

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2023

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-37782

ZEDGE, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other jurisdiction of incorporation or organization)	26-3199071 (I.R.S. Employer Identification Number)
1178 Broadway , 3rd Floor #1450 , New York , NY (Address of principal executive offices)	10001 (Zip Code)

(330) 577-3424
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class B common stock, par value \$.01 per share	NYSE American

Trading symbol: ZDGE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.): Yes ☐ No ☒

As of December 12, 2023, the registrant had the following shares outstanding:

Class A common stock, \$.01 par value:	524,775 shares outstanding
Class B common stock, \$.01 par value:	13,829,798 shares outstanding (excluding 839,332 shares held in treasury)

ZEDGE, INC.

TABLE OF CONTENTS

PART I. Financial Information

Item 1.	Financial Statements (Unaudited)	1
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations and Comprehensive Loss	2
	Condensed Consolidated Statements of Changes In Stockholders' Equity	3
	Condensed Consolidated Statements of Cash Flows	4

	Notes To Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 3.	Quantitative and Qualitative Disclosures About Market Risks	27
Item 4.	Controls and Procedures	27
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	28
Item 1A.	Risk Factors	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3.	Defaults Upon Senior Securities	29
Item 4.	Mine Safety Disclosures	29
Item 5.	Other Information	29
Item 6.	Exhibits	29
SIGNATURES		30

PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

ZEDGE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except par value data)

	October 31, 2023 (Unaudited)	July 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,745	\$ 18,125
Trade accounts receivable	3,183	2,883
Prepaid expenses and other receivables	635	569
Total current assets	22,563	21,577
Property and equipment, net	2,423	2,186
Intangible assets, net	18,130	18,709
Goodwill	1,784	1,961
Deferred tax assets, net	1,842	1,842
Other assets	439	556
Total assets	<u>\$ 47,181</u>	<u>\$ 46,831</u>
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 815	\$ 669
Accrued expenses and other current liabilities	2,906	2,676
Deferred revenues	2,250	2,414
Total current liabilities	5,971	5,759
Term loan, net of deferred financing costs	1,986	1,985
Deferred revenues-non-current	74	-
Other liabilities	171	223
Total liabilities	<u>8,202</u>	<u>7,967</u>
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares— 2,400 ; no shares issued and outstanding	-	-
Class A common stock, \$.01 par value; authorized shares— 2,600 ; 525 shares issued and outstanding at October 31, 2023 and July 31, 2023	5	5
Class B common stock, \$.01 par value; authorized shares— 40,000 ; 14,669 shares issued and 13,830 shares outstanding at October 31, 2023, and 14,634 shares issued and 13,801 outstanding at July 31, 2023	147	146
Additional paid-in capital	46,631	46,122
Accumulated other comprehensive loss	(1,904)	(1,537)
Accumulated deficit	(3,957)	(3,942)
Treasury stock, 839 shares at October 31, 2023 and 833 shares at July 31, 2023, at cost	(1,943)	(1,930)
Total stockholders' equity	<u>38,979</u>	<u>38,864</u>
Total liabilities and stockholders' equity	<u>\$ 47,181</u>	<u>\$ 46,831</u>

See accompanying notes to unaudited condensed consolidated financial statements.

ZEDGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except for per share data)
(Unaudited)

	Three Months Ended October 31,	
	2023	2022
Revenues	\$ 7,081	\$ 6,900
Costs and expenses:		
Direct cost of revenues (excluding amortization of capitalized software and technology development costs which is included below)	486	632
Selling, general and administrative	5,499	5,826
Depreciation and amortization	775	793
Change in fair value of contingent consideration	-	(150)
Income (loss) from operations	321	(201)
Interest and other income, net	81	35
Net loss resulting from foreign exchange transactions	(219)	(76)
Income (loss) before income taxes	183	(242)
Provision for (benefit from) income taxes	198	(73)
Net loss	\$ (15)	\$ (169)
Other comprehensive loss:		
Changes in foreign currency translation adjustment	(367)	(259)
Total other comprehensive loss	(367)	(259)
Total comprehensive loss	\$ (382)	\$ (428)
Loss per share attributable to Zedge, Inc. common stockholders:		
Basic	\$ -	\$ (0.01)
Diluted	\$ -	\$ (0.01)
Weighted-average number of shares used in calculation of income (loss) per share:		
Basic	13,975	14,330
Diluted	13,975	14,330

See accompanying notes to unaudited condensed consolidated financial statements.

ZEDGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(in thousands)
(Unaudited)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance – July 31, 2023	525	\$ 5	14,634	\$ 146	\$ 46,122	\$ (1,537)	\$ (3,942)	833	\$ (1,930)	\$ 38,864
Exercise of stock options	-	-	2	-	3	-	-	-	-	3
Stock-based compensation	-	-	33	1	506	-	-	-	-	507
Purchase of treasury stock	-	-	-	-	-	-	-	6	(13)	(13)
Foreign currency translation adjustment	-	-	-	-	-	(367)	-	-	-	(367)
Net loss	-	-	-	-	-	-	(15)	-	-	(15)
Balance – October 31, 2023	525	\$ 5	14,669	\$ 147	\$ 46,631	\$ (1,904)	\$ (3,957)	839	\$ (1,943)	\$ 38,979

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock		Total Stockholders' Equity
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance – July 31, 2022	525	\$ 5	13,951	\$ 139	\$ 43,609	\$ (1,391)	\$ 2,160	74	\$ (334)	\$ 44,188
Stock-based compensation	-	-	30	1	589	-	-	-	-	590
Purchase of treasury stock	-	-	-	-	-	-	-	130	(310)	(310)

Foreign
currency
translation
adjustment

adjustment	-	-	-	-	-	(259)	-	-	(259)
Net loss	-	-	-	-	-	-	(169)	-	(169)
Balance –									
October 31, 2022	525	\$ 5	13,981	\$ 140	\$ 44,198	\$ (1,650)	\$ 1,991	204	\$ (644) \$ 44,040

See accompanying notes to unaudited condensed consolidated financial statements.

ZEDGE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Three Months Ended October 31,	
	2023	2022
Operating activities		
Net loss	\$ (15)	\$ (169)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	14	14
Amortization of intangible assets	579	579
Amortization of capitalized software and technology development costs	182	200
Amortization of deferred financing costs	1	-
Impairment of investment in privately-held company	50	-
Change in fair value of contingent consideration	-	(150)
Stock-based compensation	507	589
Change in assets and liabilities:		
Trade accounts receivable	(300)	(70)
Prepaid expenses and other current assets	(66)	(205)
Other assets	14	14
Trade accounts payable and accrued expenses	384	598
Deferred revenue	(90)	(318)
Net cash provided by operating activities	1,260	1,082
Investing activities		
Final payments for asset acquisitions	-	(962)
Capitalized software and technology development costs	(423)	(310)
Purchase of property and equipment	(22)	(39)
Net cash used in investing activities	(445)	(1,311)
Financing activities		
Proceeds from term loan payable	-	2,000
Payment of deferred financing costs	-	(18)
Proceeds from exercise of stock options	3	-
Purchase of treasury stock in connection with share buyback program and stock awards vesting	(13)	(310)
Net cash (used in) provided by financing activities	(10)	1,672
Effect of exchange rate changes on cash and cash equivalents	(185)	(109)
Net increase in cash and cash equivalents	620	1,334
Cash and cash equivalents at beginning of period	18,125	17,085
Cash and cash equivalents at end of period	\$ 18,745	\$ 18,419
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments made for income taxes	\$ 36	\$ -
Cash payments made for interest	\$ 46	\$ -

See accompanying notes to unaudited condensed consolidated financial statements.

ZEDGE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1—Basis of Presentation and Summary of Significant Accounting Policies

Description of Business

Zedge, Inc. ("Zedge") builds digital marketplaces and friendly competitive games around content that people use to express themselves. Our leading products include Zedge Ringtones and Wallpapers, a freemium digital content marketplace offering mobile phone wallpapers, video wallpapers, ringtones, and notification sounds as well as pAInt, a generative AI wallpaper maker, GuruShots, a skill-based photo challenge game, and Emojipedia, the #1 trusted source for 'all things emoji'. Our vision is to enable and connect creators who enjoy friendly competitions with a community of prospective consumers in order to drive commerce. Except where the context clearly indicates otherwise, the terms the "Company," "Zedge" "we," "us" or "our" refer

to Zedge, Inc. and its consolidated subsidiaries.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Zedge, Inc. and its subsidiaries, GuruShots Ltd. ("GuruShots"), Zedge Europe AS and Zedge Lithuania UAB (the "Company"), have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended October 31, 2023 are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2024 or any other period. The balance sheet at July 31, 2023 has been derived from the Company's audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2023 (the "2023 Form 10-K"), as filed with the U.S. Securities and Exchange Commission (the "SEC").

The Company's fiscal year ends on July 31 of each calendar year. Each reference below to a fiscal year refers to the fiscal year ending in the calendar year indicated (e.g., fiscal 2023 refers to the fiscal year ended July 31, 2023).

