

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Zedge, Inc.

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

for the Fiscal Year Ended July 31, 2020

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 No.)

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)

Title of each class	Trading Symbol	Name of each exchange on which registered
Class B common stock, par value \$0.1 per share	ZDGE	NYSE American

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant, based on the adjusted closing price on January 31, 2020 (the last business day of the registrant's most recently completed second fiscal quarter) of the Class B common stock of \$1.70 per share, as reported on the New York Stock Exchange, was approximately \$11.0 million.

As of October 26, 2020, the registrant had outstanding 524,775 shares of Class A common stock and 11,769,439 shares of Class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

The definitive proxy statement relating to the registrant's Annual Meeting of Stockholders, to be held January 11, 2021, is incorporated by reference into Part III of this Form 10-K to the extent described therein.

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Zedge, Inc.

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PART I

As used in this Annual Report, unless the context otherwise requires, the terms the "Company," "Zedge," "we," "us," and "our" refer to Zedge, Inc., a Delaware corporation, and its subsidiaries, collectively. Our fiscal year runs from August 1 through July 31. Each reference to a fiscal year in this Annual Report refers to the fiscal year ending in the calendar year indicated (for example, fiscal 2020 refers to the fiscal year ended July 31, 2020).

Item 1. Business

Company Overview

We offer a state-of-the-art digital publishing platform. We use this platform to power our consumer-facing mobile personalization app, called Zedge, available in the Google Play store and App Store, which offers an easy, entertaining and immersive way for end-users to engage with our rich and diverse catalogue of wallpapers, video wallpapers, ringtones, notification sounds on Android and wallpapers, video wallpapers and ringtones, on iOS. We secure our content from amateur and professional artists, and also from emerging and major brands. Artists have the ability to easily launch a virtual storefront in our Zedge app where they can market and sell their content to our user base. In fiscal 2020, we introduced a new entertainment app called "Shortz – Chat Stories by Zedge", which is focused on serialized, short-form, fiction stories, as a beta that runs on our publishing platform.

Our Zedge app has been installed approximately 450 million times, and at July 31, 2020, boasted approximately 32 million monthly active users, or MAU. MAU is a key performance indicator that captures the number of unique users that used our Zedge app during the previous 30-day of the relevant period. Our Zedge app has consistently ranked as one of the most popular free apps in the Google Play store in the United States. Historically, we have not made a material investment in paid user acquisition for our Zedge app.

Our Zedge app's success stems from its ability to meet consumer demand for a rich and diverse catalogue of both long-tail and popular content in a fun, intuitive and user-friendly fashion that aligns with their interest in expressing their essence in a bespoke manner, to offer reliable search and discovery capabilities and to make relevant content recommendations to our users. To this end, we invest heavily in both product design and development and the underlying technology required to satisfy both our Zedge app's users' and content contributors' expectations. Our Zedge app utilizes both user-generated and licensed, third-party content to achieve these goals.

In March 2018, we launched Zedge Premium, a marketplace within our Zedge app where professional creators and brands market, distribute and sell their digital content to our consumers. Since launching Zedge Premium, we have made and continue making material investments in optimizing our Zedge app's homepage design in order to maximize exposure to premium content with the goal of driving sales. Over time, we expect that Zedge Premium will contribute to a virtuous cycle whereby it drives new consumers into our Zedge app resulting in more artist payouts, which in turn makes the platform more attractive for artists and brands looking to expand their reach and increase their income.

In January 2019, we started offering freemium Zedge app users the ability to convert into paying subscribers for amongst other things the ability to remove unsolicited advertisements from our Zedge app. As of July 31, 2020, we had more than 504,000 active paid subscribers. In fiscal 2021, we hope to further optimize the offer based on user type, geography and price point as well as introduce new subscription enhancements like content bundles and rewards.

In December 2019, we completed the beta launch of 'Shortz' our new entertainment app offering serialized, short-form fiction delivered in a text-message format across both Android and iOS, focusing on users in the United States, the United Kingdom and Canada and it is now available globally.

Over the past several years, our Zedge app has experienced a continuing decline in its MAU as well as a shift in the regional customer make-up with MAU in emerging markets representing an increasing portion of our user base. As of July 31, 2020, users in emerging markets represented 70% of our MAU compared to 65% a year prior. This shift has negatively impacted revenue because advertising rates in emerging markets are materially lower than in well-developed markets. In the fourth quarter of fiscal 2020, users in emerging markets grew by 1.4% while users in well-developed economies declined 18.6% when compared to the same period in fiscal 2019. As of July 31, 2020, approximately 50% of our Zedge app's user base was located in North America and Europe (including Eastern Europe) with a split of 26% and 24%, respectively, compared with 54% as of July 31, 2019 with 27% in each of North America and Europe (including Eastern Europe).

