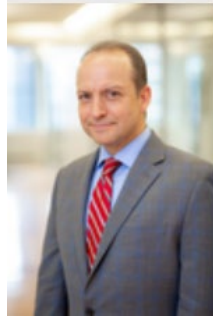


Case Study Discussion

Sponsored by  PNC BANK



Moderator: Richard Stehl, Chairman of the Board, Otterbourg P.C.

Panelists:

Daniel F. Fiorillo, Partner, Otterbourg P.C.

David Hilton, Principal Fraud Investigations and Disputes, RSM US, LLP

Gary Lembo, Partner, Paladin Management Group

Pauline McTernan, Partner, Otterbourg P.C.

Steven Rosenberg, Managing Partner, Rosenberg and Fecci

First Brands Overview and Observations



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Situational Overview

- On September 24, 2025, First Brands voluntary chapter 11 petitions in the Southern District of Texas. The case is currently pending before Chief Bankruptcy Judge Christopher Lopez.
- First Brands is a supplier of aftermarket automotive parts with operations across the world and a global network of manufacturing and vertically-integrated distribution centers across five continents.
 - First Brands was formed in 2013 as Crowne Industrial Group and is headquartered in Cleveland, Ohio.
 - The Company's founder, Patrick James, is the CEO, a board member, and the sole equity holder of the three companies that together wholly own First Brands Holdings, LLC, and the Carnaby SPVs: Aztec Corporation, Brake Parts Holdings, Inc., and Viceroy Private Capital, LLC.
- Prepetition, First Brands had approximately \$5.54 billion in funded debt, and, in addition, \$2.3 billion in off-balance sheet inventory financing liabilities, and \$2.3 billion in third-party factoring and reverse factoring liabilities.
- A significant portion of the outstanding funded debt was raised in connection with brand acquisitions between 2019 and 2024.

Pre-Bankruptcy Timeline

- **2013 – 2025.** First Brands accomplishes 15 major brand acquisitions.
- **March 2025.** BDO issues Audit Report with unqualified opinion.
- **July 2025.** 1L Term Loan refinancing fails.
- **July – August 2025.** Off-balance sheet financing & factoring issues disclosed to lenders.
- **August 2025.** Lenders declare events of default.
- **September 2025.** Lenders sweep cash and exercise cash dominion, and Ad Hoc Group funds \$25m bridge facility.
- **September 2025.** Independent directors appointed.
- **September 25, 2025.** Chapter 11 process commenced.

Prepetition Capital Structure

Instrument	Principal Amount Outstanding	Maturity	Rate
ABL Obligations			
ABL Loans/Letters of Credit Obligations ¹	\$226.9	Mar '28	S+175
ABL Supply Chain Financing/Cash Management	\$369.4	Various	~10.0%
Total ABL Obligations	\$596.3		
Term Loan Obligations²			
First Lien L/C Facility	\$100.0	Mar '27	5.0%
First Lien Term Loans (USD)	\$3,886.9	Mar '27	S+500
First Lien Term Loans (EUR) ³	\$763.0	Mar '27	E+500
Side Car Term Loans ⁴	\$250.0	Mar '27	S+500
Second Lien Term Loans	\$540.0	Mar '28	S+850
Total Term Loan Obligations	\$5,539.9		
Off-Balance Sheet Obligations (SPV Debtors' Obligations)⁵			
Aequum Facilities	\$77.8	Dec '25/Mar '26	S+950/S+1500
CarVal Facilities	\$159.0	Dec '25	S+1362.5/S+1400
Evolution Facilities	\$230.0	Nov '25/Mar '26	S+1000/S+1200
Onset Lease	\$1,880.0	Accelerated	N/A
Total Off-Balance Sheet Obligations	\$2,346.8		
Unsecured Obligations			
Customer Program Factoring Providers ⁶	\$1,600.0	Various	
Third-Party Factoring			
Katsumi (JA Mitsui Capital)	\$1,436.0	Various	
Leucadia Asset Management (factoring house of Jefferies)	\$700.0	Various	
Evolution Capital Partners	\$60.0	Various	
UBS (Raistone)	\$85.0	Various	
Supply Chain Financing			
Prime Revenue ⁷	\$420.3	Various	
Raistone ⁸	\$638.2	Various	
LiquidX ⁹	\$93.9	Various	
Interface	\$4.8	Various	
BAML ¹⁰	\$124.7	Various	
Total Unsecured Obligations	\$5,162.9		
Total Prepetition Obligations	\$13,645.9		

