

UNITED STATES BANKRUPTCY COURT

DISTRICT OF Delaware

In Re. EPI Health, LLC

Case No. 23-10938

Debtor(s)

Lead Case No. 23-10937

Jointly Administered

Monthly Operating Report

Chapter 11

Reporting Period Ended: 02/29/2024

Petition Date: 07/17/2023

Months Pending: 8

Industry Classification: 4 2 4 2

Reporting Method: Accrual Basis

Cash Basis

Debtor's Full-Time Employees (current):

0

Debtor's Full-Time Employees (as of date of order for relief):

1

Supporting Documentation (check all that are attached):

(For jointly administered debtors, any required schedules must be provided on a non-consolidated basis for each debtor)

- Statement of cash receipts and disbursements
Balance sheet containing the summary and detail of the assets, liabilities and equity (net worth) or deficit
Statement of operations (profit or loss statement)
Accounts receivable aging
Postpetition liabilities aging
Statement of capital assets
Schedule of payments to professionals
Schedule of payments to insiders
All bank statements and bank reconciliations for the reporting period
Description of the assets sold or transferred and the terms of the sale or transfer

/s/ Scott Jones

Signature of Responsible Party

03/21/2024

Date

Scott Jones

Printed Name of Responsible Party

1201 North Market Street

P.O. Box 1347

Wilmington, DE 19899-1347

Address

STATEMENT: This Periodic Report is associated with an open bankruptcy case; therefore § 1320.4(a)(2) applies.



231093724032100000000002

Debtor's Name EPI Health, LLC

Case No. 23-10938

Part 1: Cash Receipts and Disbursements		Current Month	Cumulative
a.	Cash balance beginning of month	\$6,269,984	
b.	Total receipts (net of transfers between accounts)	\$55,271	\$7,176,358
c.	Total disbursements (net of transfers between accounts)	\$55,271	\$930,761
d.	Cash balance end of month (a+b-c)	\$6,269,984	
e.	Disbursements made by third party for the benefit of the estate	\$0	\$0
f.	Total disbursements for quarterly fee calculation (c+e)	\$55,271	\$930,761
Part 2: Asset and Liability Status		Current Month	
(Not generally applicable to Individual Debtors. See Instructions.)			
a.	Accounts receivable (total net of allowance)	\$3,384,932	
b.	Accounts receivable over 90 days outstanding (net of allowance)	\$3,384,932	
c.	Inventory (Book <input checked="" type="radio"/> Market <input type="radio"/> Other <input type="radio"/> (attach explanation))	\$827,152	
d.	Total current assets	\$11,666,509	
e.	Total assets	\$19,036,465	
f.	Postpetition payables (excluding taxes)	\$-1,671,832	
g.	Postpetition payables past due (excluding taxes)	\$0	
h.	Postpetition taxes payable	\$0	
i.	Postpetition taxes past due	\$0	
j.	Total postpetition debt (f+h)	\$-1,671,832	
k.	Prepetition secured debt	\$0	
l.	Prepetition priority debt	\$0	
m.	Prepetition unsecured debt	\$27,517,898	
n.	Total liabilities (debt) (j+k+l+m)	\$25,846,066	
o.	Ending equity/net worth (e-n)	\$-6,809,601	
Part 3: Assets Sold or Transferred		Current Month	Cumulative
a.	Total cash sales price for assets sold/transferred outside the ordinary course of business	\$0	\$0
b.	Total payments to third parties incident to assets being sold/transferred outside the ordinary course of business	\$0	\$0
c.	Net cash proceeds from assets sold/transferred outside the ordinary course of business (a-b)	\$0	\$0
Part 4: Income Statement (Statement of Operations)		Current Month	Cumulative
(Not generally applicable to Individual Debtors. See Instructions.)			
a.	Gross income/sales (net of returns and allowances)	\$0	
b.	Cost of goods sold (inclusive of depreciation, if applicable)	\$0	
c.	Gross profit (a-b)	\$0	
d.	Selling expenses	\$0	
e.	General and administrative expenses	\$82,714	
f.	Other expenses	\$1,125,688	
g.	Depreciation and/or amortization (not included in 4b)	\$0	
h.	Interest	\$0	
i.	Taxes (local, state, and federal)	\$0	
j.	Reorganization items	\$0	
k.	Profit (loss)	\$-1,208,402	\$-18,091,406

