

Zebit, Inc.
Appendix 4D
Half year report

1. Company details

Name of entity:	Zebit, Inc.
ARBN:	639 736 726
Reporting period:	For the half-year ended 30 June 2021
Previous period:	For the half-year ended 30 June 2020

The following financial information included in this Appendix 4D should be read in conjunction with any public announcements made by Zebit, Inc. ("Zebit" or "the Company") in accordance with the continuous disclosure obligations of the ASX Listing Rules.

2. Results for announcement to the market

Zebit is a technology-driven eCommerce company that is dedicated to making a fundamental change in the lives of over 120 million US credit-challenged customers by giving them access to a broad set of products and the ability to pay for those products in instalments over six months. Zebit operates in both retail eCommerce and credit solutions. Zebit sells products as an eCommerce merchant and provides the financing to customers (via an in-house and proprietary BNPL solution) for those products over time. The Company is registered as a 'foreign company' in Australia, under the Corporations Act, under the name Zebit, Inc. (ARBN 639 736 726). All amounts are expressed in US dollars unless otherwise stated. The Company's results for announcement to the market are as follows:

US \$'000's	June 30, 2021	June 30, 2020	% Change	Up / Down
Revenue from ordinary activities ¹	\$56,119	\$28,140	99%	Up
Gross profit	14,388	7,570	90%	Up
Loss before tax attributable to shareholders	(7,260)	(4,637)	57%	Up
Loss after tax and from ordinary activities attributable to shareholders	(7,266)	(4,637)	57%	Up

Dividends

No dividends were paid or declared

¹Revenue is the gross merchandise value (GMV) plus shipping revenue plus net margin on warranties sold less any post month adjustments for customer rebates. Revenue is recognized at the point the product is delivered to the customer.

Total revenue increased by 99% to \$56.1 million during the first half of 2021 from \$28.1 million during the first half of 2020. During this time, Zebit focused on acquiring new registrants, building new product relationships, and deploying platform enhancements. The Company spent materially on marketing and acquiring new customers, which accounted for \$5.3 million of expense, compared to \$654 thousand, an increase of 712%. The increase in marketing spend contributed to an increased net loss of \$7.3 million compared to \$4.6 million, an increase of 57%.

3. Net tangible assets

	Reporting period (US\$)	Previous period (US\$)
Net tangible assets per ordinary security ²	<u>\$0.22</u>	<u>\$0.08</u>

²The net tangible assets per ordinary security is defined as total assets minus intangibles minus liabilities divided by the amount of common stock outstanding at year end. Preferred shares were not included in the calculation in the previous period.

4. Control gained over entities

Not applicable.

5. Dividends

Current period

The Company has not declared, and does not propose to pay, any dividends for the half year ended 30 June 2021. There are no dividend or dividend reinvestment plans in operation.

6. Associates and joint venture entities

There are no associate or joint venture entities

7. Accounting standards

The unaudited condensed consolidated financial statements have been prepared in accordance with US Generally Accepted Accounting Principles ('US GAAP').

8. Other information regarding the consolidated half-year financial statements

The condensed consolidated financial statements were subject to a review by BDO USA, LLP and the review report is attached as part of the Half-year report. There have been no modifications to the auditor's review report.

Zebit, Inc.

ARBN 639 736 726

Half-year Report - 30 June 2021

Zebit, Inc.
Corporate directory
30 June 2021

Directors	Jim Feuille (Chairman and Non-Executive Director) Marc Schneider (CEO, Executive Director) Sylvia Falzon (Non-Executive Director) Miriam Rivera (Non-Executive Director) Larry Rosenberg (Non-Executive Director) Scott Thompson (Non-Executive Director)
Company secretary	Justin Clyne (Appointed 6 April 2021)
Registered office	Clyne Corporate Advisory Pty Ltd Suite 6.02, Level 6, 28 O'Connell Street, NSW, Sydney, 2000
Principal Place of Business	Clyne Corporate Advisory Pty Ltd Suite 6.02, Level 6, 28 O'Connell Street, NSW, Sydney, 2000
Share Register	Computershare Investor Services Pty Limited
Auditor	BDO USA, LLP.
Solicitors	DLA Piper
Stock exchange listing	Zebit, Inc. shares are listed on the Australian Securities Exchange (ASX code: ZBT)
Website	www.zebit.com

Zebit, Inc.
Directors' report
30 June 2021

The Directors present their report on the Zebit Inc. (ASX: ZBT) (Zebit or Company) for the half-year ended 30 June 2021.

All amounts are stated in US dollars and in thousands, unless otherwise stated

Directors

The following persons were Directors of Zebit, Inc. during the whole of the financial year and up to the date of this report, unless otherwise stated:

Jim Feuille	Chairman and Non-Executive Director
Marc Schneider	President and CEO, Executive Director
Sylvia Falzon	Non-Executive Director
Miriam Rivera	Non-Executive Director
Larry Rosenberger	Non-Executive Director
Scott Thompson	Non-Executive Director

Principal activities

Zebit operates in both retail eCommerce and financial services. Zebit sells products as an eCommerce merchant and provides the financing to customers (via an in-house and proprietary BNPL solution) for those products over time.

Review of operations (US\$ 000's)

Revenue for the half year period ended 30 June 2021 increased 99.4% to \$56,119 (30 June 2020: \$28,140).

Net loss for the half year period ended 30 June 2021 increased 56.7% to \$7,266 (30 June 2020: \$4,637).

Total operating cost and expenses, including depreciation and amortisation, for the half year period ended 30 June 2021 increased by 90.2% to \$21,843 (30 June 2020: \$11,482).

Financial position (US\$ 000's)

As of 30 June 2021, the Company had cash and term deposits of \$16,338 as working capital to fund the activities of the Company (30 June 2020: \$8,099).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the half-year period.

Dividends

The company has not declared, and does not propose to pay, any dividends for the half-year ended 30 June 2021. There are no dividend or dividend reinvestment plans in operation.

Jurisdiction of Incorporation

The Company is incorporated in the State of Delaware, United States of America and is a registered foreign entity in Australia. As a foreign company registered in Australia, the Company is subject to different reporting and regulatory regimes than Australian companies.

Delaware law, Certificate of Incorporation and Amended and Restated Bylaws

As a foreign company registered in Australia, the Company is not subject to Chapter 6, 6A, 6B and 6C of the Corporations Act dealing with the acquisition of shares (including substantial shareholdings and takeovers).

Zebit, Inc.
Directors' report
30 June 2021

Under the provisions of Delaware General Corporation Law ("DGCL"), shares are freely transferable subject to restrictions imposed by US federal or state securities laws, by the Company's certificate of incorporation or Amended and Restated Bylaws, or by an agreement signed with the holders of the shares at issuance. The Company's Amended and Restated Certificate of Incorporation and Bylaws do not impose any specific restrictions on transfer. However, provisions of the DGCL, the Company's Certificate of Incorporation and the Company's Amended and Restated Bylaws could make it more difficult to acquire the Company by means of a tender offer (takeover, a proxy contest or otherwise, or to remove incumbent offices and Directors of the Company). These provisions could discourage certain types of coercive takeover practices and takeover bids that the Board may consider inadequate and to encourage persons seeking to acquire control of the Company to first negotiate with the Board.

