

J. Thomas Beckett, USB #5587
Brian M. Rothschild, USB #15316
PARSONS BEHLE & LATIMER
201 South Main Street, Suite 1800
Salt Lake City, Utah 84111
Telephone: 801.532.1234
Facsimile: 801.536.6111
TBeckett@parsonsbehle.com
BRothschild@parsonsbehle.com
ecf@parsonsbehle.com

Proposed Attorneys for VidAngel, Inc.

**IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF UTAH, CENTRAL DIVISION**

In re:

VIDANGEL, INC.,

Debtor.

Case No. 17-29073

Chapter 11

Judge Kevin R. Anderson

**DECLARATION OF PATRICK REILLY IN SUPPORT OF
THE DEBTOR'S CHAPTER 11 PETITION AND
REQUESTS FOR FIRST-DAY RELIEF**

PATRICK REILLY hereby declares, under penalty of perjury, as follows: I am the Director of Finance of VidAngel, Inc. (the “**Debtor**” or “**VidAngel**”), and I submit this declaration (this “**Declaration**”) in support of the Debtor’s Chapter 11 petition and requests for relief contained in certain “first day” applications and motions (the “**First-Day Motions**”) filed on or shortly after the Debtor filed its petition for relief commencing this case (this “**Case**”) and certain other motions on which expedited relief is not required or requested.

1. I have been employed by VidAngel as the Director of Finance for approximately 2 years. Prior to being hired by the Debtor as an employee, I worked on a consulting basis for the Debtor for approximately 2.5 years. In my capacity as Director of Finance, I am familiar with the

Debtor's operations and have worked closely with the Debtor's other personnel, outside counsel, and other advisors. I have also participated directly or indirectly in communications and negotiations with the Debtor's service providers, investors, and customers, as well as other constituencies.

2. On the date hereof (the "**Petition Date**"), the Debtor commenced this Case by filing a voluntary petition for relief under Title 11, Chapter 11 of the United States Code (the "**Bankruptcy Code**"), in the United States Bankruptcy Court for the District of Utah in Salt Lake City, Central Division (the "**Court**").

3. I am authorized by the Debtor's Board of Directors (the "**Board**") to submit this Declaration on behalf of the Debtor. Except as otherwise indicated, all statements in this Declaration are based upon my personal knowledge or my review of the Debtor's books and records, other relevant documents, and information prepared or collected by the Debtor's employees in the ordinary course of its business. If I were called to testify as a witness in this matter, I could and would competently testify to each of the facts set forth herein. In making the statements herein, I have relied in part upon others who are required to accurately record, prepare, and collect necessary documentation and information that the Debtor keeps in the ordinary course of its business.

I.
INTRODUCTION AND OVERVIEW OF THE DEBTOR

A. Overview of the Debtor and Its Business.

4. The Debtor is the worldwide leader in video filtering technology. The Debtor's services allow its subscribers to filter potentially objectionable content (such as profanity, nudity, and violence) in motion pictures (including television shows) and stream such content for its subscribers' private viewing. The Debtor is also an original content provider, and it provides a

streaming service to view the content it produces. The Debtor's services give subscribers and their families choice over the content they view and share with their families.

5. From late 2014 through late December 2016, VidAngel used a purchase model to provide video to its customers (the "**Disc Ownership Model**"). Under the Disc Ownership Model, VidAngel purchased DVDs and Blu-ray discs and sold them to its customers. VidAngel would decrypt the contents of the purchased discs and stream the content to the owner of such discs, filtered as each customer individually requested. VidAngel's proprietary technology enabled (and required) users to filter the video for various types of potentially objectionable content, which were silenced or deleted when the video was streamed. Once purchased, a customer could opt to sell the video disc back to VidAngel, or keep the actual physical disc, which VidAngel would ship to purchasers, on request, or store for the customer in a secure vault.

6. VidAngel's Disc Ownership Model was popular and growing, with more than 1 million viewers as of December 2016. However, in June 2016, Disney Enterprises, Inc., Lucasfilm Ltd. LLC, Twentieth Century Fox Film Corporation, and Warner Bros. Entertainment Inc. (the "**Studios**") sued VidAngel in the United States District Court for the Central District of California, Case No. 2:16-cv-04109-AB-PLA (the "**Copyright Action**"), for copyright infringement of approximately 80 of the Studios' copyrighted works. The Studios alleged that VidAngel's decryption of its works was a technical violation of the Digital Millennium Copyright Act ("DMCA"), 17 U.S.C. § 1201(a), and that VidAngel's filtering and streaming violated their exclusive rights to make copies of and publicly perform their works in violation of 17 U.S.C. § 106. On December 12, 2016, the District Court granted the Studios' Motion for a Preliminary Injunction. VidAngel complied with the preliminary injunction, shutting down VidAngel's and its customers' use of the Disc Purchase Model. The Studios have amended their complaint to add additional plaintiffs and allege the infringements of additional motion pictures before pursuing the

Copyright Action to a judgment. The Studios rejected VidAngel's Statutory Offer to Allow the Entry of Judgment against it.

