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Attorneys for Defendant, Diane Palughi

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| GORALSKI, INC., | : | SUPERIOR COURT OF NEW JERSEY |
| | : | LAW DIVISION: BERGEN COUNTY |
| Plaintiff, | : | |
| | : | DOCKET NO.: BER-L-89-01 |
| Vs. | : | |
| | : | Civil Action |
| BETSY ROSS MANUFACTURING CO., | : | |
| <i>et al.</i> , | : | |
| | : | AFFIDAVIT OF |
| Defendants. | : | STEPHEN B. RAVIN |

COUNTY OF ESSEX)
)ss
STATE OF NEW JERSEY)

STEPHEN B. RAVIN, being of full age and duly sworn according to law, hereby deposes and says:

1. I am an attorney at law of the State of New Jersey, and am a partner in the law firm of Ravin Greenberg, PC, with offices located at 101 Eisenhower Parkway, Roseland, New Jersey. I submit this Affidavit based on facts within my personal knowledge and at the request of the defendant, Diane Palughi. I make this Affidavit of my own free will. I have not asked for, nor have I been offered, any consideration in exchange for agreeing to submit this Affidavit.
2. I was admitted to the bar of the State of New Jersey in 1979. My practice is devoted exclusively to the areas of bankruptcy & insolvency. Over the years, in numerous instances I have been asked to serve as an assignee for the benefit of creditors.
3. In or around late November or early December 2000 I was contacted by Glenn R. Reiser, Esq., counsel for Ms. Palughi, who inquired whether I would be

willing to serve as an assignee for Betsy Ross Manufacturing Co., Inc. (“Betsy Ross”). In my initial conversation with Mr. Reiser, he explained that Betsy Ross was a flag manufacturer and was under tremendous pressure to sell its business assets. Mr. Reiser further explained that the president and shareholder of the corporation had passed away several years ago, and that his wife, Diane Palughi, had been attempting to continue the business without success. According to Mr. Reiser, eviction proceedings had been instituted against Betsy Ross that were going to take effect on December 15, 2000. Mr. Reiser also explained that the owner of the building was refusing to grant any further stays of the eviction, and that the owner intended to complete the lockout on December 15, 2000. Finally, Mr. Reiser told me that co-defendant National Flag & Banner Display Co., Inc. (“National Flag”) had signed a letter of intent to purchase certain of Betsy Ross’ assets for \$50,000.00 and that National Flag was desirous of completing the transaction. The contemplated transaction excluded the corporation’s accounts receivable, cash and automobiles.

4. Shortly after my initial conversation with Mr. Reiser, I performed a conflicts search to determine whether or not my firm had ever represented either Betsy Ross or National Flag. Our conflicts search revealed no conflicts, and therefore I was a “disinterested person”. Accordingly, I agreed to meet with Mr. Reiser and Ms. Palughi at his office in early December 2000 to discuss the matter further. At this meeting, I was informed about potential environmental issues pertaining to closing down Betsy Ross’ business operations, as Ms. Palughi indicated that the company had used paints and solvents in its operations. At the same meeting, I was also informed that the

contemplated transaction with National Flag included a consulting agreement to employ Ms. Palughi for a certain term so that National Flag could secure the orderly transfer of Betsy Ross' customers and work in progress, and maintain its new client relations.

5. Several days after my initial meeting with Mr. Reiser and Ms. Palughi, Mr. Reiser telephoned me and informed that his client had agreed to designate me as assignee of Betsy Ross' assets.
6. On or about December 4, 2000, Betsy Ross obtained a written appraisal of its assets from A. Atkins Appraisal Company. Mr. Atkins attributed a forced sale value of \$15,000.00 for the corporation's physical assets located at its business premises. A copy of Mr. Atkins appraisal is annexed hereto as Exhibit A. I obtained a copy of this appraisal from Mr. Reiser subsequent to the date appearing on the appraisal.
7. On January 11, 2001, Betsy Ross executed a Deed of Assignment designating me as its assignee, thereby giving me title to all of its assets. Said Deed was recorded with the Passaic County Surrogate on January 12, 2001. A true and complete copy of the Deed of Assignment is annexed hereto as Exhibit B.
8. My primary function as Betsy Ross' assignee was to preserve the corporation's assets and obtain the highest price for the benefit of the creditors. Upon my designation as Betsy Ross' assignee, I immediately contacted counsel for the owner of the building to discuss an orderly removal of the assets. I was able to negotiate an agreement that permitted me to continue storing the corporation's physical assets at the premises in exchange for the payment of post-assignment rent and recognition of a landlord's lien to the extent of the assets. In reaching this agreement, I avoided the owner's