Debtor's Name EPI Health, LLC

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Part 5: Professional Fees and Expenses

			Approved Current Month	Approved Cumulative	Paid Current Month	Paid Cumulative
a.	Debtor's professional fees & expenses (bankruptcy) <i>Aggregate Total</i>		\$0	\$0	\$0	\$0
	<i>Itemized Breakdown by Firm</i>					
	Firm Name	Role				
	i		\$0	\$0	\$0	\$0
	ii					
	iii					
	iv					
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			Approved Current Month	Approved Cumulative	Paid Current Month	Paid Cumulative	
b.	Debtor's professional fees & expenses (nonbankruptcy) <i>Aggregate Total</i>		\$0	\$0	\$0	\$0	
	<i>Itemized Breakdown by Firm</i>						
		Firm Name	Role				
	i			\$0	\$0	\$0	\$0
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c.	All professional fees and expenses (debtor & committees)			\$0	\$0	\$0

Part 6: Postpetition Taxes		Current Month	Cumulative
a.	Postpetition income taxes accrued (local, state, and federal)	\$0	\$0
b.	Postpetition income taxes paid (local, state, and federal)	\$0	\$0
c.	Postpetition employer payroll taxes accrued	\$0	\$3,307
d.	Postpetition employer payroll taxes paid	\$0	\$11,455
e.	Postpetition property taxes paid	\$0	\$0
f.	Postpetition other taxes accrued (local, state, and federal)	\$0	\$0
g.	Postpetition other taxes paid (local, state, and federal)	\$0	\$0

Part 7: Questionnaire - During this reporting period:

- a. Were any payments made on prepetition debt? (if yes, see Instructions) Yes No
- b. Were any payments made outside the ordinary course of business without court approval? (if yes, see Instructions) Yes No
- c. Were any payments made to or on behalf of insiders? Yes No
- d. Are you current on postpetition tax return filings? Yes No
- e. Are you current on postpetition estimated tax payments? Yes No
- f. Were all trust fund taxes remitted on a current basis? Yes No
- g. Was there any postpetition borrowing, other than trade credit? (if yes, see Instructions) Yes No
- h. Were all payments made to or on behalf of professionals approved by the court? Yes No N/A
- i. Do you have:
 - Worker's compensation insurance? Yes No
 - If yes, are your premiums current? Yes No N/A (if no, see Instructions)
 - Casualty/property insurance? Yes No
 - If yes, are your premiums current? Yes No N/A (if no, see Instructions)
 - General liability insurance? Yes No
 - If yes, are your premiums current? Yes No N/A (if no, see Instructions)
- j. Has a plan of reorganization been filed with the court? Yes No
- k. Has a disclosure statement been filed with the court? Yes No
- l. Are you current with quarterly U.S. Trustee fees as set forth under 28 U.S.C. § 1930? Yes No

Debtor's Name EPI Health, LLC

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Part 8: Individual Chapter 11 Debtors (Only)

- a. Gross income (receipts) from salary and wages \$0
- b. Gross income (receipts) from self-employment \$0
- c. Gross income from all other sources \$0
- d. Total income in the reporting period (a+b+c) \$0
- e. Payroll deductions \$0
- f. Self-employment related expenses \$0
- g. Living expenses \$0
- h. All other expenses \$0
- i. Total expenses in the reporting period (e+f+g+h) \$0
- j. Difference between total income and total expenses (d-i) \$0
- k. List the total amount of all postpetition debts that are past due \$0
- l. Are you required to pay any Domestic Support Obligations as defined by 11 U.S.C § 101(14A)? Yes No
- m. If yes, have you made all Domestic Support Obligation payments? Yes No N/A

