IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:	Chapter 11
CHARACTER TECHNOLOGIES, INC.,[1]	Case No. 26-11603 (BLS)
Debtor.	

DECLARATION OF COLIN M. ADAMS IN SUPPORT
OF THE DEBTOR'S CHAPTER 11 PETITION AND FIRST DAY MOTIONS

I, Colin M. Adams, hereby declare under penalty of perjury as follows:

1. I am the Chief Executive Officer ("CEO") of Character Technologies, Inc. d/b/a Character.AI ("Character" or the "Debtor"), the debtor and debtor in possession in the above-captioned chapter 11 case (the "Chapter 11 Case"). I have been authorized by the special committee (the "Restructuring Committee")[2] of the board of directors (the "Board") to submit this declaration (this "Declaration") in support of Character's Chapter 11 Case and First Day Pleadings (defined herein).

2. I am also a Senior Managing Director at Areté Partners ("Arete"), Character's proposed financial advisor in this Chapter 11 Case. Before joining Arete, I was the chief operating officer of a boutique financial advisory firm and before that, I spent approximately six years as a Senior Managing Director at M3 Partners. Earlier in my career, I was a Managing Director at Morgan Stanley & Co., LLC in New York and London and was a partner in the restructuring practice of a leading global law firm. Over the past decade, I have been a C-suite leader for ten

[1] The Debtor and the last four digits of its taxpayer identification number are: Character Technologies, Inc. (8842). Character's mailing address for purposes of the chapter 11 case is 700 El Camino Real, Suite 120, P.O. Box 1152, Menlo Park, CA 94025.

[2] The Restructuring Committee is comprised solely of independent directors.

businesses that were successfully stabilized, have served on more than 25 boards as an independent director and have advised the management, boards or stakeholders of more than 45 companies experiencing some form of financial or operational dislocation. I received a J.D. with a Certificate in Business Law from the University of California, Los Angeles School of Law and graduated with an A.B. in Economics and History from Duke University.

3. Through the course of my work with Character, I have gained personal knowledge of the facts and circumstances set forth herein from my actual observations and information gathering, as well as information and advice provided to me by Character's management, professionals, attorneys, and advisors. In addition, the statements made herein are based, in whole or in part, upon my review of public and non-public documents and my discussions with other members of Character's management team and advisors on whom I have relied. I am generally familiar with Character's business, financial condition, day-to-day operations, and the circumstances leading to the commencement of the Chapter 11 Case. I believe, to the best of my knowledge, that the information set forth herein is true and correct. References to bankruptcy, the chapter 11 process, and related legal matters are based on my understanding of such and reliance on the explanations provided by, and the advice of, Character's counsel. I am over the age of 18 and am authorized to submit this Declaration on behalf of Character. If called upon to testify, I would testify competently to the facts set forth herein.

4. On October 12, 2026 (the "Petition Date"), Character commenced a voluntary case under chapter 11 of title 11 of the United States Code, as amended (the "Bankruptcy Code"), in the United States Bankruptcy Court for the District of Delaware (the "Court"). I submit this Declaration in support of Character's commencement of the Chapter 11 Case and for the purpose of providing information in support of certain motions and other applications that Character has

filed with the Court, including the "first day motions" (collectively, the "First Day Pleadings"), Character's motion to approve bidding procedures (the "Bidding Procedures Motion") and the motion to shorten notice, by one week, of the time for the Bidding Procedures Motion to be heard by the Court (the "Motion to Shorten").

5. This Declaration is divided into three parts. Part I sets forth a summary of Character's business, corporate structure, and prepetition indebtedness. Part II discusses the circumstances surrounding the commencement of this Chapter 11 Case and Character's anticipated path forward. Part III sets forth the relevant facts in support of the First Day Pleadings and Motion to Shorten filed concurrently herewith.

INTRODUCTION

6. The Character.AI platform ("Character.AI") is a first in kind artificial intelligence ("AI") entertainment platform that allows tens of millions of users to have immersive, multimodal experiences with fictional or imagined characters. What started as a platform to have one-on-one chats tailored to user preferences has evolved to become a category leader in entertainment AI. Today, Character's platform powers natural conversations, generates stunning visuals that become part of a story, creates dynamic video content with AI characters, and is augmented with rich audio experiences to enhance immersion.

7. In its 4-year lifespan as an active platform, Character has amassed a large and engaged user base: Character serves approximately 12 million active monthly users located around the world and, while usage varies widely, on average, active users spend approximately 120 minutes a day on Character.AI. As with all emerging technologies, new issues can mount in real time, but with AI and online entertainment, this risk has played out in a multitude of ways and, unfortunately, has reached young people. By way of example, in August of this year, in the face of mounting allegations of misconduct in areas such as personal injury, child privacy and state

consumer protection law violations, Meta announced a landmark settlement with a bipartisan coalition of 51 attorneys general, agreeing to pay $17.1 billion in penalties and to make various changes to its products.[3]

8. Character has likewise faced lawsuits and investigations from individuals and regulators with respect to the safety of its products, including lawsuits stemming from doleful allegations regarding youth suicide and self-harm. In this regard, Character has been working with the Multistate Group and individual states to resolve issues for some time now.[4] Character is hopeful that such discussions can continue and result in a mutually agreeable resolution. Moreover, by early 2026, Character was able to settle all then-pending personal injury lawsuits and has enacted voluntary changes and safety improvements to its platform, including banning children under-18 from open-ended chats with its characters.

9. Notwithstanding the progress that has been made with regulators and personal injury claimants and enhancements to platform safety, Character has faced challenges in obtaining new investment capital. This has proved problematic as, like all AI businesses that run large language models ("LLMs"), Character's impressive technology is expensive to operate. Simultaneously, Character's changes to its products, including age restrictions and harm detection, have contributed to increased costs, and Character's legal costs are significant. Character's substantial operating costs are primarily driven by computing infrastructure costs and the need to retain and motivate highly in-demand AI talent – both of which are required to operate the Character.AI platform. For example, Character spent approximately $56.1 million on compute

[3] *See* Cecilia Kang & Eli Tan, *Meta to Pay Up to $17.1 Billion in Landmark Settlement Over Social Media Addiction Claims*, New York Times (Aug. 26, 2026), (last accessed October 10, 2026).

[4] In November of 2025, Character was informed that the Attorneys General of several states (collectively, with a total of 46 states and territories who later joined the investigation, the "Multistate Group") were investigating Character.

costs, consisting primarily of contracted graphics processing units (or "GPU") capacity from third-party cloud providers during the period from January 1 – August 31, 2026. This represents approximately 45% of Character's operating expenses during the first eight months of 2026, followed by personnel costs of approximately $19.7 million in the same period, representing approximately 16% of Character's operating expenses over the same period.

10. As to personnel, baseline cost to employ AI talent is very high, but that is only one part of the equation. In addition to baseline pay, frequent bonuses and the potential for large upside in equity grants are regular features of the enticement for critical personnel to remain with an AI start-up.[5] While Character's employees were enthusiastic about the technology they were building, it became increasingly difficult for Character to retain key talent as its cash position deteriorated and employees began questioning Character's long-term viability. By September of 2026, Character was experiencing mounting employee attrition and diminishing morale and Character's management expressed deep concern that employees would start departing Character *en masse*, which would make Character's platform unstable and unsafe. This attrition risk would jeopardize the Debtor's ability to continue operating, and Character had significant concerns that it may need to liquidate on an expedited basis absent a stabilizing solution.

11. Character's revenue has improved over 2026, nearly doubling from approximately $2.8 million for the month of December 2025 to approximately $5.3 million for the month of August 2026. As of August 2026, however, Character was running at an operating loss of approximately $8-9 million per month. Despite Character's significant actions to reduce operational costs and improve revenues, cash on hand has continued to decline. Moreover, as

[5] Anna Tong and Kenrick Cai, *OpenAI, Google and xAI Battle for Superstar AI Talent, Shelling Out Millions*, REUTERS, May 21, 2025, https://www.reuters.com/business/openai-google-xai-battle-superstar-ai-talent-shelling-out-millions-2025-05-21/ (last visited Oct. 12, 2026).

noted, although Character's products and technology stack are first-in-class, attempts to raise capital or monetize the business have been unsuccessful due to Character's potential liabilities and the current regulatory environment.[6]

12. As a result, over a year prior to the Petition Date, the Debtor began searching for strategic and financial acquirors or partners to provide a path to continued operations of Character.AI. In connection with these efforts, in August 2025, Character engaged an investment bank (the "Prior Banker") to pursue strategic and financing alternatives in parallel. As part of this process, the Prior Banker oversaw the marketing of Character's assets and approached approximately 28 potential parties (largely strategic buyers and potential investors). Character and the Prior Banker received consistent feedback in this process that, although Character's product and engaged user base were impressive, the litigation and regulatory overhang on Character was too great. The Prior Banker's outreach resulted in only one proposal that was ultimately deemed to be unworkable. Thereafter, the strategic process continued in consultation with the Prior Banker, while Character focused on engaging with strategic partners and undertaking operational changes to improve revenue and reduce costs. The Prior Banker's engagement with Character concluded in late August 2026.

13. By September 2026, Character, through a special transaction committee (the "Initial Transaction Committee") comprised solely of independent directors on the Board, which was delegated authority to advise the Board in connection with entry into a strategic transaction, was engaged in discussions with two parties who expressed interest in a strategic

[6] *See e.g.* Shannon Bond, *Why Meta's Settlement Could Be an 'Inflection Point' for Reining in Big Tech, NPR* (Aug. 27, 2026), https://www.npr.org/2026/08/27/nx-s1-5945278/meta-settlement-child-safety-big-tech (last visited Oct. 12, 2026) (describing regulators' focus on technology companies and recent regulatory changes restricting actions of the same).

transaction with Character directly to the company's management.[7] The Initial Transaction Committee considered proposals from both parties, including the relevant value that each would bring, the likelihood of the proposals being actionable, Character's ability to safely operate its platform after a transaction, the path for Character after a transaction to further maximize value, and the overall benefit to Character and its stakeholders. Character engaged in rounds of negotiations with both parties and the Initial Transaction Committee discussed the same over multiple meetings.

14. Ultimately, the Initial Transaction Committee determined that the proposal from Disney Worldwide Services, Inc. ("Disney") was a superior proposal for several reasons. First, on account of Disney's accommodation and agreement to structure its proposed transaction into two interrelated and integrated stages, the unique proposal allowed Character to receive an immediate capital infusion pursuant to that certain exclusivity and prepayment letter agreement (the "EPA") and reduce its personnel costs promptly by transitioning certain of its employees to Disney, while also retaining access to key employees through transition services provided by Disney to assist with safely running Character's platform for a limited period. These services were memorialized and agreed to pursuant to that certain Transition Services Agreement (as may have been amended modified, or restated from time to time, the "TSA"). As noted, the proposal provided Character with an immediate capital infusion resulting in additional cash on hand as Disney agreed to pay, pursuant to the EPA, $7,500,000 of the $20,000,000 cash consideration up-front, $2,000,000 of which is serving as a refundable good-faith deposit. Between the up-front payment and the TSA, Disney's accommodations facilitated a path forward to maximize value for all stakeholders

[7] On October 1, 2026, Mr. Christopher Sontchi was also appointed to the Board as an Independent Director. The Board thereafter formed the Restructuring Committee, comprised solely of Independent Directors, which is charged with overseeing the remainder of the Sale Process and the entirety of the Chapter 11 Case.

through a chapter 11 filing. Disney's transaction will be subject to higher and better offers through a sale process conducted by Houlihan Lokey ("Houlihan"), who Character believes has the necessary experience, reputation, and global buyer network to support such process.

15. Character believes that the Chapter 11 Case provides the greatest opportunity for a successful outcome for all involved by way of realizing value for its assets in an appropriate timeframe to minimize operational cash outlay, completing negotiations with the Multistate Group, and maximizing value for stakeholders.

I. CHARACTER'S CORPORATE STRUCTURE AND HISTORY

A. Character's History

16. Character was founded in 2021 and is headquartered in California's Silicon Valley. Character's founders were pioneering AI researchers who left Google LLC ("Google") to develop chatbots based on their work with "transformer" artificial neural network architecture.[8] Character's platform was developed to offer users a chance to explore and unlock creativity with the aid of LLM technology. When it launched its platform to the public in 2022, Character's platform was one of the first LLMs where users could interact with chatbot characters through the use of AI.

B. Character's Capital Structure

17. Character is a privately-held company and as of the Petition Date, Character's equity holders are all individuals who are current or former directors or employees of Character.

18. Character has no funded debt and approximately $57 million in unrestricted cash and cash equivalents and investments as of the Petition Date. Character's primary potential liabilities include claims of litigants, regulators, trade vendors and service providers.

[8] Ashish Vaswani et al., *Attention Is All You Need*, (June 12, 2017), https://arxiv.org/abs/1706.03762.

C. The Google Transaction and Merger

19. In mid-2024, Character received an offer from Google for a strategic transaction. Ultimately, following negotiations between Character and Google, the deal was structured such that in exchange for approximately $2.7 billion in total consideration, Google rehired the founders of Character and Character granted a non-exclusive license of its technology at the time to Google and released certain claims that Character may have had against Google and certain other parties (the "2024 Transaction").[9]

D. Product Development, Growth, and Innovations

20. Since the 2024 Transaction, Character researchers have made several technological breakthroughs: Character developed proprietary video AI technology that allows users to upload a single static image and make it come to life (i.e., to speak, sing, and emote) with the click of a button; Character developed an autoregressive diffusion model that enables real-time audio-driven FaceTime-style video generation with fictional characters; and the company created a powerful training framework built for supervised fine-tuning of large-scale LLMs using open-source models.