7. Six months after the issuance of the preliminary injunction, VidAngel launched a new streaming-based service (the "**Stream-Based Model**"), which avoids any decryption of the Studios' copyrighted works, and does not involve any physical video discs. Subscribers who use the Stream-Based Model select video content from third-party services such as Amazon, Netflix, and HBO using their own accounts with those third-party streaming services.¹ Using VidAngel's proprietary technology, subscribers can elect to have VidAngel remove or silence various types of potentially objectionable content when they view the selected video.

8. To ensure that the new Stream-Based Model does not violate the any provision of the Copyright Act, VidAngel initiated a declaratory relief action in the United States District Court for the District of Utah, Case No. 2:17-cv-00989-EJF (the "**Declaratory Relief Action**"), and named various copyright owners whose copyrighted works might be streamed and filtered. The Declaratory Relief Action is in its early stages, and none of the defendants have answered.

9. At this time, the Debtor requires the breathing space of the Automatic Stay of section 362(a) of the Bankruptcy Code after the disruption of its previous business and to reorganize around the new Stream-Based Model. The Studios are pressing forward with the preliminary injunction in the California District Court, attempting to apply it to enjoin VidAngel's new Stream-Based Model. The Declaratory Relief Action is in its early stages, and the Utah District Court needs an opportunity to consider the issues and confirm that the Stream-Based Model does not violate any rights of motion picture copyright owners. Further, the Stream-Based

¹ Users must maintain and pay the third-party content providers directly.

Model, which is profitable, will provide sufficient revenue to enable the Debtor to reorganize its business and pay its creditors.

II.
FACTS IN SUPPORT OF FIRST-DAY MOTIONS

10. Concurrent with filing the voluntary petition to commence this Case, the Debtor filed the following motions:

- a. *Motion of the Debtor for Entry of Interim and Final Orders (A) Authorizing Continued Use of Bank Accounts, Business Forms, Cash Management System, and Pre-Petition Customer Credit Program, (B) Waiving Certain Investment and Deposit Guidelines, and (C) Granting Related Relief (the “Cash Management Motion”);*
- b. *Motion of the Debtor for an Order Authorizing (1) Payment of Certain Pre-Petition Wages, Salaries, and Other Compensation, (2) Withholdings From Employee Paychecks and Related Deductions and Payments, (3) Employee Benefits, (4) Reimbursable Employee Expenses, and (5) Related Relief (the “Employee Wage Motion”);*
- c. *Motion of the Debtor for an Order (1) Authorizing But Not Requiring the Debtor to Pay Utility Providers, (2) Determining and Approving Adequate Assurance of Payment for Future Utility Services, (3) Prohibiting Utility Providers From Disconnecting Service, and (4) Granting Related Relief (the “Utility Motion”);*
- d. *Motion of the Debtor for Entry of Interim and Final Orders Authorizing the Payment of Certain Pre-Petition and Post-Petition Taxes and Fees (the “Tax Motion”);*
- e. *Motion of the Debtor for Entry of an Order Authorizing the Debtor to Maintain Existing Insurance Policies and Pay All Policy Premiums and Brokers’ Fees Arising Thereunder (the “Insurance Motion”);*
- f. *Motion of the Debtor for Authority to Limit Notice and to Establish Notice Procedures (the “Notice Procedures Motion”);*
- g. *Application for Interim and Final Orders Authorizing the Employment and Retention of Gil Miller and Rocky Mountain Advisory, LLC as Financial Advisor for the Debtor (“RMA Retention Application”);*
- h. *Application for Interim and Final Orders Authorizing the Employment and Retention of Parsons Behle & Latimer as Chapter 11 Counsel for the Debtor (“Parsons Behle Retention Application”)*

- i. *Motion for an Order Establishing Procedures for Interim Compensation and Reimbursement of Expenses for Retained Professionals* (the “**Compensation Procedures Motion**”); and
- j. *Ex Parte Motion Requesting (1) an Expedited Hearing on the First-Day Motions, (2) Shortening of Time for Notice and Objection to the Interim Relief Requested in the First-Day Motions or Finding that No Further Notice Is Necessary, and (3) Scheduling a Final Hearing on the First-Day Motions Within 30 Days and at Least 14 Days Following the Organizational Meeting of the Creditors’ Committee under Section 1102 of the Bankruptcy Code* (the “**Ex Parte Hearing Motion**”)

(the “**First-Day Motions**”). The Debtor anticipates and respectfully requests that the Court conduct a hearing within one or two business days after the commencement of this Case to consider the relief sought in each of the First-Day Motions.

11. The relief sought in the First-Day Motions has been narrowly tailored to meet the Debtor’s immediate needs, including, among other things, to (a) establish procedures for efficient administration and notices of this Case; (b) continue the Debtor’s operations and procedures with as little disruption as possible; (c) maintain the confidence and support of the Debtor’s employees and customers by continuing services, payroll, utility service, and operations with as little disruption as possible; and (d) retain appropriate professionals. Gaining and maintaining the support of the Debtor’s customers and contract counterparties, especially the Debtor’s new Stream-Based Model subscribers, is crucial to the success of the Debtor’s efforts in this Case.