Matters subsequent to the end of the financial half year

Since the close of 2Q21, and consistent with its normal practice of risk management, Zebit analysed July and August 2021 repayment data for revenue months with greater than 3 months of maturity. Zebit noted an increase in the volatility of customer repayments and write-offs from the close of 2Q21 to the date of the report. The root cause of the behaviour is likely related to developing macroeconomic trends in the US economy that have not fully materialised; however, other BNPL companies have also reported an increase in their reserves for 1H21. Zebit estimates bad debts associated with orders delivered in 1H21 could increase by \$500,000 to \$1.5 million. Any actual reserve adjustment will be applied in 2H21.

Likely developments and expected results of operations

Information on likely developments in the operations of the Company and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the entity.

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Ecommerce and Consumer Finance Protection

The regulatory framework for eCommerce companies, including Zebit, is developing and evolving, and it is possible that new laws and regulations will be adopted in the U.S., or existing laws and regulations may be interpreted in new ways, that could affect the operation of Zebit and the way in which it interacts with its Registered Users.

Regulators, including the Consumer Finance Protection Bureau and the Federal Trade Commission, other Federal agencies, and State executive agencies have broad discretion with respect to the interpretation, implementation and enforcement of the laws and regulations that apply to Zebit, including through enforcement actions that could subject Zebit to civil money penalties, customer remediation, increased compliance costs, and limits or prohibitions on its ability to offer certain products and services or to engage in certain activities.

Indemnity and insurance of Directors and officers

Under these indemnification agreements, the company has agreed to indemnify, to the maximum extent and in the manner permitted by Delaware law, each officer, Director, and proposed Director in respect of certain liabilities which such person may incur arising by reason of the fact that such person was an agent of Zebit. These liabilities include losses or liabilities actually and reasonably incurred by the Director or proposed Director by reason of the fact that the indemnified is or was an agent of Zebit, or by reason of anything done or not done by the indemnified in any such capacity, including legal expenses to the extent such losses or liabilities relate to action taken in good faith by the Director and in a manner the Director reasonably believed to be in, or not opposed to, the best interest of the Company and in the case of criminal proceedings where the Director had no reasonable cause to believe that the conduct was unlawful. To the extent that the Company maintains a Directors' and Officers' policy of insurance, it must ensure that the Directors are covered for the period that they are Directors.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

This report is made in accordance with a resolution of the Directors.

On behalf of the Directors.



Jim Feuille
August 30, 2021



Zebit, Inc.

Condensed Consolidated Financial Statements For the Six Months Ended June 30, 2021



Zebit, Inc.

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Independent Auditor's Review Report

Board of Directors
Zebit, Inc.
San Diego, California

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated financial statements of Zebit Inc., which comprise the condensed consolidated balance sheet as of June 30, 2021, and the related condensed consolidated statements of operations, changes in stockholders' equity, and cash flows for the six month periods ended June 30, 2021 and June 30, 2020, and the related notes (collectively referred to as the interim financial information).

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

Basis for Review Results

We conducted our reviews in accordance with auditing standards generally accepted in the United States of America (GAAS) applicable to reviews of interim financial information. A review of condensed interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of condensed interim financial information is substantially less in scope than an audit conducted in accordance with GAAS, the objective of which is an expression of an opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the results of the review procedures provide a reasonable basis for our conclusion.

Responsibilities of Management for the Interim Financial Information

Management is responsible for the preparation and fair presentation of the condensed interim financial information in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of interim financial information that is free from material misstatement whether due to fraud or error.

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Report on Condensed Consolidated Balance Sheet as of December 31, 2020

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of the Company as of December 31, 2020, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated February 25, 2021. In our opinion, the accompanying condensed consolidated balance sheet of the Company as of December 31, 2020, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

/s/ BDO USA, LLP

San Diego, California
August 30, 2021

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Zebit, Inc.

Condensed Consolidated Balance Sheets (in thousands, except share data)

	June 30, 2021 (Unaudited)	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 16,188	\$ 22,437
Receivables, net of allowance for doubtful accounts of \$5,093 and \$6,385 as of June 30, 2021 and December 31, 2020,	22,803	28,568
Inventories	320	501
Prepays and other current assets	1,672	2,053
Total current assets	40,983	53,559
Property and equipment, net	39	40
Operating lease right-of-use assets, net	353	554
Intangibles, net	745	697
Restricted cash	150	150
Other non-current assets	284	333
Total assets	\$ 42,554	\$ 55,333
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	\$ 4,704	\$ 7,423
Accrued liabilities	2,028	3,055
Operating lease liabilities, current portion	452	463
Current portion of long-term debt, net of discount	-	768
Total current liabilities	7,184	11,709
Operating lease liabilities, net of current portion	38	259
Debt, net current portion and discount	13,832	15,380
Total liabilities	21,054	27,348
Commitments and contingencies (Note 13)		
Stockholders' equity		
Common stock, \$0.0001 par value; 250,000,000 and 250,000,000 shares authorized as of June 30, 2021 and December 31, 2020, respectively; 94,590,570 and 94,443,190 issued and outstanding at June 30, 2021 and December 31, 2020, respectively	9	9
Additional paid-in capital	94,175	93,394
Accumulated deficit	(72,684)	(65,418)
Total stockholders' equity	21,500	27,985
Total liabilities and stockholders' equity	\$ 42,554	\$ 55,333

See accompanying notes to the unaudited condensed consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Operations (in thousands)

<i>Six months ended June 30,</i>	2021	2020
Revenue	\$ 56,119	\$ 28,140
Cost of revenue	41,731	20,570
Gross Profit	14,388	7,570
Operating expenses:		
Provision for uncollectible accounts	7,463	4,085
General and administrative	9,070	6,743
Sales and marketing	5,310	654
Total operating expenses	21,843	11,482
Loss from operations	(7,455)	(3,912)
Interest and amortization of debt discount expense	(1,144)	(545)
Interest income	4	15
Change in fair value of warrant liabilities	-	-
Change in fair value of debt instrument	-	(198)
PPP loan forgiveness	1,148	-
Other income	187	3
Loss before income taxes	(7,260)	(4,637)
Income tax provision	6	-
Net loss	\$ (7,266)	\$ (4,637)
Net loss per share, basic and diluted	\$ (0.08)	\$ (0.29)
Weighted-average shares of common stock outstanding, basic and diluted	94,539	16,029

See accompanying notes to the unaudited condensed consolidated financial statements.

Zebit, Inc.