21. Character also improved its chat features to enhance its user experience. For example, just recently, Character launched two new chat styles that include upgraded features, making the platform noticeably "smarter" with more interesting replies and novel writing styles. Another new chat feature mimics texting conversations, with quick responses and banter.

[9] *See e.g.* Miles Kruppa & Lauren Thomas, *Google Paid $2.7 Billion to Bring Back an AI Genius Who Quit in Frustration*, Wall St. J. (Sept. 25, 2024), https://www.wsj.com/tech/ai/noam-shazeer-google-ai-deal-d3605697 (last visited Oct. 9, 2026).

E. Focus on Safety Through Product Changes

22. Although Character has been able to develop innovative AI entertainment technology, it has also spent years developing safety and oversight technology for its AI products. Indeed, a large focus for Character since the 2024 Transaction has been on building a product that monitors and detects safety risks while in use. Character has invested significant time, money, and resources to engage in a complete overhaul of the way it develops and provides products to ensure their safety. For example, Character developed technology that can infer users' ages based on their conversations, monitor long-term detections of harm, and classify different safety risks. In addition, Character's technology continues to develop long-term harm detection that can recognize language, patterns, and behaviors from users that might indicate a user's propensity to potentially engage in harmful behavior. The technology has optimized safety classifiers that are continuously monitored to enhance user safety.

23. As to changes for younger users, in November 2024, Character developed and deployed a separate model for under-18 users with additional safety controls to provide a more age-appropriate experience for these users. In developing this model, Character's guiding principle was to steer the model away from non-age-appropriate responses or interactions, reducing the likelihood of under-18 users encountering, or causing the model to return, certain sensitive or suggestive content. This included several character and content filtering updates, adding "time spent" notifications and a parental insights tool.

24. Over several months beginning in October 2025, Character introduced process to further restrict children under the age of 18 from open-ended chatting on the platform. In this regard, Character spent months consulting experts and designing thoughtful approaches to reducing and eventually eliminating under-18 users' ability to use the open-ended chats over a

recommended timeframe. Throughout the entire process, Character provided resources and support, along with information tools for the users and their parents.

II. CIRCUMSTANCES GIVING RISE TO THIS CHAPTER 11 CASE

25. As previously discussed, Character has faced declining liquidity and high costs from operating its business and defending various lawsuits and regulatory investigations relating largely to safety concerns surrounding Character's products.

A. Declining Liquidity

26. At all times, Character has struggled with profitability and its operational expenditure has been high. For example, in the second half of 2024, following the 2024 Transaction, Character's operating expenses (excluding legal fees) averaged approximately $21.9 million *per month*, including monthly compute costs of approximately $13.8 million. In fiscal year 2025, operating expenses (excluding legal fees) averaged approximately $18.5 million *per month*, including monthly compute costs of approximately $10.0 million.

27. Character has, however, taken significant steps to reduce its operating burn, including transitioning inference workloads to lower-cost GPU capacity and post-training open-weight models rather than developing proprietary foundation models. At the same time, Character reduced its employee headcount and consolidated its facilities. As a result, operating expenses (excluding legal fees) had declined to approximately $13.3 million by August 2026, a reduction of approximately 39% from the second half of 2024 monthly average and approximately 28% from the 2025 monthly average. Finally, net cash burn per month had declined to approximately $8.2 million by August 2026, compared with monthly averages of approximately $21.5 million in the second half of 2024 and approximately $17.6 million in 2025.

28. Character has also worked to build and diversify revenue, which it primarily derives from subscriptions and in-app advertising. Monthly subscription revenue was approximately $0.6

million in January 2024, but due to increased marketing and other efforts, by August of 2026, this revenue stream was $2.8 million. In mid-2025, Character launched in-app advertising and partnered with multiple advertising networks to generate additional revenue sources. In March 2026, Character entered into an amended programmatic revenue-share and incentive arrangement with a leading online advertisement provider. Monthly advertising revenue grew from approximately $0.5 million in July 2025, its first full month, to approximately $2.5 million in August 2026. In early 2026, Character also introduced in-app purchases. As a result of all these efforts, total revenue grew from approximately $7.4 million in fiscal year 2024 to approximately $23.6 million in fiscal year 2025.

B. Litigation

i. Personal Injury Litigation

29. Since 2024, Character has been the subject of personal injury lawsuits for negligence and strict product liability related to, among other things, certain safety issues arising from minors' alleged use of Character.AI. In January 2026, plaintiffs and Character reached a comprehensive settlement of all claims in the then-filed personal injury lawsuits.

30. In August 2026, an additional complaint was filed against Character in the Northern District of California alleging harm to a minor from using Character's products. Presently, this is the only outstanding personal injury lawsuit against Character.

ii. Regulatory Investigations and Litigation

a. The Multistate Group

31. In November of 2025, Character was informed that the Attorneys General of several states (collectively, with a total of 46 states and territories who later joined the investigation, the "Multistate Group") were investigating Character. Generally, the *Civil Investigative Demand*

issued by the states, asserted that various state regulators had cause to believe that Character had engaged in, or may be engaging in, acts that could trigger liability under certain state consumer protection and other privacy statutes. The Multistate Group was formed after these separate but parallel investigations by various State Attorneys General were already underway, with some states ultimately electing to join the Multistate Group rather than proceed independently.

32. The Multistate Group formed an executive committee of seven states to represent and negotiate on behalf of the Multistate Group (the "Executive Committee"). Character and the Executive Committee are presently engaged in active and ongoing settlement negotiations regarding a consent order that would provide certain terms satisfactory to the Multistate Group and that would resolve this group's ongoing investigations and claims against Character. Character hopes to reach a consensual resolution with the Multistate Group through the course of this Chapter 11 Case.

b. Other States Outside of the Multistate Group

33. Several states that have not joined the Multistate Group are separately investigating Character and two states, Kentucky and Pennsylvania, have filed suit against Character.

34. **Kentucky.** The Kentucky Attorney General issued Character a civil investigative demand ("KY CID"), dated March 26, 2025, seeking information and documents about Character. According to the KY CID, Kentucky had reason to investigate whether Character engaged in, is engaging in, or is about to engage in an act or practice declared to be unlawful by the Kentucky Consumer Protection Act, KRS 367.110 to 367.300. On January 8, 2026, Kentucky filed suit against Character and its co-founders, in the Commonwealth of Kentucky Franklin Circuit Court. The litigation is presently at the motion to dismiss stage. Character and Kentucky remain in settlement negotiations.

35. **Pennsylvania**. The Pennsylvania Department of State (on behalf of the State Board of Medicine) filed a suit against Character in the Commonwealth Court of Pennsylvania on May 1, 2026, alleging that Character engaged in the unlawful practice of medicine via Character.AI chatbots that allegedly held themselves out as licensed medical doctors. The responsive pleading deadline has been extended until November 2, 2026, as the parties continue to discuss a settlement.

36. **Florida**. The Florida Attorney General issued Character a Subpoena ("FL Subpoena"), dated June 11, 2025, seeking information and documents about Character.AI and Character's business practices. Florida has not joined the Multistate Group and its investigation remains open. Character and Florida remain in settlement negotiations.

37. **New Mexico**. The New Mexico Attorney General issued Character a civil investigative demand ("NM CID"), dated February 18, 2025, seeking documents about Character. According to the NM CID, New Mexico had cause to believe that Character engaged in unfair, deceptive, and/or unconscionable trade practices in violation of the New Mexico Unfair Practices Act, NMSA 1978, § 57-12-1 to -26. The investigations in the NM CID remain open.

38. **Texas.** The Texas Attorney General issued Character two civil investigative demands ("TX CID"), dated December 31, 2024 and August 19, 2025. According to the December 31 TX CID, Texas investigated alleged possible violations of the Texas Data Privacy and Security Act and the Securing Children Online Through Parental Empowerment Act relating to minors' use of Character.AI. According to the August 19 TX CID, Texas investigated alleged possible violations of § 17.46(a) and (b) of the DTPA in relation to misleading and false assertions of medical licensure, academic credentials, and patient confidentiality, and other privacy assertions by Character and its chatbots. These investigations remain open.

c. Federal Investigations

39. The Federal Trade Commission ("FTC") issued Character a civil investigative demand ("FTC CID"), dated January 15, 2025, seeking information and documents about Character. The FTC CID concerned whether Character engaged in unfair or deceptive acts or practices, including with respect to risks of harm and the collection of data from minors and whether action to obtain monetary relief is in the public interest. The FTC investigated whether Character had engaged in unfair or deceptive acts or practices, in violation of § 5 of the FTC Act, 15 U.S.C. § 45, the Children's Online Privacy Protection Rule, 16 C.F.R. Part 312, or the Children's Online Privacy Protection Act of 1998, 15 U.S.C. § 6501 et seq. On or about August 26, 2025, the FTC paused the investigation without further action.

40. On September 10, 2025, the FTC issued a Section 6(b) Order to File a Special Report regarding AI chatbots. The order sought information similar to the FTC CID. Character's last production in response to the 6(b) Order was submitted on July 31, 2026. Character has received no further communication from the FTC.

41. Character has also received various United States Senate inquiries over the years (the "Senate Inquiries"). The Senate Inquiries have largely been in the form of letters, the majority of which have focused on the safety of Character's products as well as the safety of AI generally. Character has responded timely and comprehensively to each of the Senate Inquiries.

d. Foreign Regulators

42. In addition to domestic investigations and actions, Character has also been subject to investigations, actions, and in some cases, sanctions related to Character's products from foreign regulators.

43. **Australia**. On October 16, 2025, the Australian eSafety Commissioner issued a non-periodic reporting notice to Character seeking information about Character's compliance with the Basic Online Safety Expectations under the Australia Online Safety Act 21 (Cth). Following engagement by Character, the eSafety Commissioner published its findings regarding Character and other AI companies' responses to its non-periodic reporting notices in March 2026.

44. **Italian Data Protection Authority.** On or about November 8, 2024, the Italian Data Protection Authority ("Garante") opened an investigation into Character's compliance with the General Data Protection Regulation (GDPR). This investigation also involved requests related to the safety of Character's products and Character's approach to age assurance. The Garante issued its final order on July 3, 2026, including mandated corrective measures and a fine of 79,000 euros. Character paid such fine on August 31, 2026.

45. **Russia**. On or about January 20, 2026, the Roskomnadzor, the Federal Service for Supervision of Communications, Information Technology and Mass Media in Russia, or "RKN," issued a take-down notice to Character regarding the distribution of prohibited LGBTQ+ content. RKN subsequently issued two statements on administrative offenses to Character on February 19 and March 2, 2026. On May 21, 2026, the Tagansky District Court of Moscow published rulings on the two cases fining Character (1) RUB 3,500,000 (~USD 47,000) for breaching Part 2 of Article 13.41 of the Russian Code of Administrative Offences and (2) RUB 4,000,000 (~USD 53,000) for breaching Part 4 of Article 6.21 of the Russian Code of Administrative Offences.

46. On or about May 29, 2026, RKN also issued a statement of administrative offense against Character for content on Character's platform allegedly constituting propaganda of drugs on the internet. On August 12, 2026, the Tagansky District Court of Moscow held a hearing in which Character was found liable for propaganda of drugs on the internet, an administrative

offence under Article 6.13, Part 3 of the Russian Code of Administrative Offences. The court imposed an administrative fine of RUB 1,250,000 (~USD 15,000).

47. **United Kingdom.** On or about September 3, 2024, the United Kingdom Information Commissioner's Office (UK ICO) opened an investigation into Character's compliance with the UK General Data Protection Regulation ("UK GDPR") and the Data Protection Act 2018. Character submitted its response to the UK ICO on November 14, 2024. Also, on May 9, 2025, the UK ICO sent a letter to Character regarding its compliance with the requirements of the Privacy and Electronic Communications Regulations 2003 ("PECR") and the UK GDPR. Character submitted its response to the UK ICO on June 5, 2025. On July 23, 2025, the UK ICO opened an investigation. Following engagement with the UK ICO, it closed its investigation on August 28, 2025.On November 27, 2025, the UK Medicines and Healthcare products Regulatory Agency ("UK MHRA") opened an investigation into Character regarding "psychologist" products offered by Character. Character's latest correspondence to the UK MHRA was on May 6, 2026, in response to the regulator's follow-up questions to Character. Finally, on September 25, 2026, the UK ICO opened an investigation into Character's use of personal information and whether it creates risks of harm for users, including the potential for manipulation, reduced autonomy and excessive or unfair data processing.

C. Goal of the Case

48. Character intends to use the Chapter 11 Case as a forum to negotiate a consensual resolution with the Multistate Group, personal injury claimants, and other creditor groups, while maximizing the value of Character's assets for the benefit of all of the Debtor's stakeholders.

49. The first step to achieving this goal is the sale process that will be led by Houlihan. The sale process builds on the past marketing efforts of the Prior Banker and Character, while

casting a wide net for potential purchasers of Character's assets. The first step is already on solid footing in light of the proposed transaction with Disney and the associated capital infusion and workforce benefits that have already been provided to the Debtor by Disney's accommodations. Character hopes that the sale process will yield a higher or better or additional proposal that will facilitate continued operations of the Character.AI platform. If such a bid is unavailable, Character's platform will be wound down.