Reportable Segments

Effective August 1, 2022, we revised the presentation of segment information to reflect our acquisition of GuruShots. As such, we now report operating results through two reportable segments: Zedge Marketplace and GuruShots, as further discussed in Note 11, *Segment and Geographic Information*.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosure of contingent assets and liabilities. Actual results could differ materially from the Company's estimates due to risks and uncertainties, including uncertainty in the economic environment due to various global events. To the extent that there are material differences between these estimates and actual results, the Company's financial condition or operating results will be affected. The Company bases its estimates on past experience and other assumptions that the Company believes are reasonable under the circumstances, and the Company evaluates these estimates on an ongoing basis.

Recent Accounting Pronouncements

We considered all recent accounting pronouncements and concluded they are not expected to have a material impact on our consolidated financial statements.

Related Party Transactions

The Company was formerly a majority-owned subsidiary of IDT Corporation ("IDT"). On June 1, 2016, IDT's interest in the Company was spun-off by IDT to IDT's stockholders and the Company became an independent public-held company. IDT charges the Company for services it provides, and the Company charges IDT for services it provides, pursuant to a Transition Services Agreement ("TSA").

The Company is party to a consulting agreement with Activist Artist Management, LLC ("Activist"), which assists the Company in strategic business development. A member of the Company's Board of Directors owns a significant minority stake in Activist.

Transactions with these related parties did not have a material impact to the consolidated balance sheets as of October 31, 2023 or July 31, 2023, or the consolidated statements of operations and comprehensive loss for the three months ended October 31, 2023 or 2022.

Note 2—Revenue

Disaggregation of Revenue

The following table presents revenue disaggregated by segment and type (in thousands):

	Three Months Ended October 31,	
	2023	2022
Zedge Marketplace		
Advertising revenue	\$ 4,939	\$ 4,490
Paid subscription revenue	976	891
Other revenues	222	190
Total Zedge App revenue	6,137	5,571
GuruShots		
Digital goods and services	944	1,329
Total revenue	<u>\$ 7,081</u>	<u>\$ 6,900</u>

Contract Balances

The Company enters into contracts with its customers, which may give rise to contract liabilities (deferred revenue) and contract assets (unbilled revenue). The payment terms and conditions within the Company's contracts vary by products or services purchased, the substantial all of which are due in less than one year. When the timing of revenue recognition differs from the timing of payments made by customers, the Company recognizes only deferred revenue (customer payment is received in advance of performance). The Company does not have unbilled revenue (its performance precedes the billing date).

Deferred revenues

On April 1, 2022, the AppLovin Corporation paid the Company a one-time integration bonus of \$ 2 million for migrating to their mediation platform. This amount is being amortized over an estimated service period of 24 months. The Company's deferred revenue balance related to this bonus was

approximately \$ 0.4 million and \$ 0.7 million as of October 31, 2023 and July 31, 2023, respectively.

The Company records deferred revenues related to the unsatisfied performance obligations with respect to subscription revenue. The Company's deferred revenue balance related to paid subscriptions was approximately \$1.7 million related to approximately 648,000 active subscribers, and approximately \$1.5 million, related to approximately 647,000 active subscribers as of October 31, 2023 and July 31, 2023, respectively.

The Company also records deferred revenues when users purchase or earn Zedge Credits. Unused Zedge Credits represent the value of the Company's unsatisfied performance obligation to its users. Revenue is recognized when Zedge App users use Zedge Credits to acquire Zedge Premium content or upon expiration of the Zedge Credits upon 180 days of account inactivity ("Breakage"). As of October 31, 2023, and July 31, 2023, the Company's deferred revenue balance related to Zedge Premium was approximately \$ 252,000 and \$ 255,000 , respectively.

The amount of deferred revenue recognized in the three months ended October 31, 2023 that was included in the deferred revenue balance at July 31, 2023 was \$ 0.9 million.

Significant Judgments

The advertising networks and advertising exchanges to which the Company sells its inventory track and report the impressions and revenues to Zedge and Zedge recognizes revenues based on these reports. The networks and exchanges base their payments off of those reports and Zedge independently compares the data to each of the client sites to validate the imported data and identify any differences. The number of impressions and revenues delivered by the advertising networks and advertising exchanges is determined at the end of each month, which resolves any uncertainty in the transaction price during the reporting period.

Practical Expedients

The Company expenses the fees retained by Google Play and App Store related to subscription revenue when incurred as marketing expense because the duration of the contracts for which the Company pays commissions are less than one year, except for the new lifetime subscriptions we rolled out in August 2023. These costs are included in the selling, general and administrative expenses of the condensed consolidated statements of operations and comprehensive loss.

Note 3—Fair Value Measurements

The following tables present the balance of assets and liabilities measured at fair value on a recurring basis (in thousands):

	Level 1	Level 2	Level 3	Total
October 31, 2023				
Liabilities:				
Foreign exchange forward contracts	\$ -	\$ 208	\$ -	\$ 208
July 31, 2023				
Assets:				
Foreign exchange forward contracts	\$ -	\$ 19	\$ -	\$ 19

(1) – quoted prices in active markets for identical assets or liabilities

(2) – observable inputs other than quoted prices in active markets for identical assets and liabilities

(3) – no observable pricing inputs in the market

Fair Value of Other Financial Instruments

Fair value of the outstanding foreign exchange forward contracts are marked to market price at the end of each measurement period.

The Company's other financial instruments at October 31, 2023 and July 31, 2023 included trade accounts receivable and trade accounts payable. The carrying amounts of the trade accounts receivable and trade accounts payable approximated fair value due to their short-term nature.

Note 4—Derivative Instruments

The primary risk managed by the Company using derivative instruments is foreign exchange risk. Foreign exchange forward contracts are entered into as hedges against unfavorable fluctuations in the U.S. Dollar (USD) to Norwegian Kroner (NOK) and USD to Euro (EUR) exchange rates. The Company is party to a Foreign Exchange Agreement with Western Alliance Bank ("WAB") allowing the Company to enter into foreign exchange contracts under its revolving credit facility with the bank (see Note 10 *Term Loan and Revolving Credit Facility*). The Company does not apply hedge accounting to these contracts, and therefore the changes in fair value are recorded in unaudited condensed consolidated statements of operations and comprehensive loss. By using derivative instruments to mitigate exposures to changes in foreign exchange rates, the Company is exposed to credit risk from the failure of the counterparty to perform under the terms of the contract. The credit or repayment risk is minimized by entering into transactions with high-quality counterparties.

The outstanding contracts at October 31, 2023, were as follows:

Settlement Date	U.S. Dollar Amount	NOK Amount
Nov-23	225,000	2,256,750
Dec-23	225,000	2,253,285
Jan-24	225,000	2,249,730
Feb-24	225,000	2,246,265
Mar-24	225,000	2,242,823
Apr-24	225,000	2,240,550

May-24	225,000	2,237,738
Total	1,575,000	15,727,140

Settlement Date	U.S. Dollar Amount	EUR Amount
Nov-23	225,000	206,935
Dec-23	225,000	206,555
Jan-24	225,000	206,271
Feb-24	225,000	205,893
Mar-24	225,000	205,611
Apr-24	225,000	205,386
May-24	225,000	205,142
Total	1,575,000	1,441,792

The fair value of outstanding derivative instruments recorded in the accompanying unaudited condensed consolidated balance sheets were as follows:

(in thousands)	Balance Sheet Location	October 31, 2023	July 31, 2023
Assets and Liabilities Derivatives:			
Derivatives not designated or not qualifying as hedging instruments			
Foreign exchange forward contracts	Other current assets	\$ -	\$ 19
Foreign exchange forward contracts	Accrued expenses and other current liabilities	\$ 208	\$ -

The effects of derivative instruments on the condensed consolidated statements of operations and comprehensive loss were as follows:

Amount of Loss Recognized on Derivatives	Location of income (loss) recognized on derivatives	Three Months Ended October 31	
Derivatives not designated or not qualifying as hedging instruments		2023	2022
		(in thousands)	
Foreign exchange forward contracts	Net loss resulting from foreign exchange transactions	\$ 282	\$ (121)

Note 5—Intangible Assets and Goodwill

The following table presents the detail of intangible assets, net as of October 31, 2023 and July 31, 2023 (in thousands):

	October 31, 2023			July 31, 2023		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Emojipedia.org and other internet domains acquired	6,711	1,006	5,705	6,711	894	5,817
Acquired developed technology	3,950	1,224	2,726	3,950	1,028	2,922
Customer relationships	7,800	1,208	6,592	7,800	1,013	6,787
Trade names	3,570	463	3,107	3,570	387	3,183
Total intangible assets	\$ 22,031	\$ 3,901	\$ 18,130	\$ 22,031	\$ 3,322	\$ 18,709

Estimated future amortization expense as of October 31, 2023 is as follows (in thousands):

Fiscal 2024	1,736
Fiscal 2025	2,315
Fiscal 2026	2,315
Fiscal 2027	2,315
Fiscal 2028	2,315
Thereafter	7,134
Total	\$ 18,130

The Company's amortization expense for intangible assets were \$ 579 ,000 and \$ 579 ,000 for the three months ended October 31, 2023 and 2022, respectively.

Goodwill

The following table summarizes the changes in the carrying amount of goodwill for the three months ended October 31, 2023 (in thousands).

	Carrying Amounts
Balance as of July 31, 2023	1,961
Impact of currency translation	(177)
Balance as of October 31, 2023	\$ 1,784

The total accumulated impairment loss of the Company's goodwill as of October 31, 2023 was \$ 8.7 million.

