Zebit, Inc.

Consolidated Financial Statements

As of and for the Years Ended December 31, 2022 and 2021

Zebit, Inc.

Contents

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of Zebit, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Zebit, Inc. (the Company), which comprise the consolidated balance sheet as of December 31, 2022 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and subsidiaries as of December 31, 2022, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Prior Period Financial Statements

The financial statements of the Company as of December 31, 2021 were audited by other auditors whose report dated February 24, 2022 expressed an unmodified opinion on those statements.

Substantial Doubt About the Company's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As describe in Note 1 to the consolidated financial statements, the Company has experienced recurring losses and negative cash flows from operations and has stated that substantial doubt exists about the Company's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that,

M&K CPAS PLLC

individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

M & K CPAS, PLLC

We have served as the Company's auditor since 2022

Houston, TX

June 14, 2023

Consolidated Financial Statements

Zebit, Inc.

Consolidated Balance Sheets

(in thousands, except share data)

Year ended December 31,		2022		2021
Assets				
Current assets				
Cash and cash equivalents	$	5,712	$	7,720
Receivables, net of allowance for doubtful accounts of $6,387 and $6,430 as of December 31, 2022 and December 31, 2021, respectively		21,509		22,312
Inventories		284		216
Prepaids and other current assets		763		1,628
Total current assets		28,268		31,876
Property and equipment, net		39		67
Operating lease right-of-use assets, net		-		145
Intangibles, net		594		829
Restricted cash		150		150
Other non-current assets		60		166
Total assets	$	29,111	$	33,233
Liabilities and stockholders' equity				
Current liabilities				
Accounts payable	$	2,920	$	7,152
Accrued liabilities		4,323		2,186
Operating lease liabilities, current portion		-		259
Current portion of long-term debt, net of issuance costs		14,971		15,190
Total current liabilities		22,214		24,787
Long- Term Debt, net of current portion and issuance costs		9,743		-
Total liabilities		31,957		24,787
Commitments and contingencies (Note 14)				
Stockholders' equity				
Common stock, $0.25 par value; 100,000 shares authorized as of December 31, 2022 and December 31, 2021; 37,463 and 37,854 issued and outstanding as of December 31, 2022, and December 31, 2021, respectively		9		9
Additional paid-in capital		96,359		94,856
Accumulated deficit		(99,214)		(86,419)
Total stockholders' equity		(2,846)		8,446
Total liabilities and stockholders' equity	$	29,111	$	33,233

See accompanying notes to the consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Operations
(in thousands, except per share amounts)

Year ended December 31,		2022		2021
Revenue	$	69,547	$	116,617
Cost of revenue		51,733		86,497
Gross Profit		17,814		30,120
Operating expenses:				
Provision for uncollectible accounts		10,454		20,668
General and administrative		15,241		19,929
Sales and marketing		3,284		10,041
Total operating expenses		28,980		50,638
Loss from operations		(11,167)		(20,518)
Interest and amortization of debt issuance costs		(2,018)		(2,143)
Interest income		1		5
Paycheck Protection Program loan forgiveness		-		1,148
Other income		393		513
Loss before income taxes		(12,790)		(20,995)
Income tax provision		5		6
Net loss	$	(12,795)	$	(21,001)
Net loss per share, basic and diluted	$	(339)	$	(555)
Weighted-average shares of common stock outstanding, basic and diluted		37,776		37,829

See accompanying notes to the consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Stockholders’ Equity

(in thousands, except per share amounts)

	Common Stock								
	Shares		Par Amount		Additional Paid in Capital		Accumulated Deficit		Total Stockholders' Equity
Balance as of December 31, 2020	37,777	$	9,444	$	93,394	$	(65,418)	$	27,985
Stock-based compensation expense	-		-		1,374		-		1,374
Exercise of stock options	77		19		88		-		88
Net loss	-		-		-		(21,001)		(21,001)
Balance as of December 31, 2021	37,854	$	9,463	$	94,856	$	(86,419)	$	8,446
Exercise of common stock options	8		2		4				4
Stock-based compensation expense					969				969
Fractional Share Payout	(399)		(100)		(159)				(159)
2021 ISO reconciliation					(32)				(32)
Common Stock-Warrants issued with convertible notes					721				721
Net loss							(12,795)		(12,795)
Balance as of December 31, 2022	37,463	$	9,365	$	96,359	$	(99,214)	$	(2,846)

See accompanying notes to the consolidated financial statements.