Condensed Consolidated Statements of Stockholders' Equity (Unaudited) (in thousands, except share and par amount data)

	Convertible Preferred Stock										Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Equity
	Series Seed		Series A		Series A-1		Series B		Common Stock				
	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount	Shares	Par Amount			
Balance at December 31, 2019	3,022,527	\$ 302	12,278,336	\$ 1,228	-	-	34,460,892	\$ 3,446	16,029,022	\$ 1,603	\$ 64,439	\$ (58,004)	\$ 6,442
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	292	-	292
Net loss	-	-	-	-	-	-	-	-	-	-	-	(4,637)	(4,637)
Balance at June 30, 2020	3,022,527	\$ 302	12,278,336	\$ 1,228	-	-	34,460,892	\$ 3,446	16,029,022	\$ 1,603	\$ 64,731	\$ (62,641)	\$ 2,097
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	578	-	578
Exercise of stock options	-	-	-	-	-	-	-	-	240,298	24	63	-	63
Conversion of preferred to common stock	(3,022,527)	(302)	(12,278,336)	(1,228)	-	-	(34,460,892)	(3,446)	49,761,755	4,976	-	-	-
Conversion of convertible notes to common stock	-	-	-	-	-	-	-	-	6,260,206	626	6,923	-	6,924
Reclassification of warrants from liabilities to equity	-	-	-	-	-	-	-	-	-	-	169	-	169
Issuance of common stock in IPO, net of issuance costs \$3,750	-	-	-	-	-	-	-	-	22,151,899	2,215	20,930	-	20,931
Warrant Exercise	-	-	-	-	-	-	-	-	10	-	-	-	-
Net loss	-	-	-	-	-	-	-	-	-	-	-	(2,777)	(2,777)
Balance at December 31, 2020	-	\$ -	-	\$ -	-	\$ -	-	\$ -	94,443,190	\$ 9,444	\$ 93,394	\$ (65,418)	\$ 27,985
Stock-based compensation expense	-	-	-	-	-	-	-	-	-	-	703	-	703
Exercise of stock options	-	-	-	-	-	-	-	-	147,380	15	78	-	78
Net loss	-	-	-	-	-	-	-	-	-	-	-	(7,266)	(7,266)
Balance at June 30, 2021	-	\$ -	-	\$ -	-	\$ -	-	\$ -	94,590,570	\$ 9,459	\$ 94,175	\$ (72,684)	\$ 21,500

See accompanying notes to the unaudited condensed consolidated financial statements.

Zebit, Inc.

Condensed Consolidated Statements of Cash Flows (Unaudited) (in thousands)

<i>Six months ended June 30,</i>	2021	2020
Operating activities		
Net loss	\$ (7,266)	\$ (4,637)
Adjustments to reconcile net loss to net cash used in operating activities		
Allowance for doubtful accounts	7,463	4,085
Stock-based compensation expense	703	292
Depreciation and amortization	259	250
Gain on forgiveness of PPP loan	(1,148)	-
Non-cash lease expense	201	164
Non-cash interest expense	-	89
Amortization of debt issuance	51	164
Change in fair value of convertible notes liabilities measured at fair value	-	(198)
Changes in operating assets and liabilities:		
Accounts receivable	(1,703)	10,596
Inventories	181	341
Prepaid expenses and other current assets	383	(463)
Other assets	(2)	(2)
Accounts payable	(2,719)	(2,757)
Accrued liabilities	(1,023)	(1,743)
Operating lease liability	(233)	(149)
Net cash provided by (used in) operating activities	(4,853)	6,032
Investing activities		
Purchase of property and equipment	(13)	-
Purchase or development of intangible assets	(294)	(151)
Net cash used in investing activities	(307)	(151)
Financing activities		
Principal payments on debt	(1,167)	(7,090)
Proceeds from PPP loan	-	1,140
Proceeds from issuance of convertible notes, net of issuance cost	-	1,263
Proceeds from exercise of stock options	78	-
Net cash used in financing activities	(1,089)	(4,687)
Net increase (decrease) in cash, cash equivalents and restricted cash	(6,249)	1,194
Cash, cash equivalents and restricted cash at beginning of period	22,587	6,905
Cash, cash equivalents and restricted cash at end of period	\$ 16,338	\$ 8,099
Supplemental disclosures of cash flows information		
Cash paid for income taxes	\$ 6	\$ -
Cash paid for interest	983	688
Cash paid for operating lease	251	206
Supplemental disclosure of non-cash financing activities		
Gain of forgiveness of PPP Loan	\$ 1,148	\$ -

See accompanying notes to the unaudited condensed consolidated financial statements.

Zebit, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Significant Accounting Policies

Description of Business

Zebit, Inc. (“Company”) is an e-commerce company incorporated in 2015 in the state of Delaware. The Company’s headquarters is in San Diego, California. Zebit is built to disrupt the way credit-challenged consumers shop and access products by offering a wide assortment of products that can be financed over six months with no interest, late fees, or other penalties.

The Company’s common stock began trading on the Australian Securities Exchange (ASX) in October 2020 under the symbol “ZBT”.

Initial Public Offering

In October 2020, the Company completed its initial public offering (the “IPO”) on the ASX, in which it sold an aggregate of 22,151,899 shares of the Company’s common stock at a public offering price of AUD 1.58 (USD 1.11) per share. The Company received gross cash proceeds of \$24.7 million before deducting offering costs of \$3.8 million, resulting in net proceeds of \$20.9 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock;
- The conversion, of all outstanding preferred stock warrants into common stock warrants; the fair value on date of conversion of the preferred stock warrant liability of \$168,734 was reclassified as additional paid-in-capital; and,
- The conversion of an aggregate of \$5.5 million of outstanding convertible notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

COVID-19 Pandemic

In March 2020, the World Health Organization announced the novel coronavirus COVID-19 as a global pandemic. COVID-19 began causing disruptions in the U.S. and Australia, causing significant volatility in capital markets around the world. COVID-19 continues to spread in the United States and globally and as a result the Company is subject to additional risks and uncertainties. To comply with laws and regulations, the Company and its suppliers have temporarily reduced on-site business operations to comply with social distancing requirements. The degree to which the Company’s business will continue to be affected by the COVID-19 pandemic is uncertain. While the Company expects the disruption to be temporary, the duration of the disruption is uncertain at this time. Further, there may be long-term negative effects of the COVID-19 pandemic. The negative effects of COVID-19 could have a material adverse impact on the Company’s financial results in the future. As an effort to mitigate potential impacts from COVID-19, the Company took cost saving measures including but not limited to (i) eliminated all 401(k) matching contributions, which was reinstated on July 1, 2021, (ii) a reduction in force consisting of 20 employees, (iii) temporarily reduced all employees’ salaries from 100% to a range of 85-90% of base salary, with a return to regular salaries phased over June to November 2020, (iv) executed a 6 month interest-only amendment to the previously-outstanding SVB Term Loan, (v) negotiated a two-month payment deferral on the Company’s office space for July and August 2020, (vi) entered into an agreement to sublease all of the square footage of the Company’s primary office space, effective beginning February 2021, and in November 2020, management moved the Company to a much smaller and lower cost office space while COVID-19 restrictions continue to make

Zebit, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

working from an office challenging, and (vii) took on additional borrowings in the form of a \$1.1M Paycheck Protection Program Loan (“the PPP”) as part of the United States Government stimulus or Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”), which was fully forgiven in January 2021.

Financial Statement Presentation and Use of Estimates

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. Accordingly, the accompanying consolidated financial statements do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) that are necessary for a fair statement of the financial position, results of operations and cashflows for the periods presented. The accompanying unaudited financial statements should be read in conjunction with the audited financial statements and notes thereto as of and for the year ended December 31, 2020. Interim results are not necessarily indicative of results for a full year.