Note 6—Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in thousands):

	October 31, 2023	July 31, 2023
Accrued payroll and bonuses	\$ 764	\$ 1,136
Accrued vacation	590	593
Accrued payroll taxes	285	237
Due to artists	310	226
Accrued expenses	573	301
Operating lease liability-current portion	122	124
Derivative liability for foreign exchange contracts	208	-
Accrued income taxes payable	41	51
Due to related party - IDT	13	8
Total accrued expenses and other current liabilities	\$ 2,906	\$ 2,676

Note 7—Stock-Based Compensation**2016 Incentive Plan**

On March 23, 2022, the Company's Board of Directors amended the Company's 2016 Stock Option and Incentive Plan (as amended to date, the "2016 Incentive Plan") to increase the number of shares of the Company's Class B common stock available for the grant of awards thereunder by an additional 685,000 shares to an aggregate of 2,531,000 shares, including 626,000 shares for the GuruShots retention pool. This amendment was ratified by the Company's stockholders at the Annual Meeting of Stockholders held on January 18, 2023.

At October 31, 2023, there were 470,000 shares of Class B common stock available for awards under the 2016 Incentive Plan before accounting for 204,000 contingently issuable shares related to deferred stock units ("DSUs") with both service and market conditions.

Stock-based compensation

The Company recognizes stock-based compensation for stock-based awards, including stock options, restricted stock and DSUs based on the estimated fair value of the awards and recognized over the relevant service period and/or market conditions. The Company estimates the fair value of stock options on the measurement date using the Black-Scholes option valuation model. The Company estimates the fair value of the restricted stock and DSUs with service conditions only using the current market price of the stock. The Company estimates the fair value of the DSUs with both service and market conditions using the Monte Carlo Simulation valuation model.

The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. The Company recognizes stock-based compensation expense related to options and restricted stock units on a straight-line basis over the service period of the award, which is generally 4 years for options and 3 years for restricted stock units.

In our accompanying unaudited condensed consolidated statements of operations and comprehensive loss, the Company recognized stock-based compensation expense for our employees and non-employees as follows:

	Three Months Ended October 31,	
	2023	2022
Stock-based compensation expense	\$ 507	\$ 589

As of October 31, 2023, the Company's unrecognized stock-based compensation expense was \$ 277,000 for unvested stock options, \$ 456,000 for unvested DSUs and \$ 1.7 million for unvested restricted stock including the \$ 4 million portion of retention bonus in connection with the GuruShots acquisition to be paid in the Company's Class B common stock.

In the three months ended October 31, 2023 and 2022, awards of restricted stock and DSUs with respect to 124,000 shares and 30,000 shares, respectively, vested. In connection with these vesting events, the Company purchased 6,328 shares and 6,310 shares respectively, of Class B Stock from certain employees for \$ 13,000 and \$ 17,000, respectively, to satisfy tax withholding obligations in connection with the vesting of restricted stock and DSUs.

Repricing of Outstanding and Unexercised Options

On October 20, 2022, the Board unanimously approved the repricing of all outstanding and unexercised stock options granted under the 2016 Plan with exercise prices above the then current market value held by then current employees, executive officers, and consultants of the Company (the "Eligible Stock Options"). Effective October 20, 2022, the exercise price of the eligible stock options was reduced to \$ 2.27, the closing price of its common stock on October 19, 2022. Except for the modification to the exercise price of the Eligible Stock Options, all other terms and conditions of each of the Eligible Stock Options remained in full force and effect.

Pursuant to the 2016 Incentive Plan, the Compensation Committee of the Board of Directors, as the administrator, has discretionary authority, exercisable on such terms and conditions that it deems appropriate under the circumstances, to reduce the exercise price in effect for outstanding options under the 2016 Incentive Plan. In approving the repricing, the Compensation Committee considered the impact of the current exercise prices of outstanding stock options on the incentives provided to employees and consultants, the lack of retention value provided by the outstanding stock options to employees and consultants, and the impact of such options on the capital structure of the Company. As of October 20, 2022, there were 532,750 stock options outstanding under the 2016 Incentive Plan, of which 191,663 outstanding stock options had exercise prices in excess of the market price of the Company's common stock as of October 20, 2022, which is why the Compensation Committee made the determination to deem all outstanding and unexercised stock options held by current employees, executive officers, and consultants as Eligible Stock Options.

Jonathan Reich, the Company's Chief Executive Officer, and Yi Tsai, the Company's Chief Financial Officer, held Eligible Stock Options exercisable for an aggregate of 64,898 and 15,000 shares of the Company's common stock, respectively, which options were repriced.

The option repricing resulted in incremental stock-based compensation of \$ 87,000 , of which \$ 39,000 was recorded as expense in the three months ended January 31, 2023, and \$ 48,000 will be recognized as expense over the requisite service periods over which the Eligible Stock Options vest.

Note 8—Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to all classes of common stockholders of the Company by the weighted average number of shares of all classes of common stock outstanding during the applicable period. Diluted earnings per share is computed in the same manner as basic earnings per share, except that the number of shares is increased to include restricted stock still subject to risk of forfeiture, issuances to be made on the vesting of unvested DSUs and the exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase is anti-dilutive.

The rights of holders of Class A common stock and Class B common stock are identical except for certain voting and conversion rights and restrictions on transferability. As such, the Company is not required to break out earnings per share by class.

11

The weighted-average number of shares used in the calculation of basic and diluted earnings per share attributable to the Company's common stockholders consists of the following (in thousands):

	Three Months Ended October 31,	
	2023	2022
Basic weighted-average number of shares	13,975	14,330
Effect of dilutive securities:		
Stock options	-	-
Non-vested restricted Class B common stock	-	-
Deferred stock units	-	-
Diluted weighted-average number of shares	13,975	14,330

The following shares were excluded from the dilutive earnings per share computations because their inclusion would have been anti-dilutive (in thousands):

	Three Months Ended October 31,	
	2023	2022
Stock options	855	858
Non-vested restricted Class B common stock	308	679
Deferred stock units	203	239
Shares excluded from the calculation of diluted earnings per share	1,366	1,776

For the three months ended October 31, 2023 and 2022, the diluted earnings per share equals basic earnings per share because the Company incurred a net loss during those periods and the impact of the assumed exercise of stock options and vesting of restricted stock and DSUs would have been anti-dilutive.

Note 9—Commitments and Contingencies

Commitments

In connection with the acquisition of GuruShots, the Company has (i) committed to a retention pool of \$ 4 million in cash to be paid to the founders and employees of GuruShots that will be payable over three years from April 1, 2022 based on the beneficiaries thereof remaining employed by the Company or a subsidiary; and (ii) agreed to invest a minimum in user acquisition in the first 24 months following the closing subject to the acquired users generating minimum ROAS thresholds and payment of an earnout if certain growth targets were met. The Company's obligations with respect to a potential earnout have been terminated.

At the end of the first quarter of fiscal 2024, the Company and the prior owners of GuruShots agreed to withdraw and settle claims related to the SPA pursuant to which the Company purchased the equity of GuruShots, including any dispute about minimum user acquisition spend for GuruShots, any right of the prior owners to an earnout payment and the Company's claim for indemnification related to alleged misrepresentations in the SPA.

Legal Proceedings

The Company may from time to time be subject to other legal proceedings that arise in the ordinary course of business. Although there can be no assurance in this regard, the Company does not expect any of those legal proceedings to have a material adverse effect on the Company's results of operations, cash flows or financial condition.

12

Note 10—Term Loan and Revolving Credit Facility

As of September 27, 2016, the Company entered into a loan and security agreement with WAB for a revolving credit facility of up to \$ 2.5 million for an initial two-year term which was extended twice for another two-year term which expired September 26, 2022 and was amended on October 28, 2022 as discussed below. The revolving credit facility was secured by a lien on substantially all of the Company's assets. Effective with the September 2020 extension, the outstanding principal amount bore interest per annum at the greater of 3.5 % or the prime rate plus 1.25 %. Previously the interest rate was capped at 5.0 %. Interest was payable monthly and all outstanding principal and any accrued and unpaid interest was due on the maturity date of September 26, 2022. The Company was required to pay an annual facility fee of \$ 10,000 to WAB. The Company was also required to comply with

various affirmative and negative covenants and to maintain certain financial ratios during the term of the revolving credit facility. The covenants included a prohibition on the Company paying any dividend on its capital stock.

On October 28, 2022, the Company entered into an Amended and Restated Loan and Security Agreement ("Amended Loan Agreement") with WAB. Pursuant to the Amended Loan Agreement, WAB agreed to provide the Company with a new term loan facility in the maximum principal amount of \$7 million for a four-year term and a \$4 million revolving credit facility for a two-year term. Amounts outstanding under the term loan and credit facility of the Amended Loan Agreement bear interest at a per annum rate equal to the Prime Rate (as published in The Wall Street Journal) plus 0.5 %, with a Prime "floor" rate of 4.00 %.

Pursuant to the Amended Loan Agreement, the Company discontinued the then existing \$ 2 million revolving credit facility under the prior version of the Loan and Security Agreement. At the time of the discontinuance, there was no outstanding balance on the revolving credit facility.

Pursuant to the Amended Loan Agreement, \$ 2 million was advanced in a single-cash advance on October 28, 2022, with the remaining \$ 5 million available for drawdown during twenty-four (24) months after closing. Each drawdown must be in an amount of not less than One Million Dollars (\$ 1 million). On May 11, 2023, the Company entered into a Modification Agreement pursuant to which the Company agreed to modify the Amended Loan Agreement to reduce the remaining \$ 5 million availability to \$ 0 .