Notes

- Includes approximately \$133 million in borrowings and approximately \$93 million of undrawn letters of credit
- Outstanding balances listed as of June 30, 2025 (other than \$23.5 million bridge loan). First lien term loans (USD) include a bridge loan of \$24.5 million provided by the Ad Hoc Group on September 25, 2025
- Assuming EUR:USD conversion rate of 1.19:1.00
- Excludes make whole amount of approximately \$26 million
- Each of the Aequum Facilities, CarVal Facilities, and Evolution Facilities' outstanding balances are listed as of July 31, 2025
- Providers include Wells Fargo, Deutsche Bank, BOA, Santander, JPM, HSBC, Prime, Truist, SBI, Bank of Montreal, Regions, Credit Agricole Corp, Taulia
- Prime Revenue includes CIT (\$84.4M), Pemberton (\$36.3M), Truist (\$100.0M), US Bank (\$150.0M) and SouthState (\$49.7M)
- Raistone includes HSF (\$233.7M), 1977 O'Connor (\$116.1M), Wafra (WSS) (\$38.0M), Ivy (\$26.6M), TFC (\$208.3M), Raistone (\$4.9M), Nomura (\$8.9M) and Other (\$1.6M)
- LiquidX includes Fasanara (\$24.3M), Napier (\$47.1M) and Evolution Capital (\$22.5M)
- BAML includes BAML NA/INDIA (\$88.5M), BAML China (\$30.9M) and CITIC China (\$5.3M)

Source: Declaration of Charles M. Moore in Support of Debtors' Chapter 11 Petitions (the "First Day Declaration") [D.I. 22].

Key Liabilities

The three buckets of liabilities in controversy are (1) the “off-balance sheet” inventory financing through Carnaby SPVs; (2) the third-party factoring liabilities; and (3) the supply chain financing. It is alleged that James took advantage of First Brands’ baroque structure to perpetrate fraud (as described below). The extent of the discovery alleged fraud has not been disclosed beyond what was set forth in the First Day Declaration.

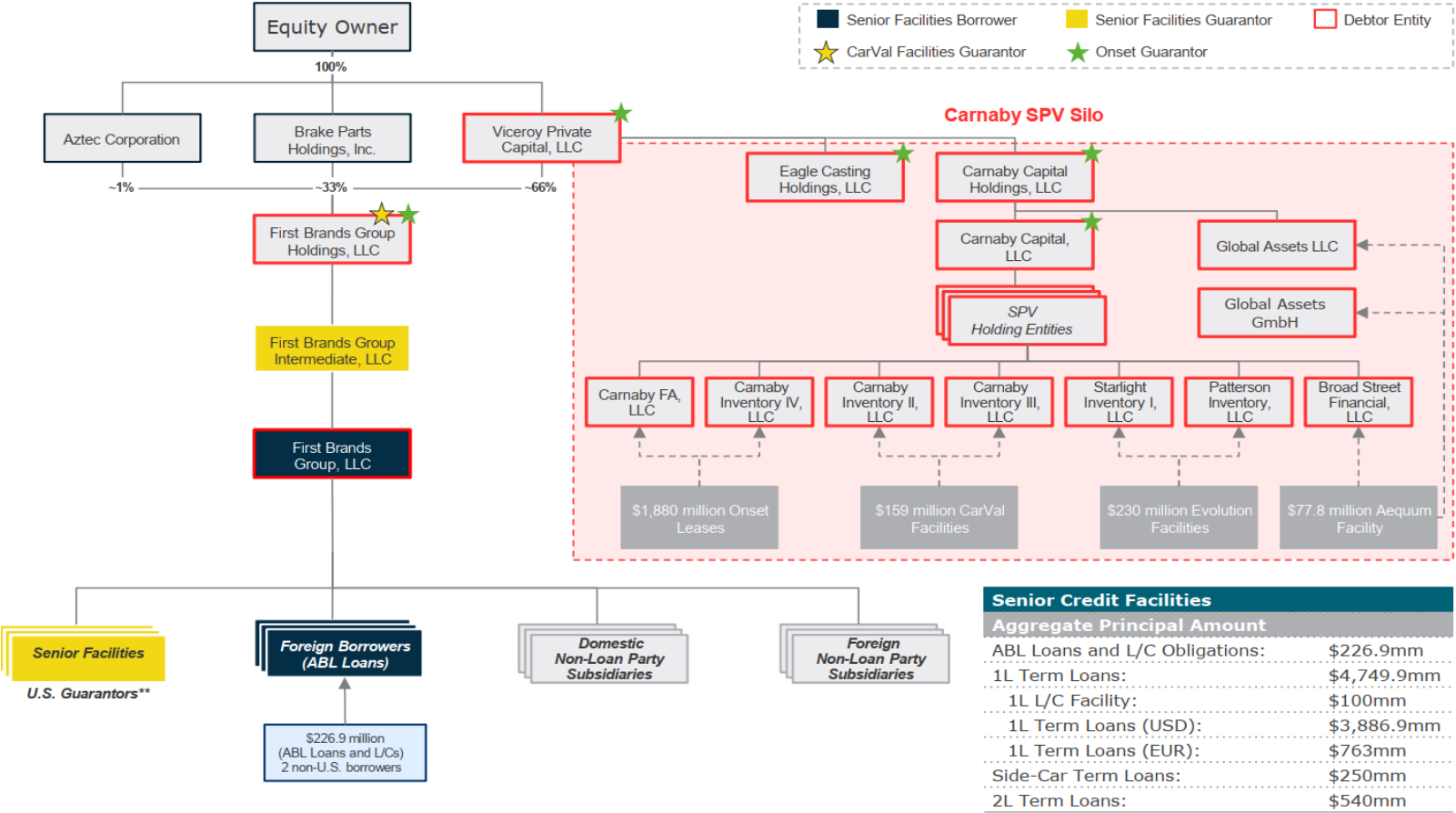
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Off Balance Sheet Liabilities
(Potential double pledging; overvaluation, and diversion of funds)

