UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

In re:	Chapter 11
FB Debt Financing Guarantor, LLC, *et al.*,[1]	Case No. 23-10025 ([___])
Debtors.	(Joint Administration Requested)

DECLARATION OF STEPHEN MAROTTA, CHIEF RESTRUCTURING OFFICER OF THE DEBTORS, IN SUPPORT OF THE DEBTORS' CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS

I, Stephen Marotta, hereby declare under penalty of perjury:

1. I am the Chief Restructuring Officer of debtor and debtor in possession FB Debt Financing Guarantor, LLC (the "Parent Debtor") and each of Parent Debtor's direct and indirect subsidiaries that are debtors and debtors in possession (collectively with Parent Debtor, the "Debtors" and, each individually, a "Debtor") and a Senior Managing Director of Ankura Consulting Group, LLC ("Ankura") with more than 33 years of experience consulting and working with financially troubled companies. I have served as the chief restructuring officer in the Brooks Brothers and Country Fresh Holdings Company chapter 11 cases, and I have previously served in similar capacities with multiple large companies inside and outside of bankruptcy. I am a Certified Public Accountant and a Certified Insolvency and Restructuring Advisor. Since September 14, 2022, I and others at Ankura have worked closely with the Debtors and their non-debtor subsidiaries (together with the Debtors, the "Company") to manage the business and assist the

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number are: FB Debt Financing Guarantor, LLC (1271); Forma Brands, LLC (2520); Morphe, LLC (8460); Forma Beauty Brands, LLC (5496); Seemo, LLC (5721); Jaclyn Cosmetics Holdings, LLC (6217); Such Good Everything, LLC (9530); Playa Products, Inc. (3602); and Jaclyn Cosmetics LLC (2690). The Debtors' service address is 10303 Norris Ave, Pacoima, CA 91331.

Company as it evaluated restructuring alternatives. Prior to the Debtors commencing these chapter 11 cases on January 12, 2023 (the "Petition Date"), I assumed the position of Chief Restructuring Officer of each of the Debtors by the Strategic Committee (as defined below) on December 15, 2022.

2. On the Petition Date, each of the Debtors filed a voluntary petition (collectively, the "Petitions") in the United States Bankruptcy Court for the District of Delaware (this "Court") for relief under chapter 11 of title 11 of the United States Code, as amended (the "Bankruptcy Code"). To minimize the potential adverse impact of the commencement of these chapter 11 cases, the Debtors have requested certain "first day" relief in various applications and motions filed with the Court, each of which is listed in Section IV below (collectively, the "First Day Motions"). The First Day Motions seek relief intended to avoid immediate irreparable harm to the Debtors and preserve the value of the Debtors by, among other things, paying certain prepetition and administrative obligations to ensure the success of the Debtors' restructuring efforts and obtaining procedural relief that facilitates the Debtors' orderly transition into and emergence from these chapter 11 cases. This relief is critical to the Debtors' restructuring and reorganization efforts.

3. As a result of my tenure with the Company, review of relevant documents, and discussions with members of the Debtors' management team and professionals from Ankura, I am familiar with the Debtors' day-to-day operations, business affairs and books and records. I submit this declaration (the "Declaration") in support of the Petitions and the First Day Motions and to assist the Court and other parties in interest in understanding the Company's corporate history, business operations and prepetition corporate and capital structure and the circumstances that caused the Debtors to commence these chapter 11 cases.

4. Except as otherwise indicated, all facts set forth in this Declaration are based upon my personal knowledge, my discussions with members of the Debtors' management team and the Debtors' advisors, my review of relevant documents and information concerning the Debtors' financial affairs and restructuring initiatives, or my opinions based upon my experience and knowledge. I am authorized to submit this Declaration on behalf of the Debtors. If called as a witness, I could and would testify competently to the statements set forth in this Declaration, as the information in this Declaration is accurate and correct to the best of my knowledge.

PRELIMINARY STATEMENT

5. The Company is a builder of beauty brands anchored in innovative and high-quality products, marketing and operations. The Company's multi-branded and multi-category portfolio includes Morphe®, Morphe 2®, Jaclyn Cosmetics®, and Born Dreamer®. Each brand showcases differentiated products and a unique story, addressing different segments of the beauty market, while embracing many forms of beauty. The Company collaborates with influencers and celebrities to market and sell cosmetic products through specialty retailers, online platforms, and mass merchandisers. The Company's products are sold through top beauty retailers worldwide, including Ulta Beauty, Sephora, Mecca, Douglas, Selfridges, and Target. The Company also operates retail stores in Canada, Europe and Australia, where it sells Morphe® and other Company-portfolio products and third-party products.

6. As described below, prior to the commencement of these chapter 11 cases, the Debtors experienced liquidity and operational issues as a result of the COVID-19 pandemic, widespread changes to consumers' beauty habits and their need to terminate partnerships with certain influencers. As a result, I have been informed by management, by the beginning of 2022, the Debtors needed to borrow additional cash to fund their operations and to that end, in the first

two calendar quarters of 2022, the Debtors used various debt and lien baskets under the Prepetition First Lien Credit Agreement (as defined below)[2] to borrow approximately $58.8 million on a secured basis and approximately $16.1 million on an unsecured basis from non-Debtor FB Intermediate Holdings, LLC ("FB Intermediate"), which owns 100% of the equity interests of Parent Debtor.[3]

7. With impending principal and interest payments coming due and a potential covenant default under the Prepetition First Lien Credit Agreement looming on June 30, 2022, the Debtors turned to certain of their secured lenders, Jefferies Finance LLC ("Jefferies") and Cerberus Business Finance, LLC ("Cerberus" and together with Jefferies and FB Intermediate, the "Secured Lenders"), for relief from impending defaults. The Secured Lenders then entered into a series of forbearance agreements and waivers that addressed a number of covenant and payment defaults that occurred from and after June 30, 2022, and allowed the Debtors and the Secured Lenders to explore various operational and financial restructuring options.

8. In August 2022, after the operating and financial restructuring efforts stalled and the then-existing forbearance expired, the Collateral Agent, at the direction of the Required Lenders, exercised certain remedies under the Prepetition First Lien Credit Agreement and certain other Credit Documents, including providing notice that the Collateral Agent intended in three business days to exercise voting proxies in respect of the pledged ownership interests of the Debtors.[4] After receiving that notice, the Debtors and Secured Lenders engaged in settlement discussions, which resulted in, among other things, (a) the Collateral Agent forbearing from

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[2] Capitalized terms not otherwise defined herein have the meanings ascribed to them in the Prepetition First Lien Credit Agreement.

[3] Certain affiliates of General Atlantic Service, L.P. ("GA") own a majority of the equity of Forma Brands Holdings, LLC ("FB Holdings"), which owns 100% of FB Intermediate.

[4] The ownership interests of all Debtors other than Parent Debtor and Playa Products, Inc. ("Playa") were pledged by the Debtors directly owning those Debtors.

enforcing any rights in connection with the remedies that it previously exercised, (b) the appointment of independent directors to the board of Parent Debtor and the formation of a strategic committee of independent directors at Parent Debtor responsible for all the Debtors' restructuring matters (the "Strategic Committee"),[5] (c) the Secured Lenders providing the Debtors with an additional forbearance, and (d) the Secured Lenders committing to provide additional bridge financing under the Prepetition Credit Agreement up to $10.0 million in bridge term loans to Debtor Morphe, LLC ("Morphe").

9. After its appointment, the Strategic Committee hired new advisors and reached agreements with the Secured Lenders on further forbearances and waivers that allowed the Debtors time to assess the Company's operations, including its retail footprint, to determine the best operational and financial alternatives for maximizing value and to canvass the market for potential purchasers. During this time, Jefferies and Cerberus agreed to provide additional incremental forbearances and the Secured Lenders agreed to provide an additional $18 million of bridge term loans on a secured basis to provide the Debtors additional liquidity to continue to fund their operations.

10. Despite exercising their best efforts, after nearly four months of exploring their restructuring options, the Strategic Committee determined that the Debtors are not able to execute on an out of court restructuring and have therefore commenced these chapter 11 cases to consummate a sale of substantially all of the Debtors' business (the "Sale Transaction") to an entity organized and controlled by the Controlling Collateral Agent (as defined in the First Lien Intercreditor Agreement) and the DIP Agent (the "Stalking Horse Bidder"), subject to higher or

[5] The Strategic Committee is comprised of William L. Transier, Bradley Dietz, Chelsea Grayson, and Timothy Pohl. In addition, each of the then-sitting board members of FB Holdings (each of whom are designees of FB Holdings' equityholders) were appointed to the boards of the Debtors. However, the Strategic Committee has sole discretion related to restructuring matters.

otherwise better bids, which Sale Transaction, the Debtors maintain, maximizes the value of their estates and is in the best interest of the Debtors and their stakeholders.

BACKGROUND

11. To assist the Court and parties in interest in understanding the business of the Company generally and the Debtors in particular, and the relief the Debtors are seeking in the First Day Motions, this Declaration is organized as follows:

- ***Part I*** provides a general overview of the Company's corporate history and business operations;
- ***Part II*** provides an overview of the Company's prepetition capital structure;
- ***Part III*** describes the circumstances leading to the filing of these chapter 11 cases; and
- ***Part IV*** discusses the First Day Motions.

I. GENERAL BACKGROUND

A. The Company's Corporate History

12. The Company was originally founded in 2008 to sell a line of makeup brushes sold under the Morphe® brand. At that time, the Company focused on developing partnerships with up-and-coming influencers to build a reputation for Morphe® as high-quality cosmetics at affordable prices. In August 2019, after a series of transactions including an internal corporate restructuring, certain affiliates of GA acquired a majority equity interest in FB Holdings, which indirectly owns 100% of Parent Debtor. At the time of the GA-affiliates' investment, the Company remained a "mono-brand" business, with Morphe® as its sole brand. Thereafter, the Company looked for ways to use its strengths as a disruptive beauty platform combining superior branding and media content to branch out and create a portfolio of similar brands. Since August 2019, the Company has expanded its portfolio of brands, both through organic brand creation and

acquisition, all focused in the "masstige" space, meaning cosmetics with superior brand execution to mass cosmetics and superior value to prestige cosmetics.

13. In August 2020, Forma Beauty Brands, LLC acquired Playa. Further, in 2020, the Company completed another internal corporate restructuring, resulting in two corporate branches under Parent Debtor, with the Morphe®-related subsidiaries under Morphe and the remaining-brands-related subsidiaries under Forma Beauty Brands, LLC.

B. The Company's Operations

14. As of the Petition Date, the Debtors had four brands in their portfolio and, together with their non-Debtor subsidiaries, operated eleven Morphe® retail stores in Canada, Europe, and Australia. In addition to the Debtors' physical footprint, the Debtors maintain wholesale and specialty retail partnerships to sell their portfolio of cosmetic products, including with Ulta Beauty, Sephora, Target, Mecca, Douglas, Boots UK, Marionnaud, and Selfridges. The Company also has data-driven initiatives to address its wholesale strategy to drive sales at each of its partners' stores.

15. In 2021, Morphe® and Morphe 2® accounted for 87% of the Company's revenue. Morphe® has developed a passionate and diverse Gen-Z consumer base and provides prestige quality products at accessible prices. In particular, Morphe's® revenues are driven by its eye and brush products, including full suites of palettes, primers, eyeliners, lashes, and eyebrow tools. Staying true to its roots, the Company continues to partner with celebrities with a passion for cosmetics to help build brands and bring new products to market, including partnerships with Jaclyn Hill and Charli D'Amelio.