MAU growth is tightly coupled with securing new users. Historically, our relatively high ranking in the Google Play store has been one of the primary drivers for securing new users. Although still an important factor, we now also dedicate resources to growth initiatives, both organic and paid. With time, we believe that we can change our growth dynamic in well-developed markets. Aside from targeted growth initiatives, we need to continually improve the core user experience, test different mechanisms and content verticals that may spur growth and capitalize on the role that Zedge Premium artists can have on driving new users into the Zedge platform.

The COVID-19 pandemic has negatively impacted our Zedge app's new user growth. We believe that new smartphone sales have suffered as a result of retail business closures, negatively impacting new user growth, especially in well-developed markets. Assuming the retail business rebounds from the COVID-19 pandemic, we expect that our Zedge app's new user growth will also recover and we will benefit accordingly.

During the quarter and fiscal year ended July 31, 2020, we generated approximately 73% and 78%, respectively, of our revenues from selling our Zedge app's advertising inventory to advertising networks, advertising exchanges, and direct arrangements with advertisers. Advertising networks and advertising exchanges are third-party technology platforms that facilitate the buying and selling of media advertising inventory from multiple ad networks. The price of advertising inventory is fixed on an advertising network whereas the price for inventory is determined through real-time bidding on an advertising exchange. Advertisers are attracted to our Zedge app because of its sizable user base.

In our Zedge Premium marketplace, the content owner sets the price and the user can purchase the content by paying for it with Zedge Credits, our closed virtual currency. A user can earn Zedge Credits when taking specific actions such as watching a rewarded video. Alternatively, users can buy Zedge Credits via an in-app purchase. If a user purchases Zedge Credits, Google Play or App Store keeps 30% of the purchase price with the remaining 70% being paid to us. When a user purchases Zedge Premium content, the artist or brand receives 70% of the actual value of the Zedge Credits used to buy the content item as a royalty and we retain the remaining 30% as our fee, which we recognize as revenue. As Zedge Premium matures and expands, we expect to also diversify our revenue source mix.

In January 2019, we started offering a subscription-based product to Android users of our Zedge app in which the payment of a monthly or annual fee would remove unsolicited ads when using our Zedge app. During the first 12 months after a customer's sign up for the subscription-based product, Google retains up to 30% as a fee, which decreases to 15% from month 13 and beyond. As of July 31, 2020, we had more than 504,000 active paid subscribers, 89% of which had subscribed on an annual basis. During fiscal 2020, subscriptions have generated approximately \$2.4 million in gross revenue.

Prior to May 31, 2019, we generated service revenue from managing and optimizing the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher. The agreement with this mobile application publisher was terminated effective May 31, 2019, and we are no longer providing these services.

During fiscal 2020, we generated revenues of \$9.5 million and a loss from operations of \$0.4 million, compared to revenues of \$8.8 million and a loss from operations of \$2.9 million in fiscal 2019.

During fiscal 2020, advertisements from MoPub (owned by Twitter) represented 28.8% of our revenue, advertisements from Google represented 26.1% of our revenues and advertisements from Facebook represented 7.4% of our revenues, as compared with 28.1%, 27.9% and 5.8%, respectively, during fiscal 2019. In addition, advertisements from Ogury contributed 6.5% of our revenues during fiscal 2020, as compared with 9.8% during fiscal 2019.

Recent Developments

In December 2019, we completed the beta launch of 'Shortz' our new entertainment app offering serialized, short-form fiction delivered in a text-message format across both Android and iOS. Although the app is available globally, our near-term focus is on attracting users in the United States, the United Kingdom and Canada.

In January 2019, we started offering freemium Zedge app users the ability to convert into paying subscribers for the ability to remove unsolicited advertisements from our Zedge app. As of July 31, 2020, we had more than 504,000 paying subscribers.

In March 2018, we completed the launch of Zedge Premium, a section of our Zedge app where consumers are able to access a wide portfolio of professionally created content, including wallpapers, video wallpapers, exclusive ringtones, and videos created by digital artists, photographers, illustrators, musicians and audio engineers from around the world.