Third Party Factoring
(Potential falsified invoices; diversion of funds; double pledging)

Supply Chain Financing
(Improperly characterized as trade credit; money for purchased invoices diverted to company and insiders)

Organizational Chart



Supply Chain Liabilities

Supply Chain Liabilities

- **Process Summary:**
 - The Company contracted with a platform such as PrimeRevenue.
 - Vendors uploaded invoices into the platform.
 - Once uploaded, each invoice became a “demand.”
 - A financial institution purchased the demand, providing immediate payment to the vendor.
 - The Company repaid the purchasing institution later, on terms set by that institution.
 - Use of “aggregating firms” linked to insiders of FB to feed invoices through supply chain facilities.
- **Key Points:**
 - Enables early vendor payment while extending the Company’s payables timeline (sometimes in excess of 100 days)
 - Liquidity support mechanism that shifts payment timing rather than true debt reduction.

Supply Chain Liabilities (continued)

Alleged Fraud:

- First Brands reported as trade payable millions of dollars of vendor debt that was purportedly paid through the supply chain arrangements, which misled investors and lenders as to the extent such trade debt being converted into fixed liabilities of the company without offset, counterclaim or adjustment whatsoever.
- First Brands engaged two “aggregating companies” allegedly controlled by Patrick James and/or Ed James to solicit vendor participation. It is alleged that these aggregators created fictitious invoices that were submitted into the supply chain platforms, and used the supply chain proceeds to benefit the insiders and other company creditors.
- First Brands “round tripped” a material portion of the proceeds generated from the supply chain arrangements back to First Brands, rather than remitting the proceeds to the vendors.

Factoring Liabilities



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Factoring Liabilities

- In many ways, the Debtors had a typical receivable factoring program that provided liquidity by assigning accounts receivable for near-term cash on invoices with extended payment terms.
- First Brands had two types of factoring arrangements:
 - **Customer or “Reverse” Factoring** : Large retail customers of First Brands had their own supply chain financing. Receivables owed to First Brands (terms up to 365 days) assigned to the customer’s supply chain lenders (mostly banks) for near-term payment. Customer pays supply chain lender directly.
 - **Third-Party Factoring**: Receivables assigned to unaffiliated factors (not tied to customers). Factor pays the Company within ≈7 days; repayment due ≈105 days later. Payment obligation owed directly by the Company to the factor.
 - Key fact: First Brands acted as collections agent for substantially all third party factoring arrangements, and was responsible for setting up segregated accounts for each factor into which all factored receivable proceeds would be deposited.
- **Outstanding Exposure**: ≈ \$2.3 billion unpaid prepetition balance under Third-Party Factoring arrangements.

Factoring Liabilities (continued)

Alleged Fraud:

- First Brands either failed to set up and/or remit the factored accounts receivable proceeds into the segregated accounts for the benefit of the factors, as required by the applicable factoring arrangements. Instead, the proceeds were used by the company, or were never received because the underlying receivable was fraudulently reported.
- First Brands is accused of submitting fictitious or artificially inflated invoices to factors that either never collected or generated collections far less than the face amount of the assigned receivable.
- First Brands is accused of assigning the same invoices to multiple factors.

Diligence Issues



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First Brands Raises Numerous Factoring and Supply Chain Diligence Concerns

- The lessons from *First Brands* present numerous potential diligence questions for credit investors in similar companies:
 - The company had material trade credit balances notwithstanding the extensive supply chain arrangements reflecting billions of dollars of exposure.
 - The third party factoring exposure was disproportionate to the amount of sales generated by the company, but without reporting and full transparency into the company's other factoring arrangements, this irregularity was missed for a substantial period of time.
 - Owing to the flexibility of trade debt, misclassification of supply chain financing debt as trade debt overstated the company's ability to manage these liabilities.
 - Implementing customary verification and reporting procedures with periodic field examinations would have, in hindsight, avoided the extent and magnitude of the fraud relating to the factoring liabilities and supply chain financing exposure.