16. The Debtors market their products primarily toward their diverse, millennial and Gen-Z consumer base. To engage this consumer base, the Debtors are cognizant of and address the social and environmental issues that these consumers care about by incorporating sustainable, natural, and cruelty-free ingredients in their products. Furthermore, the Debtors' customers,

without compromising their values, still demand effective and efficient products given their streamlined beauty routines, and the Debtors' products and marketing strategies work to address these demands.

II. THE DEBTORS' PREPETITION CORPORATE AND CAPITAL STRUCTURE

17. Parent Debtor currently owns or controls, directly or indirectly, each of the other Debtors. A summary chart depicting the Debtors' corporate structure is attached hereto as **Exhibit A**.

18. As of the Petition Date, the Debtors have approximately $868 million of funded principal debt and interest obligations, consisting of obligations under the Prepetition First Lien Credit Agreement, the Sponsor PIK Secured Notes and the Sponsor PIK Unsecured Notes (each as defined below).

19. The following table details the Company's prepetition capital structure (as of the Petition Date) with respect to funded debt, inclusive of accrued but unpaid interest and fees.

Instrument	Approximate Outstanding Principal and Interest (millions)	Rate	Security
Prepetition First Lien Credit Agreement (Prepetition First Lien Revolving Credit Facility)	$50.6	L+4.00%[6]	Substantially all assets on a first lien basis
Prepetition First Lien Credit Agreement (Original First Lien Term Loan Facility)	$700.0	L+5.00%[6]	Substantially all assets on a first lien basis
Prepetition First Lien Credit Agreement (Incremental First Lien Term Loan Facility)	$15.6	6.50%[6]	Substantially all assets on a first lien basis
Prepetition First Lien Credit Agreement (Bridge Loan Facility)	$26.5	L+5.00%[6]	Substantially all assets on a first lien basis

[6] The Prepetition First Lien Revolving Facility, Original First Lien Term Loan Facility, Incremental First Lien Term Loan Facility, and Bridge Loan Facility are each subject to an additional 2.00% in Default Interest (paid in kind) applicable as of June 30, 2022.

Sponsor PIK Secured Notes	$58.8	7.00%	Substantially all assets on a first lien basis
Sponsor PIK Unsecured Notes	$16.1	7.00%	None

A. Prepetition First Lien Credit Agreement

20. On August 16, 2019, Parent Debtor and Morphe entered into that certain First Lien Credit Agreement (as amended, restated, supplemented, amended and restated or otherwise modified from time to time, the "Prepetition First Lien Credit Agreement"), among Morphe, as Borrower, Parent Debtor, Debtor Forma Brands, LLC ("Forma Brands"), Jefferies, as Administrative Agent and Collateral Agent, the lenders party thereto, and certain other parties specified therein. The Prepetition First Lien Credit Agreement currently provides for (a) a senior secured term loan credit facility (the "Original First Lien Term Loan Facility" and the loans issued thereunder, the "Original First Lien Term Loans") in the aggregate principal amount of $660.0 million; (b) a senior secured revolving credit facility (the "Prepetition First Lien Revolving Facility") in the aggregate maximum committed principal amount of $50.0 million (including any letters-of-credit or swingline loans issued pursuant to the sub-facilities thereunder); (c) a senior secured incremental term loan credit facility (the "Incremental First Lien Term Loan Facility" and the loans issued thereunder, the "Incremental First Lien Term Loans") in the aggregate principal amount of $14.75 million; and (d) a senior secured multiple draw "first-out" bridge term loan facility (the "Bridge Loan Facility" and the loans issued thereunder, the "Bridge Loans") in the aggregate maximum committed principal amount of $28.0 million.

21. The Prepetition First Lien Credit Agreement requires Morphe, among other Obligations, to repay the Original First Lien Term Loans, the Incremental First Lien Term Loans, the Prepetition First Lien Revolving Facility, and the Bridge Loans. All of the other Debtors (except for Playa) have guaranteed, as primary obligors, the prompt and complete payment and

performance of all Obligations under the Prepetition First Lien Credit Agreement pursuant to the Guarantee. Morphe's Obligations under the Prepetition First Lien Credit Agreement and the other Debtors' obligations under the Guarantee are secured by valid, perfected liens on substantially all those Debtors' assets. The liens securing each of the facilities under the Prepetition First Lien Credit Agreement rank *pari passu* with one another and the liens securing the Sponsor PIK Secured Notes (as defined below). The Prepetition First Lien Credit Agreement requires that after the Obligations are accelerated or a certain Event of Default occurs, any proceeds that the Administrative or Collateral Agent receives from the Borrower or any Guarantor shall be used to repay the Bridge Obligations before repaying any Obligations under the Original First Lien Term Loan Facility, the Incremental First Lien Term Loan Facility or the Prepetition First Lien Revolving Facility.

1. Prepetition First Lien Revolving Facility

22. The Prepetition First Lien Revolving Facility originally had an aggregate maximum committed principal amount of up to $75.0 million. In 2021, the Borrower, in exchange for certain covenant relief, agreed to reduce the Revolving Lender's revolving commitment to $50.0 million, and the Revolving Lender agreed to make an additional contingent $10.0 million commitment subject to certain conditions that were not satisfied. The Prepetition First Lien Revolving Facility has a maturity date of August 16, 2024. Interest on outstanding amounts under the Prepetition First Lien Revolving Facility accrues at LIBOR plus an applicable margin of 4.00% plus a default rate of 2.00% (paid in kind). As of the Petition Date, approximately $50.6 million in aggregate principal amount and accrued interest remain outstanding on the Prepetition First Lien Revolving Facility.

2. Original First Lien Term Loans and Incremental First Lien Term Loans

23. In August 2019, Morphe borrowed the full $660.0 million under the Original First Lien Term Loan Facility. On March 9, 2022, Morphe entered into that certain Joinder Agreement, by and among, Morphe, as Borrower, Jefferies, as Administrative Agent, and FB Intermediate, as the New Term Loan Lender, pursuant to which, FB Intermediate agreed to provide the Incremental First Lien Term Loan Facility. In March 2022, Morphe borrowed the full $14.75 million under the Incremental First Lien Term Loan Facility. The Original First Lien Term Loans and Incremental First Lien Term Loans mature on August 16, 2026. Interest on the Original First Lien Term Loan Facility accrues at LIBOR plus an applicable margin of 5.00% plus a default rate of 2.00% (paid in kind). Interest on the Incremental First Lien Term Loan Facility accrues at 6.50% (paid in kind) plus a default rate of 2.00% (paid in kind).

24. As of the Petition Date, approximately: (a) $700.0 million in aggregate principal amount and accrued interest and other fees remain outstanding on the Original First Lien Term Loan Facility; and (b) $15.6 million in aggregate principal amount and accrued interest and other fees remain outstanding on the Incremental First Lien Term Loan Facility.

3. Bridge Loans

25. Since the funding of the Original First Lien Term Loans, the Prepetition First Lien Credit Agreement has been amended numerous times, including by the sixth amendment, eighth amendment and the tenth amendment, which amendments provided for the Bridge Loan Facility, structured as a multiple draw "first-out" bridge term loan facility permitting Bridge Loans up to an aggregate principal amount of $28.0 million, with a $10.0 million commitment made on September 8, 2022, an additional $9.0 million commitment made on October 11, 2022 and an additional $9.0 million commitment made on December 30, 2022. Morphe is not permitted to

borrow more than $28.0 million under the Bridge Loan Facility even if Morphe repays all or a portion of the outstanding Bridge Loans.

26. Interest on the Bridge Loans accrues at LIBOR plus an applicable margin of 5.00% plus a default rate of 2.00% (paid in kind). As of the Petition Date, approximately $26.5 million in aggregate principal amount and accrued interest and other fees remain outstanding on the Bridge Loans. The Bridge Loans have a maturity date of January 12, 2023 (or such later date as each Bridge Loan lender may agree in writing, in such lender's sole discretion).

B. Sponsor PIK Secured Notes

27. Pursuant to a Note Purchase Agreement dated as of January 7, 2022 (the "Secured Note Purchase Agreement"), Forma Brands issued a secured promissory note to its indirect parent, non-Debtor FB Intermediate in an original principal amount of $14.0 million in exchange for cash in the same amount. Forma Brands issued additional notes under the Secured Note Purchase Agreement to FB Intermediate on January 27, 2022, February 11, 2022, February 18, 2022 and February 25, 2022, in the amounts of approximately $15.0 million, $5.0 million, $8.6 million, and $12.4 million, respectively, in each case in exchange for cash in the same amount (all such notes issued pursuant to the Secured Note Purchase Agreement, the "Sponsor PIK Secured Notes").

28. Interest on the Sponsor PIK Secured Notes accrues at a per annum rate equal to 7.00% (paid in kind). As of the Petition Date, approximately $58.8 million in aggregate principal amount and accrued interest is outstanding on the Sponsor PIK Secured Notes. The Sponsor PIK Secured Notes have a maturity date of January 7, 2027.

29. The Sponsor PIK Secured Notes require Forma Brands, among other obligations, to repay the Sponsor PIK Secured Notes. All of the other Debtors (other than Playa) have guaranteed, as primary obligors, the prompt and complete payment and performance of all

obligations under the Sponsor PIK Secured Notes pursuant to a Note Guarantee dated as of January 7, 2022 (the "Note Guarantee"). Forma Brands' obligations under the Sponsor PIK Secured Notes and the other Debtors' obligations under the Note Guarantee are secured by valid, perfected liens on substantially all of the Debtors' assets. These liens rank *pari passu* to liens securing Morphe's Obligations under the Prepetition First Lien Credit Agreement and the other Debtors' obligations under the Guarantee.

C. First Lien Intercreditor Agreement

30. On January 7, 2022, Parent Debtor and Morphe entered in that certain First Lien Intercreditor Agreement (as amended as of September 8, 2022, and as amended, restated, supplemented, amended and restated or otherwise modified from time to time, the "First Lien Intercreditor Agreement"), among Parent Debtor, Morphe, Jefferies, as the Credit Agreement Collateral Agent and Authorized Representative for the Credit Agreement Secured Parties, and FB Intermediate Holdings, as the Initial Additional First Lien Collateral Agent and the Initial Additional Authorized Representative. Among other things, the First Lien Intercreditor Agreement establishes protocols for: (a) the lenders to act or refrain from acting with respect to any Shared Collateral (as defined in the First Lien Intercreditor Agreement); and (b) applying the proceeds or payments received respecting any Shared Collateral during an Event of Default (as defined in the First Lien Intercreditor Agreement). During an Event of Default, any payments or proceeds that the Controlling Collateral Agent receives respecting the Shared Collateral must be used to repay the Bridge Obligations before repaying any Obligations under the Original First Lien

Term Loan Facility, the Incremental First Lien Term Loan Facility, the Prepetition First Lien Revolving Facility, or the Sponsor PIK Secured Notes.

D. Sponsor PIK Unsecured Notes

31. Pursuant to a Note Purchase Agreement dated as of March 9, 2022 (the "Unsecured Note Purchase Agreement"), Debtor Forma Brands issued promissory notes to non-Debtor FB Intermediate Holdings (a) in an original principal amount of $5.25 million in exchange for cash in the same amount on March 9, 2022 and (b) in an original principal amount of $10.0 million in exchange for cash in the same amount on May 4, 2022 (all such notes issued pursuant to the Unsecured Note Purchase Agreement, the "Sponsor PIK Unsecured Notes").