Our Competitive Advantage

We believe that the following competitive strengths will drive the growth of our business:

- *Large, global customer base.* We benefit from our Zedge app having a large customer base. As of July 31, 2020, we had approximately 32 million MAU of which approximately 26% were in North America and 24% were in Europe (including Eastern Europe), which provide preferred monetization opportunities since these regions provide attractive demographics to advertisers. To serve a global user base, the Android version of our Zedge app is available in 14 languages. Our Zedge app's global footprint helps us to secure a highly diverse portfolio of content addressing various customer tastes and preferences. In addition, our Zedge app's customer base attracts advertisers seeking customers that have adequate disposable income to purchase their products and services. Our Zedge app's large customer base is also a draw to artists and brands looking to market their content to a critical mass of users.
- *Leading global provider of mobile personalization content.* We offer our Zedge app globally, enabling users to easily personalize their mobile phones with a wide variety of free, high-quality ringtones, wallpapers, notification sounds, video wallpapers and stickers. We believe that our Zedge app is well positioned for continued leadership in the personalization space.
- *High-quality product.* We believe that our Zedge app provides our customers with a high-quality product and superior user experience. We prioritize our customers' needs and believe that this focus is critical for our long-term growth and expansion. We invest significant resources in product development, design and usability of our Zedge app. We beta test product enhancements extensively and closely monitor customer feedback to ensure that we meet our Zedge app's user needs. We believe that our Zedge app's high user ranking validates our product-oriented focus. As of July 31, 2020, our Zedge app enjoyed a lifetime average user rating of 4.6 stars out of a maximum of 5 stars in the Google Play store.
- *Employees.* We have a team of highly experienced professionals that take pride and ownership in their work product. Our diverse employee base is passionate about our Zedge app and its mission to serve as a medium for self-expression and entertainment. Our culture is founded on respect and empowerment which are critical in light of us having offices in three different countries. We strive to create an environment where our employees can be autonomous and creative.
- *Management team.* We have an experienced management team that has a deep knowledge of the mobile app landscape and is highly focused on execution. Our core management team possesses a solid understanding of the mobile app industry, product design and development, operations and monetization. Collectively, our management team has proven ability in building and scaling a business and pursuing opportunity with a manageable risk profile.
- *Large and diverse content catalogue.* Our Zedge app offers a large and diverse catalogue of content including wallpapers, ringtones, notification sounds and, more recently, video wallpapers and app icons. With artists and contributors spanning the globe, our Zedge app has assembled a vast array of content to meet the needs of its users.
- *Technology and infrastructure.* The Zedge app has a scalable technology and infrastructure that reliably serves tens of millions of MAU. We use a combination of off-the-shelf and proprietary technologies and infrastructure solutions in the Zedge app that scale efficiently to meet the needs of its large customer base.

Our Strategy

We believe that mobile phone users enjoy personalizing their phones with mobile personalization content. Our Zedge app provide consumers, globally, with a rich array of high-quality personalization content used to express their essence, individuality, and voice in an easy, entertaining and immersive fashion. Professional artists, individual creators and brands turn to our Zedge platform for marketing and distributing their content to our consumers. Our Zedge app currently offers a rich and diverse catalogue of wallpapers, video wallpapers, ringtones, notification sounds on Android and wallpapers, video wallpapers, app icons and ringtones, on iOS. In the future, we may offer new content verticals and enhanced features in our Zedge app.

To date, our Zedge app has been installed approximately 450 million times as of July 31, 2020 and has consistently ranked in the 'Top 100' most popular free apps in the Google Play store in the United States. The overwhelming majority of our Zedge app's downloads have been organic in nature without our investing in paid user-acquisition campaigns. Our Zedge app continues to serve as a low-cost user acquisition channel.

Our vision calls for utilizing our Zedge app's digital publishing platform to not only continue being one of the world's leading mobile personalization content apps but to also use this platform to publish new stand-alone apps that extend our value proposition in entertainment. We have engineered the platform to support an array of digital content enabling us to launch new apps with relative ease and speed. We want to capitalize on our Zedge app's existing large install base as well as organic search traffic across the web and in the app stores as a low-cost user acquisition channel for these new entertainment apps. Our goal is to ensure that these new apps are equally valuable and viable across both Android and iOS.

If we execute our vision, we would build a network of apps which can be used for cross-promotional purposes. We identified the entertainment market as our focal point for new apps because we believe that apps in that market:

- generally overlap well with the demographic of our Zedge app's existing customer base;
- enjoy a higher frequency of use when compared to our Zedge app enabling the potential for both a subscription and ad-based monetization model; and
- allow for us to attract new users who may not be interested in our Zedge app's personalization content.