The Company’s condensed consolidated financial statements are prepared on a consolidated basis and include the accounts of the Zebit Be Free, 2020-1 Statutory Trust (“Zebit Be Free”) for which the Company is the sole beneficial owner, and responsible for the organizational expenses of the trust. Zebit Be Free was established in 2020 in connection with the Company’s credit facility discussed in Note 6. Prior to this, the Company consolidated the Zebit Be Free, 2018-1 Statutory Trust, which had been established in 2018 in connection with the Company’s previous credit facility, and for which the Company was also the sole beneficial owner. Upon termination of the previous credit facility in October 2020, Zebit Be Free, 2018-1 was dissolved. All transactions between Zebit, Inc. and Zebit Be Free, and Zebit, Inc. and Zebit Be Free, 2018-1, have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, management evaluates its estimates, including those related to the accounts receivable allowance, useful lives and impairment of intangible assets and property and equipment, the fair value of a convertible debt instrument for which the fair value option has been elected, the fair value of common stock and expense for stock-based compensation awards, the fair value of certain stock warrants classified as liabilities, and income taxes, among others. The convertible debt instrument and the liability-classified stock warrants were previously recorded at fair value, until their conversion to common stock and common stock warrants, respectively, upon the October 2020 IPO. Management bases its estimates on historical experience and on various other assumptions that it believes are reasonable. Actual results could differ materially from these estimates.

Zebit, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

Cash and Cash Equivalents

The Company considers highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents. The Company maintains its cash in depository accounts that may exceed the Federal Deposit Insurance Corporation limits.

Restricted Cash

As of June 30, 2021 and December 31, 2020, restricted cash is composed of a restricted cash account under the control of a trustee related to the Company's obligation to indemnify certain parties pursuant to the Zebit Be Free, 2020-1 trust agreement.

Inventories

Inventories consist of inventory in-transit from our vendors to our customers as the Company takes ownership of inventory at the point of shipment from the vendor's location until delivered to our customers. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the six months ended June 30, 2021 or 2020. The Company does not estimate that any losses will be incurred on inventories and therefore had no allowance for losses on inventories as of June 30, 2021 or December 31, 2020.

Accounts Receivable, Net

Accounts receivable consist of trade receivables that are generated in the normal course of business. The Company records accounts receivable at the amount invoiced to the customer, less the down payment made by the customer at the time of order. The Company records an allowance for estimated uncollectible amounts against accounts receivable. In determining the amount of the allowance, the Company makes estimates based on historical collection experience and current economic trends. The Company's business primarily serves underserved customers with limited access to credit, and as such the Company can experience significant credit losses on accounts receivable. Once a customer account becomes 90 days past due with no payment the entire account is written off and booked against the bad debt reserve.

Property and Equipment, Net

Property and equipment, net is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the following asset categories:

<u>Asset Category</u>	<u>Estimated Useful Life in Years</u>
Computer equipment	3
Furniture and fixtures	5
Leasehold improvements	Lesser of remaining lease term or 5 years

Internal-Use Software

The Company capitalizes costs related to purchased and developed internal use software, which are included in intangible assets in the balance sheet. In accordance with authoritative guidance, capitalization of costs for the development of internal-use software begins when

Zebit, Inc.

Notes to Condensed Consolidated Financial Statements (Unaudited)

the application development stage is reached and ends when the post implementation stage is reached. Amortization of software is recorded using the straight-line method over the estimated useful life of the developed software, which is three years.

Operating Lease

The Company recognizes right-of use assets and leases liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases (“ASC 842”). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases. Refer to Note 13 for further information.

Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers (“ASC 606”). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Refer to Note 2 for further information.

Cost of Revenues

Cost of revenues consists of the purchase price of goods sold to customers, outbound shipping costs, and dropship processing fees. Dropship processing fees represent vendor charges for fulfilling orders, including receiving, inspecting, picking, packaging and preparing goods for shipment. Shipping costs for the six months ended June 30, 2021 and 2020 were \$1.5 million and \$1.0 million, respectively.

Selling and Marketing Expenses

Selling and marketing expenses are expensed as incurred and consist primarily of sales and marketing employee compensation, targeted online marketing costs, such as display advertising, keyword search campaigns and social media advertising, as well as offline marketing costs such as email and radio, and broker commissions. Broker commissions are paid to partners for each prospective customer referred by the broker and underwritten and approved by Zebit. Advertising costs for the six months ended June 30, 2021 and 2020 were \$5.1 million and \$0.5 million, respectively.

Stock-Based Compensation

The Company has an equity incentive plan under which it has historically only granted stock options to purchase shares of the Company’s common stock. The Company recognizes stock-based compensation expense based on the estimated fair value of the award on the date of grant determined using the Black-Scholes option pricing model. Stock-based compensation expense is amortized on a straight-line basis over the requisite service period of the award, generally four years. Forfeitures are accounted for as they occur.

Fair Value Election

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Prior to the conversion to common stock, the Company accounted for 2019 IPO convertible notes issued in December 2019 at fair value, pursuant ASC 825, *Financial Instruments*. The Company determined to elect the fair value option due to complexity associated with various potential settlement outcomes per the terms of the notes. Upon the completion of the IPO, the convertibles notes and accrued interest were converted into common stock.

Fair Value Measurements

Prior to the conversion to common stock, the Company used fair value measurements for the 2019 IPO convertible notes issued in December 2019 for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants and were no longer liability-classified and subject to fair value measurement.

ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value and requires disclosures about fair value measurements. The standard establishes a fair value hierarchy which distinguishes between inputs that are observable in the marketplace, and therefore more objective, and those that are unobservable and therefore more subjective. Companies are required to use observable inputs when available. Additional disclosures are required for unobservable inputs.

The three levels of inputs that may be used to measure fair value are defined as follows:

Level 1 - Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Valuations based on unobservable inputs to the valuation methodology and including data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances.

Income Taxes

The Company is a C-corporation and is subject to federal and state income taxes. The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions and is subject to examination by U.S. federal tax authorities for returns filed for the prior three years and by state tax authorities for returns filed for the prior four years. In addition, during an audit, tax authorities may redetermine the correct taxable loss for a closed year to determine the correct amount of the loss carryforward deduction for the year under audit.

The Company uses the asset and liability method of accounting for income taxes in accordance with FASB ASC Topic 740, *Income Taxes* ("ASC 740"). Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are

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expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with ASC 740, the Company provides a valuation allowance against its deferred tax assets when circumstances indicate that it is more likely than not that its deferred tax assets will not be realized.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”). The CARES Act, among other things, includes provisions relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to tax depreciation methods for qualified improvement property. The result of the CARES Act on the business was the receipt of a \$1.1 million PPP Loan, received in May 2020 and forgiven by the U.S. Small Business Administration (“SBA”) in January 2021.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding during the same period. Diluted net loss per share is computed by dividing net loss by the weighted average number of common and common equivalent shares outstanding during the same period. The Company excludes common stock equivalents from the calculation of diluted net loss per share when the effect is anti-dilutive.

For purposes of the diluted net loss per share calculation, the convertible preferred stock, convertible notes, stock warrants, and stock options are considered to be dilutive securities. Basic and diluted net loss attributable to common stockholders per share is presented in conformity with the two class method required for participating securities as the convertible preferred stock is considered a participating security. The Company’s participating securities do not have a contractual obligation to share in the Company’s losses. As such, the net loss was attributed entirely to common stockholders. Accordingly, for the six months ended June 30, 2021 and 2020, there is no difference in the number of shares used to calculate basic and diluted shares outstanding.