32. Interest on the Sponsor PIK Unsecured Notes accrues at a per annum rate equal to 7.00% (paid in kind). As of the Petition Date, approximately $16.1 million in aggregate principal amount and accrued interest remain outstanding on the Sponsor PIK Unsecured Notes. The Sponsor PIK Unsecured Notes have a maturity date of March 9, 2027.

E. Equity Interests

33. As of the Petition Date, non-debtor FB Holdings owns 100% of the membership interests of non-debtor FB Intermediate Holdings.

34. As of the Petition Date, non-debtor FB Intermediate Holdings owns 100% of the membership interests of Parent Debtor.

35. As of the Petition Date, Parent Debtor owns 100% of the membership interests of Debtor Forma Brands.

36. As of the Petition Date, Debtor Forma Brands owns 100% of the equity interests of Debtor Morphe, which in turns owns 100% of the equity interests in the following entities: non-Debtor Morphe Cosmetics Ireland Limited, non-Debtor Morphe Cosmetics Germany GmbH,

non-Debtor Forma Brands Limited, non-Debtor Morphe Cosmetics Limited, non-Debtor Morphe Cosmetics Netherlands B.V, non-Debtor Forma Brands PTY LTD, non-Debtor Morphe Shanghai Inc., and Debtor Seemo, LLC.

37. As of the Petition Date, Debtor Forma Brands owns 100% of the membership interests of Debtor Forma Beauty Brands, LLC, which owns 100% of the membership or equity interests, as applicable, of the following entities: Debtor Jaclyn Cosmetics Holdings, LLC, Debtor Such Good Everything, LLC, and Debtor Playa.

38. As of the Petition Date, Debtor Jaclyn Cosmetics Holdings, LLC owns 100% of the membership interests of Debtor Jaclyn Cosmetics, LLC.

III. EVENTS LEADING TO THESE CHAPTER 11 CASES

39. As detailed below, the need to restructure the balance sheet of the Company and address the Debtors' liquidity needs arose from a number of factors that affected the Company's performance over recent years. Moreover, while efforts were made by the Debtors and the Strategic Committee to address liquidity and operational issues and secure an out of court transaction that would have avoided the need to commence these chapter 11 cases, ultimately, after considering these options and exploring a sale of substantially all of the Company's assets, the Debtors decided to commence these chapter 11 cases to, among other things, consummate the Sale Transaction.

A. General Conditions Affecting The Company's Liquidity

1. Decline of Influencer Productivity

40. Through its history, the Company has focused on partnering with influencers with a passion for cosmetics, in part because the growth of Instagram coincided with the growth of Morphe®. In 2016 through 2019, Morphe® collaborated with successful influencers in the beauty sphere, such as Jaclyn Hill, with whom the Company continues to collaborate today. During this

time period, the Company also partnered with James Charles and Jeffree Star. Each of these influencers maintained prominent YouTube channels, which they used to broadcast makeup tutorials and other beauty-related content. Between 2016 and 2019, Morphe's® partnership with these three influencers was extremely successful, accounting for more than 40% of the Company's revenues and driving significant traffic to Morphe's® website.

41. In 2019, a shift in the beauty industry occurred. Due to the rise in spending power of the Gen-Z consumer, makeup trends went from more full-coverage, polished looks to lighter coverage focused on highlighting natural looks and skincare. Given the change in demand, the reach of the influencers the Debtors worked with diminished.

42. Compounding these issues, at the beginning of 2020, issues arose with certain of the influencers with whom the Company had a relationship, and the Company terminated these relationships. While the Company stands behind its decision to terminate these relationships, and although the Company continues to work with influencers such as Jaclyn Hill and Charli D'Amelio, the Company experienced a material decline in revenue from 2020 to 2021 that was, in part, attributable to such terminations.

2. COVID-19 Pandemic

43. As was the case with many consumer facing businesses, the Debtors have also felt the widespread effects of the COVID-19 pandemic. Demand for makeup products in 2020 decreased as a result of lockdowns and at-home seclusion. In particular, premium beauty segments were more impacted by the COVID-19 pandemic due to specialty store closures, whereas the mass beauty segment was better protected due to more mass beauty retailers qualifying as essential businesses and remaining open to sell both beauty and non-beauty products.

44. To protect their employees and customers, as well as in response to government-imposed restrictions on non-essential retail, the Debtors temporarily closed down

their Morphe® retail stores. Ulta stores, through which the Debtors also sell Morphe® products, also temporarily closed down. Consequently, in 2020 and 2021, the Debtors experienced a sharp decline in net sales from their Morphe® store locations and their wholesale business.

3. Unproductive Morphe Store Footprint

45. In 2017, the Company expanded its Morphe® retail store network and in 2018 expanded further, opening its first international retail stores. Prior to January 5, 2023, the Company maintained 44 stores, including stores in 12 U.S. states (32 stores), the United Kingdom (7 stores), Australia (2 stores), Canada (2 stores), and the Netherlands (1 store). Despite substantial start-up costs, performance at these Morphe store locations began to decline before COVID-19 and although performance has since recovered modestly, since 2018, the Debtors experienced a sharp decline in overall profitability.

B. The Appointment Of The Strategic Committee And Its Efforts To Restructure The Company

46. As discussed above, in September 2022, as a result of settlement discussions between the Debtors and the Secured Lenders, the Strategic Committee was appointed, which was provided with exclusive authority to oversee all restructuring matters, including authority to, among other things, review and approve strategic alternatives, commence insolvency proceedings by the Debtors, and obtain necessary financing, refinancing, or recapitalization. To provide the Strategic Committee with time to discharge its responsibilities and explore restructuring options, including a sale of the Company, the Debtors and the Secured Lenders entered into further forbearances and waivers and the Secured Lenders provided the Debtors secured bridge financing in the form of the Bridge Loan Facility in the aggregate maximum committed principal amount of $28.0 million. With this financing in hand, the Strategic Committee and its new advisors immediately undertook a further assessment of the Debtors' business to evaluate the Debtors'

restructuring options, including whether an out of court sale or other transaction could be consummated, either consensually or through an alternative method.

47. To this end and consistent with its authority, the Strategic Committee retained Configure Partners, LLC and Configure Partners Securities, LLC (collectively, "Configure"), who was delegated the responsibility to run a marketing and sale process with respect to the Company's business and assets.

1. The Pre-Bankruptcy Sale Process

48. As set forth above, the Debtors engaged Configure to serve as their investment banker, assisting in canvassing the market for interested buyers. While restructuring discussions with the Secured Lenders continued, in September 2022, Configure began marketing the Company by preparing teasers, non-disclosure agreements ("NDAs") and a confidential information memorandum ("CIM"). As of the Petition Date, nearly 250 potentially interested purchasers were contacted and approximately 50 parties executed NDAs and received the CIM. The materials were agnostic as to whether a sale transaction was to be consummated in court or out of court and indications of interest were initially sought to be obtained by December 16, 2022 (the "Indication Deadline"). Notwithstanding the extensive prepetition marketing process, Configure did not receive any viable bids from third parties by the Indication Deadline; however, because the Company was in negotiations regarding a sale of the R.E.M. Beauty® business, as described below, Configure advised interested purchasers that the Indication Deadline was extended through January 6, 2023. No bids were, however, received by this extended deadline.

49. Consequently, immediately prior to the Petition Date, the Debtors entered into a stalking horse agreement with the Stalking Horse Bidder and commenced these chapter 11 cases to consummate a Sale Transaction with the Stalking Horse Bidder or a third-party bidder who submits a higher or otherwise better bid for the Debtors' business and assets. As a part of their

first day relief, the Debtors are seeking approval of a proposed schedule for their postpetition sale and marketing process. This process, which is a continuation of a nearly four-month prepetition process, seeks to obtain Court approval and consummation of the Sale Transaction in compliance with the milestones included in the Debtors' DIP Credit Facility (as defined and further described below). Based on discussions with Configure and my experience, I believe that in addition to the prepetition sale process conducted by Configure, this process will enable the Debtors to ensure that they obtain a value maximizing Sale Transaction that is in the best interest of the Debtors and their stakeholders.

2. U.S. Store Closures

50. As discussed above, as of early September 2022, the Debtors operated 32 Morphe retail stores in the United States. Given the financial burden of the Debtors' lease obligations, labor costs, and other costs associated with maintaining a sizeable brick and mortar presence, the Debtors undertook an effort to rationalize their retail store footprint, but ultimately determined that the Company should focus on its e-commerce and wholesale operations. As a result, on January 5, 2023, the Company announced that it was closing all of the Morphe retail store locations in the United States. Thus, as of the Petition Date, the Company has no retail stores operating in the United States and only operates eleven Morphe retail stores in Canada, Europe, and Australia through its non-Debtor subsidiaries.

3. R.E.M. Beauty Litigation and Settlement

51. Consistent with its belief that influencers would play a significant role in revenue growth, in December 2020, Forma Beauty Brands, LLC ("Forma") entered into a series of agreements with affiliates of superstar Ariana Grande, an American singer and actress (the "AG Parties"), pursuant to which Forma would be the exclusive licensee of cosmetic products using the R.E.M. Beauty® brand. Specifically, as of December 24, 2020, Forma entered into three

agreements: (a) that certain Limited Liability Company Agreement of AGRB, LLC, which is the exclusive licensee of Ariana Grande's R.E.M. Beauty® brand from Thunder Road, Inc.; (b) that certain REM Beauty License Agreement with AGRB dated December 24, 2020 (the "License Agreement"), whereby Forma was granted rights to the "R.E.M. Beauty" trademark and associated intellectual property, as well as rights to licensed products, including color cosmetics, skin and body care, hair care, and related tools and accessories; and (iii) that certain Endorsement and License Agreement with AGent, LLC dated December 24, 2020 (the "Endorsement Agreement" and together with the License Agreement, the "AG Agreements"), whereby Forma is granted a non-exclusive license to use Ms. Grande's persona in connection with the operation of the R.E.M. Beauty® business.

52. On October 17, 2022, the AG Parties sent Forma a notice of termination, purporting to terminate the License Agreement and Endorsement Agreement (the "Notice of Termination"). Forma disputed the Notice of Termination and requested it be withdrawn and the AG Parties refused to do so. Subsequently, the parties met to see if they could resolve their differences, however, those efforts failed and on November 3, 2022, the AG Parties served Forma with a confidential arbitration demand. Thereafter, Forma and the AG Parties continued to make good faith efforts to resolve their disagreements, and on December 10, 2022, Forma and the AG Parties entered into a term sheet pursuant to which Forma, the Secured Lenders, and the AG Parties agreed to temporarily stay their disputes while they negotiated terms of a global settlement of their disputes. The term sheet provided for, among other things, non-binding terms of a settlement (the "R.E.M. Settlement") pursuant to which affiliates of the AG Parties would, among other things, acquire all of the Debtors' rights under the AG Agreements as well as all of the R.E.M. Beauty® inventory that the Debtors would have in their possession as of the closing date of the R.E.M.

Settlement (the "R.E.M. Asset Transfer"), with consideration for the R.E.M. Asset Transfer to include, in addition to the settlement of claims in the arbitration, a cash payment to Forma and the waiver of certain royalties due to the AG Parties under the License Agreement. While Forma and the AG Parties continued to work in good faith to finalize the terms of a definitive asset purchase agreement for the R.E.M. Asset Transfer, they were unfortunately unable to reach a final agreement and consummate the R.E.M. Settlement prior to the Petition Date. Consequently, the Debtors and the AG Parties agreed to pursue the R.E.M. Settlement and the R.E.M. Asset Transfer in these chapter 11 cases. The Debtors believe a definitive asset purchase agreement with respect to a R.E.M. Asset Transfer will be executed shortly and anticipate filing a motion seeking Court approval of the transaction in the coming days.