Zebit, Inc.

Consolidated Statements of Cash Flow

(in thousands)

Year ended December 31,		2022		2021
Operating activities				
Net loss	$	(12,795)	$	(21,001)
Adjustments to reconcile net loss to net cash used in operating activities				
Allowance for doubtful accounts		10,454		20,668
Stock-based compensation expense		969		1,374
Depreciation and amortization		539		522
Gain on forgiveness of Paycheck Protection Program loan		-		(1,148)
Amortization of right-of-use asset		-		409
Amortization of debt issuance costs		349		103
Changes in operating assets and liabilities:				
Accounts receivable		(9,651)		(14,411)
Inventories		(68)		285
Prepaid expenses and other current assets		865		425
Opearating lease right- of- use asset		146		-
Other assets		105		(107)
Accounts payable		(4,233)		(271)
Accrued liabilities		2,562		(869)
Operating lease liability		(259)		(463)
Net cash used in operating activities		(11,016)		(14,484)
Investing activities				
Purchase of property and equipment		(3)		(58)
Purchase or development of intangible assets		(273)		(624)
Net cash used in investing activities		(276)		(682)
Financing activities				
Principal payments on debt		(10,797)		(3,539)
Proceeds from debt, net of issuance costs		20,269		3,900
Fractional payout		(159)		-
2021 ISO reconciliation		(33)		
Proceeds from exercise of stock options		4		88
Net cash provided by financing activities		9,284		449
Net (decrease) in cash, cash equivalents and restricted cash		(2,008)		(14,717)
Cash, cash equivalents and restricted cash at beginning of period		7,870		22,587
Cash, cash equivalents and restricted cash at end of period	$	5,862	$	7,870
Supplemental disclosures of cash flows information				
Cash paid for income taxes	$	5	$	6
Cash paid for interest	$	1,245	$	1,935
Cash paid for operating lease	$	175	$	492
Supplemental disclosure of non-cash financing activities				
Gain of forgiveness of Paycheck Protection Program Loan	$	-	$	1,148
Convertible notes issued with warrants	$	721	$	-

See accompanying notes to the consolidated financial statements.

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 was 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.

Liquidity

The Company has funded its operations primarily through the issuance of common stock, preferred stock and convertible notes, as well as borrowings under debt and credit facilities. The Company has incurred losses and negative cash flows from operations since its inception. The Company recorded revenues of $69.5 million, and $116.6 million for the years ended December 31, 2022 and 2021, respectively. The Company recorded net losses of $12.8 million, and $21.0 million for the years ended December 31, 2022 and 2021, respectively, and has an accumulated deficit of $98.6 million as of December 31, 2022.

As of December 31, 2022, the Company had cash and cash equivalents of $5.7 million, and restricted cash of $150,000. Existing cash resources are not expected to be sufficient to fund forecasted future negative cash flows from operations and obligations as they become due through one year following the issuance of these financial statements, without additional funding. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects that may result should the Company be unable to continue as a going concern. On February 9, 2022, the Company formally applied to the Australian Stock Exchange ("ASX") to be delisted from the official list of the ASX. On April 22 2022, the Company delisted from the ASX upon approval of a special shareholder meeting on March 16 2022. The Company successfully issued $10 million of convertible notes to raise additional capital in May 2022 through August 2022. The Company cannot conclude that management's plan to alleviate the substantial doubt about the Company's ability to continue as a going concern through one year following the issuance of these financial statements is probable of being successfully implemented.

Financial Statement Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The Company's 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. 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.

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 December 31, 2022 and 2021, 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.