The following securities that could potentially decrease net loss per share in the future were not included in the determination of diluted loss per share as their effect is anti-dilutive:

<i>Six months ended June 30,</i>	2021	2020
Shares issuable upon conversion of convertible preferred stock	-	49,761,755
Outstanding stock options	15,209,333	11,169,606
Convertible notes (1)	-	6,084,366
Warrants to purchase common stock	568,935	568,945
	15,778,268	67,584,672

(1) The conversion of the convertible notes into common stock assumes a conversion price of \$0.88 per share and includes the conversion of the principal balance and all accrued interest as of the stated date (see Note 6).

Operating Segment

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Management has determined that the Company operates as one operating segment. The chief executive officer, who is the Company's chief operating decision maker, reviews financial information on an aggregate basis for purposes of allocating resources and evaluating the financial performance of the Company. The Company's revenues have been entirely sourced in the United States and all long-lived assets are maintained in the United States.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. The new guidance requires companies to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The standard update eliminates the probable initial recognition threshold in current GAAP and, instead, reflects an entity's current estimate of all expected credit losses over the contractual term of its financial assets. The standard update broadens the information that an entity can consider when measuring credit losses to include forward-looking information. Further, in May 2019, the FASB issued ASU 2019-05, *Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief*, which provides transition relief in the application of Topic 326 by permitting companies within the scope of Subtopic 326-20 (financial instruments measured at amortized cost) with an option to irrevocably elect the fair value option in Subtopic 825-10 for eligible instruments, upon adoption of Topic 326. These ASUs are effective for the Company beginning January 1, 2023, with early application permitted. The standard updates will be applicable to the Company's trade accounts receivable balances. The Company has not yet evaluated the impact that the standard updates could have on its financial statements.

In August 2020, the FASB issued ASU 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. Specifically, ASU 2020-06 simplifies accounting for the issuance of convertible instruments by removing major separation models required under current GAAP. In addition, the ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and simplifies the diluted earnings per share (EPS) calculation in certain areas. ASU 2020-06 will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted, beginning in fiscal years which begin after December 15, 2020, including interim periods within those fiscal years. The FASB has specified that an entity should adopt the guidance as of the beginning of its annual fiscal year. The amendment is to be adopted through either a modified retrospective or fully retrospective method of transition. The Company early adopted ASU 2020-06 under a modified retrospective approach as of January 1, 2021. As a result of the adoption, there was no impact on retained earnings or other components of equity or to earnings per share in the Company's condensed consolidated financial statements.

2. Revenue

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"). Revenue recognition is determined using the five-step process provided in ASC 606: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and, (v) recognize revenue when (or as) the entity satisfies a performance obligation.

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The Company sells goods to customers on its ecommerce website, including physical products as well as e-certificates. An e-certificate allows the customer to redeem the e-certificate value for the purchase of merchandise from a merchant store. The Company has determined that its performance obligations under its sales contracts with customers are to deliver the purchased goods. Accordingly, revenue is recognized at the point in time when the delivery obligation is satisfied, which is consistent with the time in which the customer obtains control of the goods. For physical products, delivery occurs when the product is physically delivered to the customer's location. For e-certificates, delivery occurs when the e-certificate is delivered to the customer's designated email address. The Company recognizes revenue as the amount of consideration the Company expects to receive in exchange for transferring the goods, which is the fixed contract price for the purchased goods.

Customer payment terms provide for payment of the contract price up to a six-month period following the sale. In determining whether revenue recognition is appropriate at the time of sale, the Company assesses collectability of the contractual price it expects to be entitled to and will only recognize revenue for sales in which it has estimated that collection is probable. Based upon the Company's standards for customer creditworthiness, the Company has historically only entered into contracts with customers for which it believed collection was probable at the time of sale. The Company records an estimate of bad debt expense at the time revenue is recognized. The Company does not offer any significant rebates, coupons or other forms of concession to customers.

The Company collects a down payment upon the customer's completion of the order. The amount that the Company collects from customers prior to the delivery of goods and the recognition of revenue is recorded as a customer deposit in accrued liabilities until the goods are delivered. As of June 30, 2021, and December 31, 2020, the liability for customer deposits was not material.

In the sale of goods, the Company has determined that it is the principal in satisfying the performance obligations to customers, primarily because the Company has full latitude to source the goods from any vendor and full discretion to establish customer pricing, and the Company's vendors, who are resellers of the goods, are not visible to customers and have no contractual obligations to customers. For e-certificates, the Company is purchasing these from vendors who have purchased and carry inventory stock of e-certificates, and the Company has a non-cancellable right during the terms of the contracts with these vendors to purchase and resell the e-certificates. As the principal in satisfying the performance obligations to customers, the Company recognizes revenue at the gross amount of consideration it is entitled to collect from customers.

The Company also sells product warranties to customers, although such sales have not been material to date. For these sales, the Company arranges for the warranties to be provided to customers by the warrantor and is an agent in satisfying the performance obligations for these sales. Accordingly, revenue is recognized for the amount of consideration expected to be collected from the customer, net of the amount paid or due to the warrantor for purchase of the warranties by the Company.

The Company has elected the following practical expedients permitted in the application of ASC 606.

- As the Company expects at the inception of all contracts with customers that the transaction price will be paid by the customer within twelve months of delivery of the product, the Company elects not to adjust the promised amount of consideration for

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the effects of any significant financing component in determining the transaction price.

- The Company elects to exclude sales and other similar taxes collected from customers from the transaction price.

The Company's revenues have been entirely sourced in the United States. The following tables shows the Company's revenues for each of the six months ended June 30, 2021 and 2020 by significant product type (in thousands):

<i>Six months ended June 30,</i>	2021	2020
E-certificates	\$ 30,522	\$ 12,168
Electronics	16,876	9,861
All other	8,721	6,111
Total revenue	\$ 56,119	\$ 28,140

3. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

	June 30, 2021	December 31, 2020
Computer equipment	\$ 126	\$ 113
Furniture and fixtures	51	51
Leasehold improvements	5	5
Property and equipment, gross	182	169
Less accumulated depreciation	(143)	(129)
Total property and equipment, net	\$ 39	\$ 40

Depreciation expense was \$13,783 and \$17,417 for the six months ended June 30, 2021 and 2020, respectively.

4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

	June 30, 2021	December 31, 2020
Patents and trademarks	\$ 18	\$ 18
Software (purchased or developed)	1,874	1,580
Intangible, gross	1,892	1,598
Less accumulated amortization	(1,147)	(901)

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Total intangibles, net	\$	745	\$	697
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Amortization expense was \$245,393 and \$232,196 for the six months ended June 30, 2021 and 2020, respectively. The net carrying value of intangible assets as of June 30, 2021 is expected to be recognized over a weighted average amortization period of 1.95 years. As of June 30, 2021, future amortization expense for intangible assets is \$225,067 for the remainder of 2021, \$352,849 in 2022, \$146,709 in 2023 and \$20,419 in 2024.

5. Fair Value Measurement

Prior to their conversion to common stock, the Company used fair value measurements for convertible notes issued in December 2019 (“2019 IPO Notes”) for which the Company had elected the fair value option pursuant to ASC 825. In addition, prior to their conversion to common stock warrants, the Company used fair value measurements for certain liability-classified stock warrants. These liabilities were subject to recurring measurement and measured using Level 3 inputs per the fair value hierarchy established in ASC 820. Refer to Note 6 regarding the 2019 IPO Notes, and Note 9 regarding the stock warrants. Upon the completion of the IPO, the convertibles notes (and accrued interest) were converted into common stock, and the warrants were converted into common stock warrants, at which time both of these instruments were no longer liability-classified and subject to fair value measurement and were reclassified to equity.