50. The second step in Character's efforts to maximize value is to implement a mechanism that will allow the Debtor to propose a chapter 11 plan of liquidation expeditiously, enabling the Character estate to make distributions to creditors in the near term. While the Character estate represents a classic "melting ice cube" scenario under which a mostly static pool of cash liquidity is reduced by the costs to operate as a chapter 11 debtor and prosecute these cases, reasonable scenario modeling and projections assuming a sales process consistent with the timing proposed by the Debtor and a case unburdened by contentious litigation, show that the Debtor will be able to pay administrative claims as they come due and that the Debtor can reasonably expect to end the first quarter of 2027 with a positive cash balance. In this regard, Character, while taking advantage of the "breathing room" afforded by the automatic stay under section 362 of the Bankruptcy Code, is hopeful to bring all creditors to a single forum for global negotiations.

III. FIRST DAY PLEADINGS AND BIDDING PROCEDURES

51. Contemporaneously herewith, Character has filed several First Day Pleadings seeking orders granting various forms of relief intended to stabilize Character's business operations and facilitate the efficient administration of the Chapter 11 Case, including the following:

A. Administrative and Procedural Motions

i. "Claims Agent Retention Application": *Debtor's Application for Entry of an Order (I) Authorizing the Appointment of Stretto, Inc. as Claims and Noticing Agent Effective as of the Petition Date and (II) Granting Related Relief*

ii. "PII Redaction Motion": *Debtor's Motion for Entry of an Order (I) Authorizing the Debtor to Redact Certain Personal Identification Information in the Creditor Matrix and Certain Other Documents, (II) Authorizing and Approving Procedures for Providing Notice of Commencement, and (III) Granting Related Relief*

B. Operational Motions

i. "Cash Management Motion": *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to (A) Continue to Operate Its Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, and (C) Maintain Existing Business Forms; (II) Extending the Time to Comply with Section 345(b) of the Bankruptcy Code; and (III) Granting Related Relief*

ii. "Insurance Motion": *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing the Debtor to (A) Maintain Existing Insurance Policies and Pay All Insurance Obligations Arising Thereunder, and (B) Renew, Supplement, Modify, or Purchase Insurance Coverage; and (II) Granting Related Relief*

iii. "Wages Motion": *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to (A) Pay Prepetition Wages, Employee Benefits Obligations, and Other Compensation, and (B) Continue Employee Benefits Programs and Pay Related Administrative Obligations; and (II) Granting Related Relief*

iv. "Taxes Motion": *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to Pay Certain Prepetition Taxes and Fees; (II) Authorizing the Banks to Honor and Process Check and Electronic Transfer Requests Related Thereto; and (III) Granting Related Relief*

v. "Utilities Motion": *Debtor's Motion for Entry of Interim and Final Orders (I)(A) Approving the Debtor's Proposed Adequate Assurance of Payment for Future Utility Services, (B) Approving the Debtor's Proposed Procedures for Resolving Additional Assurance Requests, and (C) Prohibiting Utility Providers from Altering, Refusing, or Discontinuing Services; and (II) Granting Related Relief*

vi. "Critical Vendors Motion": *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to Pay Certain Prepetition Claims of Critical Vendors; and (II) Granting Related Relief*

vii. "Worldwide Stay Motion": *Debtor's Motion Seeking Entry of an Order (I) Restating and Enforcing the Worldwide Automatic Stay, Anti-Discrimination Provisions, and Ipso Facto Protections of the Bankruptcy Code, (II) Approving the Form and Manner of Notice, and (III) Granting Related Relief*

52. I am familiar with the contents of each First Day Pleading (including the exhibits and other attachments thereto) and, to the best of my knowledge, after reasonable inquiry, believe the relief sought in each First Day Pleading: (a) will enable Character to sustain operations during the Chapter 11 Case; (b) is critical to Character's ability to maximize the value of its estate; and (c) serves the best interests of Character's estate and its creditors. It is my belief that the relief sought in the First Day Pleadings is in each case narrowly tailored and necessary to achieve the goals identified above.

53. Several of the First Day Pleadings request authority to pay certain prepetition claims. I understand that Federal Rule of Bankruptcy Procedure 6003 provides, in relevant part, that the Court shall not consider motions to pay prepetition claims during the 21 days following the filing of a chapter 11 petition, "except to the extent relief is necessary to avoid immediate and irreparable harm." In light of this requirement, Character has narrowly tailored its requests for immediate authority to pay certain prepetition claims to those circumstances where the failure to pay such claims would cause immediate and irreparable harm to Character and its estate. Other relief will be deferred for consideration at a later hearing.

54. I have consulted with Character's advisors regarding the relief requested in the First Day Pleadings. To the best of my knowledge and belief, the factual statements contained in each of the First Day Pleadings are true and accurate, and each such factual statement is incorporated herein by reference. Further evidentiary support for the First Day Pleadings is set forth in **Exhibit A** attached hereto.

55. I believe that the relief requested in the First Day Pleadings is necessary, in the best interests of Character's estate, its creditors, and all other parties in interest, and will allow Character to operate with minimal disruption and maximize value preservation during the pendency of the Chapter 11 Case. Further, I believe that the failure to grant the relief requested in any of the First Day Pleadings likely would result in immediate and irreparable harm to Character, its businesses, and its estate.

56. Accordingly, for the reasons set forth herein (including **Exhibit A**) and in each respective First Day Pleading, the Court should grant the relief requested in each of the First Day Pleadings.

C. Approval of Bidding Procedures Motion

57. In addition to the First Day Pleadings, filed contemporaneously herewith, Character has filed the Bidding Procedures Motion and the Motion to Shorten. The Bidding Procedures Motion requests, among other things, approval of certain bidding procedures (the "Bidding Procedures") to govern the marketing and sale process (the "Sale Process").

58. For the reasons stated herein and in the declaration of Adam Dunayer in support of the Bidding Procedures Motion, also filed contemporaneously herewith, Character requests that this Court grant the Motion to Shorten at the first day hearing and schedule a hearing on the Bidding Procedures Motion in approximately two weeks to allow for Character to market and sell all or substantially all of its assets (the "Assets") in Chapter 11 and under the time constraints imposed by Character's cash position and the stalking horse agreement between Disney and the Debtor (the "Stalking Horse Transaction Agreement") with respect to the subset of assets Disney seeks to acquire from the Debtor (the "Disney Target Assets").

59. As described above, for over a year prior to the Petition Date, Character pursued strategic alternatives to preserve its liquidity, maintain its operations, and maximize value for its stakeholders. During this time, Character faced a series of employee attrition issues, which posed a genuine operational risk, as Character cannot operate the Character.AI platform without key personnel to monitor and ensure user safety at all times. In addition, the market for AI talent is extremely competitive, with companies offering considerable compensation and equity packages, and the equity upside at Character has become increasingly uncertain given Character's situation. Compounding these issues, Character's cash position and continual cash burn to run the platform safely left only a limited runway for Character.

60. Upon review, and after extensive negotiations and discussions, Character, through the Initial Transaction Committee, determined that the offer from Disney provided Character with the best possible outcome given these circumstances.

61. As described above, the Initial Transaction Committee finalized the terms with Disney in the EPA and TSA. Thereafter, the Initial Transaction Committee recommended final approval of the EPA and TSA to the Board and Character signed the agreement on September 18, 2026.

62. Pursuant to the terms of the EPA, Character and Disney agreed upon a term sheet that contemplates a comprehensive transaction, whereby, among other things, (i) Disney agreed to hire the majority of Character's workforce, including the Debtor's chief executive officer up front and prior to the Petition Date (subject to certain employees remaining available to assist with Character's operations, sale process, and wind down through the TSA),[10] (ii) the Debtor agreed to

[10] Disney hired certain Debtor employees with the consent of the Debtor (acting through the Initial Transaction Committee). One of these newly hired employees was the Debtor's chief executive officer who was an "insider" of the Debtor within the meaning of section 101(31) of the Bankruptcy Code. Nevertheless (i) there is no common identity of directors or controlling equity interest holders that existed or exists between Disney, on the one hand, and

release Disney and the transferring employees from certain matters, (iii) Disney agreed to pay the Debtor a $7,500,000 up-front payment prior to the Petition Date, of which $2,000,000 is serving as Disney's good faith refundable deposit, which represents 37.5% of the overall cash consideration, and (iv) the Debtor agreed to negotiate exclusively with Disney with respect to the Disney Target Assets from September 18, 2026 through the Petition Date. The release in the EPA and the exclusivity period were critical to Disney to agree to serve as a Stalking Horse Purchaser, and the exclusivity period terminated by its terms upon the Petition Date.

63. Thereafter, the Debtor and Disney negotiated and entered into the Stalking Horse Transaction Agreement and an amended version of the TSA. The Stalking Horse Transaction Agreement is proposed to serve as a baseline bid for prospective bidders to negotiate from and will be subject to higher and otherwise better bids for the Disney Target Assets pursuant to the Bidding Procedures. The Stalking Horse Transaction Agreement also includes certain case milestones related to the Sale Process.

64. The Stalking Horse Transaction Agreement provides for, *inter alia*, the grant of a perpetual, worldwide, non-exclusive license to certain of Character's intellectual property and related technology and a release, waiver, and covenant not to sue agreement. In addition, the transaction documents expressly contemplate that the Stalking Horse Transaction Agreement will be subject to a competitive process and implemented free and clear of all claims (including

the Debtor, on the other hand, (ii) the Initial Transaction Committee and the Restructuring Committee, as applicable, are comprised solely of independents and have led and recommended that the Board approve the proposed transaction with Disney, (iii) Disney did not and does not control the Debtor in any respect; and (iv) none of the Debtor's former insiders has had meaningful input in substantial matters related to this Chapter 11 Case or the Debtor's sale process, including the proposed transaction with Disney. At all times in advance of the Chapter 11 Case, the Initial Transaction Committee and the Restructuring Committee, as applicable, have rigorously performed their obligations and maintained their independence.

successor liability), liabilities, interests and encumbrances, pursuant to sections 105 and 363 of the Bankruptcy Code.

65. I believe that the Stalking Horse Transaction Agreement provides an important baseline bid for the Disney Target Assets and also for a robust and competitive Sale Process in this Chapter 11 Case with respect to all or substantially all of the Debtor's Assets. Because the Stalking Horse Transaction Agreement will serve as a floor for an overbid process with respect to the Disney Target Assets, I believe that it will ensure Character receives the highest or otherwise best offer for the Disney Target Assets. In light of the foregoing, I believe that designating the Stalking Horse Transaction Agreement as a stalking horse proposal is in the best interest of Character's estate and that Character's decision to seek such approval constitutes a sound exercise of its business judgment.

i. The Bid Protections Represent a Sound Exercise of Character's Business Judgment

66. I understand that the Bid Protections (as defined in the Bidding Procedures Motion), including the Break-Up Fee, are an integral component of the Stalking Horse Transaction Agreement and were a necessary inducement to Disney's willingness to serve as stalking horse purchaser in this case. The terms of the Bid Protections are the result of extensive, arm's-length negotiations and good faith compromises between the parties.

67. Based on the foregoing, the facts and circumstances of this Chapter 11 Case, and the events leading to the commencement thereof, I believe that the Bid Protections are (a) commensurate with the value and benefits conferred upon Character's estate by the Stalking Horse Transaction Agreement, and (b) reasonable and appropriate in light of the nature of the proposed transactions, the commitments made, and the efforts that have been and will be expended by Disney. To date, the Stalking Horse Transaction Agreement represents the highest or otherwise

best offer received for the Disney Target Assets, and I believe that the Court's approval of the Bidding Procedures is in the best interests of and provides a benefit to Character's estate.

ii. The Bid Procedures are Appropriate and Intended to Maximize Value

68. Character believes that a timely marketing and sale process in Chapter 11 that includes broad outreach to potential purchasers will be value-maximizing for all parties in interest. The Bidding Procedures are designed to ensure that the post-petition marketing and sale process is as robust as possible, within the constraints of Character's liquidity and the Stalking Horse Transaction Agreement, by allowing Character to, among other things, designate additional stalking horse purchasers (each, an "Additional Stalking Horse Purchaser") with respect to all or any subset of the Assets and to offer the Bid Protections to such Additional Stalking Horse Purchasers. In this vein, the Bidding Procedures are designed to ensure that Character is able to conduct a robust and thorough canvass of the market and then market test proposals received using a competitive auction to the extent multiple bids are submitted with respect to overlapping Assets. Consequently, I believe that the Bidding Procedures will ensure that the highest or otherwise best offer for the Assets is received without sacrificing the need for Character to proceed expeditiously through this Chapter 11 Case efficiently and with minimal cash burn.

69. For all of the foregoing reasons, I believe that the Bid Procedures Motion should be granted.

iii. Approval of Motion to Shorten

70. By the Motion to Shorten, Character asks that the Court hear the Bidding Procedures Motion within two (2) weeks of the Petition Date. Character's ability to consummate a sale, license or other disposition of its Assets as expeditiously as possible is crucial to maximizing value. As noted, Character burns between $8-9 million a month to run its operations and must

continue to do so until a determination is made with respect to the platform. Without the ability to move expeditiously through the Sale Process, Character risks meaningful depletion of its cash reserves, which are all the funds (other than sale proceeds) that Character has to complete this case and make creditor distributions. In addition, the Stalking Horse Transaction Agreement contains milestones that were negotiated between Character and Disney that require an expeditious sale timeline and are contingent on the sale closing on or prior to December 17, 2026. The milestones provide certainty and align with Character's cash position. In short, time is of the essence.