December 31,	**2022**	**2021**
Cash and Cash Equivalants	**$ 5,712**	**$ 7,720**
Restricted Cash	**150**	**150**
Total	**$ 5,862**	**$ 7,870**

Inventories

Inventories consist of inventory in-transit from the Company's vendors to the Company's customers as the Company takes ownership of inventory at the point of shipment from the vendor's location until delivered to its customers. All inventory in-transit is recorded at cost on the balance sheet. No substantial losses on inventory were incurred during the years ended December 31, 2022 or 2021. The Company does not estimate that any losses will be incurred on inventories and therefore had no allowance for losses on inventories as of December 31, 2022 or 2021.

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.

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:

	Estimated Useful Life in Years
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. Capitalization of costs for the development of internal-use software begins when 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.

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.

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 years ended December 31, 2022 and 2021 were $1.9 million and $3.1 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 years ended December 31, 2022 and 2021 were $3.3 million and $10.0 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 Measurements

ASC 820, Fair Value Measurement ("ASC 820"), 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 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. 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, 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 years ended December 31, 2022 and 2021, 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:

December 31,	**2022**	**2021**
Outstanding stock options	**13,707**	**6,348**
Warrants to purchase common stock	**12,459**	**24**
Convertible notes to convert into common stock	**25,000**	**-**
	51,166	**6,372**

Operating Segment

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 update 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, 2022. 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.

In May 2021, the FASB issued ASU No. 2021-04, *Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. The ASU addresses the previous lack of specific guidance in the accounting standards codification related to modifications or exchanges of freestanding equity-classified written call options (such as warrants) by specifying the accounting for various modification scenarios. The ASU is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted for any periods after issuance to be applied as of the beginning of the fiscal year that includes the interim period. The Company adopted this guidance for the year ended December 31, 2022 with no material impact noted.

In August 2020, the FASB issued ASU 2020-06, ASC Subtopic 470-20 "*Debt—Debt with Conversion and Other Options*". The standard reduced the number of accounting models for convertible debt instruments and convertible preferred stock. Convertible instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting; and, (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. The amendments in this update are effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. The Company adopted this guidance for the year ended December 31, 2022 with no material impact noted.

2. Revenue

The Company recognizes revenue in accordance with 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.

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. In Q4 2022 Zebit launched its Z Rewards loyalty program which uniquely rewards customers for both paying on-time and shopping responsibly.

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 December 31, 2022 and 2021, 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 six months of delivery of the product, the Company elects not to adjust the promised amount of consideration for 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 the years ended December 31, 2022 and 2021 by significant product type (in thousands):

Year ended December 31,	**2022**	**2021**
E-certificates	**$ 42,100**	**$ 63,220**
Electronics	**17,724**	**35,728**
All other	**9,723**	**17,669**
Total revenue	**$ 69,547**	$ **116,617**

3. Property and Equipment, Net

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

December 31,		**2022**		**2021**
Computer equipment	$	174	$	171
Furniture and fixtures		51		51
Leasehold improvements		5		5
Property and equipment, gross		230		227
Less accumulated depreciation		(191)		(160)
Total property and equipment, net	$	39	$	67

Depreciation expense was $31,008 and $30,459 for the years ended December 31, 2022 and 2021, respectively.

4. Intangible Assets, Net

Intangible assets consisted of the following (in thousands):

December 31,		**2022**		**2021**
Patents and trademarks	$	18	$	18
Software (purchased or developed)		2,478		2,204
Intangible, gross		2,496		2,222
Less accumulated amortization		(1,902)		(1,393)
Total intangibles, net	$	594	$	829

Amortization expense was $508,106 and $491,610 for the years ended December 31, 2022 and 2021, respectively. The net carrying value of intangible assets as of December 31, 2022 is expected to be recognized over a weighted average amortization period of 1.72 years. As of December 31, 2022, future amortization expense for intangible assets is $347,852 in 2023, $200,068 in 2024 and $46,229 in 2025.

5. 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 provided 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. In July 2021, the facility was amended to provide that if the Company's unrestricted cash is less than $10.0 million, the borrowing base limitation shall be reduced to 80% of the cost of goods sold on eligible customer receivables. In February 2022, the facility was amended to (i) reduce the borrowing base limitation to 80% of the cost of goods sold on eligible receivables, with respect to any eligible receivables originated on or after January 1, 2022, (ii) reduce the principal borrowing amount from $35.0 million to $23.0 million, and (iii) amend the financial covenant for the minimum unrestricted cash balance from $5.0 million to $2.0 million. In May 2022, the facility was amended to (i) increase the advance rate from 80% to 90%.