In fiscal 2020 we introduced the "Shortz – Chat Stories by Zedge" app, as a beta. It is our first foray in the entertainment vertical and is dedicated to offering "Chat Stories," which are serialized, short-form fiction delivered in a text-message format. Every time the user clicks on their screen, he or she sees the next message in the episode.

Our Zedge app's strong position as a leading platform for personalization content that consumers use to express their essence, individuality, and voice in an easy, entertaining and immersive fashion remains critical to our business. In order to maintain this position, we are concentrating our efforts on the following goals:

- *Continue growing our Zedge app's user base, globally.* We expect to continue devoting resources to grow our Zedge app's user base by:
 - studying its users' needs and enhancing our app to meet those needs;
 - developing and offering new features and services in the Zedge app that are relevant to new users interested in personalized digital content; and
 - expanding our Zedge app's reach by collaborating with strategic partners.
- *Improve our Zedge app's monetization.* We will continue exploring additional monetization methods for our Zedge app, including in-app purchases, subscription models, e-commerce, new advertising products and brand sponsorships. We believe that our Zedge app's large and expanding customer base is an attractive medium for advertisers, brands and artists and that this will result in new monetization opportunities for our Zedge app over time as well as an appealing audience to promote our new apps.
 - In March 2018, we launched Zedge Premium, a marketplace within our Zedge app where professional creators and brands market, distribute and sell their digital content to our consumers. Gross Transaction Value, or GTV, grew 50% to \$728,000 in fiscal 2020 from \$485,000 in fiscal 2019.
 - In January 2019, we started testing a paid subscription model of our Zedge app which removed unsolicited ads from the app. As of July 31, 2020, we had more than 504,000 active paid subscribers.
- *Ongoing product and technology investment in our Zedge app.* We plan to make continued, selected investments in product feature sets and functionalities of our Zedge app in order to both maintain its userbase and attract new users and artists and position its content contributors for optimal success in achieving their marketing and sales goals. Some of these initiatives include ongoing investment in our Zedge app's search and discovery, content recommendations, supporting new content verticals, improving our Zedge app's self-serve platform, and connecting creators with relevant end users via our Zedge app.
- *Building our Zedge app into a best-of-breed platform for artists and creators.* Our goal is to build our Zedge app into a platform that artists view as prioritizing their needs ahead of other platforms and addressing all aspects of their marketing and revenue generation goals including, but not limited to, ease in managing their virtual storefront, promotion, education, reporting and distribution.
- *Increase our marketing efforts for our Zedge app.* Historically, we haven't invested materially in marketing initiatives for our Zedge app. Going forward, we envision the need to better promote our Zedge app and to amplify our Zedge app's value proposition to artists and individual creators. We envisage these creators and influencers and brands self-promoting their availability on our Zedge app in order to extend their reach, generating incremental income and drive more end-user traffic to our platform. Furthermore, we also plan to continue to invest in app store optimization, search, marketing automation, social marketing and community management in order to retain and expand our Zedge app's customer base.
- *Diversify our revenue by developing and offering new apps.* Historically, the vast majority of our revenue has been derived from our Zedge app. Without losing focus on our Zedge app, we plan to diversify our revenue by developing and offering new apps that will leverage our technology and management team. In December 2019, we completed the beta launch of 'Shortz' our new entertainment app offering serialized, short-form fiction delivered in a text-message format across both Android and iOS.
- *Selectively pursue strategic investments, partnerships and acquisitions.* On a selective basis, we will look to invest in, partner with or purchase entities that can provide synergistic growth opportunities for our Zedge app and otherwise. For example, in September 2017, we closed the Freeform acquire in order to accelerate the launch and development of Zedge Premium. We plan to leverage our understanding of the smartphone industry to pursue additional opportunities that we believe can impact our business in a materially positive fashion.

Our History

In 2003, Tom Arnoy, Kenneth Sundnes and Paul Shaw launched a consumer website at www.zedge.net that people used to upload and download ringtones.

In December 2006, IDT Corporation acquired 90% of Zedge. Zedge Holdings, Inc. was incorporated in Delaware in 2008, and our name was changed to Zedge, Inc. in 2016.

In 2009, we introduced the Android version of our Zedge app. The Zedge app provided ease-of-use by negating the need for customers to first download a ringtone or wallpaper to their computer and then upload that content to their mobile phone.

We launched the iOS version of our Zedge app in 2013, followed by launch of the Windows Mobile Zedge app in 2014.

During 2014 and 2015, our Zedge app introduced app icons, social sharing features and marketing automation capabilities, and expanded the number of languages supported.