Privacy Act Statement

28 U.S.C. § 589b authorizes the collection of this information, and provision of this information is mandatory under 11 U.S.C. §§ 704, 1106, and 1107. The United States Trustee will use this information to calculate statutory fee assessments under 28 U.S.C. § 1930(a)(6). The United States Trustee will also use this information to evaluate a chapter 11 debtor's progress through the bankruptcy system, including the likelihood of a plan of reorganization being confirmed and whether the case is being prosecuted in good faith. This information may be disclosed to a bankruptcy trustee or examiner when the information is needed to perform the trustee's or examiner's duties or to the appropriate federal, state, local, regulatory, tribal, or foreign law enforcement agency when the information indicates a violation or potential violation of law. Other disclosures may be made for routine purposes. For a discussion of the types of routine disclosures that may be made, you may consult the Executive Office for United States Trustee's systems of records notice, UST-001, "Bankruptcy Case Files and Associated Records." See 71 Fed. Reg. 59,818 et seq. (Oct. 11, 2006). A copy of the notice may be obtained at the following link: http://www.justice.gov/ust/eo/rules_regulations/index.htm. Failure to provide this information could result in the dismissal or conversion of your bankruptcy case or other action by the United States Trustee. 11 U.S.C. § 1112(b)(4)(F).

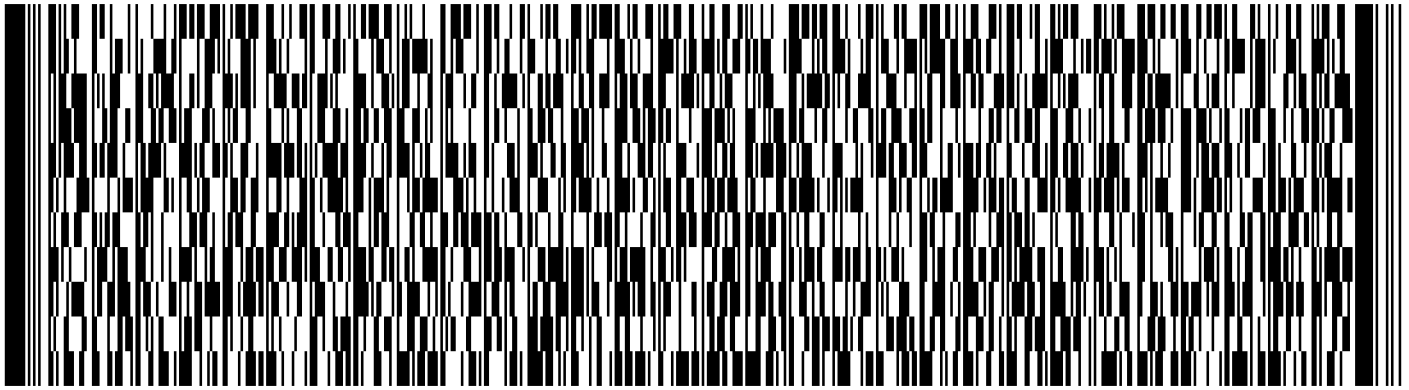
I declare under penalty of perjury that the foregoing Monthly Operating Report and its supporting documentation are true and correct and that I have been authorized to sign this report on behalf of the estate.

/s/ Paula Brown Stafford
 Signature of Responsible Party
Chief Executive Officer
 Title

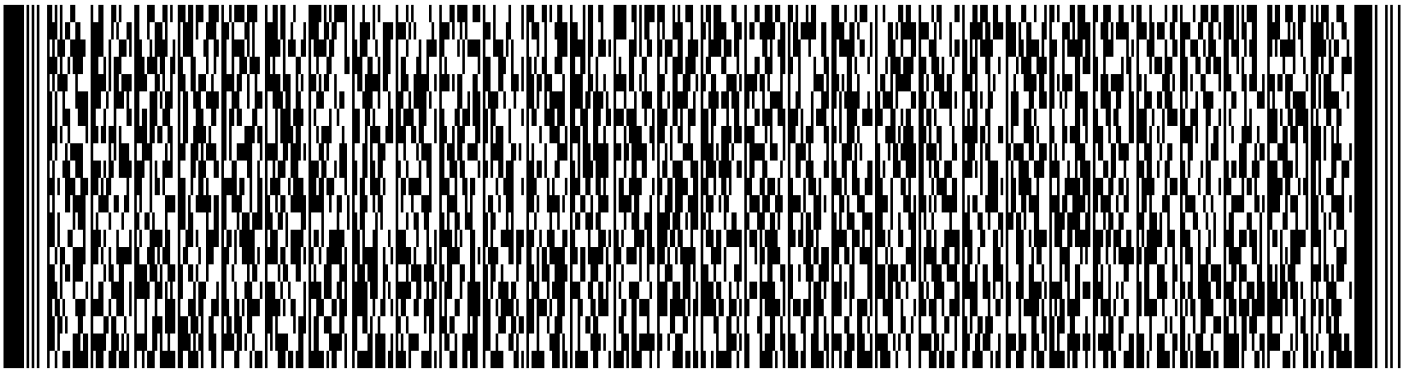
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 Printed Name of Responsible Party
03/21/2024
 Date