The facility can be drawn upon through March 15, 2025, 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, 2025, 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, including a minimum unrestricted cash balance of $2.0 million at the end of the month, constitutes an event of default. In addition, the agreement includes a subjective acceleration clause as such term is defined in the ASC 470-10 Glossary whereby any event that has occurred or is in continuance which has a material adverse effect on the business 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 December 31, 2022, the Company was in compliance with the covenants. Due to the existence of the subjective acceleration clause, the Company's history of recurring net losses, and the Company's financial condition as of December 31, 2022, the borrowings have been classified as both short-term and long-term debt obligations in the consolidated balance sheet as of December 31, 2022.

The Company incurred $299,600 in costs related to entry into the credit facility, which were recorded as an offset to the debt liability and are being amortized on a straight-line basis over the term of the credit facility.

As of December 31, 2022, the principal balance outstanding was $15.0 million and the interest rate applicable to the principal balance outstanding was 16.765%. As of December 31, 2022, the aggregate receivables held by Zebit Be Free pursuant to the terms of the credit facility agreement was $26.6 million.

Paycheck Protection Program

In April 2020, the Company received loan proceeds of $1.1 million pursuant to the Paycheck Protection Program ("the PPP") under the CARES Act administered by 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 Topic 470, Debt ("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.

6. Convertible Note

The Company issued $10,000,001 of convertible notes from May 2022 through August 2022. The notes are due and payable in full on April 30, 2024 and bear paid in kind interest at 8% per annum. At any time prior to payment in full of the outstanding principal balance and accrued interest, the holder may convert the principal and interest into shares of common stock at a conversion price of $400.00 per share. In connection with this issuance, the Company issued stock warrants to purchase 12,435 shares of common stock at a price of $400.00 per share. The warrants expire on December 31, 2029. When warrants are issued in connection with debt, GAAP requires the proceeds from the debt issuance to be allocated between the debt and the warrants based on their relative fair values. The Company estimated the fair value of the convertible notes based on a comparison to the interest rate for similar notes issued without warrants. The fair value of the warrants was estimated on the grant date using the

Black-Scholes valuation model and the following key assumptions:

Expected stock price volatility	116.98%
Risk-free interest rate	2.88%
Exercise price	$400.00

Expected volatility is based on historical volatility of the stock. The risk-free interest rate is based on the grant date projected yield for a U.S. Treasury bond with a maturity date closest to the term of the warrant.

This resulted in $721,175 being allocated to the warrants, which was recorded as debt discount and will be amortized over the term of the convertible notes. Amortization of debt discount amounted to $179,435 for the year ended December 31, 2022 and is included in interest expense on the Statements of Operations. As of December 31, 2022, accrued interest on these notes amounted to $424,110.

7. Common Stock

As of December 31, 2022 and 2021, the Company was authorized to issue up to 100,000 of $0.25 par value common stock. As of December 31, 2022 and 2021, 37,463 and 37,854 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. On Oct 5, 2022 the Company implemented a reverse stock split of 1:2500. The par value of the stock split also changed from $.0001 to $0.25.

Delisting

On February 9, 2022, the Company formally applied to the Australian Stock Exchange (“ASX”) to be delisted from the official list of the ASX. On Friday April 22, 2022, the Company delisted from the ASX upon approval of a special shareholder meeting on March 16 2022.

8. 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.

As of December 31, 2021 there were 24 warrants to purchase common stock outstanding with an exercise price of $2,500.00 per share. The warrants are exercisable any time prior to their expiration. Of the 24 warrants outstanding, 16 expire ten years from their issuance date of December 18, 2015 and, 8 expire ten years from their issuance date of September 30, 2017. During the year ended December 31, 2022, no warrants expired unexercised pursuant to the original terms of the warrants.