Sample Diligence Questions (Cont'd)

- Questions and Diligence Requests for Factors:
 - Provide a complete population of factored invoices, including invoice number, date, customer, original invoice amount, factored amount, factor name, and whether the receivable was customer-partner or third-party factored.
 - For each factor, who is responsible for remittance — the customer or First Brands?
 - Provide bank reconciliations showing the receipt of cash proceeds from each factoring transaction and proof that the same invoice was not pledged elsewhere.
 - Has any receivable been sold or pledged more than once (to a customer-affiliated factor and to a third-party factor)?
 - What controls prevent invoice creation outside the ERP system?
 - Who can modify invoice values?
 - Perform invoice-level sampling: reconcile factored invoice details to purchase orders, shipping documentation, and customer acknowledgments.
 - Confirm factor relationships: are any factors or intermediaries related to management or affiliates?
 - What fees and reserves are deducted by each factor, and how are these accounted for on the balance sheet?
 - Reconcile factoring liabilities to the general ledger and confirm the outstanding balance directly with each factoring counterparty.

Sample Diligence Questions (Cont'd)

- Questions and Diligence Requests for Supply Chain Financing:
 - Provide all agreements with supply-chain financing intermediaries
 - Are supplier payment terms materially longer for invoices routed through these programs than for standard payables?
 - How are these liabilities classified in the financial statements — trade payables or debt?
 - What collateral or receivable interests support these facilities?
 - Confirm whether any supplier or intermediary is owned or controlled by management or their affiliates.
 - Obtain aging reports of all supply-chain obligations and reconcile to AP subledger.
 - Ask for the cash-flow mapping: when funds are advanced, what account receives the cash, and how is repayment triggered?

Sample Diligence Questions (Cont'd)

- Accounting and Financial Reporting:
 - How are factoring and SPV transactions reflected in cash flow statements (operating vs. financing)?
 - Request trial balances and general ledgers to test whether receivables sold still appear as assets.
 - Ask for monthly borrowing base certificates and compare against collateral verification.
 - Who prepares and reviews reconciliations for intercompany accounts?
 - Were any adjustments made for “timing” or “system” errors on factored invoices?
 - Insist on an independent quality-of-earnings review before extending credit.

Sample Diligence Questions (Cont'd)

- Forensic / Verification Procedures:
 - Perform third-party confirmations directly with customers, factors, and financing counterparties.
 - Require proof-of-delivery for factored invoices.
 - Run data analytics to identify invoices factored multiple times.
 - Cross-check cash inflows from factoring/SPV deals to ensure they trace to First Brands operating accounts.
 - Conduct management interviews focusing on liquidity sources and intercompany cash sweeps.

“Off Balance Sheet” Liabilities



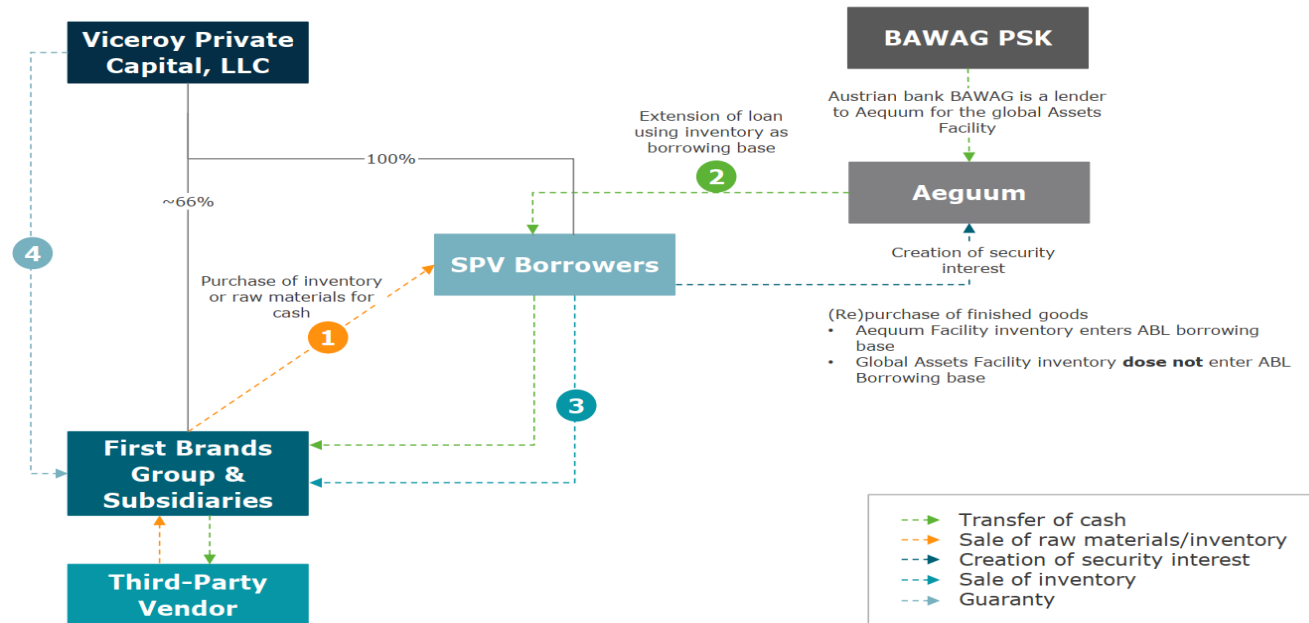
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Inventory Financing SPVs