12. A summary of the relief requested and the facts relevant to each of the First-Day Motions are set forth below and in the relevant First-Day Motions.

A. Cash Management Motion.

13. By the Cash Management Motion, the Debtor seeks entry of interim and final orders (1) authorizing but not directing the Debtor to continue using its existing bank accounts, business forms, cash management system, and pre-petition customer credit program, and (2) waiving

certain investment and deposit guidelines of the Office of the United States Trustee (the “**Guidelines**”).

14. The Debtor maintains the following Bank Accounts in the ordinary course of business:

- a. *First*, the Debtor maintains a Business Interest Checking Account at Zions Bank, account number XXXXXX1843. This account is an operations account that is swept every day in order to maintain a zero dollar (\$0) balance. All transactions go through this account.
- b. *Second*, the Debtor maintains a Commercial Business Account at Zions Bank, account number XXXXXX3514 that is used for investment escrow. The account currently has a balance reserved for an investor who the Debtor has been unable to return funds to; the money is likely subject to Utah’s unclaimed property statutes.
- c. *Third*, the Debtor maintains an Gold Business Sweep (operational cash savings) Account at Zions Bank, account number XXXXXX0646. Funds are automatically transferred from this account daily in order to meet the Debtor’s cash operational needs.
- d. *Fourth*, the Debtor maintains a Business Money Market Account at Zions Bank, account number XXXXXX0890. This account was set up as part of an agreement with Mr. David Quinto, the Debtor’s General Counsel, under Mr. Quinto’s employment agreement. The funds in this account are restricted, and by contract can be used only for the purposes outlined in the agreement between Mr. Quinto and the Debtor, specifically, the payment of Mr. Quinto’s salary during the term of the agreement. This agreement was

entered into by the Debtor to ensure that Mr. Quinto would have sufficient funds to defend VidAngel all the way to the Supreme Court, if necessary.

15. In addition to these accounts and the relationship between the summarized above and in Exhibit B to the Cash Management Motion, the Debtor's Cash Management System includes the routine use of Business Forms (the "**Business Forms**"). Those Business Forms include, without limitation, checks, purchase orders, letterhead, envelopes, electronic credentials used by employees, and promotional materials. All of the Debtor's check information is printed on blank check stock using accounting software. Sales documents are print on blank plain paper or cash register tape. Purchase orders and receiving reports are printed on plain paper in a consistent format.

16. The Debtor's subscribers interface with the Debtor almost exclusively via the Internet. The Debtor has on the Petition Date notified its subscribers of the Chapter 11 petition by a press release in an email message, and will continue to place prominently positioned notices on its online materials to notify its subscribers of the Debtor's status as a debtor-in-possession.

17. Because of the preliminary injunction relating to the Disc Ownership Model, VidAngel has approximately 250,000 current and former subscribers owed an average of approximately eighteen dollars (\$18.00) each for a total aggregate amount in excess of \$4.7 million in credit for VidAngel services. VidAngel allows its subscribers to use this credit to pay the fees for the new Stream-Based Model (the "**Pre-Petition Customer Credit Program**"). The Pre-Petition Customer Credit Program is beneficial to VidAngel because it incentivizes former subscribers and customers to subscribe to the new Stream-Based Model and it amortizes this outstanding credit, which, if it became a cash liability, would be one of VidAngel's largest liabilities.

18. The Debtor seeks an order waiving the requirement that it close its existing Bank Accounts to open others, and the requirement that it open new accounts devoted only to tax payments. As to both, the benefit of waiving those requirements far outweighs any benefit of requiring compliance.

19. The Debtor's Cash Management System allows it to (a) control and monitor corporate funds; (b) ensure cash availability; and (c) reduce administrative expenses by facilitating the movement of funds and the development of timely and accurate balance and presentment information. Permitting the Debtor to continue using its existing Cash Management System will assist the Debtor in its effort to maintain its operations and the value of its estate as a going concern and confirmation of a Chapter 11 plan.

20. Conversely, requiring the Debtor to close its Bank Accounts only to open new accounts would unnecessarily disrupt the Debtor's business operations, force the Debtor's limited and already overburdened staff to re-create an already functioning system, burden the estate with additional post-petition professionals' expenses in order to comply, all at a potentially high cost to its estate. In addition to the likely confusion associated with the adoption of a new Cash Management System, the burden of taking this step would increase the work required of the Debtor's small accounting staff, who already must deal with the many and varied issues and information requests related to this Case. This additional burden, expense, and risk of harm to the Debtor's estate would not be attended in this Case by any discernible benefit to the estate or to the Debtor's creditors, particularly because its turn as a debtor-in-possession is likely to be brief and given that the Debtor does not generally deal directly with retail customers.

21. The Debtor's Bank Accounts at Zions Bank are already located at FDIC-insured depository institutions. Zions Bank is an authorized depository with standing agreements with the U.S. Trustee. As such, the Bank Accounts bear very little risk. Accordingly, no other security

need be provided to ensure that the Debtor's Bank Accounts comply with Section 345 of the Bankruptcy Code and the Guidelines.