The Company issued stock purchase warrants in connection with the issuance of the convertible notes during 2022. The warrants entitle the holders to purchase 12,435 shares of common stock at an exercise price per share of $400.00. As of December 31, 2022, all warrants remain outstanding. The warrants expire in 2029.

9. 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. The 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. The Plan is also increased by awards cancelled without having been exercised under the Company’s predecessor equity incentive plan. As of December 31, 2021, up to 3,597 shares of common stock were authorized for issuance under the Plan and 1,012 shares remained available for future issuance. Under this evergreen provision, on January 1, 2022, an additional 1,893 shares became available for future issuance under the Plan, as approved by the Board, based on 5% of common stock outstanding as of December 31, 2021.

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 delisting from the ASX in April 2022, the fair value of the shares of common stock underlying stock options is determined based on the last closing trading price of the Company’s common stock. Starting from the IPO completed in October 2020 to April 22, 2022, 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.

- Expected term – As the Company does not have significant historical exercise behavior before 2022, it determines the expected term using the simplified method (plain vanilla), which is an average of the contractual option term and its vesting period.

- Expected volatility – For options granted in 2022, the expected volatility was calculated by using the stock price volatility of the Company from October 27, 2020 to April 19, 2022. For options granted in 2021, 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 years ended December 31, 2022 and 2021:

Year ended December 31,	**2022**	**2021**
Common stock price	**$73.94**	**$1,900**
Risk free interest rate	**3.56%**	**1.17%**
Expected term (years)	**6.25**	**6.1**
Expected volatility	**117%**	**73%**
Dividend rate	**0%**	**0%**
Weighted average grant date fair value	**$36**	**$1,150**

Following is a summary of the Company's stock option activity for the years ended December 31, 2022 and 2021:

	Number of Shares Underlying Outstanding Options	Weighted Average Exercise Price Per Share	Weighted Average Remainning Contractual Life (in years)
Outstanding at December 31, 2020	**5,298**	**$875**	**7.51**
Granted	**1,766**	**$1,900**	
Exercised	**(77)**	**$725**	
Forfeited and expired	**(639)**	**$800**	
Outstanding at December 31, 2021	**6,348**	**$1,175**	**6.85**
Granted	**8,722**	**$50**	
Exercised	**(8)**	**$475**	
Forfeited and expired	**(1,355)**	**$1,193**	
Outstanding at December 31, 2022	**13,707**	**$453**	**8.22**
Exercisable at December 31, 2022	**860**	**$860**	**5.87**
Vested and expected to vest at December 31, 2022	**13,707**	**$453**	**8.22**

Options granted during the years ended December 31, 2022 and 2021 had a weighted average grant date fair value of $36 and $1,150, respectively. Options vested during the years ended December 31, 2022 and 2021 had an aggregate fair value of $1,187,403 and $1,275,019, respectively.

The intrinsic value of an option is the difference between the option exercise price and fair value of the common stock. As of December 31, 2022, the exercise prices of outstanding stock options exceeded the fair value of the common stock, therefore the intrinsic value of outstanding options was zero. Options exercised during the years ended December 31, 2022 and 2021 had an aggregate intrinsic value of $0 and $109,168, respectively.

The Company recognized stock-based compensation expense for the years ended December 31, 2022 and 2021 as follows in the statements of operations (in thousands):

Year ended December 31,		**2022**		**2021**
General and administrative	**$**	**941**	**$**	**1,356**
Sales and marketing		**28**		**18**
Total stock-based compensation	**$**	**969**	**$**	**1,374**

As of December 31, 2022, there was $1,535,341 of unrecognized stock-based expense to be recognized over a weighted-average remaining service period of 5.87 years.

10. CARES Act

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security 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 2019, 2020, and 2021 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 years ended December 31, 2022 and 2021. 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 during 2020, which was fully forgiven in January 2021.