In 2016, IDT Corporation spun off our stock to its stockholders, and our Class B Common Stock was listed on the NYSE American with the ticker symbol "ZDGE".

In March 2018, we completed the launch of Zedge Premium, our marketplace that is part of the Zedge app where artists and brands can market, distribute and sell to our users their digital content, including wallpapers, ringtones, video wallpapers and stickers.

In January 2019, we started testing a subscription-based product on the Android version of our Zedge app, whereby users could prepay a monthly or yearly fee to remove unsolicited ads when using our Zedge app. As of July 31, 2020, we had more than 504,000 active paid subscribers.

In December 2019, we completed the beta launch of 'Shortz', our new entertainment app offering serialized, short-form fiction delivered in a text-message format across both Android and iOS, focusing on users in the United States, the United Kingdom and Canada and it is now available globally.

In August 2020, Jonathan Reich was promoted to Chief Executive Officer and Yi Tsai was promoted to Chief Financial Officer.

Our Technology

Our Zedge app is powered by a scalable distributed platform that is comprised of both open source and proprietary technologies centered on content management and discovery, web and app development, data mining and analytics, deep learning, mobile content/device compatibility, advertising and reporting. We have built a robust platform that allows us to ideate, test, and launch where warranted by the outcome and we have embraced machine learning throughout our technology stack in order to improve content recommendations and relevancy. From an end user's perspective, our Zedge app's platform minimizes response latency while maximizing content relevancy and discoverability. We optimize our platform by utilizing systems, algorithms and heuristics that organize our Zedge app's content based upon real user data and that renders the content in a relevant fashion. Our infrastructure provides a fully redundant production environment in a cloud-hosted, virtual-server environment.

Competition

Our Zedge app faces competition across many different fronts including:

- *Mobile personalization products.* Generally, our Zedge app competes with other developers' mobile apps for an end-user's screen time. More specifically, ringtones, wallpapers, notification sounds, and video are a commodity, and many smaller apps and websites offer this content both free and for a fee. We believe that our Zedge app has a competitive advantage due to its:
 - large user base;
 - "one stop shop" approach which avails customers of ringtones, wallpapers, notification sounds, video wallpapers and stickers within the same Android app;
 - modular approach that allows the customer to selectively choose what they would like to personalize without handing over the core elements of the native operating system to a third party and overwhelming the user with a myriad of complex options;
 - large content catalogue;
 - proprietary recommendation engine; and
 - market ranking and longevity.
- *Advertisers.* We face significant competition for advertising spend on our Zedge app from both digital media providers and traditional media outlets, including television, radio and print, many of which have significantly more resources than us.
- *Content creators.* There are many websites and mobile apps that focus on offering content creators an eco-system in which they can market and sell their digital art. Yet, we are not aware of many that as of July 31, 2020 had access to an embedded customer base with approximately 32 million MAU, which we believe makes our Zedge app more attractive to many content creators.
- *Rapid-Paced and Changing World of Mobile App Development.* The mobile app eco-system changes quickly and regularly with new apps capturing massive audiences competing for consumer's time, mindshare and money. This is an ongoing competitive threat requiring us to do our best to adapt as necessary to remain relevant and meaningful.

Intellectual Property

Our trademarks, copyrights, domain names, proprietary technology, knowhow and other intellectual property are vital to our success. We seek to protect our intellectual property rights by relying on federal, state and common law rights in the United States and other countries, as well as contractual restrictions. We enter into confidentiality and nondisclosure agreements with our employees and business partners. The agreements we enter into with our employees also provide that all software, inventions, developments, works of authorship and trade secrets created by them during the course of their employment are our property.

We have been granted trademark protection for “Zedge” in the United States, European Union, United Kingdom, India and Canada and for “Tonesync” in the European Union. We also have applied for trademark protection for “We make phones personal”, “Tattoo your phone”, “Everything You”, “Zedge, Everything, You” and “Shortz – Chat Stories by Zedge” in the United States as well as for copyright protection for our flagship app, Zedge. In addition, we have registered, amongst others, the following domain names: www.zedge.net and www.zedge.com.

Employees

As of July 31, 2020, we had 37 full-time and 2 part-time employees.

Facilities

Our principal executive office was located in a leased premise comprising approximately 500 square feet of space in New York City, which lease was terminated on July 15, 2020. We have moved to a virtual office because our staffs have been working remotely because of the COVID-19 pandemic. This location housed commercial operations including sales, accounting and finance, and business development. Our Trondheim, Norway facility, with approximately 11,500 square feet of space, accommodates our product, design and technology teams and is under lease through 2021. We also lease a satellite development center in Vilnius, Lithuania. Our servers are hosted in leased data centers in different geographic locations in the United States.