53. In sum, notwithstanding the efforts of the Strategic Committee, the filing of these chapter 11 cases was precipitated by, among other things, the Company's liquidity concerns, its inability to effectively rationalize Morphe's U.S. retail footprint and address resulting lease termination claims, and the mounting pressure from vendors for payments and their refusal to deliver products without assurances of payment, which placed the Debtors' business and their relationships with key customers such as Sephora, Ulta, and Selfridges and, thus, its going concern value, at significant risk. Accordingly, to obtain the significant new capital necessary to ensure that the goods and supplies required to meet product launches and stabilize the business were received, and to preserve going concern value, the Debtors commenced these chapter 11 cases to obtain the immediate cash infusion provided under the DIP Credit Facility and to consummate the R.E.M. Settlement and the Sale Transaction.

IV. FIRST DAY MOTIONS AND RELATED RELIEF REQUESTED

A. The Debtors' Need For DIP Financing And Access To Cash Collateral

54. Pursuant to the *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying The Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief* (the "DIP Financing Motion"),[7] the Debtors seek authority to obtain senior secured post-petition financing on a superpriority basis consisting of a superpriority senior secured multiple draw term loan facility (the "DIP Credit Facility") in an aggregate principal amount not to exceed $33.0 million, use cash collateral ("Cash Collateral"), and obtain related relief. If the DIP Credit Facility is approved, $16.2 million of the DIP Credit Facility would be available upon entry of the Interim Order (as defined in the DIP Financing Motion) and the remainder would be available upon entry of the Final Order (as defined in the DIP Financing Motion), subject to the Carve-Out.

55. It is my belief that the Debtors exercised their business judgment in the selection and negotiation of the terms of the DIP Credit Facility. In advance of the Petition Date and as further described in the Jacquin Declaration,[8] the Debtors conducted a marketing process to determine if any third-party lenders would be willing to provide postpetition financing. None of the potential third-party lenders contacted was able to offer postpetition financing. Having received only one actionable postpetition financing proposal, the Debtors, guided by their advisors,

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[7] Capitalized terms used in this section not otherwise defined herein shall have the meanings ascribed to such terms in the DIP Financing Motion.

[8] The "Jacquin Declaration" means the *Declaration of Jay Jacquin, Proposed Investment Banker to the Debtors, in Support of Debtors' Motion to Obtain Postpetition Debtor in Possession Financing and the Debtors' Bidding Procedures Motion*, filed contemporaneously herewith.

actively negotiated the terms of the proposal and was able to obtain concessions on a number of key provisions.

56. The Debtors ultimately decided that moving forward with the proposed DIP Credit Facility was an appropriate step given that the DIP Credit Facility: (a) allows the Debtors to avoid a value-destructive priming fight; (b) provides a path forward in chapter 11 by allowing the Debtors to facilitate the Sale Process with a Stalking Horse Bid and to consummate the Sale Transaction subject to higher and better bids; and (c) allows the Debtors to operate in the ordinary course of business postpetition and fund the administration of the chapter 11 cases for the benefit of the estates and all of the Debtors' stakeholders. The DIP Credit Facility allows the Debtors to obtain necessary liquidity on market terms, without the risk of a priming fight, and fund the Sale Process with the benefit of a Stalking Horse Bid. The Debtors and their advisors therefore determined that entry into the DIP Credit Facility was the best path available and they have obtained the best terms currently achievable under the circumstances. The Debtors believe that the DIP Credit Facility reflects the most favorable and best postpetition financing available to the Debtors, and the terms are fair and reasonable under the circumstances of these chapter 11 cases.

1. The Debtors' Urgent and Immediate Liquidity Needs

57. As of the Petition Date, I understand that the Debtors will have approximately $400,000 of unrestricted cash on hand and believe that the Debtors will require immediate access to the DIP Credit Facility and use of Cash Collateral to ensure they have sufficient liquidity during the interim period to fund the Sale Process (as defined in the DIP Financing Motion), essential operational costs and expenses, and avoid immediate and irreparable harm to the Debtors' operations. In addition, the Debtors will require full access to the DIP Credit Facility after a final hearing to continue operations and fund working capital needs. The Debtors, with the assistance of their advisors, have concluded that the DIP Credit Facility will be sufficient to facilitate a robust

marketing Sale Process, support operations, and maintain necessary liquidity to fund these chapter 11 cases.

58. In anticipation of the Debtors' need for debtor in possession financing and the use of cash collateral, the Debtors, in consultation with Ankura, performed a review and analysis of the Debtors' projected cash needs. Based upon that review and analysis, I believe that the use of cash collateral alone would be insufficient to operate the Debtors' businesses, and that additional funding is necessary. The Debtors are in need of both access to Cash Collateral and an immediate infusion of liquidity to ensure sufficient working capital to operate their businesses, pay their employees and vendors, service their customers, administer their estates during these chapter 11 cases, and fund the Sale Process. Ankura undertook a detailed analysis of the Debtors' operations and funding needs, and, from such review and analysis, it became clear that the Debtors would require an infusion of capital to operate during these chapter 11 cases as they conduct their marketing for the Sale Process. Without prompt access to postpetition financing and Cash Collateral, I believe that the Debtors will be unable to: (a) ensure payments to employees, third-party vendors, utilities, taxing authorities, and insurance companies, among others, who provide the essential services needed to operate, maintain, and insure the Debtors' assets; (b) ensure the timely payment of administrative expenses to be incurred; (c) provide a positive message to the market that these chapter 11 cases are sufficiently funded and that the Sale Process will be adequately robust, which is critical to ensure confidence in the Debtors from, among others, their customers, employees, and vendors; and (d) make any necessary payments to preserve the value of the Debtors' brands in the United States and other foreign countries in which the Debtors do business and preserve the value of the foreign non-debtor subsidiaries. I believe that immediate access to the DIP Credit Facility and continued access to the Cash Collateral is therefore crucial

to the Debtors' efforts to preserve value for their stakeholders during these chapter 11 cases and to prevent immediate and irreparable harm to the value of the Debtors' estates.

59. In furtherance of the Debtors' cash needs, the Debtors and Ankura prepared the Initial Budget outlining the funding that would be critical in the initial thirteen (13) weeks post-filing, with such budget to be updated pursuant to the terms of the DIP Credit Agreement and the Interim Order. Based on information available as of the Petition Date, I believe that the Initial Budget, as will be updated, is an accurate reflection of the Debtors' initial funding requirements and will allow them to meet their obligations in these chapter 11 cases. Therefore, I submit that the Initial Budget is fair, reasonable, and appropriate under the circumstances.

2. The DIP Credit Facility Has Been Heavily Negotiated

60. The Debtors' management team and the Debtors' advisors (including Ankura) were actively involved throughout the negotiations with the DIP Lenders for debtor in possession financing, which I believe were conducted at arm's-length and in good faith. The terms of the DIP Credit Facility were negotiated for months leading up to the Petition Date, with the Debtors and their advisors exchanging several drafts of the term sheet for the DIP Credit Facility as well as each of the DIP Documents. The Debtors and their advisors worked to negotiate the most favorable terms of the DIP Credit Facility available to the Debtors given the Debtors' lack of alternative third-party financing. Ultimately, the DIP Lenders were unwilling to lend on terms other than those specifically set forth in the DIP Documents.

3. The Milestones that the Debtors Must Meet Under the Terms of the DIP Credit Facility are Reasonable

61. The DIP Credit Facility contemplates, as a product of negotiation with and as required by the DIP Lenders as a condition to providing the DIP Credit Facility, certain milestones that the Debtors must meet throughout their chapter 11 cases, the failure of which would constitute

an event of default under the DIP Credit Agreement. These Milestones were heavily negotiated and required by the DIP Lenders as a condition to providing the DIP Credit Facility and the Stalking Horse Bid.

62. I believe that the DIP Credit Facility serves as an important component of these chapter 11 cases because it provides the Debtors with the stability and certainty that they can smoothly land into chapter 11 and continue to operate in the ordinary course of business while facilitating a robust Sale Process. I further believe that the continued and viable operation of the Debtors' business would not be possible absent access to the DIP Credit Facility, which the DIP Lenders would not have provided absent the inclusion of the Milestones. The DIP Credit Facility will prevent interruptions to the Debtors' operations, preserve the Debtors' ability to maintain ordinary course relationships with, among other parties in interest, employees, customers, wholesale partners, and vendors, satisfy working capital needs in the ordinary course, and enable the Debtors to facilitate the Sale Process and consummate the Sale Transaction.

4. The Debtors Should be Authorized to Grant Liens and Superpriority Claims

63. Based on my review of the Debtors' financial position and my conversations with the Debtors' management team and their other advisors, I believe that the Debtors are in need of an immediate infusion of liquidity to ensure sufficient working capital to operate their businesses and administer their estates. From the outset of Ankura's engagement, I understand that several factors made clear that the required new money infusion in the form of debtor in possession financing would be highly likely to originate from existing members of the Debtors' capital structure. First, substantially all of the Debtors' assets were encumbered under the Prepetition First Lien Documents, which restricted the availability of, and the Debtors' options for, securing additional financing absent lenders consent or a bankruptcy. Second, in addition to needing

liquidity for their business turnaround, the Debtors needed, among other things, covenant relief and extension of the maturity dates under the Prepetition Credit Agreement. Third, the Debtors' lenders had made clear that they were unwilling to provide: (a) debt financing on an unsecured basis; or (b) equity financing subordinated to existing debt claims. Fourth, unsecured financing was not a viable option due to the amount of existing secured debt relative to the Debtors' financial position and the Debtors' negative projected EBITDA in 2022 through 2023. Fifth, the Debtors believed that the Prepetition Secured Parties would not consent to "priming" debtor in possession financing, either provided by a third-party or from an existing member of the Debtors capital structure (other than themselves), and I believe that the absence of a sufficient equity cushion made it unlikely that priming debtor in possession financing could be obtained over the objection of the Prepetition Secured Parties. Accordingly, I believe that the only available avenue for obtaining workable financing was with the Debtors' existing stakeholders.

64. Furthermore, I understand that the Prepetition Secured Parties are supportive of the priming of their own prepetition liens in connection with the DIP Credit Facility on a consensual basis. Based on my involvement in the Debtors' negotiations of the DIP Credit Facility and my conversations with the Debtors' other advisors, I do not believe any alternative financing is available on equal or better terms from the DIP Lenders, without granting first priority liens in the Prepetition Collateral.

65. The incremental liquidity provided under the DIP Credit Agreement is needed to ensure adequate working capital and funding for the other administrative expenses associated with these chapter 11 cases. I believe that, absent this funding, the Debtors would not be able to continue to operate their businesses at the levels that are necessary to preserve their goodwill, employee morale, vendor confidence in the Debtors' businesses, and customer loyalty and

reputation in the marketplace. Accordingly, I believe that the enterprise value of the Debtors would be significantly impaired absent the funding under the DIP Credit Agreement.

