business**

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

10 18. Upon information and belief, on or about October 26, 2018, Kimberly Jones  
11 made a loan for the benefit of Coastal in the principal amount of \$5,000,000 with a maturity  
12 date of October 21, 2021 in the form of a promissory note (the “Jones Note”). Coastal issued  
13 Jones equity units in lieu of paying Jones. Upon information and belief, Michalowski,  
14 Hayworth, and Ginsberg executed personal guarantees for that note. Upon information and  
15 belief, Cardenas Three, LLC received an assignment and now is the holder of the Jones Note.

16 19. Upon information and belief, on or about May 10, 2019, Michalowski,  
17 Hayworth, Ginsberg, and Jones obtained a loan from Cangaltri, LLC in the principal amount  
18 of \$1,500,000 with interest accruing at the annual rate of ten percent (10%) in the form of a  
19 promissory note (the “Cangaltri Note”). That note had an initial maturity date of November  
20 10, 2019, that has since been extended to October 25, 2021. Each of Michalowski, Hayworth,  
21 Ginsberg, and Jones are jointly and severally liable for the note. Michalowski, Hayworth, and  
22 Ginsberg may have used the proceeds of the note for the Coastal business.

### 23 24 **LMAJ Invests In Coastal And Secures Contractual Minority Protections**

25 20. In August 2020, LMAJ entered into a Series B Preferred Unit Purchase  
26 Agreement with Coastal, pursuant to LMAJ has invested a total of \$3.7 million in Coastal in  
27 exchange for 925,000 Series B Preferred Units. LMAJ became and has remained the majority  
28 interest holder of Coastal’s Series B Units.

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

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

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

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

20  
21           **Michalowski Operates Coastal In Disregard To His Fiduciary Duties And LMAJ's**  
22           **Rights, Including Self-Dealing Promissory Note In August 2021 And Negotiating A Sale**  
23           **Of Coastal**

24           25. Despite contractual protections in the Operating Agreement and statutory  
25 fiduciary duties owed by Michalowski, he has operated Coastal in disregard for those basic  
26 duties. For example, Michalowski secured new investments for Coastal, but failed to provide  
27 written notice under the operating agreement to allow LMAJ to assert its matching rights to  
28

1 receive additional units to avoid dilution. Michalowski told Bierman at the time there was  
2 nothing to worry about, but LMAJ could receive the additional units at a later time.

3 26. By August 2021, Coastal's Board of Managers consisted of: Michalowski,  
4 Hayworth, Ginsberg, Jason Loeb, and Bierman.

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

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

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

25 30. Moreover, even if LMAJ did not have the minority protections in the Operating  
26 Agreement, this interested transaction would require at least an independent, disinterested  
27 majority of the Board of Managers to approve such a transaction. Upon information and  
28 belief, Bierman was the only independent, disinterested Manager because the remaining

1 Managers are either interested in the transaction, such as Michalowski, Hayworth, Ginsberg,  
2 because they will receive the benefits of the August Note, or they are beholden to another  
3 beneficiary of the transaction, because Jason Leob is Steven Loeb's relative and board  
4 designee of Treasure Dragon. Yet, Bierman's clear and unequivocal objection was not  
5 respected by Defendants, who only sought to enrich themselves.

6 31. To compound matters, Michalowski and Defendants made the August Note, at a  
7 time when Michalowski has been unilaterally negotiating a sale of Coastal. Michalowski and  
8 others stand to uniquely benefit in two (2) distinct ways for a sale. First, Michalowski,  
9 Hayworth, Ginsberg, and Steven Loeb stand to gain a short term profit by having their August  
10 Note repaid in a sale of Coastal with interest and receiving additional shares through the  
11 warrant at the nominal exercise price – which undoubtedly were motivations for their loan in  
12 the first place. Second, Michalowski, Hayworth, and Ginsberg also will benefit by having  
13 Coastal repay the Jones Note and Cangaltri Note before they come due on October 21 and  
14 October 25, 2021 respectively. In the end, Series B unitholders, like LMAJ, and all other  
15 unitholders stand would be left with the remaining scraps after paying off those promissory  
16 notes.

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

26 33. On the afternoon of September 13, 2021, Bierman became informed that the  
27 potential buyer is going to a \$1 million bridge loan to Coastal as early as September 14, 2021,  
28 but Bierman has never been informed of any of the material terms of the loan. There was no

1 vote or approval sought from the Board of Managers to receive the loan with any semblance of  
2 informed knowledge of the terms of the loan, let alone approval from Bierman, as the  
3 independent, disinterested Manager, who does not stand to receive any unique benefits.

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

7  
8  
9 **FIRST CAUSE OF ACTION**

10 **Breach of Fiduciary Duty**

11 **(Against Defendants Michalowski, Hayworth, Ginsberg, Steven Loeb, Jason Loeb, and**  
12 **DOES 1 through 100)**

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

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

26 37. Defendants have breached their duty of loyalty by, among other 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 to

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

3 b. Pursuing a \$1 million bridge loan to lock-up a sale transaction that  
4 Michalowski has been negotiating to permit any meaningful arm's length negotiation or  
5 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  
8 August 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  
12 Defendants receiving unique benefits that will not be shared with other unitholders.

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

14 40. LMAJ has no adequate remedy at law.

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

## 23 **SECOND CAUSE OF ACTION**

### 24 **Breach of Fiduciary Duty**

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

27 42. Plaintiff incorporates and re-alleges each of the paragraphs above as though fully  
28 set forth herein.

43. As controlling members, officers, and/or managers, Michalowski, Hayworth, Ginsberg, and Steven Loeb owe fiduciary duties of loyalty and care to the other unitholders of Coastal.

44. Defendants have breached their duty of loyalty by entering into the August Note and obtaining warrants for the issuance of additional Coastal common units in disregard to the objection by Bierman on behalf of LMAJ pursuant to LMAJ's rights in Section 6.6(b) of the Operating Agreement.

45. As a result of Defendants' breach of fiduciary duty, LMAJ will be harmed.

46. LMAJ has no adequate remedy at law.

47. LMAJ seeks temporary, preliminary and permanent injunctive relief enjoining the Defendants from exercising any warrants issued to 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).

### **PRAYER FOR RELIEF**

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

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

1. LMAJ seeks temporary, preliminary and permanent injunctive relief enjoining the Defendants Julian Michalowski, Malante Hayworth, Joshua Ginsberg, Steven Loeb, Jason Loeb, and DOES 1-100 from completing the bridge loan financing and sale transactions, or, in the alternative, temporary, preliminary and permanent injunctive relief enjoining Defendants from completing the bridge loan financing and sale transaction, unless and until Defendants (i) fully inform Bierman as the sole independent, disinterested Manager of all of the negotiations, proposed terms, and alternative terms considered, (ii) permit only

1 Bierman as the independent Manager to vote on the proposed bridge loan and  
2 sale transaction, and (iii) if necessary, hold a vote only by the majority of  
3 disinterested unitholders to approve the sale transaction;

4 2. An award for costs of suit; and

5 3. An order for such other and further relief as is just and equitable.

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

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

13 2. An award for costs of suit; and

14 3. An order for such other and further relief as is just and equitable.

15  
16  
17  
18 DATED: September 15, 2021

THE LAW OFFICE OF NIGEL BURNS

19  
20 By: /s/Nigel Burns  
21 Nigel Burns  
22 Nicholas Stahl  
23 Attorneys for Plaintiff LMAJ, LLC  
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