Interest accrued under the Amended Loan Agreement is due monthly, and the Company shall make monthly interest-only payments related to the term loan through the eighteen (18) month anniversary of the closing date. From the nineteen (19) month anniversary of the Closing Date through the maturity date, the Company shall repay each outstanding term loan by paying the Applicable Term Advance Amortization Payment equal to 1/12th of 10 % of the outstanding term loan balance plus monthly payments of accrued interest, in each case payable on the tenth (10th) day of each month. Zedge's final payment for each Term Advance, due on the Term Loan Maturity Date, shall include all outstanding principal of and accrued and unpaid interest on such Term Advance. Once repaid, a Term Advance may not be reborrowed.

Future scheduled principal repayments on the term loan as of October 31, 2023 are as follows (in thousands):

Years ending July 31,	Principal Repayments Amount
2024	\$ 50
2025	200
2026	200
2027	1,550
Total future principal repayments	2,000
Deferred financing costs	(14)
Term loan, net of deferred financing costs	\$ 1,986

On November 15, 2023, we elected to prepay the entire principal amount of \$ 2 million, see Note 14 *Subsequent Events*.

The Amended Loan Agreement may also require early repayments if certain conditions are met. Borrowings under the Amended Loan Agreement is secured by substantially all of the assets of the Company, its subsidiaries, and certain of its affiliates.

The Amended Loan Agreement includes the following financial covenants:

- a) **Debt Service Coverage Ratio.** Zedge shall maintain, at all times, a Debt Service Coverage Ratio of no less than 1.25 to 1.00 . This covenant shall be tested quarterly as of the end of each fiscal quarter.
- b) **Maximum Debt to EBITDA.** Zedge shall maintain, at all times, a ratio of (a) indebtedness owed by Zedge to WAB, to (b) Zedge's EBITDA for the trailing twelve (12) month period ended on such date of determination, shall not be greater than the amount set forth under the heading "Maximum Debt to EBITDA Ratio" as of, and for each of the dates appearing adjacent to such Maximum Debt to EBITDA Ratio".

Maximum Debt to Quarter Ending	EBITDA Ratio
October 31, 2022	1.75 to 1.00
January 31, 2023	1.75 to 1.00
April 30, 2023	1.75 to 1.00
July 31, 2023	1.75 to 1.00
October 31, 2023	1.25 to 1.00
January 31, 2024	1.25 to 1.00
April 30, 2024	1.25 to 1.00
July 31, 2024	1.25 to 1.00
Thereafter	To be agreed upon

The Amended Loan Agreement also includes customary negative covenants, subject to exceptions, which limit transfers, capital expenditures, indebtedness, certain liens, investments, acquisitions, dispositions of assets, restricted payments and the business activities of the Company, as well as customary representations and warranties, affirmative covenants and events of default, including cross defaults and a change of control default.

As of November 16, 2016, the Company entered into a Foreign Exchange Agreement with WAB to allow the Company to enter into foreign exchange contracts not to exceed \$5.0 million in the aggregate at any point in time under its revolving credit facility. This limit was raised to approximately \$7.5 million pursuant to the Loan and Security Modification Agreement dated May 30, 2018. The available borrowing under the revolving credit facility is reduced by an applicable foreign exchange reserve percentage as determined by WAB, in its reasonable discretion from time to time, which was set at 10% of the nominal amount of the foreign exchange contracts in effect at the relevant time. At October 31, 2023, there were \$ 3.2 million of outstanding foreign exchange contracts, which reduced the available borrowing under the revolving credit facility by \$ 315,000 .

Note 11—Segment and Geographic Information

Segment Information

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer as of October 31, 2023.

Beginning in the first quarter of fiscal 2023, the Company revised the presentation of segment information to align with changes to how the Company's CODM manages the business, allocates resources and assesses operating performance reports operating results based on two reportable segments, which are the Zedge Marketplace and GuruShots.

The CODM evaluates the performance of each operating segment using revenue and income (loss) from operations. The following table provides information about the Company's two reportable segments (in thousands):

	Three Months Ended October 31,	
	2023	2022
	(in thousands)	
Revenue:		
Zedge Marketplace	\$ 6,137	\$ 5,571
GuruShots	944	1,329
Total	<u>\$ 7,081</u>	<u>\$ 6,900</u>
Segment income (loss) from operations:		
Zedge Marketplace	\$ 1,654	\$ 1,371
GuruShots	(1,333)	(1,572)
Total	<u>\$ 321</u>	<u>\$ (201)</u>

The CODM does not evaluate operating segments using asset information and, accordingly, the Company does not report asset information by segment.

Geographic Information

Net long-lived assets and total assets held outside of the United States, which are located primarily in Israel and Norway, were as follows (in thousands):

	United States	Foreign	Total
Long-lived assets, net:			
October 31, 2023	\$ 6,913	\$ 14,078	\$ 20,991
July 31, 2023	\$ 7,054	\$ 14,346	\$ 21,400
Total assets:			
October 31, 2023	\$ 35,543	\$ 11,638	\$ 47,181
July 31, 2023	\$ 33,401	\$ 13,430	\$ 46,831

Note 12—Operating Leases

The Company has operating leases primarily for office space. Operating lease right-of-use assets recorded and included in other assets were \$ 302,000 and \$ 360,000 at October 31, 2023 and July 31, 2023, respectively.

There were no material changes in the Company's operating and finance leases in the three months ended October 31, 2023, as compared to the disclosure regarding such leases in the Company's 2023 Form 10-K.

Note 13—Income Taxes

The Company's tax provision or benefit from income taxes for interim periods has generally been determined using an estimate of its annual effective tax rate applied to year-to-date income and records the discrete tax items in the period to which they relate. In each quarter, the Company updates the estimated annual effective tax rate and makes a year-to-date adjustment to the tax provision as necessary.

The Company's estimated annual effective tax rate for the fiscal year ending July 31, 2024 differs from the U.S. federal statutory tax rate due to certain items primarily related to stock-based compensation expense, mix of jurisdictions in which the Company had, foreign derived intangible income deduction, global intangible low-taxed income and the change in basis differences associated with tax deductible goodwill.

As of October 31, 2023, the Company had \$ 3.7 million of deferred tax assets for which it has established a valuation allowance of \$ 1.8 million, related to U.S. federal and state taxes and for a certain international subsidiary.

The Company is subject to taxation in the United States and certain foreign jurisdictions. Earnings from non-U.S. activities are subject to local country income tax. The material jurisdictions where the Company is subject to potential examination by tax authorities include the United States, Norway, Lithuania and Israel.

Note 14—Subsequent Events

On November 15, 2023, the Company voluntarily prepaid the entire principal amount of \$ 2 million in accordance with the terms of the Amended Loan Agreement without incurring any prepayment penalty.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and the

associated notes thereto of this Quarterly Report, and the audited consolidated financial statements and the notes thereto and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended July 31, 2023 (the "Form 10-K"), as filed with the U.S. Securities and Exchange Commission (the "SEC").

As used below, unless the context otherwise requires, the terms "the Company," "Zedge," "we," "us," and "our" refer to Zedge, Inc., a Delaware corporation and its subsidiaries, GuruShots Ltd., Zedge Europe AS and Zedge Lithuania UAB, collectively.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements that contain the words "believes," "anticipates," "expects," "plans," "intends," and similar words and phrases. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from future results. Factors that may cause such differences include, but are not limited to: (1) Economic, geopolitical and market conditions can adversely affect our business, results of operations and financial condition, including our revenue growth and profitability, which in turn could adversely affect our stock price; (2) Our ability to successfully make acquisitions and/or successfully integrate acquisitions that we have made into Zedge without incurring unanticipated costs or without being subject to other integration issues that may disrupt our existing operations; (3) Delay or failure to realize the expected synergies and benefits of the GuruShots acquisition; (4) The impact of the Covid-19 pandemic on our employees, customers, partners, and the global financial markets; (5) Russia's invasion of Ukraine, and the international community's response; and (6) Recent attack by Hamas and other terrorist organizations from the Gaza Strip and Israel's war against them. For further information regarding risks and uncertainties associated with our business, please refer to Item 1A to Part I "Risk Factors" in the Form 10-K. The forward-looking statements are made as of the date of this report and we assume no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those projected in the forward-looking statements. Investors should consult all of the information set forth in this report and the other information set forth from time to time in our reports filed with the SEC pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including the Form 10-K.

Geo-Political and Macroeconomic Conditions and the COVID-19 Pandemic

We are subject to risks and uncertainties caused by events with significant macroeconomic impacts, including but not limited to, rising interest rates, actions taken to counter inflation, reduced consumer confidence, supply side disruptions, the COVID-19 pandemic, Russia's invasion of Ukraine and the Israel-Hamas war. The future and full impact that these factors may have on our business, financial condition, and results of operations is unclear. The risks related to our business are further described in the section titled "Risk Factors" in Part II, Item 1A of this Quarterly Report on Form 10-Q and those discussed under Item 1A to Part I "Risk Factors" in the Form 10-K.