71. In light of the foregoing, I believe the Motion to Shorten should be granted.

I declare under penalty of perjury that, after reasonable inquiry, the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this 13th day of October, 2026

/s/ Colin M. Adams
By: Colin M. Adams
Chief Executive Officer

EXHIBIT A

EVIDENTIARY SUPPORT FOR FIRST DAY PLEADINGS[1]

A. Claims Agent Retention Application

1. Pursuant to the Claims Agent Retention Application, the Debtor seeks entry of an order to appoint Stretto, Inc. ("Stretto") as the claims, noticing, and solicitation agent for the Debtor in this Chapter 11 Case.

2. As more fully described in the Claims Agent Retention Application, Stretto will, among other tasks, (a) serve as the noticing agent to mail notices to creditors, equity security holders, and other parties in interest, (b) provide computerized claims, objection, solicitation, and balloting database services, and (c) provide expertise, consultation, and assistance in claim and ballot processing and other administrative services with respect to this Chapter 11 Case, pursuant to the terms and conditions set forth in their Services Agreement (as defined in the Claims Agent Retention Application).

3. Stretto's rates are competitive and reasonable. Stretto has the expertise required in a complex chapter 11 case. Stretto has reviewed the potential parties in interest in this Chapter 11 Case and believes that neither Stretto, nor any of its professionals, has any materially adverse connection to the Debtor, its creditors, or other relevant parties.

4. The Debtor anticipates that there will be numerous parties to be noticed and that many of these parties will file claims. The appointment of Stretto as the claims and noticing agent will provide an effective and efficient means of providing that notice, as well as soliciting and tabulating votes on the proposed Plan, thereby relieving the Debtor of the administrative burden associated with all of these necessary tasks. In addition, by appointing Stretto as the claims and

[1] Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the applicable First Day Pleading.

noticing agent in this Chapter 11 Case, the distribution of notices will be expedited, and the Office of the Clerk of the Bankruptcy Court will be relieved of the administrative burden of noticing.

5. Accordingly, I believe the Claims Agent Retention Application should be granted.

B. Personal Identification Information Redaction Motion

6. By the Personal Identification Redaction Motion, the Debtor respectfully requests entry of interim and final orders: (i) authorizing the Debtor to redact certain personal identification information from its creditor matrix (the "Creditor Matrix"), the top 20 largest unsecured creditors list (the "Top 20 Creditors List"), the list of equity interest holders (the "List of Equity Interest Holders"), the schedules of assets and liabilities and statements of financial affairs (the "Schedules and Statements"), and other documents filed in this Chapter 11 Case, (ii) authorizing the Debtor to implement certain procedures for the publication of the notice announcing the commencement of this Chapter 11 Case and the meeting of creditors to be held pursuant to section 341 of the Bankruptcy Code (the "Notice of Commencement"), and (iii) granting related relief.

7. I believe that it is prudent for the Debtor to redact the names, home addresses, and emails of individuals who appear on the Creditor Matrix, the Top 20 Creditors List, the List of Equity Interest Holders, the Schedules and Statements and other documents filed in this Chapter 11 Case because of identity theft and other security risks to individuals' safety and welfare. Moreover, over the years, the Debtor's employees have also been subject to threats of violence and the Debtor employs physical security for this concern.

8. Notwithstanding the foregoing, the Debtor proposes to provide, on a confidential basis, unredacted versions of the Creditor Matrix, Top 20 Creditors List, List of Equity Interest Holders, Schedules and Statements, and any other redacted, applicable filings to this Court, the Office of the United States Trustee for the District of Delaware (the "U.S. Trustee"), counsel to

any statutory committee appointed in the Chapter 11 Case, and other such parties as ordered by the Court, which will ensure that certain parties receive fully unredacted information while balancing the Debtor's concerns about safeguarding parties' safety and privacy.

9. The Debtor also requests authorization to provide supplemental notice of the Notice of Commencement. The Debtor will provide the Notice of Commencement to its known creditors in accordance with the Bankruptcy Rules. In addition, the Debtor intends to publish the Notice of Commencement on the Claims and Noticing Agent's website and the Debtor's blog, and to provide notice of the Chapter 11 Case and links to the foregoing websites on its community engagement pages and/or its platform. While the Debtor does not believe its current and past platform users are creditors to whom notice must be provided, the Debtor historically has communicated with such parties through its platform, blog posts on the Debtor's website or online community webpages.[2] Publication in this manner via these channels is the most practical method by which the Debtor's platform users can be provided notice of this Chapter 11 Case and will ensure an efficient use of limited estate resources.

10. Accordingly, I believe the Personal Identification Information Motion should be granted.

C. Utilities Motion

11. Pursuant to the Utilities Motion, the Debtor seeks entry of interim and final orders (i)(a) approving the Debtor's proposed adequate assurance of payment for future utility services, (b) approving the Debtor's proposed procedures for resolving requests for additional adequate assurance, and (c) prohibiting utility providers from altering, refusing, or discontinuing services to

[2] In addition, serving all of the Debtor's current and past users (approximately 163 million), even through email, would be cost-prohibitive.

the Debtor during the pendency of this Chapter 11 Case on account of nonpayment for prepetition services; and (ii) granting related relief.

12. The Debtor obtains internet, electricity, telecommunications, and other similar services (collectively, the "Utility Services") from a number of different utility providers or brokers (collectively, the "Utility Providers") in connection with the operation of its business.[3] As of the Petition Date, the Debtor had approximately three utility accounts. A nonexclusive list of the Utility Providers and their affiliates that provide Utility Services to the Debtor as of the Petition Date (the "Utility Providers List") and, where available, the Debtor's account number with each Utility Provider is attached to the Utilities Motion as Exhibit C.[4]

13. To the best of my knowledge, I understand that the Debtor is not in default or arrearages with respect to its obligations for prepetition Utility Services. On average, the Debtor pays approximately $15,000 each month for Utility Services, calculated as a historical average payment for the twelve-month period ended August 31, 2026.

14. Uninterrupted Utility Services are essential to the Debtor's ongoing business operations and, hence, the overall success of this Chapter 11 Case. Should any Utility Provider refuse or discontinue service, even for a brief period, the Debtor's business operations would be severely disrupted. Such disruption would adversely affect customer goodwill and employee relations, which, in turn, would jeopardize the Debtor's chapter 11 efforts. Accordingly, it is

[3] This number includes only active accounts where the Debtor is a named party on the account. This number does not include the accounts held by the Debtor's landlord for certain utility services not discussed herein which are passed on to the Debtor through the lease agreement.

[4] The inclusion of any entity on, or the omission of any entity from, the Utility Providers List is not an admission by the Debtor that such entity is, or is not, a utility within the meaning of section 366 of the Bankruptcy Code, and the Debtor reserves all rights with respect to any such determination. Additionally, although Exhibit C is intended to be comprehensive, the Debtor may have inadvertently omitted one or more Utility Providers. By this motion, the Debtor requests relief applicable to all Utility Providers, regardless of whether such Utility Provider is specifically identified on Exhibit C.

essential that the Utility Services continue to be provided on an uninterrupted basis during this Chapter 11 Case.

15. The Debtor intends to satisfy post-petition obligations owed to the Utility Providers in a timely manner. The Debtor believes that cash held by the Debtor will provide sufficient liquidity to pay the Debtor's Utility Service obligations in accordance with its prepetition practice.

16. The Debtor believes that the foregoing satisfies the requirements under section 366 of the Bankruptcy Code, which requires debtors to provide adequate assurance of payment for future utility services. Nonetheless, as additional adequate assurance of payment, the Debtor proposes to deposit $8,610 (the "Adequate Assurance Deposit"), into a segregated account (the "Adequate Assurance Account") for the benefit of the Utility Providers. The Adequate Assurance Deposit represents an amount equal to approximately one-half of the Debtor's average monthly cost of Utility Services, as of the Petition Date, net of any prepetition deposits, letters of credit, surety bonds or other similar forms of adequate assurance of payment already provided to the Utility Providers.

17. The Adequate Assurance Deposit will be held in a segregated account at Silicon Valley Bank, a division of First-Citizens Bank & Trust Company for the duration of this Chapter 11 Case, for the benefit of each Utility Provider, subject to the Debtor's right to terminate or discontinue the applicable Utility Services and may be applied to any post-petition defaults in payment to the Utility Providers. The Adequate Assurance Deposit will be held by the Debtor.

18. The Debtor submits that the Adequate Assurance Deposit, in conjunction with the Debtor's ability to pay for future Utility Services in accordance with its prepetition practices (collectively, the "Proposed Adequate Assurance"), constitutes sufficient adequate assurance to the Utility Providers in full satisfaction of the requirements of section 366 of the Bankruptcy Code.

19. Accordingly, I believe the Utilities Motion should be granted.

D. Worldwide Stay Motion

20. Pursuant to the Worldwide Stay Motion, the Debtor requests entry of an order: (i) restating and enforcing the worldwide automatic stay, anti-discrimination provisions, and *ipso facto* protections of the Bankruptcy Code; (ii) approving the form and manner of notice related thereto; and (iii) granting related relief.

21. The Debtor also seeks authority, but not direction, to translate this Motion, the Order, and/or the Notice into other languages to better inform creditors, governmental units, and interested parties. The Debtor operates an online platform and application that hosts tens of millions of users across the globe. The Debtor's platform is available for anyone, of an appropriate age, with access to an internet browser and an email address. The application is available through the Google and Apple App Stores. The Debtor's operations routinely involve interactions with users, and occasionally involve interactions with certain governmental entities, who are based outside of the United States (collectively, the "Non-U.S. Persons").

22. Certain of the Non-U.S. Persons may be unfamiliar with the chapter 11 process, including the scope of a debtor in possession's authority to operate its business and the imposition of the automatic stay. These creditors, and others, may attempt to take or continue actions against the Debtor outside of the United States in violation of the automatic stay to the detriment of the Debtor, its estate, and all other creditors. Any such unilateral self-help action would adversely affect the Debtor's ability to effectuate its Chapter 11 Case objectives, resulting in irreparable harm to the Debtor's estate and parties in interest.

23. Out of an abundance of caution and to assist it in better informing parties outside of the United States of the broad protections offered by the Bankruptcy Code, the Debtor

respectfully requests that the Court enter the proposed order. For the avoidance of doubt, the Debtor does not seek to expand or enlarge the rights afforded to it under the Bankruptcy Code. The Debtor believes that an order from this Court confirming the nature and extent of certain protections afforded to the Debtor by the Bankruptcy Code will provide clarity for and help dissuade foreign parties in interest from taking improper actions against the Debtor and its property by giving the Debtor the best chance to achieve its Chapter 11 Case objectives.

24. Accordingly, I believe the Worldwide Stay Motion should be granted.

E. Insurance Motion

25. Pursuant to the Insurance Motion, the Debtor requests entry of interim and final orders: (i) authorizing the Debtor, in its discretion, to (a) maintain its existing insurance policies and pay all obligations arising thereunder or in connection therewith, and (b) renew, supplement, modify, or purchase insurance coverage in the ordinary course of business; and (ii) granting related relief.

26. The Debtor maintains approximately twenty (20) insurance policies (as may be amended, modified, or supplemented as described herein and, together with any insurance policies that the Debtor may purchase after the date hereof, the "Insurance Policies") administered by multiple third-party insurance carriers (collectively, the "Insurance Carriers"). The Insurance Policies provide coverage for, among other things, general liability; property; business automobile; workers' compensation; media, technology, and cyber liability; excess media, technology, and cyber liability; directors' and officers' liability and excess liability; employment practices liability;

and fiduciary liability. A schedule of the Insurance Policies is attached to the Insurance Motion as Exhibit C.[5]

27. The Debtor generally pays premiums with respect to the Insurance Policies annually, which have been paid in full as of the Petition Date. The Debtor intends to renew or replace any expiring Insurance Policies, keeping the coverage consistent with its present coverage, but taking into consideration certain factors that may have affected the Debtor's business or the cost of the policies, such as, among other things, changes in the insurance marketplace. As of the Petition Date, no payments are outstanding and all premiums have been paid.

28. The Debtor's ability to maintain the Insurance Policies, to renew, supplement, and modify the same as needed, and to enter into new insurance policies is needed in the ordinary course of business and essential to preserving the value of the Debtor's estate. Further, maintenance of the Insurance Policies is required under the *Operating Guidelines for Chapter 11 Cases* (the "Operating Guidelines") promulgated by the Office of the United States Trustee for Region 3 (the "U.S. Trustee"), the laws of the various states in which the Debtor operates, and applicable federal law. Thus, the Debtor submits that it should be authorized, but not directed, to continue to pay premiums, claims, deductibles, charges, fees, and other obligations owed under or with respect to the Insurance Policies as such obligations come due in the ordinary course of the Debtor's business, whether arising prior or after the Petition Date.

29. With respect to most of the Insurance Policies, the Debtor obtains insurance brokerage services from Arthur J. Gallagher & Co. and its subsidiary Woodruff-Sawyer & Co. (collectively, the "Brokers"). The Brokers assist the Debtor in obtaining comprehensive insurance

[5] The Debtor believes that Exhibit C to the Insurance Motion contains a complete list of its Insurance Policies. To the extent that any insurance policy has been omitted from that list, the Debtor requests that the order granting the relief sought herein apply to any and all of the Debtor's insurance policies.

coverage for the Debtor's operations by aiding with the procurement and negotiation of the Insurance Policies and enabling the Debtor to obtain those policies on advantageous terms at competitive rates. As of the Petition Date, the Debtor does not have any amounts outstanding on account of the Brokerage Fees.