Item 1A. Risk Factors

Our business, operating results or financial condition could be materially adversely affected by any of the following risks associated with any one of our businesses, as well as the other risks highlighted elsewhere in this document, particularly the discussions about competition. The trading price of our Class B common stock could decline due to any of these risks.

If our Zedge app fails to attract advertisers or if its advertisers reduce their spending with us, our revenues, profitability and prospects may be materially and adversely affected.

In fiscal 2020, approximately 78% of our revenues were generated from our Zedge app selling advertising inventory. We anticipate that our growth and profitability will continue to depend on our Zedge app's ability to sell advertising inventory. Companies that advertise via our Zedge app may choose to utilize other advertising channels or may reduce or eliminate their marketing altogether for a variety of reasons, many of which are out of our control, including, without limitation, if the demand for mobile phone personalization industry declines or otherwise falls out of favor with advertisers or consumers.

If the size of the mobile advertising market does not increase from current levels, or if our Zedge app is unable to capture and retain a sufficient share of that market, our ability to maintain or increase our current level of advertising revenues and our revenues, profitability and prospects could be materially and adversely affected.

The mobile advertising market may deteriorate or develop more slowly than expected, which could materially harm our business and results of operations.

We generate substantial majority of our revenue from our Zedge app selling advertising inventory. We anticipate that our growth and profitability will continue to depend on our Zedge app's ability to sell advertising inventory. Mobile connected devices, especially smartphones, are a relatively new advertising medium. Advertisers have historically spent a smaller portion of their advertising budgets on mobile media as compared to traditional advertising methods, such as television, newspapers, radio and billboards, or online advertising over the internet, such as placing banner ads on websites.

Future demand and market acceptance for mobile advertising is uncertain. Many advertisers still have limited experience with mobile advertising and may continue to devote larger portions of their advertising budgets to more traditional offline or online personal computer-based advertising, instead of shifting additional advertising resources to mobile advertising.

Further, our advertisers' ability to effectively target their advertising to our user's interests may be negatively impacted by the degree to which our privacy control measures that we have implemented or may implement in the future in connection with regulations, regulatory actions, the user experience, or otherwise, and our advertising revenue may decrease or otherwise be curtailed as a result. Changes to operating systems' practices and policies, such as Apple's upcoming iOS update specifically related to Identifier for Advertiser ("IDFA") changes that may also reduce the quantity and quality of the data and metrics that can be collected or used by us and our partners. These limitations may adversely affect our advertisers' ability to effectively target advertisements and measure their performance, which could reduce the demand and pricing for our advertising products and harm our business. As such, our Zedge app's current and potential advertiser clients may ultimately find mobile advertising to be less effective than traditional advertising media or marketing methods or other technologies for promoting their products and services, and they may even reduce their spending on mobile advertising from current levels as a result or for other reasons.

If the market for mobile advertising deteriorates, or develops more slowly than we expect, we may not be able to increase our revenues or our revenues and profitability could decline materially.

We may not be successful in diversifying our revenue mix to reduce our significant dependence on third-party advertisers.

In fiscal 2020, approximately 78% of our revenues were generated from our Zedge app selling advertising inventory. We cannot assure you that we will be successful in diversifying our revenue mix by identifying new revenue drivers that complement our advertising-heavy business. Although we have had initial success in converting freemium users into paid subscribers, starting with zero in January 2019 and ending fiscal 2020 with more than 504,000, there is not guarantee that we will continue growing at this pace or how many of our current subscribers will remain as paying subscribers. To date, Zedge Premium has taken longer to scale than we originally anticipated, and we have not experienced the success that we anticipated by selling print-on-demand merchandise which sells at a higher price unit price than the other digital goods that we offer. We previously thought that certain marketers would embrace our platform as a critical distribution medium enabling us to secure a recurring set of advertisers willing to pay for sponsorships, but this has not yet occurred and may not occur. Finally, Android users are prone to spend less money on apps than iOS users. Even if our new initiatives are successful with our Android users, we may not be able to replicate that success on iOS, especially since we have fewer iOS users.

Our revenues may fluctuate materially due to increases and decreases of new mobile device sales, over which we have no control.

Our revenue may be materially negatively impacted by a decrease or slowdown in new mobile device sales. Demand for mobile devices correlates to installs of the Zedge app and associated usage and revenue generation.