Impact of Russia's Invasion of Ukraine

We are closely monitoring the current and potential impact on our business, our people, and our users/customers as Russia's war with Ukraine evolves. We have taken steps to comply with applicable domestic and international regulatory restrictions on international trade and financial transactions. Revenues associated with our users/customers in Russia and Belarus are not material to our consolidated financial results, and we anticipate that blocking Russian and Belarus users/customers' access to our mobile app and web platforms will not have a material impact on our business. Management and our Board of Directors are monitoring the regional and global ramifications of the continuing events.

Impact of Israel-Hamas War

Given our operations in Israel, the impact of economic, political, geopolitical, and military conditions in the region directly affects us, including conflicts involving missile strikes, infiltrations, and terrorism. Notably, on October 7, 2023, Hamas launched attacks in southern Israel, resulting in casualties and military engagement. In addition, Hezbollah, another terrorist organization based in Lebanon has been indiscriminately shelling Israel. The extent and duration of this conflict remain uncertain, potentially involving other groups. Israel's response led to the mobilization of reservists, affecting our workforce. Prior to this, changes in Israel's judicial system had already raised concerns about the business environment, compounded by recent events, potentially impacting foreign investment, currency fluctuations, credit ratings, interest rates, and security markets. Furthermore, regional political unrest and threats from extremist groups, notably Iran, pose additional risks. Management and our Board of Directors are closely monitoring the situation in Israel to address potential business disruptions and implications.

COVID-19 Update

Although the World Health Organization declared in early May of 2023 that COVID-19 no longer constitutes a public health emergency we continue to actively monitor the COVID-19 developments and potential impact on our employees, business and operations. The effects of COVID-19 did not have a material impact on our result of operations or financial condition for the fiscal year ended July 31, 2023. However, given the evolution of the COVID-19 situation, and the global responses to curb its spread, we are not able to estimate the effects COVID-19 may have on our future results of operations or financial condition.

Overview

Zedge, Inc. ("Zedge") builds digital marketplaces and friendly competitive games around content that people use to express themselves. Our leading products include Zedge Ringtones and Wallpapers, a freemium digital content marketplace offering mobile phone wallpapers, video wallpapers, ringtones, and notification sounds as well as pAInt, a generative AI wallpaper maker, GuruShots, a skill-based photo challenge game, and Emojipedia, the #1 trusted source for 'all things emoji'. Our vision is to enable and connect creators who enjoy friendly competitions with a community of prospective consumers in order to drive commerce.

We are part of the 'Creator Economy,' where over 1 billion people create and share their content across social platforms, mobile, and video games, and content marketplaces. According to Linktree, over 200 million identify as creators, people who use their influence, skill, and creativity to amass an audience and monetize it. Furthermore, TechCrunch reports that 12% of full-time creators earn more than \$50,000 per year, while Influencer Hub reports 10% of influencers earn more than \$100,000 per year. We view the Creator Economy as an opportunity for Zedge to expand its business, especially as we execute by connecting our gamers with our marketplace.

The Zedge Ringtones and Wallpapers app (which is named "Zedge Wallpapers" in the App Store), which we refer to as our "Zedge App," offers a wide array of mobile personalization content including wallpapers, video wallpapers, ringtones, and notification sounds, and is available both in Google Play and the App Store. As of October 31, 2023, our Zedge App has been installed nearly 625 million times since inception and had 28.5 million monthly active users ("MAU") as of October 31, 2023. MAU is a key performance indicator ("KPI") that captures the number of unique users that used our Zedge App during the final 30 days of the relevant period. Our platform allows creators to upload content to our marketplace and avail it to our users either for free or for a price, via 'Zedge Premium,' the section of our marketplace where we offer premium content (i.e., for purchase). In turn, our users utilize the content to personalize their phones and express their individuality.

In fiscal 2023, we introduced pAInt, a generative AI wallpaper maker in the Zedge App. A generative AI wallpaper maker is an implementation of artificial intelligence software that can create images from text descriptions. To interface with a generative AI image maker, a user enters a text description of the image they want to create, and the software generates an image based on that description. In addition, we upgraded Zedge+, our paid subscription offering, by bundling together an ad-free experience with value adds making the offering more compelling.

In fiscal 2022, we introduced several new customer facing product features and social and community features, all meant to improve customer engagement, MAU, and revenue growth over the long term.

The Zedge Marketplace monetization stack consists of advertising revenue generated when users view advertisements when using the Zedge App (and the related functionality under the zedge.net website), the in-app (or web-based) sale of Zedge Credits, our virtual currency, that is used to purchase Zedge Premium content, and a paid-subscription offering that provides an ad-free experience to users that purchase a monthly or annual subscription. In April 2023, we introduced a subscription tier in the iOS version of the app. As of October 31, 2023, we had approximately 648,000 active subscribers.

In late 2021, we introduced 'NFTs Made Easy' to a limited number of Zedge Premium creators. All NFT Made Easy transactions are made using Zedge Credits.

We often refer to our freemium ringtones and wallpapers, our subscription offering, the functionality for creators to market their products and ancillary offering and features both in our Zedge App and website, as our Zedge Marketplace.

In April 2022, we acquired GuruShots, a recognized category leader focused on gamifying the photography vertical. GuruShots offers a platform spanning iOS, Android, and the web that provides a fun, educational and structured way for amateur photographers to compete in a wide variety of contests showcasing their photos while gaining recognition with votes, badges, and awards. We estimate that the total addressable market of amateur photographers using their smartphones to take and publicly share artistic photos is 30-40 million people per month and that the market is still in its infancy. Every month, GuruShots stages more than 300 competitions that result in players uploading in excess of 750,000 photographs and casting close to 4 billion "perceived votes", which are calculated by multiplying the number of votes that each player casts by a weighting factor based on various factors related to that user. To improve engagement, GuruShots has adopted a set of retention dynamics focused on individual, team and community dynamics that create a sense of belonging, inspiration, recognition, improvement, and competition.

Today, GuruShots utilizes a 'Free-to-Play' business model that leads to strong monetization with the purchase of resources that are used to give paying players an edge while still maintaining a fair and competitive experience for all participants.

As we look to the future, we are advancing several initiatives that we expect will drive user growth, increase engagement, drive in-app purchases, and advance our in-game economy. Some of these include:

- *New Gameplay Experiences.* Introducing a new hybrid-casual gameplay experience that enables users to compete in short-duration photo and image competitions that are limited in size.
- *On-Boarding.* Revamping the customer onboarding experience in order to maximize first time purchasers by immediately drawing new players into simplified photo competitions that are limited to a small audience taking place in a short time duration.
- *Economy.* Evolving the game economy by maturing the game's progression mechanics and features, earn and spend dynamics, and introducing soft and premium currencies tied to resources and benefits. Furthermore, we have started preliminary testing of advertising on web and expect to extend that to the mobile apps during the summer.

We market GuruShots to prospective players, primarily via paid user acquisition channels, and utilize a host of creative formats including static and video ads in order to promote the game. Our marketing team invests material resources in analyzing all attributes of a campaign ranging from the creative assets, offer acquisition channel, and platform (i.e., iOS, Android, and web), just to name a few, with the goal of determining whether a specific campaign is likely to yield a profitable customer. When we unearth a successful combination of these variables we scale up until we experience diminishing returns. Ultimately, we believe that the efforts we are making to advance the product coupled with the investment in user acquisition can significantly increase GuruShots' player base.

Beyond our commitment to growing both the Zedge App and GuruShots on a standalone basis, we believe that there are many potential synergies that we can capitalize on that exist between the two businesses. Specifically, we plan to enable the ability for GuruShots players to become Zedge Premium artists and sell their photos to our audience of 28+ million MAU as standard digital images or NFTs. In addition, we look to benefit from the experience that the GuruShots team possesses and test gamifying the Zedge App. We believe that successful gamification can contribute to increasing engagement, retention, and lifetime value, all critical KPIs for our business. Longer term, we believe that there are complementary content verticals that lend themselves to gamification. To this end we have been developing a new hybrid casual title, 'AI Art Master,' which enables players to create generative AI images and compete in themed based competitions with these images. Our new mobile game, AI Art Master, is presently in its soft-launch phase across the Philippines, Poland, India, Argentina and Chile. Based on analyzing user data and performing extensive user testing, we're refining user experience and game mechanics to better convert installs into engaged players, enhance retention, and develop a robust in-game economy. As we iterate, we aim to extend the soft-launch to more countries, targeting a commercial launch in the first half of 2024.

In August 2021, we acquired the assets of Emojipedia Pty Ltd ("Emojipedia"), including Emojipedia.org the world's leading authority dedicated to providing up-to-date and well-researched emoji definitions, information, and news as well as World Emoji Day and the annual World Emoji Awards. In October 2023, Emojipedia received approximately 41 million monthly page views and has approximately 9.7 million monthly active users as of October 31, 2023 of which approximately 52.7% are located in well-developed markets. It is the top resource for all things emoji, offering insights into data and cultural trends. As a member of the Unicode Consortium, the standards body responsible for approving new emojis, Emojipedia works alongside major emoji creators including Apple, Google, Meta, and X, formally known as Twitter.