forcible removal of the assets and thereby preserved their value pending court approval of the sale.

9. Immediately following my designation of assignee of Betsy Ross, I had discussions with Kenneth Rosen, Esq. of Lowenstein Sandler, PC, counsel for National Flag, about preparing and executing a definitive asset purchase agreement. Mr. Rosen and I ultimately agreed on a form of asset purchase agreement, which included a draft of a consulting/non-competition agreement with Ms. Palughi. I was not concerned about the terms or conditions of the consulting/non-compete agreement, because National Flag was paying three (3) times the estimated forced sale value of the assets.
10. On January 18 2001, I filed a Petition and Order To Show Cause requesting approval of the proposed sale to National Flag subject to higher and better offers. I disclosed the consulting/non-compete agreement by attaching a complete copy of it to my moving papers. A complete set of my pleadings are annexed hereto as Exhibit C.
11. On January 19, 2001, the Honorable Susan L. Reisner entered the Order to Show Cause and set a return date of February 9, 2001. *See* Exhibit D annexed hereto. The Order to Show Cause was served on all known creditors of Betsy Ross, as reflected on the Proof of Service annexed hereto as Exhibit E.
12. In compliance with the Order to Show Cause, I advertised the sale offer in the January 31, 2001 edition of the Bergen Record. A true copy of the advertisement as it appeared in the Bergen Record is annexed hereto as Exhibit F.

13. In an effort to solicit higher and better offers and prior to the February 9, 2001 return date, I submitted the offer to three (3) other flag manufacturing companies; namely, Flag Zone, Annin & Co, and Valley Forge Flag Co.
14. On February 9, 2001, I appeared before Judge Reisner in the prosecution of my Order to Show Cause. Counsel for plaintiff appeared at the hearing and objected to the terms of sale. I explained to Judge Reisner that National Flag's offer was the only offer on the table, that the sale price was in excess of three (3) times the forced sale value attributed by the written appraisal of A. Atkins & Company, that I had reached an agreement to preserve the assets in their current location *pendente lite* in exchange for payment of post-assignment rent and a landlord's lien to the extent of the value of the assets, and that I had not received any offers from any other interested party. As far as I was concerned, National Flag's offer was an arms length transaction negotiated in good faith. Accordingly, I recommended to Judge Reisner that she approve the sale.
15. Judge Reisner granted my application and approved the sale over the objections of plaintiff's counsel. An Order Authorizing Sale of Assets was entered on February 9, 2001. *See* Exhibit G annexed hereto.
16. The sale with National Flag was consummated, and I received the full \$50,000.00 purchase price. Out of the sale proceeds, I paid the owner \$15,000.00 in satisfaction of its landlord's lien plus 1½ month's rent at the same rate that Betsy Ross had negotiated in the foreclosure proceedings. In addition, I also paid \$5,500.00 to retain the services of experienced environmental counsel, Riker Danzig, et als., to assist me in complying with ISRA and other applicable environmental laws.

17. I have faithfully carried out my duties as assignee of Betsy Ross, and I continue to do so because the estate has not been fully administered. According to my records, the plaintiff has not filed a proof of claim in the assignment case. Nor has the plaintiff ever made demand upon me to sue Ms. Palughi concerning her receipt of monies under the consulting/non-compete agreement.

STEPHEN B. RAVIN

Sworn and subscribed before me
this ____ day of January 2002

Notary Public