B. Other First Day Motions

66. In connection with the filing of their chapter 11 petitions, the Debtors filed the below-listed First Day Motions, which are explained in greater detail in **Exhibit B**, requesting relief that the Debtors believe is necessary to enable them to administer their estates with minimal disruption and loss of value during these chapter 11 cases. The facts set forth in each of the First Day Motions are incorporated herein in their entirety.[9]

(i) Administrative Motions:

(1) Joint Administration Motion. *Debtors' Motion for Entry of Order (I) Directing Joint Administration of Related Chapter 11 Cases and (II) Granting Related Relief*;

(2) Kroll Application. *Debtors' Application for Appointment of Kroll Restructuring Administration LLC as Claims and Noticing Agent*; and

(3) Creditor Matrix Motion. *Debtors' Motion for Entry of an Order (I) Authorizing Debtors to File a Consolidated (A) Creditor Matrix and (B) Top 50 Creditors List, (II) Authorizing Redaction of Certain Personal Identification Information, and (III) Granting Related Relief*.

(ii) Operational Motions Requiring Immediate Relief:

(4) DIP Financing Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Obtain Postpetition Financing, (II) Authorizing the Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief*;

(5) Bidding Procedures Motion. *Debtors' Motion Pursuant to Sections 105, 363 and 365 of the Bankruptcy Code: (I) For Entry of Interim*

[9] Capitalized terms used in this section but not otherwise defined herein shall have the meanings ascribed to them in the respective First Day Motions.

and Final Orders (A) Approving Sale Timeline, Bidding Procedures and the Form and Manner of Notice Thereof, and (B) Approving the Debtors' Entry Into the Stalking Horse APA; (II) For Entry of a Final Order Approving the Debtors' (A) Sale of All or Substantially All of the Debtors' Assets Free and Clear of All Encumbrances Other Than Assumed Liabilities and (B) Assumption and Assignment of Certain Executory Contracts and Unexpired Leases to The Winning Bidder; and (III) Granting Related Relief;

(6) Cash Management Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Continue to Operate Their Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Continue Certain Intercompany Transactions, and (II) Granting Related Relief*;

(7) Insurance Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Maintain Existing Insurance Policies and Pay All Insurance Obligations Arising Thereunder, and (B) Renew, Supplement, Modify, or Purchase Insurance Coverage, (II) Authorizing Continuation and Renewal of Surety Bond Program, and (III) Granting Related Relief*;

(8) Taxes Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Taxes and Fees and (II) Granting Related Relief*;

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

(10) Wages Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors 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*.

(iii) Payment of Claims Motions:

(11) Customer Programs Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to (A) Honor Certain Prepetition Obligations to Customers and (B) Otherwise Continue*

Certain Customer Programs in the Ordinary Course of Business and (II) Granting Related Relief;

(12) Critical Vendor Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Claims of Critical Vendors and Certain Section 503(b)(9) Claimants, and (II) Granting Related Relief*; and

(13) Lien Claimants Motion. *Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing Debtors to Pay Certain Prepetition Claims of Lien Claimants and Related Obligations, and (II) Granting Related Relief*.

67. The First Day Motions request authority to, among other things, enter into the DIP Credit Facility and continue use of the Debtors' cash collateral, honor workforce-related compensation and benefits obligations, pay claims of certain critical vendors, suppliers, and taxing authorities, continue to honor certain customer programs, and continue the Debtors' cash management system and other operations in the ordinary course of business to ensure minimal disruption of the Debtors' business operations during these chapter 11 cases. For the avoidance of doubt, the Debtors request authority, but not direction, to pay amounts or satisfy obligations with respect to the relief requested in the First Day Motions.

68. The Debtors have tailored their requests for immediate relief to those circumstances when the failure to receive such relief would cause immediate and irreparable harm to the Debtors and their estates. I believe an orderly transition into chapter 11 is critical to the viability of the Debtors' operations and that any delay in granting the relief described below could hinder the Debtors' operations and cause irreparable harm. Other requests for relief will be deferred for consideration at a later hearing.

69. I have reviewed each of the First Day Motions and am familiar with the content and substance contained therein. The facts set forth in each First Day Motion are true and correct to the best of my knowledge and belief with appropriate reliance on other corporate officers and

advisors and I can attest to such facts. I believe that the relief requested in each of the First Day Motions listed below (a) is necessary to allow the Debtors to operate with minimal disruption and productivity losses during these chapter 11 cases, (b) is critical to ensure the maximization of value of the Debtors' estates through preserving customer, supplier and other partner relationships, among other things, (c) is essential to achieving a successful reorganization, and (iv) serves the best interests of the Debtors' stakeholders.

CONCLUSION

70. The Debtors' ultimate goal in these chapter 11 cases is to achieve an orderly, efficient, consensual, and successful reorganization to maximize the value of the Debtors' estates for their stakeholders. To minimize any loss of value, the Debtors' immediate objective is to maintain a business-as-usual atmosphere during the course of these chapter 11 cases, with as little interruption or disruption to the Debtors' operations as possible. I believe that if the Court grants the relief requested in each of the First Day Motions, the prospect for achieving these objectives and completing a successful reorganization of the Debtors' businesses will be substantially enhanced.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: January 12, 2023

/s/ Stephen Marotta
Stephen Marotta
Chief Restructuring Officer
FB Debt Financing Guarantor, LLC and its debtor affiliates

EXHIBIT A

Corporate Structure Chart

Legend

Debtor

Non-Debtor

Forma Brands Holdings, LLC (Delaware)

FB Intermediate Holdings, LLC (Delaware)

FB Debt Financing Guarantor, LLC (Delaware)

Forma Brands, LLC (Delaware)

Morphe, LLC (Delaware)

Forma Beauty Brands, LLC (Delaware)

Morphe Cosmetics Ireland Limited (Ireland)

Morphe Cosmetics Germany GmbH (Germany)

Forma Brands Limited (Canada)

Morphe Cosmetics Limited (UK)

Morphe Cosmetics Netherlands B.V (Netherlands)

Forma Brands PTY LTD (AUS)

Morphe Shanghai Inc. (China)

Seemo, LLC (Delaware)

Jaclyn Cosmetics Holdings, LLC (Delaware)

Such Good Everything, LLC (Delaware)

Playa Products, Inc. (Delaware)

Jaclyn Cosmetics LLC (Delaware)

EXHIBIT B

Evidentiary Support for First Day Motions

I. DEBTORS' MOTION FOR ENTRY OF ORDER (I) DIRECTING JOINT ADMINISTRATION OF RELATED CHAPTER 11 CASES AND (II) GRANTING RELATED RELIEF (THE "JOINT ADMINISTRATION MOTION").[1]

1. Pursuant to the Joint Administration Motion, the Debtors request entry of an order (a) directing joint administration of these chapter 11 cases for procedural purposes only and (b) granting related relief. Given the integrated nature of the Debtors' operations, I believe joint administration of these chapter 11 cases will provide significant administrative convenience without harming the substantive rights of parties in interest.

2. I believe that the relief requested in the Joint Administration Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, I respectfully request that the Joint Administration Motion be approved.

II. DEBTORS' APPLICATION FOR APPOINTMENT OF KROLL RESTRUCTURING ADMINISTRATION, LLC AS CLAIMS AND NOTICING AGENT (THE "CLAIMS AND NOTICING AGENT RETENTION APPLICATION").

3. Pursuant to the Claims and Noticing Agent Retention Application, the Debtors seek entry of an order appointing Kroll Restructuring Administration, LLC ("Kroll") as claims and noticing agent in the Debtors' chapter 11 cases effective as of the Petition Date.

4. I believe that the relief requested in the Claims and Noticing Agent Retention Application is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Court approve the Claims and Noticing Agent Retention Application.

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[1] Capitalized terms used but not defined herein shall have the meanings ascribed to them in the applicable First Day Motion.

III. DEBTORS' MOTION FOR ENTRY OF AN ORDER (I) AUTHORIZING DEBTORS TO FILE A CONSOLIDATED (A) CREDITOR MATRIX AND (B) TOP 50 CREDITORS LIST, (II) AUTHORIZING REDACTION OF CERTAIN PERSONAL IDENTIFICATION INFORMATION, AND (III) GRANTING RELATED RELIEF (THE "CREDITOR MATRIX MOTION").

5. Pursuant to the Creditor Matrix Motion, the Debtors seek entry of an order (a) authorizing the Debtors to file a consolidated (i) list of creditors in lieu of submitting a separate mailing matrix for each Debtor, and (ii) list of the Debtors' fifty (50) largest unsecured creditors in lieu of submitting a separate list for each Debtor; (b) authorizing the Debtors to redact certain personal identification information; and (c) granting related relief.

6. I believe that filing a single consolidated list of the 50 largest unsecured creditors, and redacting personally identifiable information of such creditors**,** is warranted in these chapter 11 cases. Requiring the Debtors to segregate and convert their computerized records to a Debtor-specific creditor matrix format would be an unnecessarily burdensome task, and would lead to administrative burdens, costs, and result in duplicate mailings.

7. I believe that the relief requested in the Creditor Matrix Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Creditor Matrix Motion be approved.

IV. DEBTORS' MOTION PURSUANT TO SECTIONS 105, 363 AND 365 OF THE BANKRUPTCY CODE: (I) FOR ENTRY OF INTERIM AND FINAL ORDERS (A) APPROVING SALE TIMELINE, BIDDING PROCEDURES AND THE FORM AND MANNER OF NOTICE THEREOF, AND (B) APPROVING THE DEBTORS' ENTRY INTO THE STALKING HORSE APA; (II) FOR ENTRY OF A FINAL ORDER APPROVING THE DEBTORS' (A) SALE OF ALL OR SUBSTANTIALLY ALL OF THE DEBTORS' ASSETS FREE AND CLEAR OF ALL ENCUMBRANCES OTHER THAN ASSUMED LIABILITIES AND (B) ASSUMPTION AND ASSIGNMENT OF CERTAIN EXECUTORY CONTRACTS AND UNEXPIRED LEASES TO THE SUCCESSFUL BIDDER; AND (III) GRANTING RELATED RELIEF (THE "BID PROCEDURES MOTION").

8. Pursuant to the Bid Procedures Motion, the Debtors seek entry of three orders: (a) an interim order setting certain dates critical to the Debtors' proposed bidding and sale process (the "Interim Scheduling Order"); (b) a final order approving bidding procedures, including on a final basis the dates set by the Interim Scheduling Order (the "Final Bidding Procedures Order") in substantially the form attached to the Bid Procedures Motion as Exhibit B; and (c) an order approving the sale of substantially all of the Debtors' assets (the "Sale Order") in the form to be filed in advance of the Sale Objection Deadline, subject to modification.

9. I believe that the relief sought in the proposed Interim Scheduling Order is reasonable and appropriate to enable the Debtors to seek the highest value for their assets under the circumstances. As discussed in the First Day Declaration, the Debtors are facing a variety of factors affecting their liquidity, and the Debtors cannot afford a longer marketing process for a sale because the DIP Credit Facility is contingent on closing a sale within the Sale Timeline. I believe that providing the maximum notice to potentially interested parties of the proposed timeline will be helpful to the process and maximizing value. Therefore, I believe that the Debtors' and the Debtors' Sale Process will be best served by approval of the proposed Interim Scheduling Order.