30. The Debtor seeks authority to continue to employ the Brokers in the ordinary course of business, to enter into new brokerage contracts, and to pay Brokerage Fees as necessary in connection with procurement and maintenance of the Insurance Policies.

31. Continuation and renewal of the Insurance Policies and entry into new Insurance Policies is essential to preserving the value of the Debtor's business and assets. In many cases, the coverage provided by the Insurance Policies is also required by applicable regulations, laws, and other arrangements that govern the Debtor's operations, as well as the Bankruptcy Code and the requirements of the U.S. Trustee.

32. Accordingly, I believe the Insurance Motion should be granted.

F. Cash Management Motion

33. Pursuant to the Cash Management Motion, the Debtor requests entry of interim and final orders: (i) authorizing the Debtor, in its discretion, to (a) continue to operate its Cash Management System (as defined below), (b) pay any prepetition or post-petition amounts outstanding on account of the Bank Claims (as defined below), and (c) maintain existing Business Forms (as defined below) in the ordinary course of business; (ii) waiving the requirements of section 345(b) of the Bankruptcy Code and certain requirements set forth in the U.S. Trustee Guidelines (as defined in the Cash Management Motion) on an interim basis; and (iii) granting related relief.

34. The Debtor utilizes an integrated system of bank accounts to facilitate the collection and disbursement of funds in the operation of its business (the "Cash Management System"). The Cash Management System enables transactions and transfers among the various bank accounts required to effect the Debtor's collections and disbursements. Further, the Cash Management System enables monitoring of collection and disbursement activity and facilitates the Debtor's reporting through the development of timely and accurate information. The Debtor's finance department maintains daily oversight of the Cash Management System, and implements cash management controls for receiving, processing, and releasing funds. Additionally, the Debtor's finance personnel regularly reconcile the Debtor's books and records to ensure that all transfers are properly accounted for.

35. Due to the nature of the Debtor's business and the disruption that would result if the Debtor were required to close its existing bank accounts, it is critical that the Cash Management System remains in place on a post-petition basis. Accordingly, pursuant to sections 105(a) and 363(c) of the Bankruptcy Code, the Debtor seeks authorization to maintain its existing bank accounts and continue using its Cash Management System in the ordinary course.

36. As of the Petition Date, the Cash Management System holds approximately $59,414,000 in unrestricted cash[6] across seven (7) bank accounts (collectively, the "Bank Accounts").[7] As further set forth in the table in the Motion, the Bank Accounts are maintained at Silicon Valley Bank, a division of First Citizens Bank & Trust Company ("SVB"), Morgan Stanley and JPMorgan Chase Bank, N.A. ("Chase") (collectively, the "Banks").

[6] As described in more detail in the First Day Declaration, the Debtor currently holds a $2,000,000 refundable deposit in connection with the proposed sale process. Thus, the Cash Management System holds a total of $59,414,000 in cash and cash equivalents.

[7] Although the Cash Management System includes the number of Bank Accounts as of the Petition Date, subject to the Interim and Final Orders, the Debtor reserves the right to close existing accounts and/or open new accounts.

37. The Debtor collects receipts primarily through the Receipts Account and the Main Operating Account. The Receipts Account receives funds from Stripe, Inc. for revenue generated from subscriptions to the Debtor's online platform. The Receipts Account makes periodic transfers to the Main Operating Account in the ordinary course of the Debtor's operations. The Main Operating Account primarily receives funds from (i) application providers (e.g., the Google and Apple App Stores) for revenue from users purchasing and using the Debtor's application; (ii) advertising partners for advertising revenue via ACH wires; and (iii) insurance providers for reimbursements for certain legal settlements.

38. Funds from the Main Operating Account are swept daily into the Cash Sweep and TAS Interest Bearing Accounts. Funds from the Receipts Account are periodically transferred to the Main Operating Account.

39. The Debtor makes certain disbursements in the ordinary course of business through the Main Operating Account. The Main Operating Account is used to fund accounts payable, payroll, vendors, and all other outbound payments in the ordinary course of the Debtor's business. The Debtor effectuates wire transfers from the Investment Account into the Main Operating Account on an as-need basis.

40. The Investment Account, Cash Sweep Account and TAS Interest Bearing Account are each interest-bearing accounts maintained by the Debtor. The funds in the Investment Account are invested in treasuries, commercial paper and money market funds. The funds in the Investment Account are typically transferred by manual wire to the Main Operating Account on an as needed basis, usually once a month. The funds in the Cash Sweep Account are invested across four treasury and government money market funds whose dividends are then reinvested. The Cash Sweep Account also returns funds back to the Main Operating Account one business day after the

Main Operating Account calls for it. The TAS Interest Bearing Account receives 5% of the daily swept funds from the Main Operating Account. The funds in the TAS Interest Bearing Account are not invested. Therefore, this account is used as a buffer for the Cash Sweep Account, since funds can be transferred on the same day the Main Operating Account calls for them, as opposed to one day later.

41. As part of the Cash Management System, the Debtor has issued approximately six (6) physical corporate credit cards in addition to virtual credit cards (the "Corporate Cards") as of the Petition Date through Ramp Business Corporation ("Ramp") to cover business expenses in the ordinary course. The Corporate Cards are primarily used to pay for recurring subscription charges for some of the Debtor's largest and most critical vendors. As described in more detail in the Wages Motion, the Debtor has also provided Corporate Cards to employees, in such employees' names, for travel and expenses incurred in the ordinary course of business. The Debtor has historically incurred approximately $1,000,000 a month for the Corporate Cards, primarily due to costs for vendor payments, and which balance is paid from the Debtor's Main Operating Account. As of the Petition Date, the Corporate Cards hold a balance of $10,000. The Debtor anticipates that, because of its reduced workforce (as described in more detail in the Wages Motion) along with certain reductions of operating expenses as of the Petition Date, the spend on the Corporate Cards will be significantly reduced.

42. The Corporate Cards are an integral part of the Debtor's cash management and account functions. The ability of the Debtor to use the Corporate Cards on a go-forward basis is critical to the continued operation of the Debtor's business. The Debtor's platform and operations can only run with the support of, among others, its vendors who are paid through the Debtor's use of the Corporate Cards and thus the Debtor must be able to continue making automatic payments

to such vendors during the pendency of this case. Accordingly, the Debtor's inability to maintain the Corporate Cards would result in unnecessary, detrimental, and value-destructive disruptions to the Debtor's operations. The Debtor seeks authorization to honor all Corporate Card obligations owing as of the Petition Date, and to continue to make timely payments in the ordinary course of business on a post-petition basis on account of any charges that were made via the Corporate Cards both prior to and after the Petition Date.

43. In the ordinary course of business, the Debtor incurs periodic service charges and other ordinary course fees in connection with maintaining the Cash Management System (collectively, the "Bank Fees"). The Debtor incurs approximately $3,000 in Bank Fees each month under the Cash Management System. The Debtor anticipates that all of the accrued prepetition Bank Fees that will come due within the first thirty (30) days of the Chapter 11 Case. To maintain the integrity of its Cash Management System, the Debtor requests authority to pay all prepetition Bank Fees and to continue to pay Bank Fees in the ordinary course on a post-petition basis.

44. In addition to the Bank Fees, in connection with the Cash Management System, the Debtor may incur other charges ("Bank and Processor Charges," and together with the Bank Fees, the "Bank Claims") in connection with: (a) checks that have been dishonored or returned for insufficient funds in the applicable account; (b) any reimbursement or other payment obligations, such as overdrafts, arising under any agreements governing the Bank Accounts, including, without limitation, any prepetition cash management agreements or treasury services agreements; and (c) any credit card processing fees or other related payment obligations. The Debtor estimates that no Bank and Processor Charges are presently due and owing as of the Petition Date. Out of an abundance of caution, the Debtor requests authority to pay any prepetition Bank and Processor

Charges and to continue to pay Bank and Processor Charges in the ordinary course on a post-petition basis.

45. The Debtor uses various pre-printed documents (the "Business Forms"), such as checks, invoices, and letterhead, in the ordinary course of business. Because the Business Forms were used prepetition, they do not reference the Debtor's status as debtor in possession. Nonetheless, most parties doing business with the Debtor will be aware of the Debtor's status as debtor in possession because of the publicity surrounding the Chapter 11 Case and the notice of commencement served on parties in interest.

46. Requiring the Debtor to change existing Business Forms would unnecessarily distract the Debtor's employees and impose needless expenses on the estate. Thus, the Debtor requests that it be authorized to use its existing Business Forms without placing a "Debtor in Possession" legend on each, until its existing stock is depleted. Once the Debtor has exhausted its existing stock of checks or forms, any new check stock or subsequently printed checks or forms will bear the designation "Debtor in Possession" with the bankruptcy case number. To the extent that checks or forms are prepared electronically, the debtor will add a "Debtor in Possession" designation to such checks within fourteen (14) days of the Petition Date.

47. I believe that the continuation of the Debtor's Cash Management System is essential to preserving the value of the Debtor's business. Maintaining the current Cash Management System will facilitate the Debtor's transition into chapter 11 by minimizing delays in paying postpetition debts and eliminating administrative inefficiencies. Requiring the Debtor to adopt a new, segmented cash management system during the Chapter 11 Case would be expensive, burdensome, and unnecessarily disruptive to the Debtor's operations. Importantly, the Cash Management System provides the Debtor with the ability to ensure that unauthorized payments

will not be made on account of obligations incurred before the Petition Date. The Debtor has implemented internal control procedures that prohibit payments on account of prepetition debts without the prior approval of the Debtor's finance personnel. I believe that any disruption of the Cash Management System would have a negative adverse effect on the Debtor's Chapter 11 Case efforts. Indeed, requiring the Debtor to adopt a new, segmented cash management system would needlessly reduce the value of the Debtor's business.

48. Accordingly, I believe the Cash Management Motion should be granted.

G. Critical Vendor Motion

49. Pursuant to the Critical Vendor Motion, the Debtor requests entry of interim and final orders authorizing, but not directing, the Debtor to pay, in its discretion, Critical Vendor Claims in an amount up to $2,500,000 (the "Critical Vendor Claims Cap"). Specifically, the Debtor seeks authority to pay, in its discretion, up to $1,500,000 in Critical Vendor Claims under the Interim Order.

50. The Debtor also requests that the Court authorize the Debtor to enter into written agreements (the "Trade Agreements") pursuant to which payment of certain Critical Vendor Claims shall be conditioned upon the vendor (a) agreeing to continue to provide products and services to the Debtor in accordance with trade terms no worse than those in place during the one hundred and eighty (180) days prior to the Petition Date (as defined below) (the "Customary Trade Terms"), or (b) accepting some discount on its prepetition claim amount.

51. Finally, the Debtor seeks relief authorizing banks and other financial institutions (the "Banks") to receive, process, honor and pay checks or electronic transfers used by the Debtor to pay the foregoing and to rely on the representations of such Debtor as to which checks are issued and authorized to be paid in accordance with any relief granted in connection with this Motion.

52. In the ordinary course of business, the Debtor engages a limited number of vendors (each, a "Critical Vendor", and collectively, the "Critical Vendors") that provide computing hardware and infrastructure to the Debtor, cloud space and storage for the Debtor's platform and data needs, various platform monitoring and safety services, along with other operational needs of the Debtor.

53. To identify the Critical Vendors, the Debtor spent significant time, aided by its advisors, reviewing and analyzing its books and records and historical practices to identify certain critical business relationships and suppliers of products and services, the loss of which would immediately and irreparably harm its business. In the process, the Debtor considered a variety of factors, including:

a. whether certain specifications or contract requirements prevent, directly or indirectly, the Debtor from obtaining goods or services from alternative sources;

b. whether a vendor is a sole-source, limited-source, or high-volume supplier of goods or services critical to the Debtor's business operations;

c. whether an agreement exists by which the Debtor could compel a vendor to continue performing on prepetition terms;

d. whether alternative vendors are available that can provide the requisite volumes of similar goods or services on equal (or better) terms and, if so, whether the Debtor would be able to continue operating while transitioning business thereto;

e. the degree to which replacement costs (including pricing, transition expenses, professional fees, and lost sales or future revenue) exceed the amount of a vendor's prepetition claim;

f. whether the Debtor's inability to pay all or part of the vendor's prepetition claim could trigger financial distress for the applicable vendor;

g. whether failure to pay all or part of a particular vendor's claim could cause a contraction of trade terms or the vendor to hold goods owned by the Debtor or refuse to ship inventory or provide critical services on a postpetition basis; and

h. the location of the vendor.

54. Following this analysis, the Debtor designated certain vendors as Critical Vendors. The Critical Vendors provide services and goods that are generally proprietary or significantly integrated into the Debtor's business such that the Debtor cannot easily replicate or replace them.

55. Any material interruption in the provision of the services by the Critical Vendors, however brief, could cause irreparable harm to the Debtor's go-forward business, employees, user base, and market share. Such harm would far outweigh the cost of payment of Critical Vendor Claims.[8] If the Debtor is unable to receive continued services from the Critical Vendors, it risks losing all of the data, code, intellectual property, and more that make up its entire business. Losing services from the Critical Vendors will cause irreparable damage to the Debtor's business and dissipate the value it seeks to monetize through the sale. It is thus essential to the Debtor's efforts in this Chapter 11 Case to pay certain Critical Vendor Claims.

56. The Debtor's liquidity challenges and uncertainties about the future of its business have significantly hindered its ability to make timely payments to many Critical Vendors. This has led to strained relationships with vendors and threatens the Debtor's go-forward relationship with these vendors. It is therefore necessary that the Debtor's relationships with its Critical Vendors begin to normalize immediately in order to stabilize the Debtor's operations.

