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Proposed Attorneys for VidAngel, Inc.

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF UTAH

In re VIDANGEL, INC., Debtor.	**DECLARATION OF MATT H. CONNORS** Case No. 17-29073 Chapter 11 Honorable Kevin R. Anderson

I, Matt H. Connors, pursuant to 28 U.S.C. § 1746, declare as follows:

1. I am an individual, have personal knowledge of the facts set forth herein, and would so testify if called as a witness. I submit this declaration in support of the Debtor's reply to the Studios' limited objection the Debtor's motion to extend its period of exclusivity.

2. I am a Managing Member of Rocky Mountain Advisory, LLC ("RMA") in Salt Lake City, Utah. RMA has been employed as financial advisors to VidAngel, Inc. ("VidAngel" or the "Debtor").

3. Attached as Exhibit "A" hereto is a draft declaration for my signature, which remains under construction pending the Debtor's filing of its Witness and Exhibits List on October 10, 2019, and which remains subject to substantial revision as more financial data becomes available leading up to the October 17, 2018 hearing on the Studios' motion for stay relief. It shows that the Debtor is diligently preparing to show this Court that its financial future is profitable.

I declare under penalty of perjury that the foregoing is true and correct.

Dated this 1st day of October, 2018.

_/s/ Matthew H. Connors_____________________

Matthew H. Connors, ASA, CPA/ABV, CFE

PROOF OF SERVICE

I hereby certify that on October 1, 2018, I caused a true and correct copy of the foregoing **DECLARATION OF MATT H. CONNORS** to be served as follows:

I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system, which sent notification of such filing to the following:

- J. Thomas Beckett tbeckett@parsonsbehle.com,
- Brian Rothschild Brothschild@parsonsbehle.com; kstankevitz@parsonsbehle.com
- Laurie A. Cayton laurie.cayton@usdoj.gov,
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- Grace S. Pusavat gpusavat@parsonsbehle.com
- United States Trustee USTPRegion19.SK.ECF@usdoj.gov

Dated October 1, 2018

/s/ *J. Thomas Beckett*

Exhibit "A" – draft declaration

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In re VIDANGEL, INC., Debtor.	**DECLARATION OF MATT H. CONNORS** Case No. 17-29073 Chapter 11 Honorable Kevin R. Anderson

I, Matt H. Connors, pursuant to 28 U.S.C. § 1746, declare as follows:

4. I am an individual, have personal knowledge of the facts set forth herein, and would so testify if called as a witness.

5. I am a Managing Member of Rocky Mountain Advisory, LLC ("RMA") in Salt Lake City, Utah. RMA has been employed as financial advisors to VidAngel, Inc. ("VidAngel" or the "Debtor"). RMA is a premier provider of forensic accounting services operating primarily in the Utah market. I hold a Bachelor of Science in Accounting, Bachelor of Science in Information Systems, and a Master of Business Administration from the University of Utah. I am an Accredited Senior Appraiser, Certified Public Accountant, a Certified Fraud Examiner, and Accredited in Business Valuation by the American Institute of Certified Public Accountants.

6. I am a member of the American Society of Appraisers, American Institute of Certified Public Accountants, Utah Association of Certified Public Accountants, and the Association of Certified Fraud Examiners.

7. Prior to my employment at RMA, I was a Manager in the Salt Lake City, Utah, office of the international public accounting firm PricewaterhouseCoopers, LLP. I have more than 15 years of experience in appraising operating business enterprises, valuing intangible assets, performing fraud examinations, and calculating economic damages. I perform these services in litigation and non-litigation settings. I have testified numerous times regarding these issues. I am qualified to offer the opinions stated in this declaration.

8. The opinions expressed herein are based on my reliance on the accuracy and authenticity of the documents I have been provided as referenced in this declaration. The documents and analyses I have been provided are typical of those relied upon by experts in my field. I believe sufficient records have been provided and considered in my analysis to enable me to conclude as to the opinions I have rendered.

9. Counsel for VidAngel asked me to analyze the Debtor's current operations, the trend of its business operations, and whether the Debtor can presently or is projected to be able to bear the projected legal fees to litigate the action captioned *Disney Enterprises, Inc. v. VidAngel, Inc. Case No. 16-cv-04109*, in the United States District Court, Central District of California.

10. I was provided a copy of the VidAngel litigation budget for trial that totals $483,700 to $806,200 as well as estimated timing of those costs being incurred. See Schedule 1.

11. For purposes of performing my analysis, I requested that the Debtor provide to me the following information:

a. Monthly historical profit and loss statements.

b. Monthly historical balance sheets.

c. Monthly projected profit and loss statement through 2019.

d. Monthly projected balance sheet through 2019, if available.

e. I also obtained projected non-recurring costs such as costs for reorganization.