Debtor's Name EPI Health, LLC

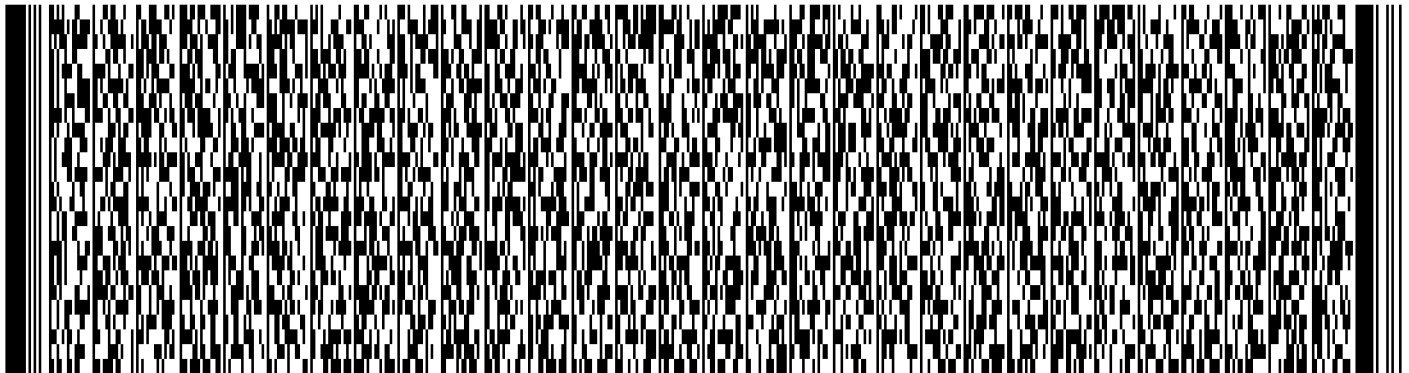
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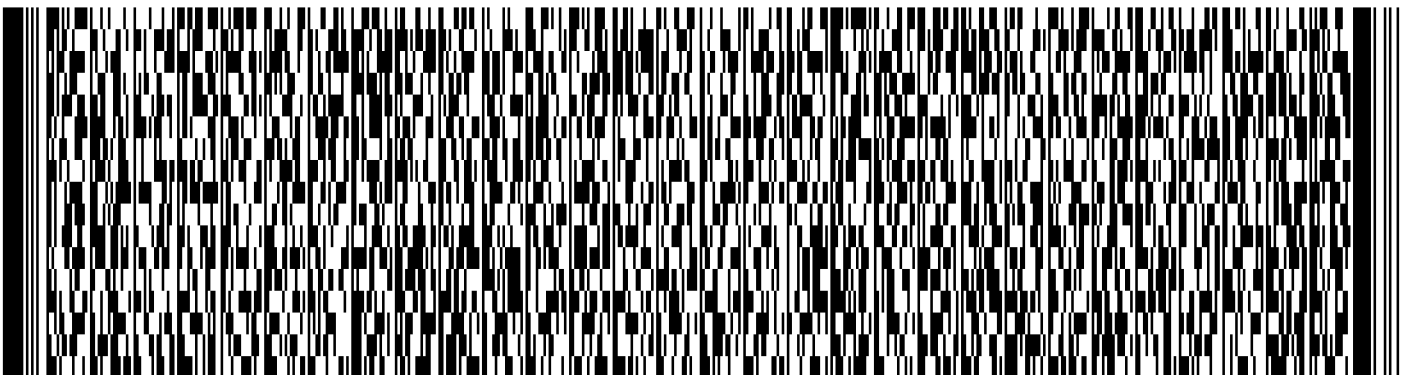
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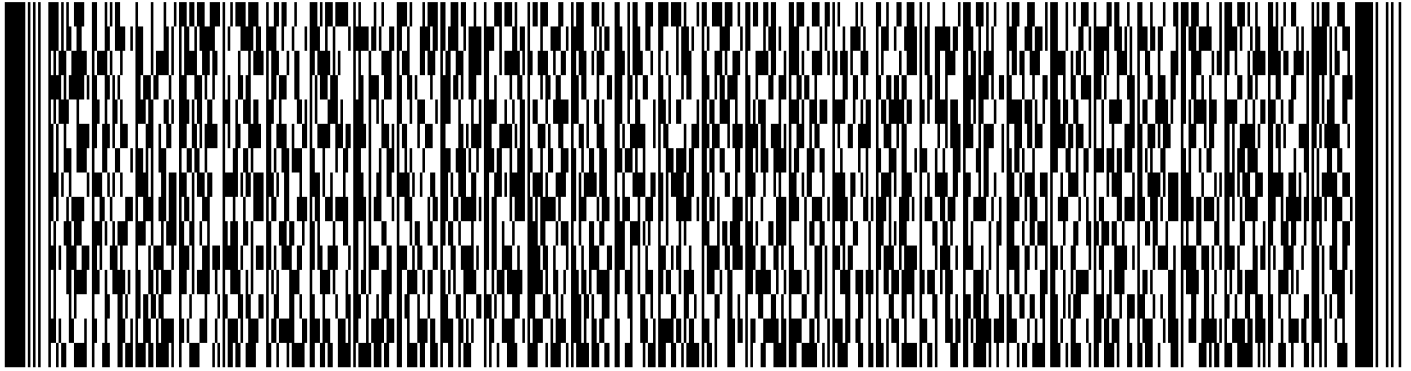