10. Further, I believe that approving the proposed Final Bidding Procedures Order is

reasonable and appropriate to enable the Debtors to seek the highest value for their Assets under the circumstances. The Sale Timeline and the proposed Bidding Procedures will provide a transparent and comprehensive avenue through which the Debtors' will further solicit competing bids for the Assets. The Sale Timeline is consistent with the Milestones required by the DIP Credit Facility, and as noted above, the Debtors cannot afford a longer Sale Process. The Bidding Procedures reflect the Debtors' objective of conducting the Sale Process in an orderly, fair and open manner that generates the highest or otherwise best bid for the Assets. The Bidding Procedures do not a) contemplate exclusivity, b) provide for a break-up fee or expense reimbursement, and c) do not otherwise provide bid protections for the Stalking Horse Purchaser. Moreover, through approval of the Debtors' entry into the Stalking Horse APA, the Bidding Procedures set a floor for the Auction with respect to a Sale of their Assets. Accordingly, there is no threat that the Bidding Procedures chill or otherwise hamper potential bidders' bidding. Further, the Stalking Horse APA was negotiated in good faith and at arm's length and will serve as the baseline for all prospective bidders to negotiate from and will be subject to higher or otherwise better bids for the Assets pursuant to the Bidding Procedures. Given the exigencies of the Debtors' financial condition, the timely sale of the Assets, in accordance with the Sale Timeline and the timeline contemplated by the Stalking Horse APA, is the best way to avoid a fire-sale liquidation of the Assets. Therefore, I believe that the Debtors' and the Sale Process will be best served by approval of the proposed Final Bidding Procedures Order.

11. I believe that the relief requested in the Bid Procedures Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Bid Procedures Motion be approved.

V. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO (A) CONTINUE TO OPERATE THEIR CASH MANAGEMENT SYSTEM, (B) HONOR CERTAIN PREPETITION OBLIGATIONS RELATED THERETO, (C) MAINTAIN EXISTING BUSINESS FORMS, AND (D) CONTINUE CERTAIN INTERCOMPANY TRANSACTIONS, AND (II) GRANTING RELATED RELIEF (THE "CASH MANAGEMENT MOTION").

12. Pursuant to the Cash Management Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors, in their sole discretion, to (i) continue to operate their Cash Management System (as defined below); (ii) pay any prepetition or postpetition amounts outstanding on account of the Bank Claims (as defined below); (iii) maintain existing Business Forms (as defined below) in the ordinary course of business; (iv) continue to perform Intercompany Transactions (as defined below) consistent with historical practice; and (b) granting related relief.

13. To facilitate the efficient operation of their business across Debtor and non-Debtor entities, the Debtors operate an integrated system of Bank Accounts (the "Cash Management System"). As of the Petition Date, the Cash Management System includes a total of fifty-nine (59) bank accounts, of which fifty-two (52) are held at Debtor entities (collectively, the "Bank Accounts"), and seven (7) are held at non-Debtor entities. The Debtors' Bank Accounts are held BoA. The process through which the Debtors receive payments, make cash disbursements, and transfer funds between the Bank Accounts is described in greater detail in the Cash Management Motion and Exhibit C attached to the Cash Management Motion.

14. As part of the Cash Management System, the Debtors have provided approximately 14 employees with corporate credit cards issued by Brex, Inc. and 8 employees with corporate credit cards issued by BoA (together, the "Corporate Cards") to cover legitimate business expenses, including certain travel expenses, incurred in the ordinary course of business in connection with their employment as well as certain vendor payments. I believe that the ability of

the Debtors to use the Corporate Cards on a go-forward basis is essential to the continued operation of the Debtors' business and the corporate administration thereof in order for the relevant employees and vendors to have assurance that they will be able to purchase certain business expenses without having to seek reimbursement from their own account or otherwise seek proper remittance. Accordingly, it is my belief that the Debtors' inability to maintain the Corporate Cards would result in unnecessary hardship on the continued operation of the Debtors' business. I therefore believe that the Debtors should be authorized to continue honoring obligations in relation to the Corporate Cards on a postpetition basis in the ordinary course of business.

15. To maintain the integrity of their Cash Management System, I believe that the Debtors should be allowed to pay all prepetition Bank Fees and to continue to pay Bank Fees in the ordinary course on a postpetition basis. Further, in order to normalize operations and avoid the disruption that would otherwise occur if the Bank Accounts were frozen pending payment or resolution of disputes regarding the priority of claims or rights of recoupment, it is my belief that the Debtors should have the authority, in their sole discretion, to pay or reimburse the Bank in the ordinary course of business for any Bank Claims arising prior to, on, or after the Petition Date.

16. The Debtors also use 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 Debtors' current status as debtors in possession. Nonetheless, most parties doing business with the Debtors will be aware of the Debtors' status as debtors in possession as a result of the publicity surrounding these chapter 11 cases and the notice of commencement served on parties in interest. Requiring the Debtors to change existing Business Forms would unnecessarily distract the Debtors from their restructuring efforts and impose needless expenses on the estates. Thus, I believe that the Debtors should be authorized to use their

existing Business Forms without placing a "Debtor In Possession" legend on each, until their existing stock is depleted. Once the Debtors have exhausted their 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 joint case number. To the extent that checks or forms are prepared electronically, the debtors will add a "Debtor In Possession" designation to such checks within fourteen (14) days of the Petition Date.

17. In the ordinary course of business, the Debtors engage in certain intercompany transactions, including the Intercompany Transfers, the Intercompany Sales, and the Shared Services (collectively, the "Intercompany Transactions") between the Debtor entities in the United States and also with certain non-Debtor foreign subsidiaries. The Debtors closely track all intercompany fund transfers in their respective accounting systems and can ascertain, trace, and account for all Intercompany Transactions. As a result of the various Intercompany Transactions discussed below, at any given time, there may be intercompany balances owing by one Debtor to a Debtor, one Debtor to a non-Debtor or by one non-Debtor to a Debtor (the "Intercompany Claims").

18. In the ordinary course of business, the Debtors also occasionally engage in intercompany transfers (the "Intercompany Transfers") with each other and with their non-Debtor foreign subsidiaries. More specifically, the Intercompany Transfers occur on an as-needed basis to maintain liquidity and operations across the Debtors' and non-Debtors' businesses and are intended for specific, targeted, short-term needs. Many, but not all transactions occur on a net-zero basis. Once the Intercompany Transfers are made, the non-Debtor foreign subsidiaries use such funds in the ordinary course to, among other things, make vendor payments, facilitate payroll, pay rent, and make any other necessary operational payments. In instances where a transfer is

needed for the collective stability of the Debtors' and non-Debtors' global businesses, the Debtors need the ability to send funds to meet the requirements of the collective, international businesses. The Intercompany Transfers allow the Company to support its diverse domestic and foreign operations, and to ensure that ongoing operations of Debtors and non-Debtor foreign subsidiaries are sustained, adequately funded, and compliant with any applicable laws of the various jurisdictions in which the Company operates, including to make payroll and pay landlords, vendors, and suppliers in the ordinary course. This, in turn, enables the non-Debtor foreign subsidiaries to continue to provide important functions for the Company, such as international sales and collections.

19. During the chapter 11 cases, the Debtors may need to transfer certain funds to their non-Debtor foreign subsidiaries for working capital purposes to support their non-Debtor foreign subsidiaries' operations and therefore ensure the continued stability of the Debtors' global enterprise. It is anticipated that the commencement of the chapter 11 cases may result in, among other things, a contraction of credit and liquidity available to the non-Debtor foreign subsidiaries. As a result, the Debtors seek authority, in their discretion, to make Intercompany Transfers during the course of the chapter 11 cases up to $100,000 upon entry of the Interim Order and $400,000 upon entry of the Final Order to their non-Debtor foreign subsidiaries, in each case, without further approval of the Court.[2] As described above, such amounts shall be used for, among other things, payroll, rent, utilities, office or selling supplies, and certain taxes and fees.

20. Given the value of the non-Debtor foreign subsidiaries' operations and sales, the Debtors' ability to continue to make Intercompany Transfers is critical to the continued operation

[2] For the avoidance of doubt, transfers related to the creation or reconciliation of accounting-related ledger entries will not be counted towards these interim and final amounts.

of such international entities and in turn necessary to ensure the preservation of the Debtors' enterprise as a whole.

21. Certain of the Debtors purchase certain inventory of their products from their third-party vendors to sell to their Debtor affiliates and their non-Debtor foreign subsidiaries (the "Intercompany Sales") and provide the non-Debtor foreign subsidiaries with an attendant invoice. The Intercompany Sales provide the other Debtor entities and the non-Debtor foreign subsidiaries with much-needed inventory in an efficient matter, which in turn provides the Debtors with significantly greater geographic market access than they would otherwise be able to achieve absent their affiliate businesses. During the chapter 11 cases, the Debtors expect that they may continue to purchase certain merchandise and goods from third-party vendors to be sold to their non-Debtor foreign subsidiaries. As a result, the Debtors seek to continue the Intercompany Sales on a post-petition basis in the ordinary course of their businesses.

22. As part of Debtors' business operations, certain of the Debtor entities provide each other, and certain of the Debtor entities provide their non-Debtor foreign subsidiaries with various services in a cost-effective and efficient manner (collectively, the "Shared Services"). Shared Services include marketing, technology support, management services, legal, human resources and payroll, and financial support (including accounting, treasury, accounts payable, and accounts receivable), among others. The Shared Services and resultant intercompany charges are integral to the continued operation of Debtors' businesses, disruption of which would impose unnecessary costs and administrative burdens on the Debtors' estates. As a result, the Debtors seek to continue the Shared Services and pay or otherwise settle any amounts related thereto on a post-petition basis.

23. Due to the nature of the Debtors' business and the disruption to the business that

would result if the Debtors were required to close their existing Bank Accounts, I believe that it is critical that the Debtors' Cash Management System remains in place on a postpetition basis. Moreover, due to the complexity of the Cash Management System and the interconnected nature of the Debtors' operations, any delay in granting the relief requested in the Cash Management Motion would severely disrupt the Debtors' operations at this critical juncture and jeopardize the Debtors' ability to maximize the value of their estates for the benefit of all stakeholders.

24. I additionally believe that the Intercompany Transactions are an essential component of the Debtors' business operations. It is my belief that any interruption of the Intercompany Transactions would disrupt the Debtors' operations and result in great harm to the Debtors' estates and their stakeholders. Therefore, I believe that the Debtors should be granted relief from the automatic stay to continue the Intercompany Transactions in the ordinary course of business on a postpetition basis. In addition, I believe that the Intercompany Transactions should be granted administrative expense priority status, which will facilitate the orderly and efficient operation of the Debtors' enterprise on a postpetition basis.

25. Thus, I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Cash Management Motion be approved.

VI. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO (A) MAINTAIN EXISTING INSURANCE POLICIES AND PAY ALL INSURANCE OBLIGATIONS ARISING THEREUNDER, AND (B) RENEW, SUPPLEMENT, MODIFY, OR PURCHASE INSURANCE COVERAGE, (II) AUTHORIZING CONTINUATION AND RENEWAL OF SURETY BOND PROGRAM, AND (III) GRANTING RELATED RELIEF (THE "INSURANCE MOTION").

26. Pursuant to the Insurance Motion, the Debtors request entry of interim and final orders (a) authorizing the Debtors, in their sole discretion, to (i) maintain their existing Insurance

Policies and pay all obligations arising thereunder or in connection therewith, and (ii) renew, supplement, modify or purchase insurance coverage; (b) authorizing the Debtors, in their sole discretion, to continue and renew their Surety Bond Program; and (c) granting related relief.