12. I summarized and analyzed the historical balance sheets and made the following observations regarding the Debtor's current financial position.

13. The Debtor's current ratio, a measure of short-term liquidity was 1.5, 0.6, and 0.5 as of December 31, 2016, December 31, 2017, and at August 31, 2018, respectively. See Schedule 5. The current ratio is the ratio of a company's most current assets to its most current liabilities. A higher ratio is considered better. A ratio of 1 is generally considered adequate so long as the quality of the current assets is high.

14. At the calendar year-end 2016, VidAngel had $10,591,000 of cash and short-term investments of which $1,050,000 was restricted. At August 31, 2018, the Debtor held

$1,714,000 in cash, of which $953,000 was restricted. Therefore, the Debtor held approximately $761,000 of unrestricted cash as of August 31, 2018. See Schedule 3 at page 1.

15. The quick ratio, also known as the acid test, considers only the most liquid assets: cash and equivalents plus trade receivables in relation to current liabilities. I excluded restricted cash from this calculation. I observed that the quick ratio for the Debtor was 1.3, 0.4, and 0.2 as of December 31, 2016, December 31, 2017, and at August 31, 2018, respectively. This indicates that the debtor experienced a declining ability to pay its most current obligations. See Schedule 3 at page 4 and Schedule 5.

16. I summarized and analyzed the historic profit and loss statements and made the following observations regarding the Debtor's operations and the results thereof.

17. As of December 31, 2016, when VidAngel was operating under its disc-based service model, the Debtor's monthly revenue had grown steadily from $205,300 in January of 2016 to $1,348,700 in December of 2016. I observed that the Debtor operated with a 66.5 percent profit margin in 2016. See Schedule 4 at page 4.

18. Despite its growth, the Debtor appears to have re-invested much of its earnings to marketing and advertising to sustain its growth and therefore, the Debtor retained none of the profits it may have otherwise had in that year. On or around December 12, 2016, I understand that the Court issued an injunction which caused VidAngel to cease its disc-based service operations.

19. In 2017, I understand that the Debtor re-tooled its business from a disc-based service to content filtering of streamed media. I also understand that VidAngel launched a

comedy club known as Drybar in which live shows were recorded and streamed. I further understand that VidAngel licensed other content for its viewers.

20. In June of 2017, VidAngel launched its streaming service and began generating revenue from filtering third-party content. VidAngel also continued generating revenue from streaming its original content. Over the course of 2017 and 2018, VidAngel began licensing its original content to other parties such as YouTube, Facebook, Sirius XM, Spotify, Google, and Apple Music. The revenue from licensing original content is growing significantly.

21. For example, net monthly revenue was $520,000 and $717,000 in January and August of 2018, respectively. In January of 2018, revenue from original content represented approximately 12.7 percent of net revenue while revenue from third-party content represented 87.3 percent. Revenue from original content has grown as follows during 2018:

Original Content Revenue - 2018

	January	February	March	April	May	June	July	August
Revenue	$66,214	$51,053	$64,207	$97,234	$75,929	$220,509	$216,556	$326,101
Growth		-22.9%	25.8%	51.4%	-21.9%	190.4%	-1.8%	50.6%

22. Due to the growth above, revenue from original content has grown from 12.7 percent in January of 2018 to approximately 45.5 percent of total revenue in August of 2018. Therefore, I conclude that the Debtor's original content business is growing at a significant rate based on positive trends in recent periods. See Schedule 4 at page 6.

23. Earnings before interest, taxes, depreciation, and amortization ("EBITDA") is a common measure of business cash flow. The debtor had negative EBITDA of $4.6 million in 2016, negative $6.5 million in 2017, and for the calendar year-to-date is at negative EBITDA of $147,700 as of August 2018.

24. I conclude that the Debtor's management has re-tooled VidAngel and its sources of revenue with measured success, that VidAngel is on the path to profitability, and that if current trends continue, I expect the Debtor could be cash flow positive for the calendar year.

25. The Debtor's financial statements show that it is generating positive earnings and positive EBITDA in the most recent months. Schedule 4 at page 6.

26. Nevertheless, the health of VidAngel's balance sheet and its ability to fund near-term operations will only be restored after it has operated for several continuous monthly cycles of generating positive cash flow.

27. Working capital is the capital available to fund near-term operations and is calculated as current assets minus current liabilities. As of August 31, 2018, the Debtor's working capital is negative $1,996,000. The Debtor's EBITDA was positive beginning in June of 2018. The average EBITDA for June through August of 2018 is $245,500. See Schedule 4 at page 6.

28. I was also provided projected balance sheets and income statements. I made the following observations regarding the Debtor's forecasted financial position.