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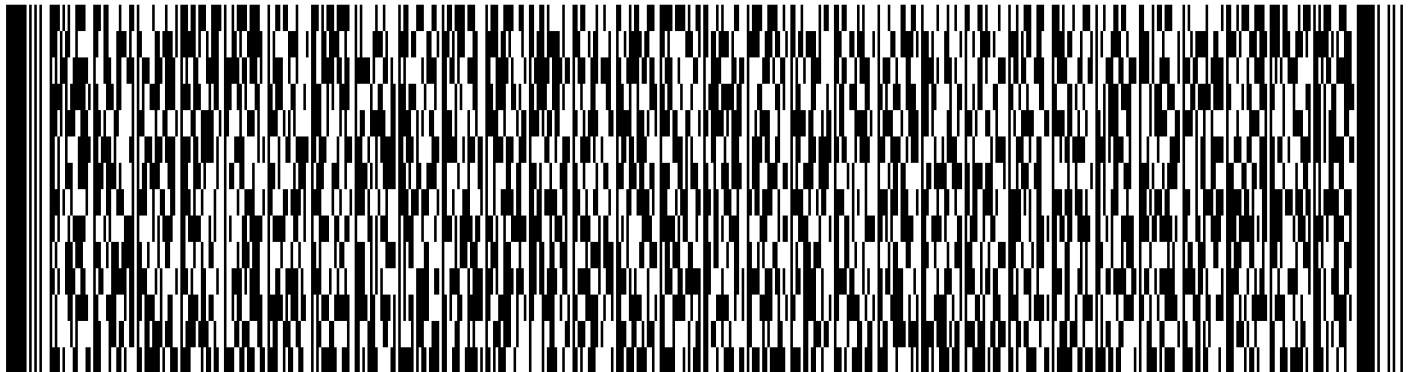
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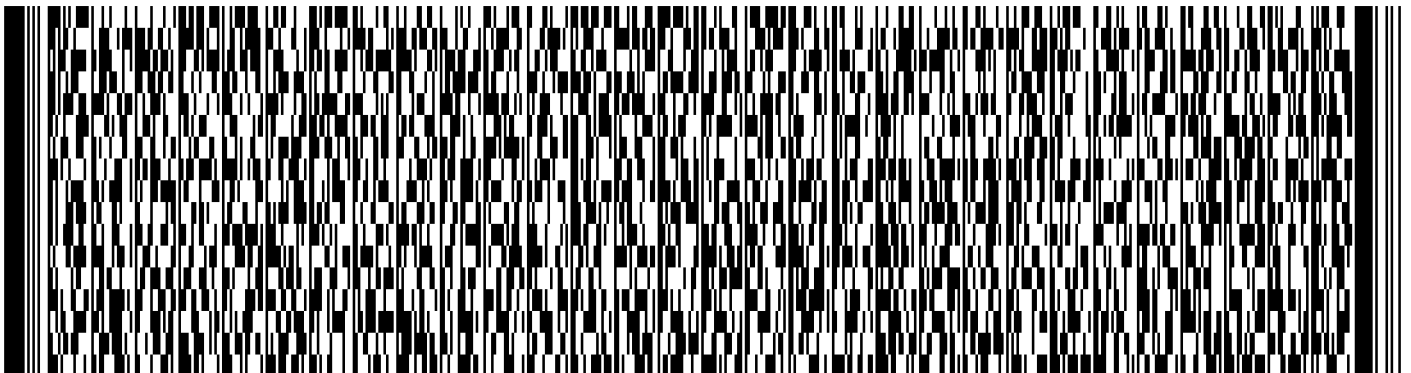
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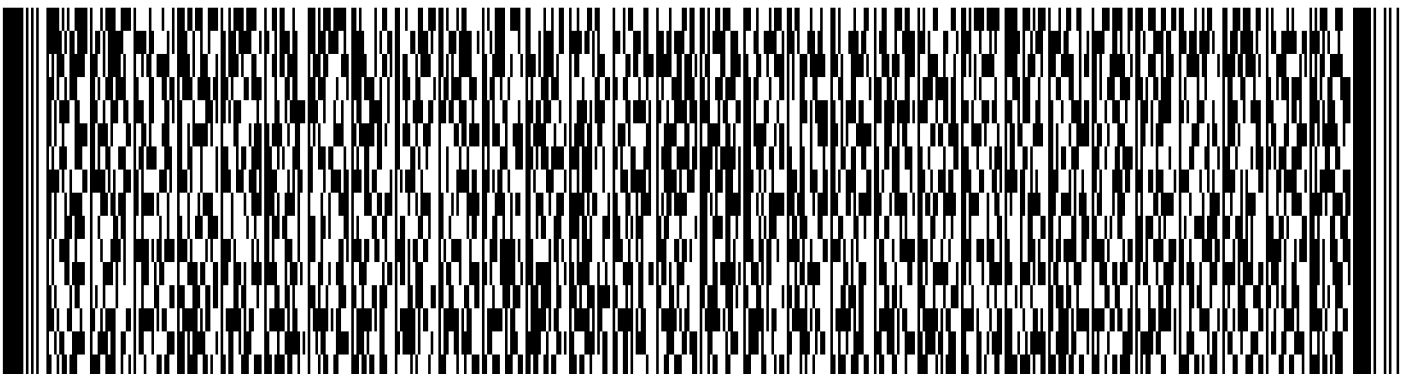