22. Further, allowing the Debtor to make use of its existing Cash Management System post-petition will not prejudice any party-in-interest. If the relief requested herein is granted, the Debtor will not pay, and each of the banks at which the Bank Accounts are maintained will be instructed not to pay, any debts incurred before the Petition Date unless specifically authorized by this Court (*e.g.*, under the Utility Motion or the Employee Wage Motion).

23. Likewise, the Debtor's tax obligations can and will be paid most efficiently out of the Debtor's existing Bank Accounts, into, out of, and among which the U.S. Trustee can adequately monitor the flow of funds. The creation of new debtor-in-possession accounts designated solely for tax obligations is, therefore, unnecessary and inefficient.

24. Additionally, continuation of the Pre-Petition Customer Credit Program would relieve VidAngel of its \$4.7 million obligation, offer benefits to both VidAngel and its customers, and avoid any destruction of goodwill by otherwise ending the credit program. Accordingly, continued use of the Pre-Petition Customer Credit Program is beneficial to VidAngel's continued business operations.

B. Employee Wage Motion.

25. By the Employee Wage Motion, the Debtor seeks entry of interim and final orders authorizing but not requiring the Debtor to continue to (a) honor all payroll obligations, (b) deduct and remit to the proper recipients thereof all customary withholdings, including payroll taxes and garnishments, (c) maintain and fulfill its obligations with respect to all employee benefits programs, and (d) reimburse employees and contractors for customarily reimbursable expenses.

26. The Debtor employs approximately 41 total employees (the "**Employees**"), comprised of 24 full-time employees, 17 part-time employees, and several other employees.

27. The Debtor also employs independent contractors (the “**Contractors**”) on a periodic basis, including content taggers, technical resource contractors, a public relations firm, lobbyists, a Chief Executive Officer, a Chief Marketing Officer, information technology personnel, and a movie editor.

28. The Debtor employs 46 content taggers as independent contractors. The content taggers watch films and mark content to be removed for various filtering options, such as profanity or violence. One of the content taggers also manages the team and is paid a fixed rate per month. The remaining 45 content taggers are paid per piece and are paid directly by VidAngel.

29. The Debtor employs 8 technical resource independent contractors who work with the VidAngel technology team in directing and maintaining VidAngel’s applications. The technology resource contractors bill VidAngel hourly for work performed.

1. Payroll Obligations

30. The Debtor’s obligations for the Employees’ payroll and Contractors’ payments are as follows (the “**Payroll Obligations**”).

31. The Debtor utilizes Gusto, formerly ZenPayroll to process payroll.

32. Employees are paid on a semi-monthly basis, always on the 5th and 20th day of the month, unless there is an intervening holiday, in which case payment is made on the first business day before the holiday. The Debtor’s semi-monthly payroll averages approximately \$100,000 for all Employees.

33. Contractors are paid as work is performed or invoices are received.

34. As of the Petition Date, the Debtor is current on all outstanding Payroll Obligations to its Employees and Contractors in the ordinary course of business except for the Payroll Obligations that were incurred between the last payday and the Petition Date. The Debtor therefore requests authorization to pay these pre-petition Payroll Obligations that are due on the next payday.

In addition, in case the Debtor issued any checks to Employees and Contractors prior to the Petition Date on account of the Payroll Obligations, and such checks have not yet been cashed or have not “cleared” the Debtor’s bank accounts, the Debtor requests instructions that the Debtor’s bank should honor any such checks on account of the Payroll Obligations.

35. To the extent that these obligations are on account of the Debtor’s pre-petition Payroll Obligations, the Debtor is seeking authority to pay all of the Payroll Obligations in full, including any amount in excess of \$12,850 per Employee or Contractor, the statutory priority claim afforded such claims under Sections 507(a)(4) and (a)(5) of the Bankruptcy Code. It is extremely unlikely that any pre-petition Payroll Obligations will exceed that amount for any Employee or Contractor.

2. Withholdings, Related Taxes, and Garnishments.

36. To the extent the Debtor must pay any related withholdings, taxes, and garnishments, the Debtor seeks authority to pay these items. The Debtor also routinely makes deductions from the Employees’ payroll relating to federal, state, and local tax withholdings, and garnishments. The Debtor requests authority to continue paying all such obligations in accordance with applicable law and existing company policies and practices. Such “trust fund taxes” and other third-party funds are generally not considered part of the Debtor’s equitable estate, nor can such funds be used for the benefit of the estate or its creditors. *See* 11 U.S.C. § 541(d). Accordingly, neither the Debtor’s estate nor any creditors or stakeholders will be harmed by the Debtor continuing to make such payments.

3. Employee Benefit Plans.

37. The Debtor offers its employees certain general welfare benefits (the “**Employee Benefits**”) as follows:

- a. The Debtor offers vacation and sick leave as a benefit for all Employees. All Employees are permitted to take an unlimited amount of leave. Employees may take as much time as need, when needed, so long as the vacation/sick leave does not prevent them from meeting deadlines, or fulfilling the objectives of their position with VidAngel.
- b. The Debtor offers health insurance as a benefit for all Employees. The health insurance is a 100% funded health insurance plan through SelectHealth for Employees and their dependents.
- c. The Debtor offers dental and vision insurance as a benefit for all Employees. The dental and vision insurance is 100% funded insurance through Dentist Direct.
- d. The Debtor offers a stock option plan as a benefit for all Employees.
- e. The Debtor has a bonus plan, Operation Joyful Noise, which is currently in effect for Employees. Bonuses will be earned prior to the chapter 11 filing, but may not be fully paid out.