- The inventory financing took place through SPVs, functioned in four groups:
 - **The Onset Group:** Carnaby FA, LLC & Carnaby Inventory IV, LLC
 - **The CarVal Group:** Carnaby Inventory II, LLC & Carnaby Inventory III, LLC
 - **The Evolution Group:** Starlight Inventory I, LLC & Patterson Inventory, LLC
 - **The Aequum Group:** Broad Street Financial LLC
- Each group had its own unique inventory financing system, with the following characteristics being common to all groups, following their purchase of inventory from First Brands:
 - First Brands subsidiaries would sell or lease inventory to one of the Carnaby SPVs.
 - In turn, the Carnaby SPVs would, except in the case of the Onset Group, borrow against the inventory, and remit the proceeds of the loan to First Brands. In the case of the Onset Group, the Carnaby Entities sell the purchased inventory to Onset, remit the proceeds of the sale to First Brands, and lease the inventory back.
 - Finally, First Brands would repurchase the inventory from the Carnaby SPV and pledge the inventory as ABL collateral.

Aequum Facilities

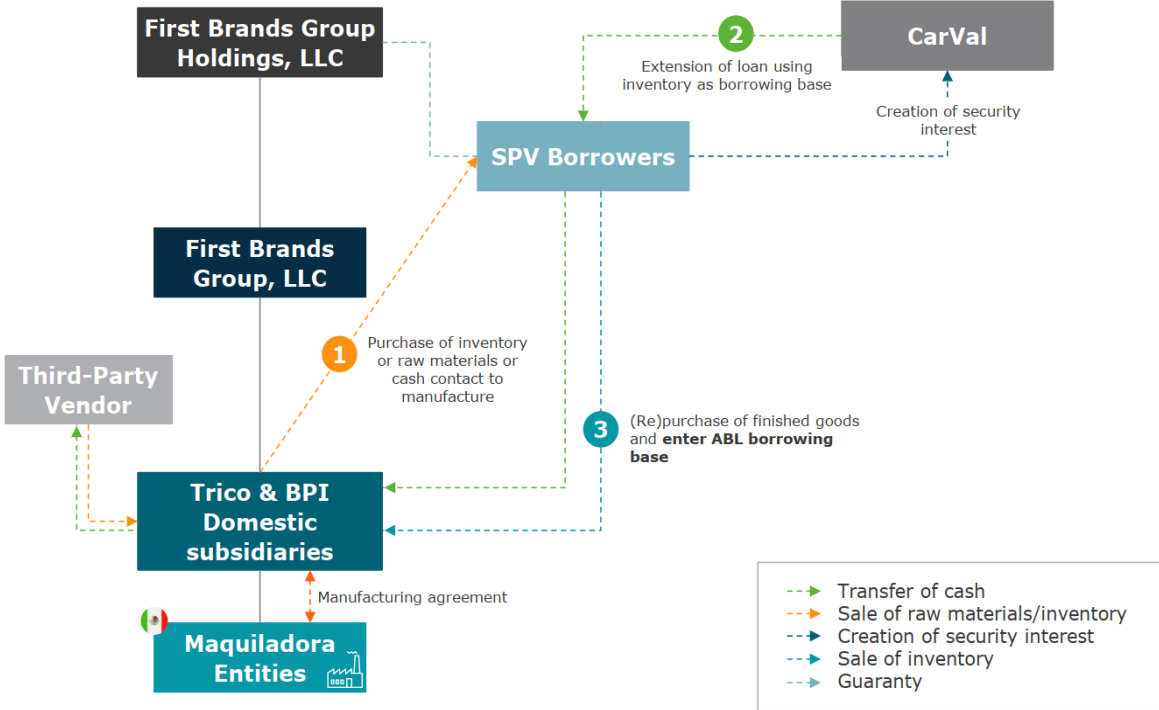
In March 2024, Aequum Capital Financial II, LLC (“Aequum”) provided a \$45 million asset-based revolving credit facility to Debtor Broad Street Financial, secured by inventory purchased from First Brands and its subsidiaries. In December 2024, UMB Bank, N.A. provided a similar \$45 million facility to Debtors Global Assets LLC and Global Assets GmbH (“Global Assets”), secured by finished parts, raw materials, and semifinished products purchased from Debtors. Under both facilities, the pledged inventory may be resold to other Debtors, with Viceroy required to purchase any unsold inventory. As of July 31, 2025, Broad Street Financial and Global Assets held approximately \$66 million and \$68 million in inventory, respectively, with \$77.8 million of principal obligations outstanding as of the Petition Date



Source: Declaration of Charles M. Moore in Support of Debtors’ Chapter 11 Petitions [D.I. 22].