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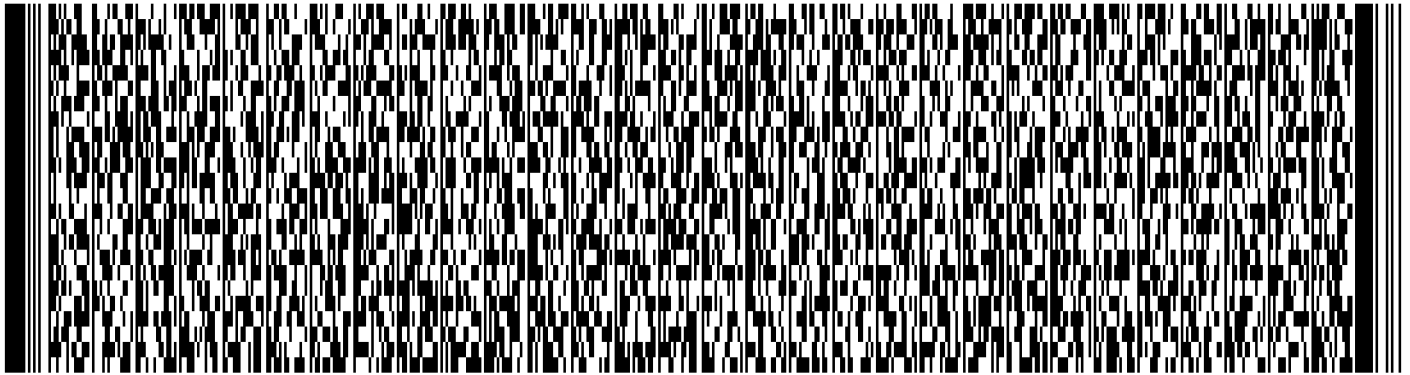
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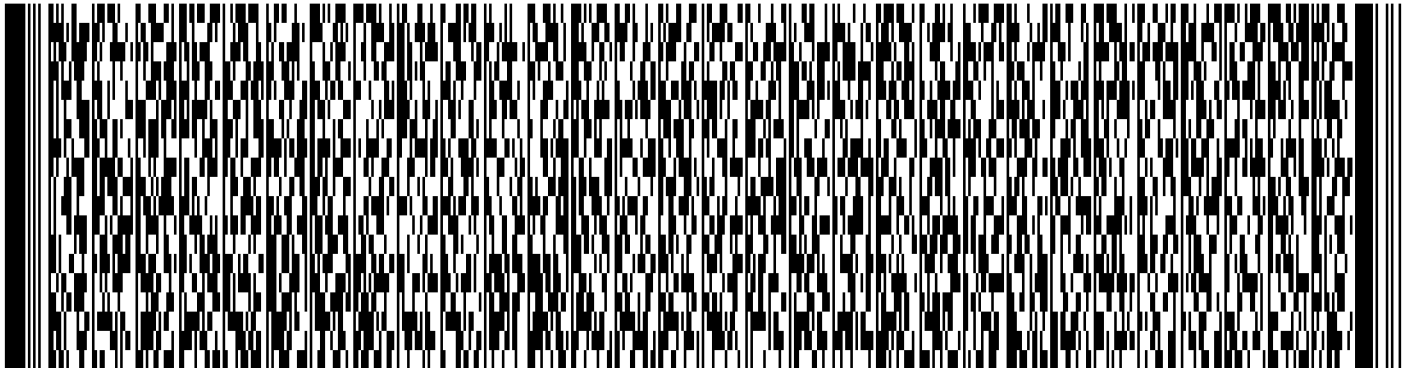
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Debtor's Name EPI Health, LLC