38. On Average, the Debtor pays approximately \$22,000 per month in Employee Benefits comprised of medical insurance (approximately \$20,000) and dental & vision insurance (approximately \$2,000).

39. These above amounts are customarily paid within the first few weeks of a given month so , as of the Petition Date, the Debtor will not owe any amount for pre-petition obligations for the Employee Benefits. The Debtor requests authority to continue making such payments in the ordinary course of its business in the post-petition period, including any amounts that happen to be owing on account of the pre-petition period.

4. Reimbursable Expenses.

40. The Debtor customarily reimburses Employees and Contractors for business expenses incurred in the ordinary course of performing their duties on behalf of the Debtor. These reimbursement obligations include, among other amounts, expenses incurred in connection with travel and various ordinary course expenses that the Employees and Contractors incur in performing their jobs. Because there may be Employees and Contractors who have incurred business expenses prior to the Petition Date but have not yet sought reimbursement, it is difficult for the Debtor to determine the exact amount outstanding as of the Petition Date. Nevertheless, the Debtor believes such amounts to be negligible. The Debtor requests authority to continue making such reimbursement payments in the ordinary course of its business, including those attributable to the pre-petition period.

41. The health and well-being of the Employees and Contractors is of critical importance to the success of this Case. If the relief requested in the Employee Wages Motion is not granted, the Employees and Contractors and their families will suffer undue hardship. Unless the Debtor timely pays the Employees and Contractors and maintains the Employees' contracted-for benefits, many of the Employees and Contractors may, by necessity and right, seek other employment, causing severe disruption and harm to the Debtor's businesses. The Debtor's ability to preserve its business and assets and to maximize value through this Case will be adversely affected if it is unable to retain its dedicated and loyal Employees. Accordingly, it is critical that the hardship and disruption caused by the commencement of this Case be minimized to preserve morale and maintain the Debtor's workforce.

C. Utility Motion.

42. By the Utility Motion, the Debtor seeks entry of interim and final orders (1) authorizing but not requiring the Debtor to continue to pay pre-petition utility providers,

(2) determining and approving adequate assurance of payment for future utility service, (3) prohibiting utility providers from disconnecting service, and (4) granting related relief.

43. In the ordinary course of business, the Debtor incurs expenses for internet, gas, water, sewer, trash and other similar utility services provided by four utility providers (as such term is used in Bankruptcy Code Section 366, collectively, the “**Utility Providers**”), a list of which is attached as Exhibit C to the Utility Motion (the “**Utility Service List**”).²

44. The Debtor pays for the Utility Providers to provide some or all of the utilities services in the ordinary course of business at its office location.

45. Uninterrupted utility services at the Debtor’s office are essential to the Debtor’s ongoing operations and, therefore, to the success of this Case. As an internet services business, uninterrupted electrical supply and internet services are crucial to the provision of the Debtor’s video streaming services and back-end and front-end customer support. Uninterrupted services from Lightstream Managed Services, LLC is essential to providing the Debtor’s streaming services to customers. Indeed, any interruption of any of the Debtor’s utility services, even for a brief period of time, would negatively affect the Debtor’s operations and its ability to provide its service to customers and maintain operations of its business. It is therefore critical that utility services continue uninterrupted during this Case.

46. To the extent that the Debtor subsequently identifies additional providers of utility services, the Debtor seeks authority to amend the Utility Service List to add or remove any Utility Provider. The Debtor will amend the Utility Service List by notifying the added Utility Provider

² The Debtor has included all known Utility Providers; however, the Debtor reserves the right to supplement the Utility Service List, attached as Exhibit C to the Utility Motion, to include any other Utility Provider that may have been unintentionally omitted. Additionally, the listing of an entity on the Utility Service List is not an admission that such entity is a utility within the meaning of Section 366 of the Bankruptcy Code, and the Debtor reserves the right to contest any such characterization in the future.

in writing that the Debtor has added it to the Utility Service List. The Debtor further requests that the Interim Order and Final Order apply to any such subsequently identified Utility Provider as provided in the Adequate Assurance Procedures, regardless of when each Utility Provider was added to the Utility Service List. With respect to any subsequently identified Utility Provider, the Proposed Adequate Assurance shall be deemed adequate assurance of payment for any Utility Provider that does not make an Additional Assurance Request within 21 days of receiving a copy of the Interim Order, Final Order, or the Motion (each of which fully recite the Adequate Assurance Procedures). The Debtor shall have the period specified in the proposed Adequate Assurance Procedures to seek to resolve any subsequently added Utility Provider's Additional Assurance Request by mutual agreement with the Utility Provider without further order of the Court or to schedule a Determination Hearing with the Court to determine the adequacy of assurance of payment with respect to such Utility Provider in accordance with such Adequate Assurance Procedures.