The COVID-19 pandemic has negatively impacted our Zedge app's new user growth. We believe that new smartphone sales have suffered as a result of retail business closures, negatively impacting new user growth, especially in well-developed markets. Assuming the retail business rebounds from the COVID-19 pandemic, we expect that our Zedge app's new user growth will also recover and we will benefit accordingly but there can no assurance of such rebound or new user growth.

If new mobile device sales decrease or slowdown, our Zedge app will experience fewer installations which will negatively impact our revenue and operations.

If mobile connected devices, their operating systems or content distribution channels develop in ways that violate policies of Google Play or the AppStore, prevent users from downloading our Zedge app or block advertising from being delivered to our Zedge app's users, our ability to grow our revenues, profitability and prospects may be materially and adversely affected.

Our business model depends upon the continued compatibility between our Zedge app and the major mobile operating systems. Third parties with whom we do not have any formal relationships control the design of mobile devices and operating systems. These parties frequently introduce new devices, and from time to time they may introduce new operating systems or modify existing ones. Network carriers, including but not limited to Verizon, AT&T or T-Mobile, may also impact the ability to download apps or access specified content on mobile devices.

We rely upon third-party distribution platforms, including the Google Play store and iTunes, for distribution of our Zedge app. The Google Play store and iTunes are global application distribution platforms and the main distribution channels for our Zedge app. As such, the promotion, distribution and operation of our Zedge app are subject to the respective distribution platforms' standard terms and policies for application developers, which are very broad and subject to frequent changes and interpretation. Furthermore, the distribution platforms may not enforce their standard terms and policies for application developers consistently and uniformly across all applications and with all publishers.

For example, in September 2019, our Zedge app was temporarily removed from Google Play because they asserted that the Zedge app violated their malicious behavior policy. As a result, prospective Android users were prevented from installing our Zedge app, freemium users were unable to convert into paying subscribers and existing users were unable to purchase Zedge Credits. Shortly after the notice was issued, two of our major advertising suppliers ceased serving advertisements to our Zedge app. In addition, Google Play sent a notification to users that had the problematic version of the app on their phone recommending that they uninstall it. We identified the source of the problem as buggy code from a long-term, third-party advertising partner's standard technology integration in our app. We corrected the problem by removing the offensive code, releasing a new version of our app and our Zedge app was reinstated after approximately 72 hours and concurrently the two major advertising suppliers resumed purchasing our advertising inventory. We estimate the immediate financial impact of the suspension resulted in approximately \$100,000 in lost revenue and a material decline in MAU with the majority of uninstalls in emerging markets.

In addition, if any of these providers were to limit or disable advertising on their platforms, devices or operating systems, either because of technological constraints or because a maker of these devices, developer of these operating systems or owner of these distribution platforms wished to impair our ability to serve ads on them, our Zedge app's ability to generate revenues could be significantly harmed. Also, technologies may be developed that can block the display of our Zedge app's ads. Most of our revenues are derived from fees paid to us by our Zedge app's advertisers in connection with the display of ads. As a result, ad-blocking technology could materially adversely affect our business, revenues and profitability.

We have incurred and may continue to incur net losses and experience negative cash flow from operating activities in the future and may not be able to obtain additional capital in a timely manner or on acceptable terms, or at all.

Our net losses in fiscal 2020 and fiscal 2019 were \$0.6 million and \$3.3 million, respectively. Although our cash flow improved in the fourth quarter of fiscal 2020 and overall in fiscal 2020 as compared to fiscal 2019, we expect to incur net losses and negative cash flows in the future until the combination of revenue contributors including Zedge Premium, paid subscriptions and/or new product initiatives such as Chat Stories scale and become profitable, and may need to raise additional capital to support the continuing investment in our Zedge app, including Zedge Premium, and continue our operations.

Our ability to achieve and maintain profitability and positive cash flow from operating activities depends on various factors, including but not limited to, the acceptance of our Zedge app's products and services by mobile phone users, the growth and maintenance of our Zedge app's user base, our Zedge app's ability to maintain existing and obtain new advertisers, our Zedge app's ability to grow our revenues, the success of Zedge Premium and paid subscriptions, and the effectiveness of our new product initiatives, selling and marketing activities as well as control our costs and expenses. We may not be able to achieve or sustain profitability or positive cash flow from operating activities, and if we achieve positive operating cash flow, it may not be sufficient to satisfy our anticipated capital expenditures and other cash needs. As such, we may not be able to fund our operating expenses and expenditures and may be unable to fulfill our financial obligations as they become due, which may result in voluntary or involuntary dissolution or liquidation proceeding of us and a total loss of your investment.