27. I believe that the Debtors' ability to maintain their existing insurance program and Surety Bond Program as needed in the ordinary course of business is essential to the preservation of the value of the Debtors' business, operations, and assets. It is my understanding that if the Debtors are unable to make any payments owed for the Insurance Obligations, the unpaid Insurance Carriers may seek relief from the automatic stay to terminate such Insurance Policies. The Debtors would be required to obtain replacement insurance on an expedited basis and at significant expense to the estates, likely incurring costs exceeding the amounts owed under the current insurance program. Even if these Insurance Carriers were not permitted to terminate the agreements, I believe that any interruption of payment would have an adverse effect on the Debtors' ability to obtain future policies at reasonable rates. Moreover, if the Debtors are unable to continue and renew their Surety Bond Program, it is my understanding that the Debtors would not be compliant with their federal law obligations, and therefore they would be prevented from operating their businesses in the ordinary course by importing certain critical goods into the United States for sale. These events would distract the Debtors from the vital task of stabilizing their business through this process and disrupt the Debtors' operations at this important juncture. Further, any payment interruptions may have an adverse effect on the Debtors' future ability to obtain insurance coverage at reasonable rates. The relief requested in the Insurance Motion is necessary for the Debtors to operate their business in the ordinary course and preserve and maximize the value of the Debtors' operations and their estates for the benefit of all stakeholders.

28. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Insurance Motion be approved.

VII. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO PAY CERTAIN PREPETITION TAXES AND FEES AND (II) GRANTING RELATED RELIEF (THE "TAXES MOTION").

29. Pursuant to the Taxes Motion, the Debtors request entry of interim and final orders (a) authorizing the Debtors to (i) remit and pay certain Taxes and Fees accrued prior to the Petition Date that will become payable during the pendency of these chapter 11 cases, including any penalties and interest thereon, to the Authorities and (ii) on a final basis, remit and pay any Audit Amounts that may become payable in the ordinary course of business; and (b) granting related relief.

30. It is my belief that failure to pay the Taxes and Fees could expose the Debtors to additional liability to or collection activity by the Authorities, in part because certain of the Taxes and Fees may not be property of the Debtors' estates or may be entitled to special treatment under the Bankruptcy Code. The Debtors' ability to pay the Taxes and Fees is critical to their continued and uninterrupted operations. If certain Taxes and Fees remain unpaid, the Authorities may seek to recover such amounts directly from the Debtors' directors, officers, or employees, thereby distracting such key personnel from the administration of these chapter 11 cases. These actions would distract the Debtors from the vital task of stabilizing their business through this process and disrupt the Debtors' operations at this important juncture. Furthermore, the Debtors' liability to pay the Taxes and Fees may ultimately result in increased tax liability for the Debtors if interest and penalties accrue on the Taxes and Fees, which amounts also may be entitled to priority treatment.

31. I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Taxes Motion be approved.

VIII. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I)(A) APPROVING THE DEBTORS' PROPOSED ADEQUATE ASSURANCE OF PAYMENT FOR FUTURE UTILITY SERVICES, (B) APPROVING THE DEBTORS' PROPOSED PROCEDURES FOR RESOLVING ADDITIONAL ASSURANCE REQUESTS, AND (C) PROHIBITING UTILITY PROVIDERS FROM ALTERING, REFUSING, OR DISCONTINUING SERVICES; AND (II) GRANTING RELATED RELIEF (THE "UTILITIES MOTION").

32. Pursuant to the Utilities Motion, the Debtors seek entry of interim and final orders (a)(i) approving the Debtors' proposed form of adequate assurance of payment for future utility services to the Utility Providers, (ii) approving the Debtors' proposed Adequate Assurance Procedures, and (iii) prohibiting the Utility Providers from altering, refusing, or discontinuing services; and (b) granting related relief.

33. I believe the Debtors require the Utility Services to properly maintain and support their ongoing business operations. Should any Utility Provider refuse or discontinue service, even for a brief period, the Debtors' business operations would be severely disrupted. In my estimation, such disruption would adversely affect, among other things, customer goodwill and employee relations, which, in turn, would jeopardize the Debtors' reorganization efforts. Therefore, it is imperative that Utility Services continue uninterrupted during these chapter 11 cases.

34. I believe that the relief requested in the Utilities Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Utilities Motion be approved.

IX. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS 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 (THE "WAGES MOTION").

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

36. The Employees and Temporary Staff perform a wide variety of functions, which are mission-critical to the preservation of value and the administration of the Debtors' estates. In many instances, the Employees and Temporary Staff include personnel who are intimately familiar with the Debtors' businesses, processes, and systems, who have developed relationships with the Debtors' customers, suppliers and other key counterparties that are essential to the Debtors' businesses, and who cannot be easily replaced. Without the continued, uninterrupted services of the Employees and the Temporary Staff, the Debtors' business operations will be halted immediately and the administration of the estates materially impaired.

37. The Employees and the Temporary Staff rely on their compensation and benefits discussed herein to pay their daily living expenses. Not only will these workers be irreparably harmed if the Debtors are not permitted to continue paying compensation, including the Prepetition Employee Obligations, and providing health and other benefits during these chapter 11 cases, but

any interruption in payment will also likely jeopardize their continued performance and loyalty to the Debtors. Consequently, I believe that the relief requested in the Wages Motion is necessary and appropriate under the facts and circumstances of these chapter 11 cases.

38. It is my belief that each of the Employee Benefits Programs are important components of the total compensation offered to the Employees, and are essential to the Debtors' efforts to maintain Employee morale and to minimize Employee attrition. I believe that the expenses associated with the Employee Benefits Programs are reasonable and necessary in light of the potential Employee attrition, loss of morale, and loss of productivity that would occur if such programs were discontinued.

39. Furthermore, the Business Expenses are ordinary course expenses that the Debtors' Employees incur in performing their job functions. I believe that it is essential to the continued operation of the Debtors' businesses that the Debtors be permitted to continue reimbursing, or making direct payments on behalf of, Employees for the Business Expenses.

40. In addition, the Debtors have historically paid severance to eligible Employees and have implemented a non-insider severance plan compliant with the Employee Retirement Income Security Act of 1974 (the "Non-Insider Severance Plan"). It is my belief that the Debtors' ability to pay the Non-Insider Severance Payments is critical to maintaining Employee morale and loyalty, particularly in light of the reduction in force and store closings prior to the Petition Date. I believe that the Debtors need to capitalize upon their Employees' intimate knowledge of the Debtors' businesses, processes, systems, and business relationships to execute their postpetition operations and consummate the contemplated sale transaction, as discussed in more detail in the First Day Declaration. Although the Non-Insider Severance Payments are not due and payable until an Employee is terminated, in my estimation, having the Non-Insider Severance Plan in place

will assuage Employee concerns and motivate them to continue working for the Debtors during these chapter 11 cases, which is required to achieve the Debtors' chapter 11 objectives. If Employees were to leave the Debtors' service during these chapter 11 cases—an outcome that would be increasingly likely if the Employees' benefits both during and after their tenure in the Debtors' service become threatened—I believe that the Debtors' businesses would suffer materially. I further believe that increased instability in the Debtors' workforce will undermine the Debtors' ability to complete the store closing sales that are critical to generating immediate liquidity and to strengthen their financial position during these chapter 11 cases as the Debtors seek to pursue the sale of all or substantially all of their assets and maximize value for the estates and all stakeholders.

41. The Debtors only seek to make the Non-Insider Severance Payments under the Non-Insider Severance Plan to eligible Employees who are not "insiders" as that term is defined in section 101(31) of the Bankruptcy Code.[3] 11 U.S.C. § 101(31). As further discussed in the Wages Motion, these eligible Employees do not exercise strategic control or authority over the Debtors' businesses or Company decisions made in these chapter 11 cases, do not make decisions with respect to the Debtors' revenue spend, do not participate in the overall management of the Debtors, are not members of the board or any board-related committees, were not appointed by, nor report to either the board or the Debtors' Chief Executive Officer, and do not attend board meetings. To the extent any eligible Employee with a title of "Vice President" or "Manager" of a particular division may receive a payment under the Non-Insider Severance Plan, such Employees are not responsible for creating Company policy with respect to the oversight of the Debtors'

[3] For the avoidance of doubt, pursuant to this Motion, the Debtors are not seeking approval to make any severance payments to any "insider" as that term is defined in section 101(31) of the Bankruptcy Code. However, the Debtors reserve the right to seek approval of such payments to any "insider" by a separate motion at a later date.

strategic plan nor determining the disposition of funds on strategic financing activities, nor are they granted any decision-making authority akin to an executive.

42. As the Debtors pursue an orderly chapter 11 process, I believe it is crucial that the Debtors are able to retain their Employees that are familiar with their operations and have valuable relationships with vendors and customers. The Employees and Temporary Staff perform a wide variety of functions, which are mission-critical to the preservation of value and the administration of the Debtors' estates. In many instances, the Employees and Temporary Staff include personnel who are intimately familiar with the Debtors' businesses, processes, and systems, who have developed relationships with the Debtors' customers, suppliers and other key counterparties that are essential to the Debtors' businesses, and who cannot be easily replaced. Without the continued, uninterrupted services of the Employees and the Temporary Staff, the Debtors' business operations will be halted immediately and the administration of the estates materially impaired.

43. Furthermore, I respectfully submit that without the requested relief, it is probable that Employees at all levels of the Debtors' organization will leave for alternative employment. Such a development would deplete the Debtors' workforce, hindering the Debtors' ability to implement their chapter 11 strategy. The loss of valuable Employees and the resulting need to recruit new personnel to replenish the Debtors' workforce would be distracting and counterproductive at this critical time, during which the Debtors are stabilizing operations and restructuring their obligations in chapter 11. Further, it is my belief that if the Debtors lose valuable Employees, they will incur significant expenses in locating, recruiting and training replacements that would far exceed the costs of the Compensation and Benefits Programs for a lost Employee. Indeed, I believe that if they do not pay the Prepetition Employee Obligations, the

remaining Employees may become demoralized and unproductive because of the significant financial strain and other hardship many of the Employees will experience as a result.

44. In addition to Employee attrition, I believe that failure to maintain the Compensation and Benefits Programs and satisfy the Prepetition Employee Obligations will likely jeopardize Employee morale and loyalty at a time when Employee support is critical to the Debtors' businesses. The majority of the Debtors' Employees rely exclusively on their compensation and benefits to satisfy their daily living expenses and needs. These Employees will be exposed to significant financial difficulties and other distractions if the Debtors are not permitted to honor their employee-related obligations. If the Court does not authorize the Debtors to maintain the Compensation and Benefits Programs and honor their Prepetition Employee Obligations, many Employees will be deprived of their income and lose access to critical benefits at a time when the Debtors need their Employees to perform their jobs at peak efficiency. It is my belief that the loss in morale and distraction of Employees worrying about paying their bills and other necessary expenses will harm the Debtors' ability to operate.

45. Finally, I believe that the Non-Insider Severance Payments are reasonable in light of, among other things, the continued efforts of the Debtors' remaining Employees and the expectations of the former Employees that, consistent with past practice, the Debtors would offer severance payments to Employees terminated as a result of the Debtors taking cost-cutting measures. In my estimation, payment of the Non-Insider Severance Payments will avoid impairing Employee morale at a critical time and ensure that the Debtors' remaining employees are focused and committed to the Debtors and their customers. I further believe that providing terminated Employees with reasonable severance packages will ensure that all of the Debtors' Employees will continue to work towards achieving a successful prosecution of the chapter 11 cases. I believe

that it is important to reassure their Employees that they intend to pay severance to Employees during these chapter 11 cases in order to assuage Employees' concerns and motivate them to continue working for the Debtors as is required to achieve the Debtors' chapter 11 objectives, including consummating a value-maximizing sale of the Debtors' assets. In my view, maintaining a positive relationship with the Debtors' Employees is key to maximizing value through the anticipated sale of the Debtors' assets.

46. I believe that the relief requested in the Wages Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Wages be approved.

X. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO PAY CERTAIN PREPETITION CLAIMS OF CRITICAL VENDORS AND SECTION 503(b)(9) CLAIMANTS, AND (II) GRANTING RELATED RELIEF (THE "CRITICAL VENDOR MOTION").

47. Pursuant to the Critical Vendor Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors to pay certain prepetition claims (the "Prepetition Trade Claims" and the holders thereof, the "Prepetition Trade Claimants") in the aggregate amount not to exceed $3.5 million on an interim basis and $7.0 million on a final basis, and (b) granting related relief, including the ability to enter into written agreements (the "Trade Agreements") pursuant to which payment of certain Prepetition Trade Claims shall be conditioned upon certain vendor agreements or concessions.

48. The Debtors operate in a highly competitive business of marketing and selling cosmetic and other beauty products to customers worldwide. Production of many of these products requires the services of a variety of third-party manufacturers and suppliers of raw materials, and the inability to source one component can result in a significant delay or even shutdown in

production of the applicable beauty product(s). Faced with liquidity shortfalls leading up to these chapter 11 cases, the Debtors were forced to limit payments to various vendors and suppliers. As a result, many of the Debtors' vendors and suppliers threatened to cease, and in some cases delayed, delivery of products necessary for the Debtors' operations. In response, and to ensure the continued manufacture and delivery of products, the Debtors negotiated concessions with certain key vendors and suppliers to reduce and defer payment of amounts outstanding, with the expectation that the Debtors would be able to access postpetition financing and utilize such funds to pay such vendors and suppliers for amounts owed and for new product orders following the commencement of the chapter 11 cases.

49. I and the Debtors' management have spent significant time, aided by the Debtors' other advisors, reviewing and analyzing their books and records and historical practice to identify Critical Vendors.

50. Following this analysis, certain vendors were designated as Critical Vendors. In general, I believe that the Critical Vendors provide services and goods that are generally proprietary or significantly integrated into the Debtors' business and operational systems (and in some cases, both) such that the Debtors cannot easily replicate or replace the services and goods received from the Critical Vendors. Any material interruption in the provision of the products and services by the Critical Vendors, however brief, could cause irreparable harm to the Debtors' go-forward businesses, goodwill, employees, customer base, and market share. Such harm would likely far outweigh the cost of payment of prepetition claims of Critical Vendors. This is especially because foreign Critical Vendors may consider themselves beyond the jurisdiction of the Court, disregard the automatic stay, and engage in conduct that could disrupt the Debtors' operations. In

total, it is my understanding that, as of the Petition Date, the Debtors owe more than $75 million in total accounts payable to the Debtors' trade creditors.

51. Furthermore, the loss of trade terms (whether on account of demands for cash-in-advance, cash-on-delivery, or otherwise) would negatively impact the Debtors' liquidity. Maintaining normal trade credit terms will improve the Debtors' chances of successfully emerging from chapter 11 because purchasing goods on credit preserves working capital and liquidity, enabling the Debtors to maintain their competitiveness and to maximize the value of their businesses. This is particularly critical for the Debtors, who took the availability of their existing trade credit into account when sizing their postpetition borrowing needs.

52. In addition, I am informed that approximately $2.3 million is owed to Critical Vendors on account of goods delivered by applicable Critical Vendors within the twenty (20) days immediately preceding the Petition Date.

53. At bottom, I believe that the relief requested in the Critical Vendor Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Critical Vendor Motion be approved.

XI. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO (A) HONOR CERTAIN PREPETITION OBLIGATIONS TO CUSTOMERS AND (B) OTHERWISE CONTINUE CERTAIN CUSTOMER PROGRAMS IN THE ORDINARY COURSE OF BUSINESS AND (II) GRANTING RELATED RELIEF (THE "CUSTOMER PROGRAMS MOTION").

54. Pursuant to the Customer Programs Motion, the Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to (i) honor certain prepetition obligations to customers and (ii) otherwise continue, renew, replace, modify, implement, revise,

or terminate Customer Programs (as defined below) in the ordinary course of business consistent with past practices and in the Debtors' sound business judgment; and (b) granting related relief.

55. Prior to the commencement of these chapter 11 cases, in the ordinary course of their businesses, and as is customary in the Debtors' industry to develop and maintain customer loyalty, the Debtors implemented certain programs, practices, incentives, discounts, promotions, and other accommodations described and defined below, including (a) the Wholesale Program, (b) the Rewards Program, (c) the Gift Card Program, and (d) Customer Credits and Refunds. The Customer Programs are designed to generate goodwill, maintain loyalty and improve the Debtors' profitability by maximizing the Customers' satisfaction with the Debtors and their products by encouraging new and regular purchases and by creating deep and lasting connections between the Debtors and the Customers.

56. I believe that maintaining the goodwill of, and sustaining relationships with, the Debtors' Customers via the Customer Programs is critical to the Debtors' ongoing operations and the preservation and maximization of the value of the Debtors' assets. It is particularly important given the highly competitive industry in which the Debtors operate. In my estimation, failure to continue the Customer Programs and satisfy certain prepetition obligations in connection therewith would risk alienating the Debtors' most loyal and valuable current Customers, jeopardizing future patronage and revenue from such customers and adversely affecting the chapter 11 cases.

57. The Debtors require the services of Social Annex, Inc. d/b/a Annex Cloud ("Annex Cloud" and the related agreements, the "Third Party Service Agreements") as their administrator for the Rewards Program. I believe that continued service by Annex Cloud is essential to maintain the Debtors' Customer Programs during these chapter 11 cases and allow the Customers to continue to use Rewards Program benefits in the ordinary course. Any delay or uncertainty

regarding the Debtors' ability to continue the Customer Programs, including the Rewards Program, will risk losses in Customer loyalty and goodwill that will harm the Debtors' prospects for maximizing value for all stakeholders. In my estimation, the amounts owed to Annex Cloud are *de minimis* when compared to the Customer goodwill that is at risk if Annex Cloud interrupts or otherwise ceases providing services to the Debtors.

58. I believe that in order to successfully reorganize and emerge as a viable company, the Debtors must maintain Customer loyalty and goodwill by continuing to honor their obligations under the Customer Programs. Any delay in honoring obligations to customers and third parties on account of the Customer Programs would severely and irreparably impair customer relations and drive away valuable Customers, thereby harming the Debtors' efforts to maximize the value of their assets to the benefit of all interested parties.

59. I believe that the relief requested in the Customer Programs Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Customer Programs Motion be approved.

XII. DEBTORS' MOTION FOR ENTRY OF INTERIM AND FINAL ORDERS (I) AUTHORIZING DEBTORS TO PAY CERTAIN PREPETITION CLAIMS OF LIEN CLAIMANTS AND RELATED OBLIGATIONS, AND (II) GRANTING RELATED RELIEF (THE "LIEN CLAIMANTS MOTION").

60. Pursuant to the Lien Claimants Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors to pay, in the ordinary course of business, certain prepetition claims of third-party servicers or carriers, including shippers, warehousemen, and other potential lienholders, who are in current possession of the Debtors' property or may have or assert a lien pursuant to applicable law as a result of services performed by Lien Claimants, and (b) granting related relief. By the Lien Claimants Motion, the Debtors seek authority to pay up to $4.8 million

in Lien and Import Claims, of which the Debtors request they be authorized to use $2.7 million on an interim basis.

61. In the ordinary course of their businesses, the Debtors necessarily depend on the uninterrupted flow of inventory and other goods through their supply chain and distribution network. The Debtors' supply chain without disruption is critical to the Debtors' ability to generate revenue. In the ordinary course of business, the Debtors issue purchase orders to manufacturers, many of which are based overseas, for the procurement and manufacture of the Debtors' beauty and cosmetic products, product components, supplies, and inventory (collectively, the "Products"). Through the use of third-party logistics providers and shippers, finished Products are shipped from the applicable manufacturer to the U.S. or other destination country. From there, Products are often stored in third-party warehouses until freight-forwarders or other carriers transport the Products to the Debtors' distribution centers. Goods manufactured by overseas vendors and suppliers require substantial transport times to reach the Debtors.

62. The Debtors' distribution network also requires use of an extensive network of among others, shippers, common carriers, dedicated carriers, freight-forwarders, and parcel carriers (the "Shippers") and third-party warehousemen, storage facilities, distributors and logistics providers (the "Warehousemen" and, together with the Shippers, the "Lien Claimants") who transport, deliver or store the Debtors' Products throughout the world. Although the Debtors generally make timely payments to these Lien Claimants, as of the Petition Date, certain Lien Claimants will or may not have been paid for services they rendered. As a result, it is my understanding that many of the Lien Claimants may have a right to assert claims (the "Lien Claims") for which they would be entitled to assert and perfect mechanics', warehouse,

possessory, or similar statutory liens (collectively, the "Liens") or exercise rights of setoff or recoupment with respect to the Debtors' Products or other property.

63. The Debtors estimate that at any given time, a material amount of the Debtors' goods and property is in the hands of third-party Lien Claimants. Indeed, not only do the Debtors rely heavily on the Lien Claimants to currently deliver and store the Debtors' Products, but also the Debtors expect to continue to rely on many of the Lien Claimants for future deliveries and storage of their Products. As a result, unless the Lien Claimants are paid amounts outstanding as of the Petition Date, I believe that the Lien Claimants may refuse to provide critical services because they are not parties to executory contracts and worse, the Lien Claimants are likely to assert Liens against the Debtors' property or exercise their rights to "freeze" property in their possession while they seek to setoff or even recoup any amounts outstanding. Therefore, absent immediate payment of the Lien Claims, the Debtors face a significant immediate risk of disruption to their business operations and the possible loss of goods and revenue.

64. In addition, two of the Debtors' freight forwarders, CEVA Logistics ("CEVA") and Flexport, Inc. ("Flexport" and, together with CEVA, the "Customs Brokers"), serve as licensed Customs Brokers for the Debtors and provide vital additional services that enable the Debtors to comply with the complex customs laws and regulations when importing goods and materials. The Debtors pay each of the Customs Brokers for their services and reimburse the Customs Brokers for any funds advanced by them on behalf of the Debtors to pay customs duties, charges, and tariffs, including fees to the United States Customs Service and the Canada Border Services Agency (collectively, the "Import Charges" and, together with the Lien Claims, the "Lien and Import Claims"). The Customs Brokers provide services necessary for customs clearance, pay Import Charges on behalf of the Debtors, and perform other critical services necessary for the

Debtors to import goods and materials for their Products. Because the Debtors depend on the Lien Claimants for the delivery of Products, I believe that it is essential for the Debtors to incentivize the Lien Claimants to continue performing services in a timely manner.

65. The Debtors estimate that as of the Petition Date, an amount not exceeding $4.8 million is outstanding on account of Lien and Import Claims, $2.7 million of which is expected to come due and owing within 30 days after the Petition Date. To prevent immediate and irreparable harm, the Debtors seek authority to pay Lien Claims subject to the Lienholder Claims Cap. In return for paying the Lien and Import Claims, the Debtors also propose that they be authorized to require the Lien Claimants to provide favorable trade terms for the postpetition procurement of goods and services. Specifically, the Debtors seek authorization to condition payment of the Lien and Import Claims upon such Lien Claimant's agreement to continue or recommence supplying goods and services to the Debtors in accordance with the trade terms consistent with the parties' ordinary course of business as of the Petition Date or as otherwise agreed by the Debtors in their reasonable business judgment (the "Customary Trade Terms").

66. In light of the foregoing, I believe that the relief requested in the Lien Claimants Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11. Accordingly, on behalf of the Debtors, I respectfully request that the Lien Claimants Motion be approved.