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EPI Health, LLC
Balance Sheet [1]
As of February 29, 2024

Cash and cash equivalents	\$	6,269,984
Trade accounts receivable, net		3,384,932
Inventory, net		827,152
Prepaid expenses and other current assets		1,184,441
TOTAL CURRENT ASSETS		<u>11,666,509</u>
Intangible Assets, Net		7,369,956
TOTAL ASSETS	\$	<u><u>19,036,465</u></u>
Accounts payable	\$	20,318,834
Accrued expenses		5,527,232
TOTAL CURRENT LIABILITIES		<u>25,846,066</u>
Other long-term liabilities		494,070
Due from Novan, Inc.		(12,772,257) [2]
TOTAL LIABILITIES		<u>13,567,879</u>
Additional paid-in capital		32,045,966
Accumulated deficit		(26,577,380)
TOTAL EQUITY		<u>5,468,586</u>
TOTAL LIABILITIES & EQUITY	\$	<u><u>19,036,465</u></u>

Footnote:

[1] Assets and liabilities associated with the Minolira product are included in this balance sheet at historical carrying values. In January 2024, a motion to abandon the Minolira and Cloderm products was filed with the bankruptcy court. Based on the outcome of this motion, the carrying values of Minolira assets and liabilities will be reassessed, and potentially adjusted, within a subsequent monthly operating report. Further, in February 2024, a motion to sell the Cloderm product asset rights and intellectual property to Dermix Pharm, LLC was filed with the bankruptcy court (the "Cloderm Dermix Sale Motion"). In March 2024, the bankruptcy court issued an order approving the Cloderm Dermix Sale Motion. As a result of this sale event, Cloderm inventory and intangible asset balances were written off as of February 29, 2024, with a corresponding loss on disposal recognized during the monthly period ended February 29, 2024.

[2] This line item includes an intercompany balance generated post-petition related to the NVN Liquidation, Inc. (f/k/a Novan, Inc.) joint administration of case 23-10937 and 23-10938 totaling \$4.4 million. As part of the joint administration of the bankruptcy proceedings, certain transactions and amounts have been recorded on the books and records of NVN Liquidation, Inc. rather than EPI Health, LLC, due to the nature of the underlying general ledger and accounting system. Post-petition adjustments specifically impacting either Debtor have been reflected within the intercompany account balances accordingly.