The Company did not transfer any assets or liabilities measured at fair value on a recurring basis to or from Level 3 for the six months ended June 30, 2021 and June 30, 2020.

The changes in the fair values of these instruments for the six months ended June 30, 2020 and December 31, 2020 were as follows (in thousands):

		2019 IPO Notes		Stock Warrants
Fair value as of December 31, 2019	\$	4,121		23
Issuance		1,262		-
Change in fair value, net of accrued interest		(109)		-
Fair value as of June 30, 2020		5,274		23
Change in fair value		1,650		146
Conversion to common stock/common stock warrants		(6,924)		(169)
Fair value as of December 31, 2020	\$	-	\$	-

The fair value of the 2019 IPO Notes was determined to be equal to the transaction price of the notes at initial recognition. Until their conversion to common stock upon the IPO in October 2020, the fair value of the notes was determined by assessing the discounted probability-weighted expected return which are considered Level 3 inputs. The fair value of the 2019 IPO notes immediately prior to their conversion was estimated based on the number of share of common stock into which the notes would convert upon an IPO, using the IPO offering price of \$1.11, with a 100% probability assigned to the outcome that the notes would convert to common stock on the date of the IPO.

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The fair value of stock warrants was estimated using the Black-Scholes option pricing model. The expected term is the estimated probability weighted-average time to exit that accounts for different exit, financing, or dissolution scenarios, which is a Level 3 (unobservable) input.

The carrying amounts of the Company's other current financial assets and liabilities are considered to be representative of their respective fair values because of the short-term nature of these instruments.

6. Debt and Credit Facilities

Bastion Credit Facility

In September 2020, the Company entered into a credit facility with Bastion Consumer Funding II LLC. The initial facility provides up to \$15.0 million in principal borrowings, subject to a borrowing base limitation of 90% of the cost of goods sold on eligible customer receivables. In February 2021 the facility was amended to increase the principal borrowing amount to \$35.0 million. The facility can be drawn upon until the day before the date that is 30 months following the closing date, or through March 15, 2023, or earlier upon an event of default or early amortization event, as defined in the agreement. All principal amounts borrowed are due 36 months from the closing date, or September 15, 2023, unless due earlier as a result of the borrowing base limitation or an event of default.

Borrowings are collateralized by all of the Company's personal property, including eligible receivables which are required to be held in a separate, wholly-owned legal entity, the Zebit Be Free 2020-1 Statutory Trust ("Zebit Be Free"). Zebit Be Free is the debtor under the credit facility and the Company is the servicer responsible for servicing the eligible receivables. An eligible customer receivable is one that meets the eligibility criteria of the agreement. Customer payments on eligible receivables are required to be remitted into a lockbox account and the payments deposited into the lockbox account are transferred to a collections account (subject to a deposit account control agreement) whereby such available collections are distributed to make the interest payment and any required principal payment with the excess amount funded to the parent company, Zebit, Inc., as beneficial owner of the trust certificate. Outstanding borrowings bear interest, payable monthly, at a rate of 3-month LIBOR (subject to a 1% LIBOR floor) plus 12%, unless outstanding loan amounts exceed \$20.0 million in which such rate shall be 3-month LIBOR plus 10.5%.

The Company must adhere to certain covenants during the term of the agreement. Failure to meet financial covenants, which are measured monthly, constitutes an event of default. Upon the occurrence of an event of default, the lender may immediately terminate any remaining commitment and declare all outstanding principal and interest due and payable. Also, pursuant to the agreement, the Company will be prohibited from issuing any other additional senior debt and will be prohibited from making any other distributions or paying any dividends except that the Company will be permitted to make tax distributions and other distributions to its members once cumulative retained earnings are positive, but at such time distributions will be limited to 50% of current year earnings. As of June 30, 2021, the Company was in compliance with the covenants.

The Company incurred \$290,600 in costs related to entry into the credit facility, which were recorded as deferred financings costs in other assets and are being amortized on a straight-line basis over the term of the credit facility.

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As of June 30, 2021, the principal balance outstanding was \$13.8 million and the interest rate applicable to the principal balance outstanding was 13.0%. As of June 30, 2021, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was \$27.9 million.

Paycheck Protection Program

In April 2020, the Company received loan proceeds of \$1.1 million (the “PPP Loan”) pursuant to the Paycheck Protection Program (“the PPP”) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) administered by the U.S. Small Business Administration (the “SBA”).

The PPP Loan was originally scheduled to mature in April 2022 and bore a stated interest rate of 1.00% per annum. Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of such loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. In December 2020, the Company applied for forgiveness of the PPP loan, and in January 2021, the Company received notice that the entire principal balance and accrued interest were forgiven. The Company accounted for the loan forgiveness as a gain on debt extinguishment under ASC 470 and was excluded from operating income. No payments of principal or interest were required or made prior to forgiveness.

In order to apply for the PPP Loan, the Company was required to certify, among other things, that the current economic uncertainty made the PPP Loan necessary to support the Company’s ongoing operations. This certification further required the Company to take into account the maintenance of its workforce, the Company’s need for additional funding to continue operations, and the Company’s ability to access alternative forms of funding to support its ongoing business operations.

Silicon Valley Bank Term Debt

In December 2015, the Company entered into a Loan and Security Agreement with Silicon Valley Bank (“SVB”) which, as amended, provided for term loans in an aggregate amount up to \$3,000,000.

The Company used IPO proceeds to repay all amounts due to SVB in October 2020.

December 2019 IPO Convertible Notes

In December 2019, the Company issued subordinated convertible promissory notes (“2019 IPO Notes”) to certain accredited investors, whereby the Company agreed to sell, and the accredited investors agreed to purchase, convertible notes in the aggregate principal amount \$4,114,450. During the year ended December 31, 2020, the Company issued additional notes in the aggregate principal amount of \$1,262,500 (net of the note repurchase, discussed below). The 2019 IPO Notes bore an interest rate of 4% per annum calculated on the basis of a 365-day year. The outstanding principal, together with unpaid accrued interest (the “Outstanding Amount”), plus an amount equal to 20% of the outstanding principal was due upon the earlier of (i) December 31, 2020 or (ii) the occurrence of an event of default. The Outstanding Amount would automatically convert into common stock upon a qualified IPO, at a conversion price per share equal to the lesser of 80% of the price per share at which shares are sold in the qualified IPO, or \$1.00. The 2019 IPO Notes were entered into with existing

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beneficial owners of the Company, on the same terms as all other purchases of the 2019 IPO Notes.

In June 2020, the Company repurchased a \$900,000 IPO Note from an investor that was originally issued in March 2020. The repurchase price was equal to the original transaction price of \$900,000, and the investor agreed to waive all interest accrued on the note. In a related transaction in June 2020, the Company issued a new \$900,000 IPO Note to secondary investor. The Company, the original note investor and the secondary investor are all related parties. The repurchase and the issuance of the new note were approved by the Company's board of directors, and the holders of 2019 IPO Notes who were required to approve the transactions.

The Company elected to account for the 2019 IPO Notes at fair value pursuant to ASC 825, Financial Instruments. Refer to Note 1. As of June 30, 2020, the principal balance outstanding was \$5,376,950, and the fair value carrying amount was \$5,274,257.