We believe that Emojipedia provides growth potential to the Zedge App, and it was immediately accretive to earnings post acquisition in August 2021. In the past year, we have made many changes to Emojipedia including migrating to a new ad mediation platform, overhauling its backend, and redesigning the Emojipedia website. We will continue to enhance this offering and are exploring new features including a native mobile offering as well as additional monetization opportunities.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. Our significant accounting policies are described in Note 1 to the consolidated financial statements included in the Form 10-K. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. Critical accounting policies are those that require application of management's most subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Our critical accounting policies include those related to revenue recognition, business combination, intangible assets and goodwill, capitalized software and technology development costs, and stock-based compensation. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. For additional discussion of our critical accounting policies, see our Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K.

Recently Issued Accounting Standards Not Yet Adopted

Please refer to Note 1 to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

Key Performance Indicators (KPIs)

Zedge App-MAU and ARPMAU

The presentation of our results of operations includes disclosure of two key performance indicators – Monthly Active Users (MAU) and Average Revenue Per Monthly Active User (ARPMAU) from our Zedge App. MAU is a key performance indicator that we define as the number of unique users that used our Zedge App during the previous 30-day period, which is important to understanding the size of our active user base for our Zedge App which is a main driver of our revenue. Changes and trends in MAU are useful for measuring the general health of our business, gauging both present and potential users/customers' experience, assessing the efficacy of product improvements and marketing campaigns and overall user engagement.

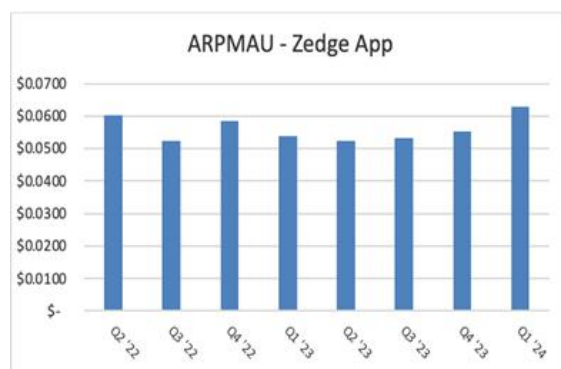
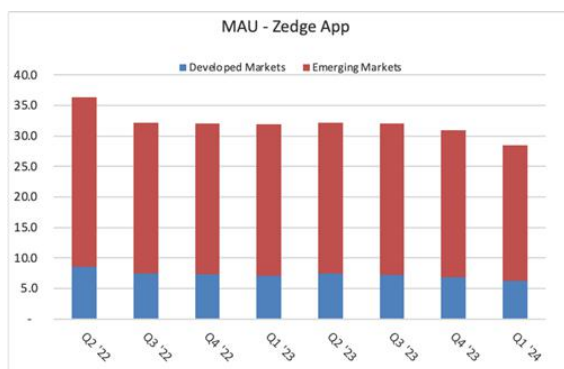
ARPMAU is defined as (i) the total revenue derived from Zedge App in a monthly period, divided by (ii) MAU in that same period. ARPMAU for a particular time period longer than one month is the average ARPMAU for each month during that period. ARPMAU is valuable because it provides insight into how well we monetize our users and, changes and trends in ARPMAU are indications of how effective our monetization investments are.

MAU decreased 10.7% in the three months ended October 31, 2023 when compared to the same period a year ago, primarily attributable to lackluster year-over-year growth in global new mobile phone sales resulting in a significant decline in organic new installs in the current period. Additionally, we have experienced a continuing shift in the regional customer make-up with MAU in emerging markets (particularly India) representing an increasing portion of our user base. As of October 31, 2023, users in emerging markets represented about 78.2% of our MAU, as compared to 77.6% from the same period a year ago. ARPMAU for the three months ended October 31, 2023 increased 16.9% when compared to the same period a year ago, primarily due to the increase in advertising rate from the same period a year ago which was negatively impacted by the geopolitical and macroeconomic conditions at that time.

The following tables present the MAU – Zedge App and ARPMAU – Zedge App for the three months ended October 31, 2023 as compared to the same period a year ago:

(in millions, except ARPMAU - Zedge App)	Three Months Ended October 31,		% Change
	2023	2022	
MAU- Zedge App	28.5	31.9	(10.7)%
Developed Markets MAU - Zedge App	6.2	7.1	(13.1)%
Emerging Markets MAU - Zedge App	22.3	24.8	(10.0)%
Emerging Markets MAU - Zedge App/Total MAU - Zedge App	78.2%	77.7%	0.6%
ARPMAU - Zedge App	\$ 0.0628	\$ 0.0537	16.9%

The following charts present the MAU – Zedge App and ARPMAU – Zedge App for the consecutive eight fiscal quarters ended October 31, 2023:



GuruShots-MAPs and ARPMAU

Monthly Active Payers ("MAPs"). We define a MAP as a unique active user on the GuruShots app or GuruShots.com in a month that completed at least one in-app purchase ("IAP") during that time period. MAPs for a time period longer than one month are the average MAPs for each month during that period. We estimate the number of MAPs by aggregating certain data from third-party attribution platforms.

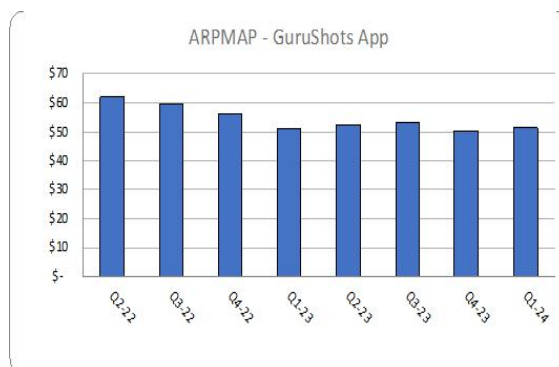
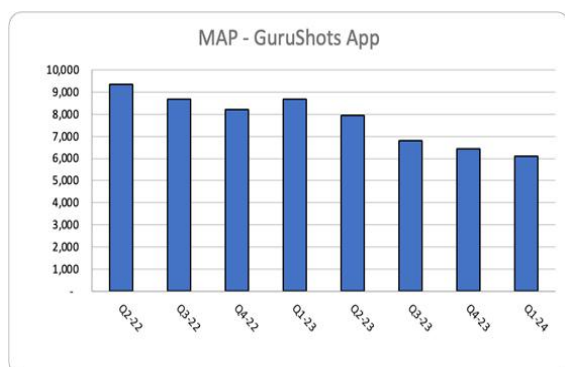
Average Revenue Per Monthly Active Payer ("ARPMAU"). We define ARPMAU as (i) the total revenue from IAPs derived from GuruShots and GuruShots.com in a monthly period, divided by (ii) MAPs in that same period. ARPMAU for a particular time period longer than one month is the average ARPMAU for each month during that period. ARPMAU shows how efficiently we are monetizing each MAP.

MAP decreased 29.7% in the three months ended October 31, 2023 when compared to the same period a year ago, primarily attributable to Apple's App Tracking Transparency ("ATT") framework which impeded our ability to invest in paid user acquisition ("PUA") campaigns profitably in terms of return on ad spend or ("ROAS"). As such, we continued to scale back our PUA spend for GuruShots in Q1 fiscal 2024 while continuously testing with new campaigns and creatives in order to unearth attractive ROAS scaling opportunities. ARPMAP increased 0.5% to \$51.2 in the three months ended October 31, 2023 from \$50.9 in the three months ended October 31, 2022.

The following table shows our MAP and ARPMAP for the three months ended October 31, 2023 and 2022.

	Three Months Ended October 31,		% Change
	2023	2022	
Monthly Active Payers	6,106	8,690	(29.7)%
Average Revenue per Monthly Active Payer	\$ 51.2	\$ 50.9	0.5%

The following charts present the MAP and ARPMAP – GuruShots for the consecutive eight quarters ended October 31, 2023:



Our KPIs related to GuruShots are not based on any standardized industry methodology and are not necessarily calculated in the same manner that other companies or third parties may use to calculate these or similarly titled measures. The numbers that we use to calculate MAP and ARPMAP are derived from data that we generate internally. While these numbers are based on what we believe to be reasonable judgments and estimates for the applicable period of measurement, there are inherent challenges in measuring usage and engagement. We regularly review and may adjust our processes for calculating our internal metrics to improve their accuracy.

Results of Operations

Three months ended October 31, 2023 compared to three months ended October 31, 2022

	Three Months Ended October 31,		Change	
	2023	2022	\$	%
	(in thousands)			
Revenues	\$ 7,081	\$ 6,900	\$ 181	2.6%
Direct cost of revenues	486	632	(146)	(23.1)%
Selling, general and administrative	5,499	5,826	(327)	(5.6)%
Depreciation and amortization	775	793	(18)	(2.3)%
Change in fair value of contingent consideration	-	(150)	150	nm
Income (loss) from operations	321	(201)	522	mm
Interest and other income, net	81	35	46	131.4%
Net loss resulting from foreign exchange transactions	(219)	(76)	(143)	188.2%
Provision for (benefit from) income taxes	198	(73)	271	nm
Net loss	\$ (15)	\$ (169)	\$ 154	nm

nm-not meaningful

Revenues

The following table sets forth the composition of our revenues for the three months ended October 31, 2023 and 2022 (in thousands):

	Three Months Ended October 31,		% Changes
	2023	2022	
Zedge Marketplace			
Advertising revenue	\$ 4,939	\$ 4,490	10.0%
Paid subscription revenue	976	891	9.5%
Other revenues	222	190	16.8%
Total Zedge App revenue	6,137	5,571	10.2%
GuruShots			

Digital goods and services	944	1,329	(29.0)%
Total revenue	\$ 7,081	\$ 6,900	2.6%

Advertising revenue. Advertising revenue increased 10.0% in the three months ended October 31, 2023, compared to the three months ended October 31, 2022, primarily due to higher eCPM which have recovered from the downturn in the global economic conditions in the a year ago period.