47. The Debtor requests that all Utility Providers, including subsequently added Utility Providers, be prohibited from altering, refusing, or discontinuing utility services to the Debtor absent further order of the Court.

48. The Debtor pays the Utility Providers on a periodic basis based on each Utility Provider's billing cycle. The Debtor has no defaults with the Utility Providers, and has a history of prompt and complete payment of all utilities. The Debtor believes it is substantially current within one billing cycle with all of its Utility Providers. The Debtor does not have any deposits on file with any of the Utility Providers.

49. The Debtor submits that it would be administratively burdensome to segregate pre-petition amounts from post-Petition Date amounts owing to each Utility Provider on each account where the billing cycles do not coincide with the Petition Date (and most, if not all, will not).

Accordingly, the Debtor requests that the Court authorize, but not require, the Debtor to pay all pre-petition amounts owing to Utility Providers in the ordinary course of its business for administrative convenience and to ensure that the Utility Providers do not cease provision of the utility services as a result of non-payment. In addition, failure to pay pre-petition amounts could result in Utility Providers requesting a higher Adequate Assurance Deposit or to take action to terminate utility services, resulting in a greater cost to the estate than if payments from the Debtor continued uninterrupted.

50. In light of the severe consequences to the Debtor and its operations of any interruption in services by the Utility Providers, but recognizing the right of the Utility Providers to evaluate the Proposed Adequate Assurance on a case-by-case basis, the Debtor proposes that the Court approve and adopt certain adequate assurance procedures (the “**Adequate Assurance Procedures**”) as set forth in the Utility Motion.

D. Tax Motion.

51. By the Tax Motion, the Debtor seeks entry of interim and final orders authorizing but not requiring the Debtor to remit and pay certain property, payroll, and other taxes and fees incurred in the operation of its business.

52. In connection with the operation of its business, the Debtor incurs certain taxes and collects or incurs payroll and employment-related tax obligations (“**Taxes**”) on behalf of various taxing authorities, and is charged fees for licenses and permits, and other similar charges and assessments by various licensing authorities (“**Fees**”). The Taxes and Fees are paid to various taxing and licensing authorities (the “**Authorities**”) on a periodic basis (whether monthly, quarterly, or yearly) that is established for each particular Tax or Fee.

53. VidAngel operates solely within the State of Utah, and currently is only subject to tax under the jurisdiction of the Utah State Tax Commission and the Internal Revenue Service.

54. Although the Debtor believes that it is substantially current with respect to its payment of Taxes and Fees, by this Motion the Debtor seeks authority to make such payments for the following (a) Taxes and Fees that accrue or are incurred after the Petition Date; (b) Taxes and Fees accrued or that were incurred prior to the Petition Date but were not paid as of the Petition Date or were paid in an amount less than owed as of the Petition Date; (c) Taxes and Fees paid pre-petition by the Debtor that were lost or otherwise not received in full by any of the Authorities; and (d) Taxes and Fees incurred for pre-petition periods that may become due after the commencement of the Case.

55. In addition, the Debtor collects and holds certain outstanding tax liabilities in trust for the benefit of the applicable Authorities (so-called trust fund taxes), which funds generally do not constitute property of the Debtor's estate. These trust fund taxes are discussed next.

1. Payroll Taxes.

56. In the ordinary course of the Debtor's business, the Debtor is required to withhold from each Employee and some Contractors and content taggers amounts related to federal, state, and local income taxes, as well as Social Security and Medicare taxes for remittance to the applicable federal, state, or local taxing authorities. In addition, the Debtor is required to pay from its own funds Social Security and Medicare taxes, and, based on a percentage of gross payroll, additional amounts for federal and state unemployment insurance (collectively, "**Payroll Taxes**").

57. In 2016, the Debtor paid \$135,000 in Payroll Taxes. As of the Petition Date, the Debtor estimates that approximately \$10,000 of accrued pre-petition Payroll Taxes remain unpaid. The Debtor seeks authority to any such Payroll Taxes, and to continue to honor and process all obligations with respect to Payroll Taxes on a post-petition basis in the ordinary course of business. Separating the pre-Petition Date amounts from the post-Petition Date amounts would be administratively burdensome and, as described below, would benefit no one.

2. Property Taxes.

58. State and local laws in the jurisdictions where the Debtor operates generally grant Authorities the power to levy property taxes against the Debtor's real and personal property ("**Property Taxes**"). To avoid the imposition of statutory liens on its real and personal property, the Debtor typically pays property taxes in the ordinary course of business on an annual or semi-annual basis.

59. In 2016, Debtor paid approximately \$1,500 in Property Taxes. As of the Petition Date, the Debtor estimates that approximately \$3,500 of accrued pre-petition Property Taxes remain unpaid. The Debtor seeks authority to pay any such Property Taxes and to continue to honor and process all obligations with respect to Property Taxes on a post-petition basis in the ordinary course of business.