In October 2020, the Company completed a qualified IPO, as defined in the 2019 IPO Notes, and the outstanding principal amount of the notes of \$5,376,950 and \$162,092 of accrued interest automatically converted into 6,260,206 shares of common stock, at a conversion price of \$0.8848 per share.

7. Convertible Preferred Stock

As of June 30, 2020, outstanding preferred stock was as follows:

	Shares Authorized	Shares Issued and Outstanding	Liquidation Value Per Share	Liquidation Value (in thousands)
Series Seed	3,571,472	3,022,527	\$ 1.00	\$ 3,023
Series A	15,275,880	12,278,336	1.00	12,278
Series B	50,547,407	34,460,892	1.00	34,461
Total	69,394,759	49,761,755		\$ 49,762

In connection with the completion of the Company's IPO in October 2020, the preferred stockholders, pursuant to the election available in the then-effective certificate of incorporation, as amended, consented to the conversion of preferred stock to common stock. All outstanding preferred stock was converted to common stock.

8. Common Stock

As of June 30, 2021, and December 31, 2020, the Company was authorized to issue up to 250,000,000 of \$0.0001 par value common stock. As of June 30, 2021, and December 31, 2020, 94,590,570 and 94,443,190 shares, respectively, were issued and outstanding. Each holder of common stock is entitled to one vote for each share of common stock held. The holders of common stock are entitled to receive dividends when, as and if declared by the board of directors.

In October 2020, the Company completed its IPO, in which it sold an aggregate of 22,151,899 shares of the Company's common stock at a public offering price of AUD 1.58 (USD 1.11) per

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share. The Company received gross cash proceeds of \$24.7 million, before deducting offering costs of \$3.8 million.

In addition, each of the following occurred in connection with the completion of the IPO:

- The conversion of all outstanding shares of convertible preferred stock into an aggregate 49,761,755 shares of common stock; and
- The conversion of an aggregate of \$5.5 million of the outstanding 2019 IPO Notes and accrued interest into an aggregate of 6,260,206 shares of common stock.

Registration Rights Agreement

In October 2020, the Company entered into a registration rights agreement with certain holders of its common stock, including certain members of, and affiliates of, the Company's directors, and its chief executive officer, which provides the holders of common stock with certain registration rights, including the rights to demand that the Company file a registration statement or request that their shares be covered by a registration statement that the Company is otherwise filing. The rights to demand that the Company file a registration statement are effective after the earlier of (i) five (5) years after the date of this Agreement or (ii) one hundred eighty (180) days after the effective date of the registration statement for the Company's first underwritten public offering of its Common Stock under the U.S. Securities Act of 1933 (the "Securities Act"). If the Company receives a request from holders of at least thirty percent (30%) of the registerable securities then outstanding that the Company file a registration statement, and if net offering proceeds would exceed \$15 million, then the Company shall give notice to all other holders, and in any event within thirty 30 days of such request, file a registration statement under the Securities Act covering all securities requested to be registered.

9. Stock Warrants

Prior to completion of the IPO in October 2020, the Company's preferred shares that may have been issuable upon the exercise of warrants contained a contingent redemption feature, which would have required the Company to transfer cash and/or other assets to the holders upon the occurrence of certain events, such as a deemed liquidation event (as defined in the Company's then-current certificate of incorporation). Accordingly, the Company accounted for these warrants as liabilities at their estimated fair values, which were subject to re-measurement at each balance sheet date. Changes in fair value of the stock warrant liabilities were recognized in the statement of operations. Upon the IPO, all outstanding preferred stock warrants were converted into common stock warrants. At that time, the warrant liabilities were adjusted to their fair value at the date of conversion, with changes to the fair value recorded in the statements of operations and the final fair value of \$168,734 was then reclassified to additional paid-in capital.

The warrants issued in the Series B preferred stock offering were issued for a nominal exercise price of \$0.01 per share and had the characteristics of a prepaid forward sale of equity. The warrants were recorded as additional paid in capital at their relative fair value at issuance and were not subsequently remeasured. The relative fair value of the warrants was determined by allocating the transaction proceeds between the Series B preferred shares issued and the warrants issued, based on the relative fair values of the Series B preferred shares without the warrants and the warrants themselves at the time of issuance, as reflected in the statement of changes in stockholders' equity. From October through November 2019, all of the Series B warrants were exercised.

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As of June 30, 2021 and December 31, 2020 there were 568,935 warrants to purchase common stock outstanding with an exercise price of \$1.00 per share. The warrants are exercisable any time prior to their expiration. Of the 568,935 warrants outstanding, 508,935 expire upon the earlier of December 31, 2021, the closing of an IPO pursuant to the Securities Act of 1933, or a sale of the Company; 40,000 expire ten years from their issuance date of December 18, 2015; and, 20,000 expire ten years from their issuance date of September 30, 2017.

10. Equity Incentive Plan

The Company's board of directors adopted the 2020 Equity Incentive Plan on August 12, 2020 (the "Plan"). The Plan allows the Company to grant restricted stock, restricted stock units, stock appreciation rights and stock option awards, all issuable in shares of common stock of the Company, to directors, employees and consultants of the Company. To date, no awards have been issued pursuant to restricted stock, restricted stock unit, or stock appreciation rights agreements. The Plan is administered by the Company's board of directors who determines the vesting provisions, exercise price and other terms for each award, provided that the exercise price of a stock option may not be less than the fair market value of a share of stock on the effective date of grant. As of June 30, 2021, up to 17,743,140 shares of common stock were authorized for issuance under the Plan and 2,533,807 shares remained available for future issuance. Incentive Plan contains an "evergreen" provision that allows annual increases in the number of shares available for issuance on the first day of each calendar year in an amount equal to the lesser of: (i) 5% of the total number of shares of common stock outstanding as of December 31 of the preceding calendar year, or (ii) such lesser number of shares as determined by the Board. Restricted stock unit awards may be granted upon such conditions as the Committee shall determine, including, without limitation, upon the attainment of one or more performance goals.

Currently, all employees are eligible to receive stock option awards. Option grants require the approval of the Company's board of directors and generally vest over a four-year service period, with 25% of the shares subject to an option vesting on the one-year anniversary of the grant date and the remainder vesting in equal monthly installments over the subsequent 36-month period.

The Company uses the Black-Scholes option pricing model to estimate the fair value of each option on the date of grant. The Company recognizes the estimated fair value of option awards as stock-based compensation expense using the straight-line method over the requisite service period. The Company accounts for forfeitures when they occur.

The following is a description of the significant assumptions used in the Black-Scholes option pricing model:

- Fair value of common stock - Subsequent to the IPO completed in October 2020, the fair of the shares of common stock underlying stock options is determined based on the closing trading price of the Company's common stock on the effective date of the grant. Prior to the IPO, the fair value of the shares of common stock underlying stock options was determined by the board of directors. Because there was no public market for the Company's common stock prior to the IPO in October 2020, the fair value was estimated at the time of grant using a number of variables including the common stock value of comparable, public companies, sales of the Company's preferred stock, the Company's historical and projected financial performance, general and industry-

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specific economic outlook, and a marketability adjustment to reflect the lack of liquidity for the Company's common stock, amongst other factors.