EPI Health, LLC
Statement of Operations
Reporting Period: February 1 to February 29, 2024

Net product sales	\$	-
License and collaboration revenue		-
TOTAL REVENUE		<u>-</u>
Cost of goods sold		-
GROSS PROFIT		<u>-</u>
Sell, General & Administrative		82,714
Amortization expense		-
TOTAL OPERATING EXPENSES		<u>82,714</u>
Interest Expense		-
Loss on Disposal of Assets		1,125,688 [1]
NET INCOME (LOSS)	\$	<u><u>(1,208,402)</u></u>

Footnote:

[1] In February 2024, a motion to sell the Cloderm product asset rights and intellectual property to Dermix Pharm, LLC was filed with the bankruptcy court (the "Cloderm Dermix Sale Motion"). In March 2024, the bankruptcy court issued an order approving the Cloderm Dermix Sale Motion. As a result of this sale event, Cloderm inventory and intangible asset balances were written off as of February 29, 2024, with a corresponding loss on disposal recognized herein during the monthly period ended February 29, 2024.

EPI Health, LLC**Statement of Cash Receipts and Disbursements Summary (Cash Basis)****Reporting Period: February 1 to February 29, 2024**

BEGINNING CASH BALANCE	<u><u>\$ 6,269,984</u></u>
Receipts:	
Transfers from Novan, Inc.	<u>55,271</u>
TOTAL RECEIPTS	<u>55,271</u>
Operating Disbursements:	
Regulatory activities and services	50,293
Market related activities and services	1,478
Rent and utilities	<u>3,500</u>
TOTAL DISBURSEMENTS	<u>55,271</u>
NET CASH FLOW	-
ENDING CASH BALANCE	<u><u>\$ 6,269,984</u></u>

EPI Health, LLC
Summary of Cash Book Balances
As of February 29, 2024

Cash and cash equivalents

Account Description	Bank	Account Number Last 4 Digits	Book Balance as of 2/29/2024
Operational	Silicon Valley Bank	9806	\$ 5,302 [1]
Lockbox	Bank of America	1379	1,545,965
DIP Deposit	East West Bank	0007	4,718,717
			\$ 6,269,984

Footnotes:

[1] This account, while owned by parent Debtor, Novan, Inc., is used to track operational activities related to EPI Health, LLC.

EPI Health, LLC**Summary of Intercompany Balances Due from NVN Liquidation, Inc.****Reporting Period: February 1 to February 29, 2024**

	<u>Pre-petition</u>	<u>Post-petition</u>	<u>Total</u>
BEGINNING BALANCE (February 1, 2024)	\$ 9,614,641	\$ 3,219,292	\$ 12,833,933 [1]
Reductions:			
Operating transactions	-	61,676	61,676
TOTAL REDUCTIONS	-	61,676	61,676
NET ACTIVITY	-	(61,676)	(61,676)
ENDING BALANCE (February 29, 2024)	\$ 9,614,641	\$ 3,157,616	\$ 12,772,257

Footnote:

[1] Certain intercompany balance generated post-petition relate to the NVN Liquidation, Inc. (f/k/a Novan, Inc.) joint administration of Case 23-10937 and Case 23-10938. As part of the joint administration of the bankruptcy proceedings, certain transactions and amounts have been recorded on the books and records of NVN Liquidation, Inc. rather than EPI Health, LLC, due to the nature of the underlying general ledger and accounting system. Post-petition adjustments specifically impacting either Debtor have been reflected within the intercompany account balances accordingly.

Prior to the petition date, the Debtors recorded intercompany assets and liabilities through one intercompany account. The intercompany account recorded transactions, including, but not limited to, transfers of cash, disbursements and other financial reporting adjustments related to the operations of the Debtor and its subsidiaries on a consolidated basis. The pre-petition intercompany balance was generated by transactions which were based on the consolidated operations of the Debtors, not on an arm's length basis. For example, there were no intercompany allocation of certain operating and non-operating expenses to EPI Health, LLC from NVN Liquidation, Inc. Such allocations, if recorded, would have impacted the pre-petition intercompany balances.