29. The Debtor projects that its current ratio will increase to 0.7 and 2.1 by the end of 2018 and 2019, respectively. This indicates that VidAngel projects greater liquidity in upcoming years. With additional liquid assets in the future, the Debtor is expected to be in a better financial position to meet its obligations. See Schedule 5.

30. VidAngel's quick ratio is projected to increase as well. The forecasts indicate a quick ratio of 0.5 by the end of 2018, and continue to increase to 2.0 in 2019. Similar to the

current ratio, the quick ratio indicates that the Debtor projects that it will be in a better financial position at the end of 2019 compared to the end of 2018. See Schedule 5.

31. Revenue from subscriptions is projected to remain steady through the end of 2018. However, management expects it to begin increasing in 2019 when it plans to release new original content. Subscription revenue in January of 2019 is projected at $453,000. The Debtor projects such revenue will increase to $1,153,000 for December of 2019. Management of VidAngel expects subscription revenue to increase to $8,982,000 in 2019 compared to an expected $5,021,000 in 2018.[1] See Schedule 4 at pages 6 and 7.

32. We have observed significant growth in the Debtor's original content business. In April of 2019, the Debtor plans to release a new original series that it believes will be a primary driver of growth in both subscription and other original content revenue.

33. The Debtor's management has indicated that some of the positive cash flow in August of 2018 will be non-recurring in nature. Management expects EBITDA to grow at a more conservative rate through the end of 2018 and through June of 2019. Beginning July of 2019, the Debtor projects EBITDA to grow at a higher rate due to the launch of new original content.

34. Portions of the Debtor's original content production have been suspended until January of 2019 in order to accumulate sufficient cash to meet production needs. Once production resumes, it is expected to positively affect the Debtor's earnings and contribute to increased EBITDA at such time as the content becomes available to consumers.

[1] Management calculated an estimate of revenue for 2018 from original content.

35. The Debtor also believes capital expenditures will increase in upcoming periods. In recent periods, VidAngel has reduced the amount of capital expenditures to maintain sufficient cash for ongoing needs, resulting in additional need for capital investments in the future. The production of original content in 2017 and 2018 has resulted in increased revenue with little to no capital expenditures. However, in order to sustain projected revenue growth, the Debtor believes it will incur capital expenditures of $40,000 in December of 2018, $40,000 in January of 2019, and $20,000 in May of 2019. Depending on the growth of original content, it is possible the Debtor will need to other investments in addition to what is currently projected.

36. Based on the Debtor's most recent growth in earnings and the current working capital deficit, I conclude that if the positive earnings trend can be maintained, the Debtor could be restored to a healthier balance sheet position within approximately 8 months at the soonest.[2] Since management believes recent cash flows to be non-recurring, the Debtor's projections indicate that the Debtor would be restored to a healthy balance sheet position within approximately 12 months.[3] This period may be further extended based on certain non-recurring costs discussed below.

37. Schedule 1 shows the Debtor's projected EBITDA and two non-recurring costs that the Debtor expects to incur in the upcoming periods: reorganization expenses and litigation expenses. The Debtor expects to incur reorganization costs of $400,000 from October of 2018 to June of 2019. Litigation costs are expected to range from $483,700 to $806,200. These

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[2] Calculated as August 31, 2018 working capital balance (negative $1.996 million) divided by average EBITDA for June through August, of $245,500.
[3] Based on the Debtor's projections, working capital is projected to become positive as of September 30, 2019.

estimates are shown at Schedule 1, which calculates the projected monthly cash flow based on the Debtor's earnings projections, capital expenditures, and non-recurring costs.

38. Schedule 2 shows various charts related to the Debtor's historical projected operations that indicate positive trends:

a. Page 1 of Schedule 2 shows stable revenue from October 2017 and growing revenue for June, July and August 2018.

b. Page 2 of Schedule 2 shows overall growth in EBITDA from October 2017 to August 2018 trending from negative to positive.

c. Page 3 of Schedule 2 shows VidAngel's cash decreasing from October 2017 to June 2018, and then increasing from June 2018 to August 2018.

d. Page 4 of Schedule 2 shows VidAngel's historical cash from October 2017 to August 2018 and projected cash growth from September 2018 to December 2019.

e. Page 5 of Schedule 2 shows the change cash balances from October 2017 to August 2018, trending from net cash outlays to positive cash receipts.

f. Page 6 of Schedule 2 shows the decreasing quick ratio from October 2017 to May 2018, with subsequent improvement from May 2018 to August 2018.

I declare under penalty of perjury that the foregoing is true and correct.

Dated this ______ day of October, 2018.

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Matthew H. Connors, ASA, CPA/ABV, CFE