57. The loss of trade terms with Critical Vendors (whether on account of demands for cash-in-advance, cash-on-delivery, or otherwise) would negatively impact the Debtor's liquidity. The Debtor intends to pay prepetition Critical Vendor Claims only when, in its business judgment, the benefits to its estate from making such payments will exceed the costs to its estate of doing so.

[8] Notwithstanding the relief requested herein, the Debtor reserves all rights and remedies under the Bankruptcy Code and other applicable law to pursue any cause of action against any Critical Vendor on account of, among other things, any violation of the automatic stay pursuant to section 362 of the Bankruptcy Code.

58. To preserve working capital and liquidity during this Chapter 11 Case and ensure that the Debtor continues to receive vital products and services, the Debtor seeks authority, in its discretion, to condition any payment on account of Critical Vendor Claims on entry into a Trade Agreement, under which such Critical Vendor may be required to (a) continue supplying products or services to the Debtor on the Customary Trade Terms between the parties (including, but not limited to, credit limits, pricing, cash discounts, timing of payments, allowances, rebates, and other applicable terms and programs), or (b) agree to accept some discount on its prepetition claim. The Debtor, however, reserves the right to negotiate different terms with any Critical Vendor, as a condition to payment of any Critical Vendor Claim, whether or not memorialized by a Trade Agreement, to the extent the Debtor determines that such trade terms are necessary to procure essential products and services or are otherwise in the best interests of the Debtor's estate.

59. The Debtor requests authority to enter into Trade Agreements with the Critical Vendors if the Debtor determines, in its discretion, that such an agreement is necessary to its postpetition operations.[9] Maintaining normal trade credit terms will improve the Debtor's chances of successfully emerging from chapter 11 because purchasing goods or services on credit preserves working capital and liquidity, thereby enabling the Debtor to maintain its competitiveness and to maximize the value of its business.

60. If a Critical Vendor refuses to provide products or services to the Debtor on Customary Trade Terms (or such other terms that the parties agree upon as a condition to providing Critical Vendor status) following any postpetition payment toward its Critical Vendor Claim, or fails to comply with any Trade Agreement it entered into with the Debtor, the Debtor hereby

[9] The Debtor's entry into a Trade Agreement shall not change the nature or priority of the underlying Critical Vendor Claims and shall not constitute an assumption or rejection under section 365 of the Bankruptcy Code of any executory contract or prepetition or postpetition agreement between the Debtor and a Critical Vendor.

requests authority, in its discretion and without further order of the Court but with notice to the affected Critical Vendor, (a) to declare such Trade Agreement immediately terminated (if applicable) and (b) to declare any payments made to such Critical Vendor on account of its Critical Vendor Claim to have been in payment of then outstanding postpetition obligations owed to such Critical Vendor without further order of the Court. Accordingly, I believe that the Critical Vendor Motion should be granted.

61. Absent the ability to pay the Critical Vendors, the Debtor will suffer immediate and irreparable harm to its operations. Further, replacing these vendors at the outset of this Chapter 11 Case would be difficult, and in certain cases, impossible. Even assuming the Debtor could replace the Critical Vendors, the time and expense required to do so would have a detrimental impact on the Debtor's business, adversely impacting the Debtor's ability to maximize value.

H. Taxes Motion

62. Pursuant to the Taxes Motion, the Debtor requests entry of interim and final orders: (i) authorizing the Debtor to (a) remit and pay certain Taxes and Fees (as defined herein) accrued prior to the Petition Date that will become payable during the pendency of this Chapter 11 Case, including any penalties and interest thereon to various Authorities and (b) on a final basis, remit and pay any Audit Amounts (as defined herein) that may become payable in the ordinary course of business; (ii) authorizing the Banks to honor and process check and electronic transfer requests related thereto; and (iii) granting related relief.

63. The Debtor requests authority to pay all prepetition Taxes and Fees owed to the Authorities in the ordinary course of business. The Debtor estimates that the total amount of prepetition Taxes and Fees owing to the Authorities will not exceed approximately $225,000 in the aggregate. Of that amount, $185,000 will come due before the entry of the Final Order. The

Debtor believes that payment of the Taxes and Fees, including any prepetition amounts, is necessary to avoid immediate and irreparable harm to the Debtor's estate and should be approved pursuant to the Interim and Final Orders. To the best of the Debtor's knowledge, the Taxes and Fees generally consist of current tax and fee obligations and are not in respect of catchup payments, other than any prepetition payments that were interrupted by the commencement of this Chapter 11 Case.

64. In the ordinary course of its business, the Debtor incurs or collects and remits a variety of taxes, assessments, fees, duties, service fees, and other charges (collectively, the "Taxes and Fees") to various federal, state local, and foreign taxing, licensing, and regulatory authorities (collectively, the "Authorities"). The Taxes and Fees that the Debtor is typically subject to generally fall into the following two categories, each of which is described in further detail below: (a) Sales and Use Tax and (b) Income and Franchise Tax.

65. The Taxes and Fees and are paid monthly, quarterly, or annually to the respective Authorities, depending on the specific type of Tax and Fee and the Authority to which they are paid. Generally, the Debtor pays or remits Taxes and Fees to the various Authorities directly through checks or electronic transfers processed through the Banks; however, with respect to certain Sales and Use Tax, the Debtor remits funds to Numeral Two, Inc. (the "Tax Processor") who, in turn remits such taxes to the applicable Authorities on behalf of the Debtor.

66. The Debtor estimates that it has approximately $230,000 in accrued and unpaid prepetition Taxes and Fees, inclusive of fees owed to the Tax Processor. The prepetition Taxes and Fees that the Debtor expects will become payable during the pendency of this Chapter 11 Case are summarized as follows:

Category	Description	Interim	Final
Sales and Use Taxes	Taxes on goods and services sold or used, assessed based on the value of such goods and services.	$175,000	$175,000
Income and Franchise Taxes	Federal, state, and local taxes imposed on the Debtor's income and state taxes imposed for the privilege of the Debtor operating its business pursuant to state laws.	$10,000	$50,000
Tax Processor Fees	Fees related to the Debtor's utilization of the Tax Processor in the ordinary course of business, including calculating and facilitating payment of Taxes and Fees.	$5,000	$5,000
Total:		**$190,000**	**$230,000**

67. The Debtor incurs, collects, and remits sales and use taxes to the Authorities in connection with the sale and purchase of goods and services (collectively, the "Sales and Use Taxes"). Sales and Use Taxes are general consumption taxes that the Debtor incurs either when purchasing goods and services from vendors or when selling goods and services to customers. Sales taxes for customers purchasing subscriptions are generally charged to the purchaser and collected by either the Debtor, through either the online platform or the application stores for application purchases. Sales and Use Taxes are usually set by the relevant Authorities as a percentage of the retail prices of goods and services purchased. In some jurisdictions, the Debtor remits to relevant Authorities estimated amounts with respect to Sales and Use Taxes, resulting in tax credits or overpayments that may be refunded to the Debtor in certain circumstances.

68. The Debtor believes that $175,000 is owing in respect of Sales and Use Taxes as of the Petition Date and $175,000 to become due during the interim period. The Debtor requests authority to pay up to $175,000 subject to entry of the Final Order in respect of Sales and Use Taxes which may become due in the ordinary course of business prior to the conclusion of this Chapter 11 Case.

69. In the course of operating its business, the Debtor also pays various other taxes, which primarily consist of federal, state, and local income and franchise taxes, as applicable (collectively, the "Income and Franchise Taxes"). The Debtor generally remits Income and Franchise Taxes directly to the relevant Authorities in accordance with the statutory requirements of each applicable jurisdiction. In some jurisdictions, the Debtor may remit to the relevant Authorities estimated amounts with respect to the Income and Franchise Taxes, resulting in tax credits or overpayments, that may be refunded to the Debtor in certain circumstances.[10]

70. To date in 2026, the Debtor has paid approximately $162,000 in Income and Franchise Taxes on a year-to-date basis in 2026. The Debtor believes that $50,000 is owing in respect of Income and Franchise Taxes as of the Petition Date and $10,000 to become due during the interim period. The Debtor requests authority to pay up to $50,000 subject to entry of the Final Order in respect of Income and Franchise Taxes which may become due in the ordinary course of business prior to the conclusion of this Chapter 11 Case.

71. The Tax Processor's system is fully integrated with the Debtor's platform (which collects payments through a vendor of the Debtor) such that it picks up information in real-time as the Debtor makes a sale on its platform. When a transaction occurs such that the Debtor will owe

[10] The Debtor anticipates that it may receive one such refund on account of Income and Franchise Taxes from the State of California in the amount of approximately $553,473.25.

Sales and Use Tax in a given jurisdiction, the Tax Processor will automatically register the Debtor with the relevant Authority.[11] The Tax Processor then collects and remits the appropriate amount of such Sales and Use Tax to the applicable Authority. The Debtor pays the Tax Processor $50 per filing within jurisdictions in the United States, and $85 per registration and filing in foreign jurisdictions. There is no registration fee for jurisdictions within the United States.

72. As of the Petition Date, the Debtor estimates that it owes the Tax Processor approximately $5,000 on account of its services as the Debtor's tax processor. The Debtor estimates that $5,000 in fees owed to the Tax Processor will become due during the interim period, and requests authority to pay up to $5,000 in fees owed to the Tax Processor upon entry of the Final Order.

73. The Debtor is presently subject to two ongoing audit investigations and may be subject to additional investigations on account of tax returns or obligations in prior years (collectively, the "Audits"). The Audits may result in additional prepetition Taxes and Fees being assessed against the Debtor (such amounts, the "Audit Amounts"). As of the Petition Date, the Debtor does not believe any amounts are owed on account of Audits and does not believe it will need to pay any Audit Amounts. Nevertheless, out of an abundance of caution, the Debtor seeks authority to pay Audit Amounts, on a final basis, as they may arise in the ordinary course of business upon final agreement to, or determination of, any applicable Audit Amounts.

74. The Debtor seeks authority to pay certain Taxes and Fees that have accrued or were incurred prior to the Petition Date in jurisdictions where the Debtor presently conducts business. The Debtor also seeks authority to continue paying Taxes and Fees on a postpetition basis in the

[11] Certain of the Authorities do not allow Tax Processor services. In those jurisdictions, the Debtor is required to collect and remit Sales and Use Taxes manually.

ordinary course, whether arising before or after the Petition Date, to ensure uninterrupted business operations through the duration of the Debtor's Chapter 11 Case efforts. The continued payment of the prepetition Taxes and Fees on their normal due dates will ultimately preserve the resources of the Debtor's estate. If such obligations are not timely paid, the Debtor's business operations may be suspended or the Debtor may incur additional fees, and the Debtor will be required to expend time and money to resolve these issues.

75. Accordingly, I believe the Taxes Motion should be granted

I. Wages Motion

76. Pursuant to the Wages Motion, the Debtor requests entry of interim and final orders (i) authorizing, but not directing, the Debtor, in its discretion, to (a) pay all Prepetition Employee Obligations (as defined below) and related expenses arising under or related to Employee Compensation and Benefits Programs (as defined below) and (b) continue their Employee Compensation and Benefits Programs (as may be amended, renewed, replaced, modified, revised, supplemented, or terminated from time to time and in the ordinary course of business) in effect as of the Petition Date (as defined below) and pay related administrative obligations; and (ii) granting related relief.

77. The Debtor further seeks entry of orders: (a) authorizing all applicable banks and other financial institutions (collectively, the "Banks"), when requested by the Debtor in its discretion, to receive, process, honor, and pay any and all checks, drafts, and other forms of payment, including fund transfers, on account of the Prepetition Employee Obligations (defined below), whether such checks or other requests were submitted before, on, or after the Petition Date; (b) authorizing the Banks to rely on the representations of the Debtor as to which checks and payments are subject to this Motion; (c) providing that the Banks shall, at the discretion of the

Debtor, receive, process, honor, and pay all prepetition and post-petition checks and fund transfers on account of the Prepetition Employee Obligations that had not been honored and paid as of the Petition Date; and (d) authorizing the Debtor to issue new post-petition checks or effect new post-petition fund transfers to replace any checks, drafts, and other forms of payment which may be inadvertently dishonored or rejected.

78. As of the Petition Date, the Debtor employs 18 active, full-time employees, 8 of whom (the "Employees") are expected to remain employed by the Debtor through key portions of this case, and who are critical to the Debtor's ability to continue operating its business during the Chapter 11 Case. None of the Employees is employed on a part-time basis nor is any represented by a union or employed pursuant to a collective bargaining agreement.

79. As of September 30, the Debtor employed a total of approximately 86 full-time employees. As part of the proposed transaction with Disney Worldwide Services, Inc. ("Disney"), however, prepetition 66 of those employees were offered, and accepted, employment with Disney (the "Transferring Employees"). Of those, 56 have formally resigned from their employment with the Debtor. The remaining ten (10) Disney Employees (the "Remaining Transferring Employees") are holders of H-1b, TN, or F-1 visas. Due to the expedited nature of the transaction with Disney, the Remaining Transferring Employees remain in the process of having the U.S. government update their work visas so that employees can change employers without losing their immigration status. The Debtor anticipates that the Transferring Employees will resign from their employment with the Debtor shortly after the Petition Date; however, while they remain employees of the Debtor, they continue to provide services to the Debtor.