Paid subscription revenue. Subscription revenue increased 9.5% in the three months ended October 31, 2023, compared to the three months ended October 31, 2022, primarily due to the new iOS subscription offering which has a higher subscription price than the Android offering. Additionally, we rolled out lifetime subscriptions for Android users in August 2023 and the initial results were quite encouraging, although there can be no assurance that the trend will continue. Both initiatives contributed to the increase in subscription billings to \$1.1 million in the three months ended October 31, 2023 from \$0.8 million in the three months ended October 31, 2022.

The following table summarizes subscription revenue for the three months ended October 31, 2023 and 2022:

	Three Months Ended October 31,		
	2023	2022	% Change
	(in thousands, except revenue per subscriber and percentages)		
Subscription Revenue	\$ 976	\$ 891	9.5%
Active subscriptions net increase (decrease)	1	(18)	nm
Active subscriptions at end of period	648	674	(3.9)%
Average active subscriptions during the period	653	682	(4.2)%
Average monthly revenue per active subscription	\$ 0.50	\$ 0.44	14.3%

Subscription billings — We calculate subscription billings by adding the change in subscription deferred revenue between the start and end of the period to subscription revenue recognized in the same period.

The following table presents a reconciliation of subscription billings to the most directly comparable GAAP financial measures, for each of the periods indicated:

	Three Months Ended October 31,	
	2023	2022
	(in thousands)	
Subscription Revenue	\$ 976	\$ 891
Changes in subscription deferred revenue	163	(61)
Subscription Billings (Non-GAAP)	\$ 1,139	\$ 830

Digital goods and services. Digital goods and services revenue declined 29.0% to \$0.9 million in three months ended October 31, 2023 from \$1.3 million in the three months ended October 31, 2022, primarily due to the 29.7% decrease in GuruShots' MAP for the corresponding periods.

Other Revenue. Other revenue consists primarily of Zedge Premium revenue. Gross transaction value (the total sales volume transacting through the platform), or "GTV," increased 35% in the three months ended October 31, 2023 compared to the same periods a year ago. Net revenue increased 9.2%, primarily due to lower breakage which resulted in lower gross margin in the current period.

The following table summarizes Zedge Premium gross and net revenue for the three months ended October 31, 2023 and 2022:

	Three Months Ended October 31,		
	2023	2022	% Changes
	(in thousands)		
Zedge Premium-gross revenue ("GTV")	\$ 421	\$ 312	35.0%
Zedge Premium-net revenue	204	187	9.2%
Gross margin	48%	60%	

Direct cost of revenues. Direct cost of revenues consists primarily of content hosting and content delivery costs.

(in thousands)	Three Months Ended October 31,		%Change
	2023	2022	
Direct cost of revenues	\$ 486	\$ 632	(23.1)%
As a percentage of revenues	6.9%	9.2%	

Direct cost of revenues decreased 23.1% in the three months ended October 31, 2023, compared to three months ended October 31, 2022, primarily due to the revamping of our backend infrastructure in both Zedge App and GuruShots as part of the cost reduction initiatives implemented during fiscal 2023.

As a percentage of revenue, direct cost of revenues in the three months ended October 31, 2023 was 6.9%, compared to 9.2% in the three months ended October 31, 2022.

Selling, general and administrative expense. Selling, general and administrative expense ("SG&A") consists mainly of payroll and benefits, stock-based compensation expense (as discussed below), paid user acquisition expenses, third-party payment processing fee relate to in-app purchases, marketing, consulting, professional fees, software licensing ("SaaS"), recruiting fees, facilities and public company related expenses.

(in thousands)	2023	2022	% Change
Selling, general and administrative	\$ 5,499	\$ 5,826	(5.6)%
As a percentage of revenues	77.7%	84.4%	

SG&A expense decreased 5.6% in the three months ended October 31, 2023 compared to the three months ended October 31, 2022, primarily due to lower net compensation costs, lower stock-based compensation as discussed below, and lower professional fees offset by net higher PUA expenses. We ramped up PUA for the Zedge App but scaled back PUA for GuruShots during the three months period ended October 31, 2023 when compared to the same period a year ago. We started investing in PUA during fiscal 2023 to counter the decline in organic installs of our Zedge App. We expect to increase our PUA spend in fiscal 2024 provided the ROAS remains compelling.

As a percentage of revenue, SG&A expense in the three months ended October 31, 2023 was 77.6% compared to 84.4% in the three months ended October 31, 2022.

Global headcount as of October 31, 2023 totaled 95 (including 29 at GuruShots) compared to 99 (including 34 at GuruShots) as of October 31, 2022 with the majority of our employees currently based in Lithuania and Israel.

SG&A expense also included stock-based compensation expense including equity grants to employees and consultants, as well as stock issuances to pay for board compensations and 401(k) matching contributions. The following table summarizes stock-based compensation expense for the three months ended October 31, 2023 and 2022:

	Three Months Ended October 31,		% Change
	2023	2022	
Stock-based compensation expense	\$ 507	\$ 589	(13.9)%

Stock-based compensation expenses decreased 13.9% in the three months ended October 31, 2023 compared to the three months ended October 31, 2022. The decrease was primarily attributable to the lower compensation expense related to the DSU's with both service and market conditions which are recognized based on the graded vesting method. Certain stock options, deferred stock unit and restricted stock grants are more fully described in Note 7 *Stock-Based Compensation* to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

Depreciation and amortization. Depreciation and amortization consist mainly of amortization of intangible assets in connection with the GuruShots and Emojipedia acquisitions and capitalized software and technology development costs of our internal developers on various projects that we invested in specific to the various platforms on which we operate our service.

	Three Months Ended October 31,		% Change
(in thousands)	2023	2022	
Depreciation and amortization	\$ 775	\$ 793	(2.3)%
As a percentage of revenues	10.9%	11.5%	

Depreciation and amortization expenses decreased 2.3% in three months ended October 31, 2023 compared to the three months ended October 31, 2022.

Interest and other income, net. Net interest income in the three months ended October 31, 2023 increased to \$131,000 in the three months ended October 31, 2023 from \$35,000 in the three months ended October 31, 2022 due to higher interest rates earned on our cash balances. This \$96,000 increase in net interest income was offset by a \$50,000 impairment charge related to our investment in a privately held company of which the carrying value was reduced to \$0 in the three months ended October 31, 2023.

	Three Months Ended October 31,		%Change
(in thousands)	2023	2022	
Interest and other income, net	\$ 81	\$ 35	131.4%
As a percentage of revenues	1.1%	0.5%	

Net loss resulting from foreign exchange transactions. Net loss resulting from foreign exchange transactions is comprised of gains and losses generated from movements in NOK and EUR relative to the U.S. Dollar, including gains or losses from our hedging activities.

	Three Months Ended October 31,		% Change
(in thousands)	2023	2022	
Net loss resulting from foreign exchange transactions	\$ (219)	\$ (76)	188.2%
As a percentage of revenues	(3.1)%	(1.1)%	

In the three months ended October 31, 2023, we recognized a Mark to Market ("MTM") losses of \$208,000 from NOK and EUR hedging activities, compared to a MTM losses of \$101,000 in the three months ended October 31, 2022 due primarily to the strengthening of the US dollar against NOK and EUR, as more fully described in Note 4, *Derivative Instruments*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

Provision for (benefit from) income taxes. During Q1 fiscal 2024, we had pretax income of about \$184,000 in respect of which we accrued \$198,000 in income tax expense, an effective tax rate of 108% which is higher than the statutory rate primarily due to discrete tax items of \$128,000 associated with the vesting of restricted stock and DSUs in the current period as more fully described in Note 7 *Stock-Based Compensation* to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q. During Q1 fiscal 2023, we had

pretax loss of about \$242,000 in respect of which we accrued \$73,000 in income tax benefit, an effective tax rate of 30% which is higher than the statutory rate primarily due to certain permanent differences related to the stock-based compensation expenses.

See Note 13, *Income Taxes*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

(in thousands)	Three Months Ended October 31,		% Change
	2023	2022	
Provision for (benefit from) income taxes	\$ 198	\$ (73)	nm
As a percentage of revenues	2.8%	(1.1)%	

Comparison of our Segment Results of Operations

The following table presents the results for our Zedge Marketplace and GuruShots segment income (loss) from operations for the Three months ended October 31, 2023 and 2022:

	Three Months Ended October 31,		Change %
	2023	2022	
	(in thousands)		
Segment income (loss) from operations:			
Zedge Marketplace	\$ 1,654	\$ 1,371	20.6%
GuruShots	(1,333)	(1,572)	15.2%
Total	\$ 321	\$ (201)	nm

For the three months ended October 31, 2023, our income from operations related to the Zedge Marketplace increased 20.7% compared to the three months ended October 31, 2022, primarily due to higher advertising revenue offset by higher PUA expenses in Zedge App.

For the three months ended October 31, 2023, our loss from operations related to GuruShots was \$1.3 million compared to \$1.6 million for the three months ended October 31, 2022 after accounting for the \$150,000 change in fair value of contingent consideration. GuruShots continued to underperform due primarily to declining MAPs, see KPIs discussion above.