CarVal Facilities

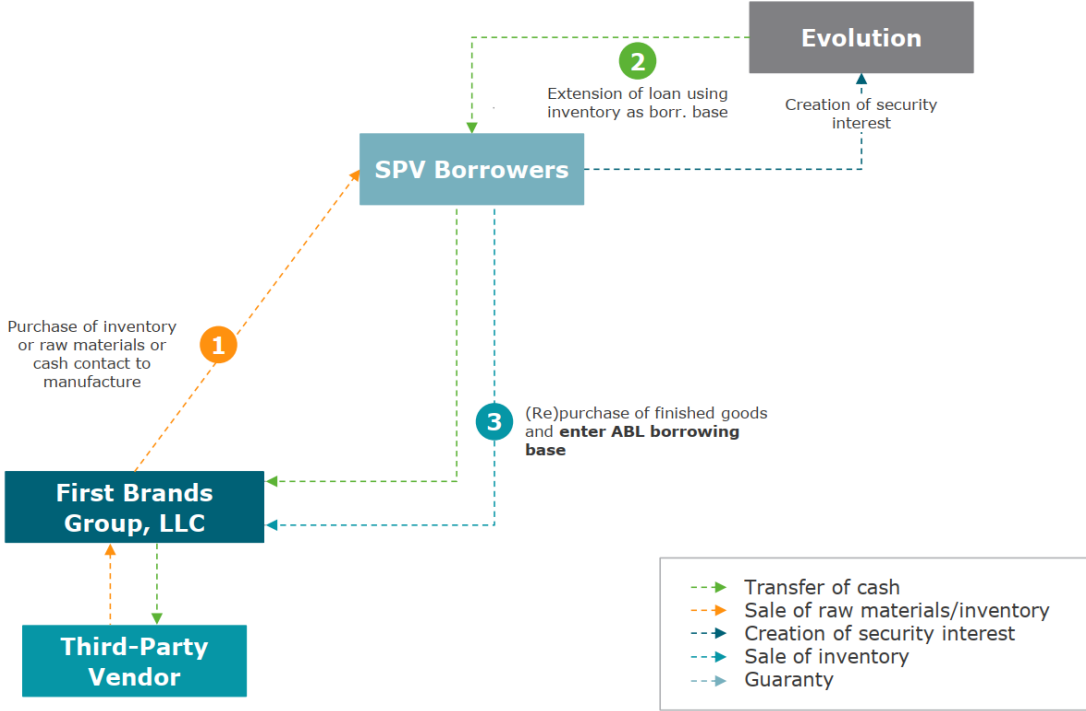
In 2022, GLAS Trust Company LLC (“CarVal”) provided a \$60 million asset-based revolving credit facility to Debtor Carnaby Inventory II, LLC and a \$100 million facility to Debtor Carnaby Inventory III, LLC. The borrowers may contract with Debtor subsidiaries and their maquiladora partners to manufacture inventory on its behalf, purchase manufactured inventory and raw materials from the Debtors, and use that inventory as a borrowing base to obtain credit from CarVal. As of August 2, 2025, the Debtors believe CarVal holds approximately \$249 million in inventory, with \$159.0 million of principal obligations outstanding as of the Petition Date.



Source: Declaration of Charles M. Moore in Support of Debtors’ Chapter 11 Petitions [D.I. 22].