80. The Debtor also supplements its workforce by retaining individuals and vendors with specialized expertise as independent contractors (the "Independent Contractors"). The

number of Independent Contractors employed by the Debtor at any given time fluctuates depending on the Debtor's business needs. The Independent Contractors fill a number of business needs for the Debtor such as product engineering, safety moderator, data science, security engineering, general business support and more. The use of Independent Contractors allows the Debtor to have a flexible workforce to meet its operational needs in a cost-effective manner. Additionally, from time to time, the Debtor employs certain temporary workers, including college interns (the "Temporary Workers" and together with the Independent Contractors, the "Supplemental Workers" and collectively with the Employees, the "Workforce"). The Temporary Workers who are not college interns are employed through approximately six (6) temporary staffing agencies (the "Staffing Agencies") for, among other things, finance, accounting, legal, technology and administrative support. Like the Debtor's Employees, the Debtor's operations rely on the continued availability and access to the Independent Contractors and Temporary Workers. Without the Supplemental Workers, the Debtor would be required to train and hire replacement staff to perform the same necessary functions.

81. The Debtor's Workforce is made up of, among others, highly skilled individuals who are intimately familiar with the Debtor's business. The Workforce, as with any business entity, performs a variety of critical functions for the Debtor, and their technical knowledge, skills, and understanding of the Debtor's infrastructure, and business operations are essential to, among other things, the success of the Chapter 11 Case. Importantly, the Debtor's Workforce oversees critical safety functions on the Debtor's platform, which requires daily monitoring to ensure the product is compliant with the highest safety standards. Without the continued service and dedication of the Workforce, it will be difficult, if not impossible, to operate the Debtor's business without an unexpected or inopportune interruption, and to prosecute the Chapter 11 Case in a manner that will

maximize the value of the Debtor's estate. Further, the Debtor's inability to maintain its dedicated Workforce would be detrimental to ensuring the safety of the Debtor's platform and application.

82. Like many similarly-situated companies, the Debtor maintains certain compensation and benefits programs and pays various administrative fees and insurance premiums in connection therewith (collectively, the "Employee Compensation and Benefits Programs"), including the following (each as defined below): Wage Obligations, Supplemental Worker Obligations, Withholding and Deduction Obligations, Employer Payroll Taxes, Severance Program, Former Employee Severance Obligation, Non-Insider Retention Bonus Program, PTO, Parental Leave, Medical Coverage and Dental and Vision Coverage, COBRA Obligations, Life Disability AD&D, Other Benefits and Reimbursable Expenses, the Employee 401(k) Plan, Payroll Processing Fees, Benefits Manager Fees and the Workers' Compensation Program, that the Debtor provides in the ordinary course of business.

83. The Debtor estimates that, as of the Petition Date, there are amounts accrued under or related to the Employee Compensation and Benefits Programs (such amounts, the "Prepetition Employee Obligations"), which the Debtor estimates to be approximately $1,825,000. Of this amount, approximately $1,361,000 will become due and payable during the Interim Period (the "Interim Caps").

84. The descriptions of the Employee Compensation and Benefits Programs set forth in this Motion constitute a summary only. The actual terms of the agreements, contracts, plans, programs, and manuals governing the Employee Compensation and Benefits Programs will govern in the event of any inconsistency with the descriptions in this Motion. The Debtor requests authority to honor obligations related to the Employee Compensation and Benefits Programs in the ordinary course of business consistent with prepetition practices, regardless of whether the

Debtor inadvertently fails to include a particular benefit or aspect of compensation in the defined term "Employee Compensation and Benefits Programs," and any such omitted benefit or aspect of compensation is hereby included in the defined term "Employee Compensation and Benefits Programs" as used herein and in the Proposed Orders.

85. The Workforce relies on their compensation and benefits to pay their daily living expenses. These individuals and their families could experience significant hardship if the Court does not permit the Debtor to honor prepetition obligations that may be outstanding as of the Petition Date in connection with the Employee Compensation and Benefits Programs and to continue paying the Employee Compensation and Benefits Programs on a post-petition basis, particularly in light of inflation and other macroeconomic pressures. Further, the Debtor's failure to honor its prepetition and post-petition obligations in connection with the Employee Compensation and Benefits Programs could cause attrition that would impact the administration of this Chapter 11 Case and the Debtor's efforts to maximize the value of its assets.

86. The Debtor seeks to minimize the personal hardship that the Employees and Supplemental Workers would suffer if the Prepetition Employee Obligations were not paid or remitted when due or as expected. The Debtor therefore seeks authorization, but not direction, to (a) pay and honor the Prepetition Employee Obligations, as described in greater detail below; and (b) continue to honor or elect to modify, change, and/or discontinue obligations related to or on account of the Employee Compensation and Benefits Programs in the ordinary course of business in the Debtor's sole discretion and without the need for further Court approval, subject to applicable law.

87. In the ordinary course, the Debtor incurs payroll obligations for base wages and salaries owed to its Employees (the "Wage Obligations"). Employees are paid twice monthly, on

the fifteenth and last day of the month. The Debtor funds the Wage Obligations to the Payroll Processor (as defined below) approximately two business days before Employees are paid. Independent Contractors are paid either through the Debtor's Payroll Processor or wire payment, at varying times throughout the month depending on the relevant Independent Contractor's contract with the Debtor and the Debtor remits payments to the Staffing Agencies on either a monthly or weekly basis depending on when invoices are submitted (together, the "Supplemental Worker Obligations").

88. The Debtor's most recent regular payroll was paid on September 30, 2026, in the amount of approximately $995,000 and includes funds for all base wages and salaries due through September 30, 2026 for 86 Employees. The Debtor's next regular payroll for the 18 remaining Employees (for the period ending October 15, 2026) will be paid on October 15, 2026 and was funded prepetition. Because the Supplemental Workers are paid at varying times throughout the month, certain of such Supplemental Workers Obligations have accrued prepetition and will come due post-petition.

89. As of the Petition Date, the Debtor estimates that it owes approximately $250,000 on account of accrued but unpaid Wage Obligations all of which will become due and owing during the Interim Period. The Debtor estimates that it owes approximately $560,000 on account of accrued but unpaid Supplemental Worker Obligations , all of which will come due and owing during the interim period.

90. The Debtor seeks authorization, but not direction, to continue to satisfy amounts incurred on account of the Wage Obligations and Supplemental Worker Obligations in the ordinary course of business on a post-petition basis. As of the Petition Date, the Debtor does not believe that the amount due and owing to any Employee, Independent Contractor or Temporary

Worker on account of Wage Obligations or Supplemental Worker Obligations together with any Prepetition Employee Obligations will exceed the statutory cap of $17,150 set forth in sections 507(a)(4) and 507(a)(5) of the Bankruptcy Code, except where the excess is a result of accrued but unpaid PTO that is required to be paid under applicable nonbankruptcy law at the conclusion of the Employee's employment.

91. The Debtor uses Rippling (the "Payroll Processor") to provide services and administer payroll, which includes calculating and processing gross-to-net payroll, issuing payroll payments to the appropriate funds transfer networks, generating pay statements, and coordinating the payment of any Deductions or other applicable withholdings, including withholding, remittance, reporting of payroll taxes (including the Employer Payroll Taxes (as defined below)) for the Employees.

92. The ongoing services of the Payroll Processor are imperative to the smooth functioning of the Debtor's operations and payroll processing. The Debtor remits all fees owed to the Payroll Processor on a bi-weekly basis when it funds payroll, which is typically one day before the Debtor pays its Employees.

93. The Debtor pays the Payroll Processor a fixed fee of $60,000 per year, plus approximately $1,000 variable fee each month for its services (the "Payroll Processing Fees"). The Debtor estimates that, as of the Petition Date, there are $2,000 in accrued but unpaid obligations owed on account of the Payroll Processing Fees.

94. Certain federal and state laws require that the Debtor withhold certain amounts from Employees' gross pay related to federal, state, and local income taxes for remittance to the appropriate federal, state, or local taxing authorities or as required by statute including for

garnishments, child support, and Social Security and Medicare taxes (the "Withholding Obligations").

95. The Debtor also routinely deducts certain amounts from Employees' paychecks, including pre-tax and after-tax deductions payable pursuant to certain employee benefit plans discussed herein, such as an Employee's share of healthcare benefits and insurance premiums, 401(k) contributions, garnishments and miscellaneous deductions (collectively, the "Deductions," and together with the Withholding Obligations, the "Withholding and Deduction Obligations") and forward such amounts to various third-party recipients.

96. As of the Petition Date, the Debtor believes that they have deducted but not yet remitted to the appropriate third-party payees approximately $92,000 in Withholding and Deduction Obligations, all of which must be remitted during the Interim Period.

97. Any amounts held by the Debtor on account of the Withholding and Deduction Obligations generally are held in trust by the Debtor and are not property of its estate. As such, the Debtor does not need authorization to remit such payments to the appropriate third parties. Nonetheless, out of an abundance of caution, the Debtor requests authorization to remit all outstanding prepetition amounts deducted on account of the Withholding and Deduction Obligations and to continue to deduct and remit the Withholding and Deduction Obligations on a post-petition basis in the ordinary course of business consistent with their prepetition practices.

98. In addition to the Withholding and Deduction Obligations described above, the Debtor is required by applicable statutes to match from its own funds Social Security taxes and pay, based on a percentage of gross payroll, additional amounts for federal and state unemployment and disability insurance (the "Employer Payroll Taxes"), to the appropriate taxing authorities.

99. The Debtor funds the Employer Payroll Taxes when it remits its payroll amounts to the Payroll Processor who then remits the appropriate amounts on account of Employer Payroll Taxes. The Debtor believes as of the Petition Date there are no accrued but unpaid Employer Payroll Taxes that have not been remitted to the appropriate governmental authorities. The Debtor seeks authorization, but not direction, to remit the Employer Payroll Taxes and to continue to honor and process the Employer Payroll Taxes on a post-petition basis in the ordinary course of business and consistent with past practices.

100. The Debtor has historically, from time to time, offered severance in the ordinary course of its business pursuant to various policies. Before the Petition Date, upon recommendation to and approval from the Debtor's board of directors, the Debtor implemented a severance program for all full-time Employees (for both insiders (as defined by section 101(31) of the Bankruptcy Code) and non-insiders) who will be employed on the Petition Date and are expected to remain employed through key periods of the Chapter 11 Case (the "Severance Program"). The Debtor likewise implemented a retention bonus program for non-insiders who are likewise expected to remain employed through key periods of the Chapter 11 Case (the "Non-Insider Retention Bonus Program"). For the avoidance of doubt, neither the Severance Program nor the Non-Insider Retention Bonus Program are expected to apply to the Transferring Employees.

101. I understand that two of the Debtor's current Employees (the General Counsel and Head of People) are likely "insiders" as such term is defined in the Bankruptcy Code and relevant case law and that severance payments for insiders must meet certain conditions to be approved.

102. The Severance Program offers all the Debtor's Employees two months of salary upon termination of their employment by the Debtor without cause. The Debtor designed the Severance Program by considering the critical Employees needed for the Chapter 11 Case efforts,

analyzing the Debtor's historical practices, and researching the market for programs offered by similarly-situated companies.

103. My team at Areté and I calculated the amount that will come due under the Severance Program for the two insiders of the Debtor. Such amount is $110,000 in total (one will receive $58,000 and the other will receive $52,000). Comparatively, in calendar year 2026, the Debtor has paid a total of $613,000 in severance obligations across nonmanagement employees, or on average $47,000 per employee.[12] Therefore, the total severance obligation under the Severance Program for the two insiders is only approximately 1.2 times (far less than 10 times) greater than the mean severance pay given to nonmanagement employees during the calendar year 2026. *Id*.

104. The Debtor's goal in this case is to engage in a value-maximizing transaction that it hopes will bring meaningful recoveries to creditors. The Debtor's continued operation of its platform is a critical element of this goal. The platform only works and this case can only be administered with the continued employment of the Debtor's limited remaining Employees. Furthermore, the Debtor is likely to winddown its operations following a sale of all or a portion of the Debtor's assets. Maintenance of the Severance Program is critical to sustaining the Employees' morale and loyalty during this difficult period. Failure to maintain the Severance Program will undermine the Debtor's ability to ensure the Debtor's operations continue at least through the sale process. For the avoidance of doubt, the Debtor is not seeking to honor the Severance Program on a postpetition basis for the Transferring Employees.

[12] Based on the data I reviewed, I understand that the Former Employees (defined herein) who received severance include, among others, members of the Debtor's technical staff, product designers, staff security engineers, senior director of product marketing, senior brand designer, executive assistant, people operations coordinate and social media manager. None of these employees has anyone who reports directly to him or her and did not report directly to the Board. Therefore, I believe these employees to be nonmanagement.

105. Finally, one of the Debtor's Former Employees (defined below), who is not a Transferring Employee, was terminated shortly before the Petition Date and was offered a severance payment of $58,000 plus $3,000 for COBRA payments pursuant to a prior severance program (the "Former Employee Severance Obligation") and upon the Former Employee signing a release. I understand that as of this filing, to the Debtor's knowledge, the Former Employee has not executed the release. To the extent that such Former Employee executes the release, the Debtor requests authority to honor the Former Employee Severance Obligation in the interim period.

106. Before commencing this Chapter 11 Case, the Debtor implemented the Non-Insider Retention Bonus Program for approximately 6 Employees, which, for the avoidance of doubt does not include any insiders nor does it include the Transferring Employees.