11. Income Taxes

For the years ended December 31, 2022 and 2021, income tax expense consisted of the following components (in thousands):

Year ended December 31,	2022	2021
Current		
Federal	$ -	$ -
State	5	6
Deferred		
Federal	(2,081)	(4,419)
State	(63)	(432)
Valuation allowance	2,144	4,851
Net income tax provision	$ 5	$ 6

Significant components of the Company's net deferred tax assets were as follows (in thousands):

December 31,	2022	2021
Net operating loss carryforward	$ 15,766	$ 13,475
Reserves and allowances	1,308	1,413
R&D and other tax credit carryforwards	78	78
Disallowed interest	965	706
Accrued liabilities	(16)	(58)
Other	(32)	311
Net deferred tax assets before valuation allowance	18,069	15,925
Valuation allowance	(18,069)	(15,925)
Net deferred tax assets	$ -	$ -

The Company has established a full valuation allowance against its net deferred tax assets due to significant uncertainty surrounding the realization of such assets considering the cumulative operating losses incurred by the Company through December 31, 2022.

As of December 31, 2022 and 2021, the Company does not have any unrecognized tax benefits. The Company has not recorded any material interest or penalties in its historical financial statements. Any interest or penalties incurred in future periods will be recorded as a component of income tax expense (provision).

As of December 31, 2022, the Company had federal and state net operating loss carryforwards of approximately $69.8 million and $19.1 million, respectively. Federal net operating losses originating after 2017 have no expiration date, however utilization of these net operating loss carryforwards to offset future taxable income is limited to 80% of taxable income each year beginning after December 31, 2020. The total amount of federal operating loss carryforwards originating prior to 2019 of $26.2 million, and state operating loss carryforwards, will begin to expire in 2035. Pursuant to Internal Revenue Code Sections 382 and 383, use of the Company's federal net operating loss and credit carryforwards may be limited upon a cumulative change in ownership of more than 50% within a three-year period. The Company has not performed an analysis to determine if an ownership change has occurred.

The Company's income tax returns may be subject to examination by federal and state taxing authorities for the years 2019 to 2022. Because application of tax laws and regulations for many types of transactions is susceptible to varying interpretations, amounts reported in the consolidated financial statements could be changed later upon final determination by taxing authorities. Management believes that the Company has no uncertain tax positions that could materially affect its financial statements.

12. Vendor Concentrations

During the year ended December 31, 2022, the Company had three vendors that accounted for approximately $32.3 million or 62.4% of the Company's total cost of revenue. As of December 31, 2022, the total amount payable to these vendors was $92,766. During the year ended December 31, 2021 the Company had three vendors that accounted for approximately $59.7 million or 69% of the Company's total cost of revenue. As of December 31, 2021, the total amount payable to these vendors was $5.3 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 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's lease arrangement for its 17,306-square foot office location ended in July 2022 . In December 2020, and effective February 2021, the Company entered into an agreement to sublease all of the square footage of its 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 was 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. Sublease income is classified within Other Income in the statement of operations.

The Company's 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 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 years ended December 31, 2022 and 2021 was $174,563 and $460,416, respectively.

Employee Benefit Plan

The Company had a defined contribution 401(k) benefit plan (the "401(k) Plan") for all eligible employees. The 401(k) Plan permits participants to contribute up to the amount allowable under federal limits of annual pre-tax compensation to the 401(k) Plan. The Company matches 100% of the first 4% of the employee's contribution, which fully vests upon contribution, from January to March 2022. The Company contributed $33,628 and $74,889 to the 401(k) Plan for the years ended December 31, 2022 and 2021, 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 May 31, 2023, the date the financial statements were issued.

On January 26, 2023 Joseph Liu was promoted to Chief Executive Officer. He succeeds Marc Schneider, who will serve as strategic advisor to Liu for a smooth and orderly transition. Mr. Liu was hired in April 2021 to build out and scale the Company's marketing, merchandising, product and customer care organizations, while working closely with Schneider to learn the business.

On February 28, 2023 Piper Sandler was appointed the Lead Investment Banker for the Company to assist the management team in evaluating strategic M&A opportunities to re-capitalize the business.

In February 2023, Zebit launched operation of Perchline LLC. Perchline LLC is an ecommerce company owned and managed by Zebit Inc. Perchline LLC paused operations in April 2023 until more resources can be dedicated to growing the business.

On March 3, 2023, the Company's loan agreement was amended to downsize the debt facility to 18 million.