Evolution Facilities

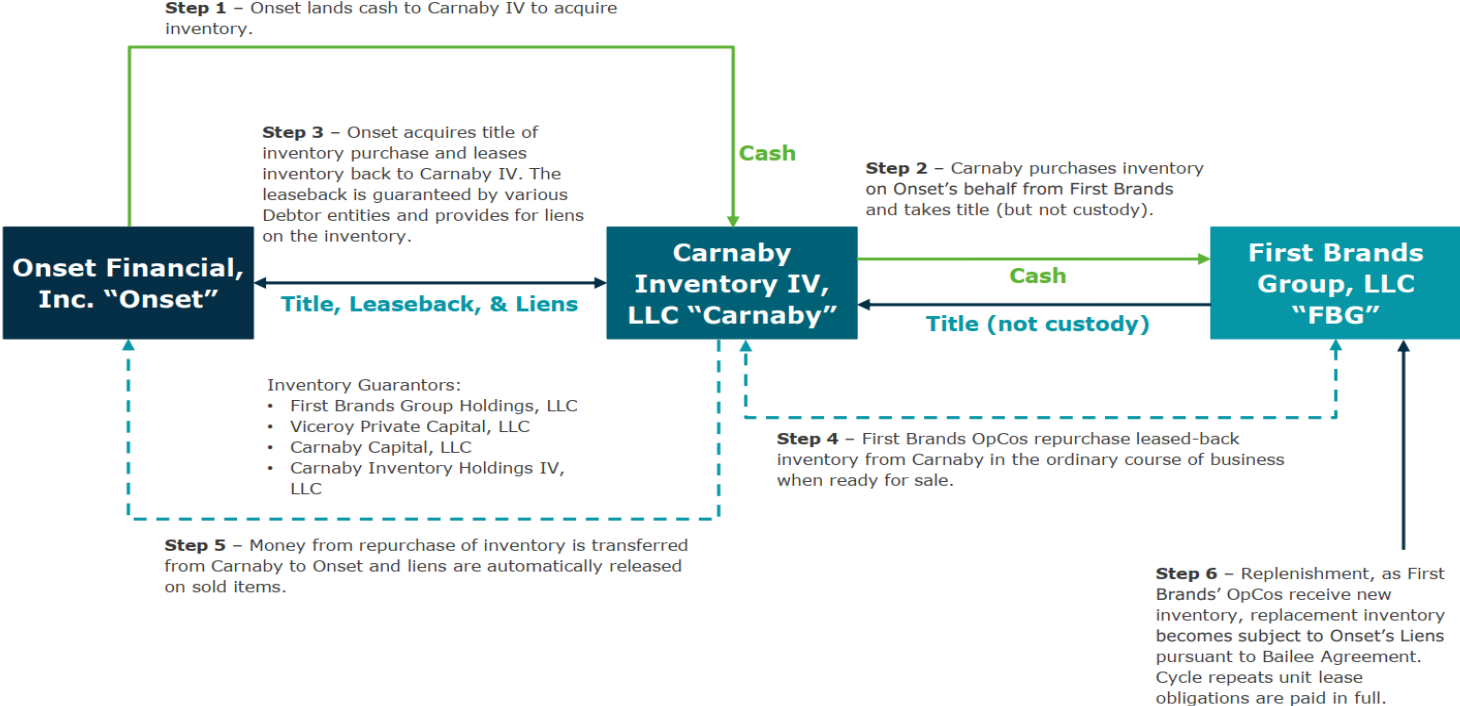
In November 2023, Evolution Credit Opportunity Master Fund II-B, L.P. (“Evolution”) provided an uncommitted asset-based revolving credit facility with maximum aggregate amount of advances of \$150 million to Debtor Patterson Inventory, LLC. In March 2024, Evolution provided an uncommitted asset-based revolving credit facility with maximum aggregate amount of advances of \$150 million to Debtor Starlight Inventory I, LLC. Under each Evolution facility, the borrower may purchase eligible inventory from First Brands and its subsidiaries and use that inventory as a borrowing base to obtain loans from Evolution. The borrowers collectively held approximately \$376 million in inventory as of August 2, 2025. As of the Petition Date, approximately \$230 million in principal obligations are outstanding.



FooterSource: Declaration of Charles M. Moore in Support of Debtors’ Chapter 11 Petitions [D.I. 22].

Onset Master Leases

In June 2022, Debtor Carnaby Inventory IV, LLC entered into a master lease agreement with Onset Financial, Inc. ("Onset"). In October 2023, Debtor Carnaby FA, LLC entered into a master lease agreement with Onset. Under the master leases, Onset will initially lend funds to Carnaby IV, LLC to acquire inventory or equipment from First Brands on Onset's behalf. Subsequently, the inventory will be leased back to Carnaby IV, LLC and may ultimately be repurchased by First Brands. As of the Petition Date, including all outstanding and accrued interest, fees, forbearance fees, approximately \$1.9 billion of obligations under the Onset master leases and related forbearances are outstanding.



Source: Declaration of Charles M. Moore in Support of Debtors' Chapter 11 Petitions [D.I. 22].

Concerns About the Off Balance Sheet Inventory Financing



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Potential Fraud Concerns

- Concerns regarding the legitimacy of the company's inventory financing program were first raised publicly in July 2025 as part of the Company's prepetition refinancing efforts.
- As part of the attempted \$6.2 billion refinancing led by Jefferies (supported by a March '25 Audit Report by BDO), the Company's off-balance sheet arrangements were identified as high risk by certain lenders who demanded a quality of earnings report. It has yet to be disclosed what aspects of the programs were the subject of concern.
- Shortly thereafter, the company retained restructuring advisors and established a Special Committee to investigate possible fraud in connection with the company's off balance sheet arrangements.

Source: *Evolution Adversary Complaint* [D.I. 487]; *James Complaint* [D.I. 17] .

Lawsuits Concerning the Off Balance Sheet Arrangements



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Lawsuits Concerning Off-Balance Sheet Arrangements

- Since the Petition Date, two lawsuits have been filed shedding light on how the inventory financing SPVs might have been used as vehicles of fraud by James: a lawsuit filed by Evolution, one of the inventory finance lenders, and another filed by the Debtors against James.
- **Evolution Lawsuit**. The evolution lawsuit alleges that fraud occurred in both (i) transfer of the inventory to and from the SPVs and (ii) the re-pledging of the inventory multiple times, including to the ABL.
- **James Lawsuit**. The lawsuit against James alleges that he (a) directed FBG not to actually transfer title to inventory that was purposed to be transferred to the SPVs and (b) diverted proceeds of the SPV financing to non-Debtor entities.