107. The Employees eligible for the Non-Insider Retention Bonus Program all work in operations for the Debtor, and none of them is an officer or person in control of the Debtor. These Employees are on the Debtor's trust and safety team and include program managers, specialists and technologists. None of these employees reports directly to the Board. Put simply, the Employees eligible for the Non-Insider Retention Bonus Program are rank and file employees.

108. Second, as noted, the Debtor's remaining full-time non-insider Employee perform critical functions related to the ongoing operation of the Debtor's application and platform and therefore, in an exercise of the Debtor's business judgment, the Non-Insider Bonus Program should be approved. The Debtor's innovative and nuanced business operations are only known by the Employees, some of whose tenure began when the Debtor was formed. The intimate knowledge these Employees have will be a key component of marketing the Debtor's assets throughout the sale process. In addition, so long as the Debtor's platform and application are live, Employees must continue to monitor and implement substantial safety measures. To ensure the Debtor can

maintain its operations for a limited period on a post-petition basis through the sale process and winddown, the Debtor requires employment of individuals who are intimately familiar with the Debtor's platform and application, and most critically, who can ensure the Debtor's operations continue to run safely. Providing the Non-Insider Retention Bonus Program is thus necessary to ensure these employees will continue to provide critical services to the Debtor during their ongoing sale process and eventual winddown.

109. Finally, I understand that the market for talented individuals is highly competitive in the AI industry, which is further evidenced by attrition issues described herein. In addition, the Non-Insider Retention Bonus Program is only earned upon each month an Employee remains with the Debtor and is therefore appropriately tailored to incentive continued employment. The retention of these Employees will assist the Debtor's efforts to maximize value for all stakeholders. Therefore, I believe the Non-Insider Retention Bonus Program is appropriate and should be approved.

110. The Debtor provides paid time off for observed holidays and twenty (20) days of time off or time off necessary to comply with applicable law (collectively, the "PTO") to eligible Employees. PTO for eligible Employees is capped once it accrues to thirty (30) days. The Debtor additionally offers parental leave ("Parental Leave") of 20 weeks for birthing parents and 12 weeks for non-birthing parents for eligible Employees.

111. These forms of compensation are usual, customary, and necessary if the Debtor is to retain qualified employees to operate its business. The current value of accrued and unused PTO is approximately $114,000. In the event of termination of an Employee, prepetition earned but unused PTO may become due and in accordance with applicable state law. Subject to the terms of the Interim and Final Orders, the Debtor seeks authorization, but not direction to pay any

prepetition amounts due with respect to earned but unused PTO and to continue its PTO policies in the ordinary course of business on a post-petition basis. The Debtor additionally seeks authorization to offer Parental Leave for any Employees who may commence such leave after the Petition Date.

112. The Debtor offers health and welfare benefits to eligible Employees for medical, dental, and vision coverage, and certain other welfare benefits, including life, disability insurance, and other insurance benefits (collectively, the "Health and Welfare Coverage and Benefits"). Failure to continue to honor the Health and Welfare Coverage and Benefits could cause Employees to experience severe hardship and make it difficult for the Debtor to retain the Employees.

113. The Debtor asserts that it is authorized to continue the Health and Welfare Coverage and Benefits in the ordinary course; however, out of an abundance of caution, the Debtor seeks authorization, but not direction, to continue the Health and Welfare Coverage and Benefits on a post-petition basis in the ordinary course of business (including honoring any prepetition obligations that may be outstanding) and consistent with its prepetition practices.

114. The Debtor offers its Employees and Employees' dependents medical insurance benefits through Anthem Blue Cross Blue Shield and Kaiser Permanente (together, the "Medical Plans").

115. The Debtor contributes 100% toward payment of its Employees' premiums under the Medical Plans and 80% toward payment of premiums for Employees' partners or spouses, and dependents under the Medical Plans, with the remaining amounts deducted from participating Employees' paychecks. Premiums in respect of the Medical Plans are paid monthly. As of the Petition Date, the Debtor estimates that it has accrued approximately $66,000 in the aggregate on account of the Medical Plans.

116. The Debtor provides eligible Employees dental insurance coverage (the "Dental Plan") and vision insurance coverage (the "Vision Plan") through plans administered by Principal.

117. The Debtor contributes 100% toward payment of its Employees' premiums under the Dental Plan and Vision Plan and 80% toward payment of premiums for Employees' partners or spouses, and dependents under the Dental Plan and Vision Plan, with the remaining amounts deducted from participating Employees' paychecks. Premiums in respect of the Dental Plan and Vision Plan are paid monthly. As of the Petition Date, the Debtor estimates that accrued and outstanding prepetition obligations related to the Dental Plan and Vision Plan are $5,000.

118. Eligible Employees have the opportunity to contribute to a variety of spending accounts funded with pre-tax dollars: (i) a Health Savings Account (the "HSA"), (ii) a Flexible Spending Account (the "Health Care FSA"), or (iii) a Dependent Care Flexible Spending Account (the "Dependent Care FSA" and together with the HSA and the Health Care FSA, the "Flexible Spending Plans").

119. The HSA allows eligible Employees to make contributions to a personal, tax-free, interest-bearing savings account that can be used for healthcare expenses. The Debtor does not contribute any amounts to Employees' HSAs and therefore is not seeking to make any payments with respect to the HSAs but is seeking authority to continue to offer such benefits in the ordinary course of business.

120. The maximum annual contribution to the Health Care FSA for year ending 2025 was $3,300 and can be used by eligible Employees to pay for medical expenses, dental expenses, and visions expenses not otherwise covered by the Employee's health insurance. The maximum annual contribution to the Dependent Care FSA for year ending 2025 was $5,000 for married couples filing jointly and $2,500 for married individuals filing separately and can be used by

eligible Employees to cover the costs of daycare for children or home care for disabled family members.

121. The Debtor deducts an average of approximately $1,617 from participating Employees' Wage Obligations on account of the Employee contributions to the Health Care FSA or Dependent Care FSA on a semi-monthly basis. Presently, approximately three Employees contribute to either the Health Care FSA or Dependent Care FSA. The Flexible Spending Plans are Employee funded and therefore no amounts are owed by the Debtor as of the Petition Date.

122. Pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA"), certain former employees (the "Former Employees") of the Debtor (collectively, the "COBRA Participants") may continue insurance coverage under the Health Plans, the Dental Plan, the Vision Plan, the Health Care FSA and the HSA after the termination of their employment (the "COBRA Benefits"). COBRA Participants are entitled by law to receive COBRA Benefits for up to 18 months, and in certain instances, up to 36 months, after termination of their employment. Potential COBRA Participants are responsible for paying all premiums associated with the COBRA Benefits. The Debtor administers the COBRA Benefits, including providing all required notifications, billing and collecting premiums from the COBRA Participants, coordinating enrollment information with the Benefits Manager (defined below), and providing customer service and support for COBRA Participants. The Debtor pays for COBRA Benefits upon use on behalf of the participating individuals. In connection with the Severance Program, the Debtor agreed to cover two months of COBRA premiums to all eligible Employees upon termination of their employment with the Debtor, which amount will be paid out in a lump sum when the Employee is terminated. The Debtor estimates that there are $10,000 accrued and outstanding prepetition obligations in connection with the COBRA Benefits as of the Petition Date.

123. Failure to comply with the requirements of COBRA can subject the Debtor to penalties of up to $110 per day per qualified beneficiary (with a minimum penalty of $15,000 for more than *de minimis* violations), actions by the Department of Labor, and civil lawsuits by former employees to recover their benefits. *See, e.g.*, 29 C.F.R. § 2575.502c-6. Accordingly, the Debtor seeks authorization, but not direction, to (i) continue to offer the COBRA Benefits in the ordinary course to eligible individuals, including to full-time Employees that become eligible post-petition, and (ii) honor all related obligations post-petition in the ordinary course of business and consistent with its prepetition practices.

124. The Debtor provides or sponsors, as applicable, (a) basic life insurance, as well as accidental death and dismemberment insurance (the "Basic Life and AD&D Insurance") administered by Principal for eligible Employees; (b) an option for eligible Employees to purchase supplemental life insurance (the "Supplemental Life Insurance"); and (c) short- and long-term disability insurance to all active Employees (fully paid by the Debtor), which is administered by Principal ("Disability Insurance") (collectively, the "Life, Disability, and AD&D Insurance Coverage").

125. The Debtor's total monthly costs in connection with Disability Insurance coverage are approximately $2,800. As of the Petition Date, the Debtor believes that $2,500 is outstanding with respect to the Life, Disability, and AD&D Insurance Coverage. The Debtor requests authority to continue honoring its obligations under the Life, Disability, and AD&D Insurance Coverage post-petition in the ordinary course of business and consistent with its prepetition practices.

126. The Debtor uses One Digital (the "Benefits Manager") to assist with the administration of the Debtor's Health and Welfare Coverage and Benefits. The Benefits Manager sources, reviews and updates the Health and Welfare Coverage and Benefits plans that are offered

to the Employees and serves as a resource for both the Debtor's human resource department and the Employees.

127. The ongoing services of the Benefits Manager are imperative to the smooth functioning of the Debtor's operations. The Debtor pays the Benefits Manager $5,700 per month, for its services (the "Benefits Manager Fees"). The Debtor estimates that, as of the Petition Date, there are $2,500 in accrued but unpaid obligations owed on account of the Benefits Manager Fees.

128. The Debtor provides a variety of miscellaneous other benefits for eligible Employees including, among others, wellness stipends, commuter assistance stipends, mobile and Wi-Fi stipends, AI tools stipends, and certain meals (collectively the "Other Benefits" and such expenses the "Reimbursable Expenses"). The Debtor expects that the remaining Employees will continue to incur modest amounts of Reimbursable Expenses related to the Other Benefits throughout the Chapter 11 Case.

129. Certain of the Reimbursable Expenses are paid for by the Employee up front who then applies for reimbursement of such expense by submitting an expense report to the Debtor. Without reimbursement, Employees may be personally liable for any unpaid obligations. In connection with the Other Benefits, the Debtor also historically provided corporate credit cards (the "Corporate Credit Cards") serviced by Ramp Business Corporation ("Ramp"), each in the Employee's own name.[13] Statements for charges accrued on the Corporate Credit Cards are sent

[13] As described in more detail in the *Debtor's Motion for Entry of Interim and Final Orders (I) Authorizing Debtor to (A) Continue to Operate Its Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, and (C) Maintain Existing Business Forms; (II) Extending the Time to Comply with Section 345(b) of the Bankruptcy Code; and (III) Granting Related Relief* (the "Cash Management Motion") filed contemporaneously herewith, the Debtor also uses the Corporate Credit Cards to pay for certain vendor charges. In historical practice, individual Employees would set up the recurring charges with vendors on the Corporate Credit Cards in their name. The Debtor is not seeking relief with respect to such vendor charges in this motion, but rather through the Cash Management Motion.

to the Debtor and the Debtor remits payment on account of such charges directly to Ramp. Employees are not liable for any accrued and unpaid charges on the Corporate Credit Cards.

130. As of the Petition Date, the Debtor estimates approximately $20,000 is outstanding with respect to the Other Benefits, either through a balance on the Corporate Credit Cards, or outstanding in Reimbursable Expenses. The Debtor requests authority to continue honoring its obligations under the Other Benefits post-petition in the ordinary course of business and consistent with its prepetition practices.

131. The Debtor provides workers' compensation insurance for its Employees to cover, among other things, workers' compensation and employer liability for accidents, death, or disease sustained by employees in the course of their employment (the "Workers' Compensation Program"). The Debtor maintains workers' compensation insurance for its workers with Travelers.

132. There are presently no open claims with Travelers, and no claimants are presently receiving any workers' compensation payments.

133. The Workers' Compensation Program is also subject to a regular audit that may result in an adjustment of the premium thereunder (the "Audit"). As such, to ensure that the Debtor is able to timely pay amounts that may be determined to be due and owing as a result of the Audit in the ordinary course of this Chapter 11 Case, the Debtor requests authority to pay any amounts that may become due and owing in respect of the Audit during this Chapter 11 Case in the ordinary course and without the need for further court order.

134. As of the Petition Date, the Debtor maintains a retirement savings plan for the benefit of its full-time Employees that satisfies the requirements of section 401(k) of the Internal Revenue Code (the "Employee 401(k) Plan"). Full-time regular Employees are eligible to participate in the Employee 401(k) Plan immediately upon their start date with the Debtor. The

Employee 401(k) Plan is administered by Empower. The Debtor withholds pre-tax salary deductions of eligible compensation up to the limits set forth in the Internal Revenue Code. The Debtor matches 25% of Employees' contributions. As of the Petition Date, the Debtor estimates that it owes $99,000 for contributions toward the Employee 401(k) Plan, all of which will come due in the interim period. The Debtor requests authority to continue administering the Employee 401(k) Plan in the ordinary course of business post-petition.

135. As of the Petition Date, the Debtor's board of directors (the "Board") includes three (3) non-Employee individuals who serve as directors (the "Directors"), and one of whom also sits on a conflicts committee (the "Special Director"), who collectively make up a special committee of the Board (the "Restructuring Committee"). For their service, the Directors, other than the Special Director, receive cash payments of $87,500 per quarter and the Special Director receives $60,000 per month in advance (the "Director Compensation"). As of the Petition Date, the Debtor does not believe that they owe any amounts on account of Director Compensation and believe that they are authorized to pay any postpetition Director Compensation in the ordinary course. However, out of an abundance of caution, the Debtor seeks authority to continue to pay the Director Compensation on a postpetition basis in the ordinary course of business and consistent with prepetition practices.

136. Accordingly, I believe the Wages Motion should be granted.