3. Income and Withholding Taxes.

60. Historically, Historically, in the ordinary course of operating its business, the Debtor has incurred state and federal income taxes. For tax year 2016, the Debtor paid \$100 in state and federal income taxes. The Debtor seeks authority to pay any such state and federal income taxes and to continue to honor and process all obligations with respect to state and federal income taxes on a post-petition basis in the ordinary course of business.

61. The Debtor is also required to withhold and remit withholdings for state income taxes for non-residents in certain states in which the Debtor operates ("**Withholding Taxes**"). In 2016, the Debtor paid \$135,000 in Withholding Taxes. As of the Petition Date, the Debtor estimates that approximately \$10,000 of accrued Withholding Taxes remain unpaid. The Debtor seeks authority to pay any such Withholding Taxes, and to continue to honor and process all obligations with respect to Withholding Taxes on a post-petition basis in the ordinary course of business.

4. Licensing and Permitting Fees

62. The Debtor incurs a variety of Fees in association with licensing and permitting in the ordinary course of the Debtor's business. The Debtor remits the Fees to the relevant Authorities on a monthly, quarterly, or annual basis. In general, the Debtor pays such fees to the appropriate Authorities as the Debtor deems reasonably appropriate for the operation of its business. In 2016, the Debtor paid \$2,000 in licensing and permitting fees.

63. As of the Petition Date, the Debtor estimates that approximately \$500 in Fees remain unpaid. The Debtor seeks authority to pay any such Licensing and Permitting Fees, and to continue to honor and process all obligations with respect to the Fees accrued on a post-petition basis in the ordinary course of business.

5. Sales and Use Taxes

64. The Debtor also collects and remits certain taxes arising from the sale, use, and purchase of products, inventory, supplies, or other goods in the Debtor's business (collectively, the "Sales and Use Taxes"). As of the Petition Date, the Debtor estimates that approximately \$20,000 in pre-petition Sales and Use Taxes have accrued and remain unpaid for the third quarter filing period (July 1 through September 30). The Debtor seeks authority to pay any such Sales and Use Taxes, and to continue to honor and process all obligations with respect to the Sales and Use Taxes accrued on a post-petition basis in the ordinary course of business. Separating the pre-Petition Date amounts from the post-Petition Date amounts would be administratively burdensome and, as described below, would benefit no one.

E. Insurance Motion.

65. By the Insurance Motion, the Debtor seeks entry of interim and final orders authorizing but not requiring the Debtor to maintain existing insurance policies and pay all policy premiums for the policies in the ordinary course of business.

66. In the ordinary course of the Debtor's business, the Debtor maintains insurance policies providing coverage for, among other things, general commercial liability, commercial auto, workers compensation, property, management and professional liability, and directors & officers liability, all set forth in Exhibit A to the Insurance Motion (the "**Policies**"). These Policies are essential to preservation of the Debtor's business, properties, and assets, and, in many cases, such insurance coverages are required by regulations, laws, contracts, and the United States Trustee Operating Guidelines and Reporting Requirements for Chapter 11 Cases (the "**U.S. Trustee Guidelines**").

67. The Debtor purchases its insurance products directly, and so does not pay brokers' fees.

68. Maintaining the Policies is necessary to preserve the Debtor's estate. Failure to maintain the Policies could harm the Debtor's estate in several ways. Specifically, under their respective agreements, certain insurers may have the ability to terminate the Policies. Moreover, the Debtor is required to maintain insurance coverage during this Case. *See* United States Trustee Manual § 3-3.2.3. From an administrative standpoint, it would be extremely difficult for the Debtor to secure replacement insurance coverage in the post-petition period if the Policies are allowed to lapse. Termination of coverage would shift risk of loss in the event of casualty, natural disaster, or other unforeseen events onto the Debtor's estate's stakeholders, including members, vendors, customers, and employees. The foregoing happenstance would have a devastating impact on the Debtor's ability to operate its businesses and maximize the value of its estate. In light of the foregoing, the continued payment on the Policies and any obligations related thereto is necessary to maintain and preserve the Debtor's business operations.

69. The Debtor believes it is in the best interest of its estate to permit the Debtor to honor its obligations under its current Policies. Any other alternative would likely require

considerable additional cash expenditures and would be detrimental to the Debtor's effort to preserve and maximize the value of its estate.

F. Notice Procedures Motion.

70. By the Notice Procedures Motion, the Debtor seeks entry of an order authorizing but not requiring the Debtor to limit notice and to establish notice procedures. The Debtor's proposed procedures, described in more detail in the Notice Procedures Motion, will ensure that relevant parties receive notice while also not overburdening the Debtor's estate with notice obligations that would not be in the interests of justice. These procedures include creating a master service list (the "**Master Service List**"), which would include the following: (a) the Office of the United States Trustee for the District of Utah; (b) the Official Committee of Unsecured Creditors, if such a committee is appointed; (c) any party whose interests are directly affected by a specific pleading; (d) any party who has formally appeared and requested service in this Case under Bankruptcy Rule 2002; (e) any government agency to the extent required by the Bankruptcy Code, the Bankruptcy Rules, or the Local Rules; and (g) the Studios.