Source: Evolution Adversary Complaint [D.I. 487]; *James Complaint* [D.I.17].

Evolution Lawsuit Fraud Allegations

Transfer of SPV Collateral to FBG Entities

- FBG instructed the borrower SPVs to transfer Evolution's assets to other FBG debtor entities.
- These assets, consisting primarily of finished-goods inventory previously sold to and owned by the SPVs, were thereby removed from the SPV balance sheets and incorporated into the broader FBG enterprise balance sheet

Repledge to Other Lenders

- After transferring the Evolution inventory from the SPVs to the non-SPV entities, FBG used the same inventory as collateral to support additional borrowing under its asset-based lending ("ABL") facility.
- The complaint also asserts that, beyond the ABL repledge, the same collateral may have been pledged yet again—a "third time"—to secure other loans from additional third-party lenders.

Source Evolution Adversary Complaint [D.I. 487]

Patrick James Lawsuit Fraud Allegations

- Allegedly, James would direct FBG to purport to transfer title for inventory to the SPVs while still claiming that that FBG owned the same inventory.
- Thus, the same unit inventory could simultaneously be (i) pledged by FBG to secure the ABL; (ii) sold or leased by FBG to the SPV; (iii) pledged by SPV to secure the inventory financing; and (iv) later sold back by the SPV to FBG.
- James would allegedly divert the proceeds from the inventory financing to non-Debtor entities as opposed to the FBG entities contemplated under the inventory financing.
- The counts include:
 - Actual and constructive fraudulent transfers under 11 U.S.C. §§ 548(a)(1)(A)–(B) and state law equivalents;
 - Breach of fiduciary duty and illegal dividend distributions;
 - Grounds for imposing a constructive trust and ordering turnover of all assets traceable to the SPVs.

Source: *James Complaint* [D.I.17].

Prior Fraud Lawsuits Against James

For many years, Patrick James, the principal of First Brands, has faced public accusations of fraud, including fraud related to receivables financing.

- ***Tristate Bank.*** In 2009, Tristate Capital Bank filed a lawsuit against the Company's principal, Patrick James, and companies under his control for repeatedly alleged fraud in connection with asset based lending. *Tristate Capital Bank v. Red Rock Stamping LLC et al.*, No. 09-cv-01455 (N.D. Ohio June 26, 2009). The lawsuit alleges that James:
 - Overstated eligible accounts receivable by concealing substantial offsets owed to major customers
 - Transferred collateral inventory to a related entity without consideration
 - Manipulated internal records to hide these offsets
 - Withheld collateral and business records after default and execution of a wind-down agreement. The case settled and Mr. James agreed to pay \$1 million
- ***Fortress, Apollo.*** In 2011 and 2018, lawsuits were brought by Fortress and Apollo against James and companies controlled by him for fraudulent transfer and D&O claims for diverting borrowed funds from companies during insolvency. *Fortress Value Recovery Fund I LLC v. Columbus Components Group, LLC et al.*, No. 11-cv-200 (N.D. Ohio Jan. 27, 2011); *Fairlie, William, et al. v Vari-Form Group, L.L.C., et al.*, No. 18-012988-CB (Michigan Circuit Ct. Oct. 4, 2018).

Sample Diligence Questions for Off Balance Sheet Inventory Financing

If there are off-balance sheet financing arrangements involving networks of SPVs, *what is the legitimate business purpose* for this structure?

- Unnecessarily elaborate off-balance sheet financing arrangements with affiliated companies with no legitimate business purposes should be scrutinized.
- Dismissive answers, such as citing tax benefits, should not be accepted at face value, and should be verified.
- In *First Brands*, ***opacity may have been the point of the complexity***, rather than any attenuated benefit.

Sample Diligence Questions For Off Balance Sheet Inventory Financing

- Questions Re SPV Structures:
 - List every special-purpose vehicle (SPV) and describe its ownership, governance, and relationship to First Brands.
 - Provide organizational charts showing intercompany connections
 - Provide transaction-level detail of all asset transfers to SPVs: date, consideration, and cash flow trail, i.e., **follow the cash!**
 - Confirm whether inventory or PP&E sold to SPVs was removed from the parent company's books or remained on balance sheet.
 - Ask: "Are any of these assets included in the ABL borrowing base?" (Double-pledging risk.)
 - Trace fund flows from each SPV financing — e.g., cash from Onset or Evolution — to confirm proceeds actually reached First Brands, not affiliates.
 - Require bank statements for all SPV accounts and reconcile to intercompany ledgers.
 - Who are the beneficial owners of each SPV and related holding companies (Viceroy, Bowery, etc.)?