Liquidity and Capital Resources

General

At October 31, 2023, we had cash and cash equivalents of \$18.7 million and working capital (current assets less current liabilities) of \$16.8 million, compared to \$18.1 million and \$15.8 million, respectively, at July 31, 2023. We expect that our cash and cash equivalents on hand and our cash flow from operations will be sufficient to meet our anticipated cash requirements for the twelve-month period ending December 14, 2024. We also maintain a term loan and a revolving credit facility of up to \$6 million in aggregate, including a foreign exchange contract facility of up to \$7.5 million with WAB, as discussed below in Financing Activities and in Note 10, *Term Loan and Revolving Credit Facility*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

The following tables present selected financial information for the three months ended October 31, 2023 and 2022:

(in thousands)	Three Months Ended October 31,		\$ Change
	2023	2022	
Cash flows provided by (used in):			
Operating activities	\$ 1,260	\$ 1,082	\$ 178
Investing activities	(445)	(1,311)	866
Financing activities	(10)	1,672	(1,682)
Effect of exchange rate changes on cash and cash equivalents	(185)	(109)	(76)
Increase in cash and cash equivalents	\$ 620	\$ 1,334	\$ (714)

Operating Activities

Our cash flow from operations varies significantly from quarter to quarter and from year to year, depending on our operating results and the timing of operating cash receipts and payments, specifically trade accounts receivable and trade accounts payable. Cash provided by operating activities increased \$178,000 in the three months ended October 31, 2023 to \$1.3 million from \$1.1 million in the three months ended October 31, 2022, primarily attributable to lower net loss incurred in the current period and changes in assets and liabilities.

Changes in Trade Accounts Receivable

Gross trade accounts receivable increased \$0.3 million to \$3.2 million at October 31, 2023 from \$2.9 million at July 31, 2023, primarily due to higher revenue in the preceding two months ended October 31, 2023 when compared to the same period ended July 31, 2023.

Investing Activities

On August 1, 2021, we acquired substantially all of the assets of Emojipedia Pty Ltd, a proprietary company organized under the laws of Australia. The final purchase price of the assets was determined to be \$6.7 million of which \$4.8 million was paid on August 2, 2021 with the remaining \$1.9 million to be paid out on the six-month and twelve-month anniversary of the Closing. We paid approximately half of the \$1.9 million on February 1, 2022 and the remaining \$962,000 was paid on August 1, 2022.

Cash used in investing activities in the three months ended October 31, 2023 and 2022 also consisted of capitalized software and technology development costs related to various projects that we invested in specific to the various platforms on which we operate our service.

Financing Activities

On October 28, 2022, we entered into an Amended Loan Agreement with WAB. Pursuant to the Amended Loan Agreement, WAB agreed to provide the Company with a new term loan facility in the maximum principal amount of \$7 million for a four-year term and a \$4 million revolving credit facility for a two-year term. In conjunction with the closing of the credit facilities, \$2 million was advanced in a single-cash advance on the same day, with the remaining \$5 million available for drawdown during twenty-four (24) months after closing. Each drawdown must be in an amount of not less than \$1 million.

In connection with the new Amended Loan Agreement, we discontinued the existing \$2 million revolving credit facility under the existing Loan and Security Agreement, dated as of September 26, 2016. At the time of the discontinuance, there was no outstanding balance on the revolving credit facility.

On May 11, 2023, we agreed to reduce the maximum principal amount from \$7 million to \$2 million, please see Note 10, *Term Loan and Revolving Credit Facility*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

On November 15, 2023, the Company voluntarily prepaid the entire principal amount of \$2 million in accordance with the terms of the Amended Loan Agreement without incurring any prepayment penalty, please see Note 14, *Subsequent Events*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

In the three months ended October 31, 2023 and 2022, we purchased 6,328 shares and 6,310 shares respectively of our Class B Stock from certain employees for \$13,000 and \$17,000 respectively, to satisfy tax withholding obligations in connection with the vesting of DSUs.

In connection with the share repurchase program as in Part II, Item 2 of this Quarterly Report on Form 10-Q, *Unregistered Sales of Equity Securities and Use of Proceeds*, we bought back approximately 0 shares and 124,000 shares for approximately \$0 and \$293,000 in the three months ended October 31, 2023 and 2022, respectively.

We do not anticipate paying dividends on our common stock until we achieve sustainable profitability and retain certain minimum cash reserves. The payment of dividends in any specific period will be at the sole discretion of our Board of Directors.

Concentration of Credit Risk and Significant Customers

Historically, we have had very little or no bad debt, which is common with other platforms of our size that derive their revenue from mobile advertising, as we aggressively manage our collections and perform due diligence on our customers. In addition, the majority of our revenue is derived from large, credit-worthy customers, e.g. Google, Facebook, and AppLovin, and we terminate our services with smaller customers immediately upon balances becoming past due. Since these smaller customers rely on us to derive their own revenue, they generally pay their outstanding balances on a timely basis.

In the three months ended October 31, 2023, two customers represented 30% and 11% of our revenue, respectively. In the three months ended October 31, 2022, three customers represented 24%, 22% and 10% of our revenue, respectively. At October 31, 2023, two customers represented 34% and 15% of our accounts receivable balance, respectively. At July 31, 2023, two customers represented 36% and 18% of our accounts receivable balance, respectively. All of these significant customers were advertising exchanges operated by leading companies, and the receivables represent many smaller amounts due from their advertisers.

Contractual Obligations and Other Commercial Commitments

Smaller reporting companies are not required to provide the information required by this item.

Off-Balance Sheet Arrangements

At October 31, 2023, we did not have any "off-balance sheet arrangements," as defined in relevant SEC regulations that are reasonably likely to have a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

Smaller reporting companies are not required to provide the information required by this item.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of October 31, 2023.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting during the quarter ended October 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Legal proceedings in which we are involved are more fully described in Note 9, *Commitments and Contingencies*, to the unaudited condensed consolidated financial statements included in Item 1 to Part I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year

ended July 31, 2023.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Sales of Unregistered Securities

During the three months ended October 31, 2023, we issued 32,116 shares of our Class B common stock upon the vesting of DSUs issued under our 2016 Incentive Plan.

The foregoing issuances did not involve any underwriters, any underwriting discounts or commissions, and were covered by a Registration Statement on Form S-8 filed by the Company with the Securities and Exchange Commission under the Securities Act of 1933, as amended (the "Act").

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In October 2021, our board of directors authorized a repurchase program of up to 1.5 million shares of our Class B common stock at a maximum aggregate purchase price of \$3.0 million. Repurchases may be made from time to time through open market purchases or through privately negotiated transactions, subject to market conditions, applicable legal requirements and other relevant factors. Open market repurchases may be structured to occur in accordance with the requirements of Rule 10b-18. We may also, from time to time, enter into Rule 10b-5 trading plans to facilitate repurchases of its shares. The repurchase program does not obligate us to acquire any particular amount of our Class B common stock, has no expiration date and may be modified, suspended, or terminated at any time at our discretion.

The following table summarizes the share repurchase activity for the three months ended October 31, 2023:

Period	Total Number of Shares Purchased (1) (in thousands)	Average Price Paid Per Share	Shares Purchased as Part of Publicly Announced Programs (in thousands)	Dollar Value of Shares that May Yet Be Purchased Under the Program (in thousands)
August 1, 2023 to August 31, 2023	4	\$ 2.12	-	\$ 1,421
September 1, 2023 - September 30, 2023	2	\$ 2.09	-	\$ 1,421
October 1, 2023 - October 31, 2023	-	\$ -	-	\$ 1,421
Total	6		-	

(1) The total number of shares purchased includes shares repurchased as part of publicly announced programs and shares repurchased in connection with tax payments due upon vesting of DSUs awards.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to 17 CFR 240.13a-14(a), as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZEDGE, INC.

December 14, 2023

By: /s/ JONATHAN REICH
Jonathan Reich
Chief Executive Officer

December 14, 2023

By: /s/ YI TSAI
Yi Tsai
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, JONATHAN REICH, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zedge, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited condensed consolidated financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2023

/s/ JONATHAN REICH

Jonathan Reich
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO EXCHANGE ACT RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Yi Tsai, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Zedge, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the unaudited condensed consolidated financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 14, 2023

/s/ YI TSAI

Yi Tsai
Chief Financial Officer

**Certification Pursuant to
18 U.S.C. Section 1350
(as Adopted Pursuant to Section 906 of
the Sarbanes-Oxley Act Of 2002)**

In connection with the Quarterly Report of Zedge, Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2023 as filed with the Securities and Exchange Commission (the "Report"), I, JONATHAN REICH, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 14, 2023

/s/ JONATHAN REICH

Jonathan Reich
Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Zedge, Inc. and will be retained by Zedge, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to
18 U.S.C. Section 1350
(as Adopted Pursuant to Section 906 of
the Sarbanes-Oxley Act Of 2002)**

In connection with the Quarterly Report of Zedge, Inc. (the "Company") on Form 10-Q for the quarter ended October 31, 2023 as filed with the Securities and Exchange Commission (the "Report"), I, Yi Tsai, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 14, 2023

/s/ YI TSAI
Yi Tsai
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Zedge, Inc. and will be retained by Zedge, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.