71. In addition, the Debtor will serve certain pleadings on each party in interest as provided by Bankruptcy Rule 2002.

72. VidAngel has a database of its subscribers, which contains approximately 251,822 subscription accounts, which database has been provided to its proposed counsel, Parsons Behle & Latimer. Although all of the accounts have an email address associated with them, nearly half of the accounts do not have a first and last name associated with the account, and many appear to use fictitious names. There is no physical address, telephone number, or other contact information associated with the accounts. Nevertheless, VidAngel customarily communicates with its subscribers through email, and it even provides regular updates regarding the Copyright Action and Declaratory Relief Action to its subscribers through email.

73. As the Debtor has a large subscriber base that is accustomed to receiving communications regarding the Debtor and its legal fight with the Studios through email, the Debtor proposes to email its subscribers notices of important events, including the commencement of this Case, major milestones accomplished in the Case, any disclosure statement and proposed plan of reorganization, and other significant developments.

74. Finally, the Debtor will establish an information website, which will be prominently featured with a link on the Debtor's website, www.vidangel.com, on which the Debtor will post all public docket items and notices, provide a calendar of hearing dates, and provide updates to any person interested in the Case. This website will be overseen by the Debtor's proposed chapter 11 counsel and will have content similar to websites customarily maintained by service providers such as KCC or Epiq in large or prominent chapter 11 cases with a large number of interested parties.

G. RMA Retention Application.

75. By the RMA Retention Application, the Debtor requests entry of interim and final orders under sections 327(a) and 328(a) of title 11 of the Bankruptcy Code, authorizing the Debtor to employ and retain Rocky Mountain Advisory, LLC ("**RMA**") as financial advisor in the Debtor's chapter 11 case.

76. The facts and circumstances surrounding the need to employ RMA and RMA's qualification, eligibility, and disinterestedness are set forth in greater detail in the RMA Retention Application and the Declaration of Gil Miller in Support of the RMA Retention Application.

H. Parsons Behle Retention Application.

77. By the Parsons Behle Retention Application, the Debtor requests entry of interim and final orders under sections 327(a) and 328(a) of title 11 of the Bankruptcy Code authorizing

the Debtor to employ and retain Parsons Behle & Latimer (“**Parsons Behle**”) as attorneys in the Debtor’s Chapter 11 Case.

78. The facts and circumstances surrounding the need to employ Parsons Behle, and Parsons Behle’s qualifications, eligibility, and disinterestedness are set forth in greater detail in the Parsons Behle Retention Application, the Declaration of J. Thomas Beckett in Support of the Parsons Behle Retention Application, and the Declaration of Neal Harmon in Support of the Parsons Behle Retention Application.

I. Compensation Procedures Motion.

79. The Debtor has filed 2 applications to employ professionals (the “**Professionals**”) under section 327 of the Bankruptcy Code: (1) Parsons Behle & Latimer, as bankruptcy counsel to the Debtor; and (2) Rocky Mountain Advisory, LLC, as financial advisors to the Debtor. The Debtor anticipates that it will seek to retain other Professionals in this case, including its pre-Petition Date litigation counsel in the Copyright Action, certain professional lobbying firms, tax and outside bookkeeping services and advisors, and other attorneys and consultancies that historically have provided professional services to VidAngel. In addition, if an official committee of unsecured creditors is appointed in this Case, it may seek to retain and employ other Professionals compensated from the Debtor’s estate. Each of these Professionals will be required to submit interim and final applications in accordance with sections 330 and 331 of the Bankruptcy Code. The Debtor estimates that as many as 10-12 firms will ultimately be required to file compensation applications in this case.

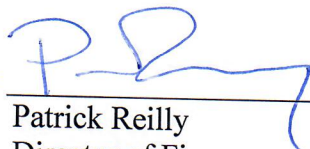
80. In order to streamline the administration of this Case and otherwise expedite the bankruptcy process for the Court, the U.S. Trustee, and all parties in interest, the Debtor proposes that the Court enter the proposed order establishing uniform compensation procedures as set forth in detail in the Compensation Procedures Motion.

J. Ex Parte Hearing Motion.

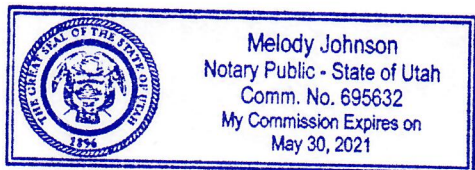
81. By the Ex Parte Hearing Motion, the Debtor seeks an order of the Court (1) granting an expedited hearing on the Debtor's First-Day Motions, (2) shortening time for notice and objection to the interim relief requested in the First-Day Motions, and (3) scheduling a final hearing on the First-Day Motions within 30 days but no sooner than 14 days following the organizational meeting of the creditors' committee contemplated by Section 1102 of Title 11 of the Bankruptcy Code, which in this district should coincide with the scheduled Section 341(a) meeting of creditors.

I declare, pursuant to 26 U.S.C. § 1746, under penalty of perjury, that the foregoing is true and correct to the best of my information, knowledge and belief.

Dated this 17th day of October, 2017

By: 
Patrick Reilly
Director of Finance
VidAngel, Inc.

Subscribed and sworn to before me this 17th day of October, 2017.




NOTARY PUBLIC