- **Expected term** - The expected term is the period that options are expected to be outstanding. As the Company does not have significant historical exercise behavior, it determines the expected life assumption using the simplified method, which is an average of the contractual option term and its vesting period.
- **Expected volatility** - Since the Company's stock was not traded in an active market until October 2020, the Company calculates volatility by using the stock price volatility of similar public companies for a historical period the same as the expected term of the Company's options, and averaging the volatilities of these companies.
- **Risk-free interest rate** - The Company bases the risk-free interest rate on the market yield in effect at the time of option grant provided from the Federal Reserve Board's statistical releases and historical publications from the U.S. Department of Treasury constant maturities rates for terms equivalent to the expected term of the option.
- **Dividends** - The Company has not, and does not expect to pay dividends over the expected term of options. Therefore, the Company uses an expected dividend yield of zero.

The following weighted-average assumptions were used to estimate the fair value of options granted for the six months ended June 30, 2021 and 2020:

<i>Six months ended June 30,</i>	2021	2020
Common stock price	\$0.95	\$1.13
Risk free interest rate	1.40%	1.40%
Expected term (years)	6.1	6.0
Expected volatility	65%	52%
Dividend rate	0%	0%
Weighted average grant date fair value	\$0.54	\$0.97

Following is a summary of the Company's stock option activity for the six months ended June 30, 2021:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2020	13,245,814	\$0.35	7.51	\$ 5,264
Granted	2,242,304	\$0.95		\$ -
Exercised	(147,380)	\$0.32		\$ 100
Forfeited and Expired	(131,405)	\$0.47		\$ -
Outstanding at June 30, 2021	15,209,333	\$0.44	7.49	\$ 4,127

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Exercisable at June 30, 2021	7,798,553	\$0.30	6.12	\$	2,741
Vested and expected to vest at June 30, 2021	15,209,333	\$0.44	7.49	\$	4,127

Options granted during the six months ended June 30, 2021 had a weighted average grant date fair value of \$0.54. Options vested during the six months ended June 30, 2021 had an aggregate fair value of \$634,805.

The intrinsic value of an option is the difference between the option exercise price and fair value of the common stock.

The Company recognized stock-based compensation expense for the six months ended June 30, 2021 and 2020 as follows in the statements of operations (in thousands):

	2021		2020
General and administrative	\$ 695	\$	278
Sales and marketing	8		14
Total stock-based compensation	\$ 703	\$	292

As of June 30, 2021, there was \$3,885,004 of unrecognized stock-based expense to be recognized over a weighted-average remaining service period of 1.82 years.

11. CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law on March 27, 2020. The CARES Act, among other things, includes tax provisions relating to refundable payroll tax credits, deferment of employer’s social security payments, net operating loss utilization and carryback periods, modifications to the net interest deduction limitations and technical corrections to tax depreciation methods for qualified improvement property (QIP). As to net operating loss utilization and carry back periods, net operating losses generated in tax years 2018, 2019, and 2020 can be carried back five years, allowing corporate taxpayers to amend earlier tax returns and potentially obtain a tax refund. In addition, losses generated and utilized prior to January 1, 2021 are not subject to the 80 percent limitation that was previously applied to losses generated after December 31, 2017 under the Tax Cuts and Jobs Act of 2017. The tax provisions of the CARES Act had no material impact on the Company’s income tax provision for the year ended December 31, 2020. The Company continues to evaluate the impact of the CARES Act on its financial position, results of operations and cash flows. The CARES Act also established the Paycheck Protection Program under which financing options were made available to small businesses. The Company applied for and was granted a loan of \$1.1 million under the Paycheck Protection Program, which was fully forgiven in January 2021.

12. Vendor Concentration

During the six months ended June 30, 2021 the company had 3 vendors that accounted for approximately \$32.5 million or 81.6% of the company’s total cost of products. At June 30,

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2021 the amount payable to these vendors was \$3.2 million. During the six months ended June 30, 2020 the company had 3 vendors that accounted for approximately \$13.0 million or 67.4% of the company's total cost of products. At June 30, 2020 the amount payable to these vendors was \$1.4 million.

13. Commitments and Contingencies

Operating Lease

The Company recognizes right-of use assets and lease liabilities for all lease agreements, or agreements containing a lease component, in accordance with ASC Topic 842, Leases ("ASC 842"). At inception of a lease, the Company determines the classification of the lease as either an operating lease or a finance lease. The lease liability is amortized on a straight-line basis for operating leases and is amortized using the effective interest method for finance leases.

The Company has made the following policy elections in its ongoing application of ASC 842:

- For all asset classes, the Company has elected to not recognize right-of-use assets and lease liabilities for leases with a term of twelve months or less; and
- For the office space lease asset class, the Company has elected not to separate non-lease components from lease components to which they relate.

The Company currently has one lease arrangement which is for its 17,306-square foot corporate office location. The lease term is approximately four years ending in July 2022 with no renewal options. In December 2020, and effective February 2021, the Company entered into an agreement to sublease all of the square footage of its corporate office location to a third party beginning in February 2021 for a term ending contemporaneously with the term of the Company's lease agreement for the lease of the office location. The monthly sublease rate is approximately 90% of the monthly rate the Company pays to lease the location, a result of the suppressed commercial real estate market driven by COVID-19. The loss upon exit of the lease facility was not material.

The Company's corporate office lease is classified as an operating lease. The Company applied a discount rate of 6.25% to the minimum lease payments to determine the value of the right-of-use asset and lease liability. Unless the rate implicit in a lease is determinable, ASC 842 requires the use of the rate of interest that a lessee would pay to borrow on a collateralized basis over a similar term for a similar amount to the lease payments in a similar economic environment. The Company noted that the implicit rate in the corporate office lease was not determinable and therefore determined its incremental borrowing rate based on the Company's borrowing rate on existing collateralized debt for a similar borrowing period and amount.

Operating lease expense for the six months ended June 30, 2021 and 2020, was \$303,909 and \$279,191, respectively.

As of June 30, 2021, future annual minimum lease payments for the corporate office lease were as follows (in thousands):

Years ending December 31,

2021 (remaining)	\$	241
2022		263

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Total lease payments	504
Less: imputed interest	(14)
Lease liability as of June 30, 2021	\$ 490

Employee Benefit Plan

The Company had a defined contribution 401(k) benefit plan (the “401(k) Plan”) for all eligible employees, which was terminated in June 2020. The 401(k) Plan permitted participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matched 100% of the first 4% of the employee’s contribution, which fully vested upon contribution. The Company contributed \$0 and \$62,300 to the 401(k) Plan for the six months ended June 30, 2021 and 2020, respectively.

Litigation

In the normal course of business, the Company is at times subject to pending and threatened legal actions. In management’s opinion, any potential losses resulting from the resolution of these matters will not have a material effect on the results of operations, financial position or cash flows of the Company.

14. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date, before the financial statements are issued. The Company recognizes in the financial statements the effect of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the financial statements. The Company’s financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after the balance sheet date, and before the financial statements were issued.

The Company evaluated subsequent events through August 30, 2021, the date the financial statements were issued.

An amendment to the Bastion debt facility was executed in July 2021. This change amended the minimum cash balance advance rate trigger and event of default trigger as below:

1. The advance rate goes from 90% to 80% if unrestricted cash is less than \$10MM
2. Minimum Unrestricted Cash Balance is increasing from \$2MM to \$5MM