We have limited resources and could find it difficult to raise additional capital.

We have a limited operating history as an independent company, and no current sources of financing other than the \$2.0 million credit facility with Western Alliance Bank, which was amended in September 2020 for another two year-term expiring September 26, 2022. We may need to raise additional capital for operations and in order for stockholders to realize increased value on our securities. There can be no assurance that we will be able to obtain the necessary funding on commercially reasonable terms in a timely fashion or at all. Failure to receive the funding on commercially reasonable terms, or the failure to receive funding at all, could have a material adverse effect on our business, prospects, and financial condition and we may be unable to fulfill our financial obligations as they become due, which may result in voluntary or involuntary dissolution or liquidation proceeding of us and a total loss of your investment.

Our limited operating history makes it difficult to evaluate our business and prospects and may increase your investment risk.

We have only a limited operating history upon which you can evaluate our business and prospects. Although we have experienced revenue growth in certain recent periods, our growth in fiscal 2020 was moderate and even declined in fiscal 2019. As part of the nascent mobile advertising industry, we will encounter risks and difficulties frequently encountered by early-stage companies in rapidly evolving industries, including the need to:

- maintain our reputation and build trust with our advertiser and developer clients;
- offer competitive pricing to both advertisers and developers;
- maintain and expand our network of advertising space through which we deliver mobile advertising campaigns;
- deliver advertising results that are superior to those that advertisers or developers could achieve directly or through the use of competing providers or technologies;
- continue to develop and upgrade the technologies that enable us to provide mobile advertising services;

- respond to evolving government regulations relating to the internet, telecommunications, privacy, direct marketing and advertising aspects of our business;
- identify, attract, retain and motivate qualified personnel; and
- manage our expanding operations.

If we do not successfully address any or all of these risks, our business, revenues and profitability could be materially adversely affected.

If we fail to maintain and enhance our Zedge app's brand, or if we incur excessive expenses in this effort, our business, results of operations and prospects may be materially and adversely affected.

We believe that maintaining and enhancing our Zedge app's brand and reputation important to the success of our business. Historically, we have not made material investments in this effort. We believe that a well-recognized brand is important to increasing the number of users and enhancing our Zedge app's attractiveness to advertisers and business partners. Brand recognition and enhancement may directly affect our ability to maintain our market position.

Many factors, some of which are beyond our control, are important to maintaining and enhancing our Zedge app's brand and may negatively impact our app's brand and reputation if not properly managed, such as our Zedge app's ability to:

- maintain an easy and reliable user experience as user preferences evolve and as our apps expand into new service categories and new service lines;
- remain relevant to users with a plethora of other content offerings and entertainment platforms;
- increase brand awareness among existing and potential users, advertisers and content providers through various marketing and promotional activities;
- adopt new technologies or adapt its products and services to meet user needs or emerging industry standards; and
- distinguish it from the competition and maintain this distinction.

In the future, we may conduct various marketing and brand promotion activities to expand our Zedge app's brand. Some of these may require material investment. We cannot assure you, however, that these activities will be successful or that we will be able to achieve the brand promotion effect we expect. In addition, any negative publicity in relation to our mobile internet products or services could harm our Zedge app's brand and reputation.

We have received, and expect to continue to receive, complaints from users regarding the quality of our Zedge app's products and services. If our app's users' complaints are not addressed to their satisfaction, our Zedge app's reputation and our market position could be significantly harmed, which may materially and adversely affect our business, revenues and profitability.

We may not be able to continually meet our Zedge app's user demand and retain or expand our Zedge app's user base, and our revenues, profitability and prospects may be materially and adversely affected.

Although we constantly monitor and research our Zedge app's user needs, we may be unable to meet user demand on an ongoing basis or anticipate future user demands. A decrease in the number of users of our Zedge app's products and services may have a material and adverse effect on our ability to sell advertising and on our business, financial condition and results of operations. In order to attract and retain users and remain competitive, we must continue to innovate our products and services, improve user experience, and implement new technologies and functionalities.

The mobile internet business is characterized by constant changes, including but not limited to rapid technological evolution, continual shifts in user demands, frequent introductions of new products and services and constant emergence of new industry standards and practices. As a result, our Zedge users may leave us for our competitors' products and services more quickly than in other sectors. Thus, our success will depend, in part, on our Zedge app's ability to respond to these changes on a timely and cost-effective basis, including improving and marketing our Zedge app's existing products and services and developing and pricing new products and services in response to evolving user needs. Our ability to successfully retain or expand our Zedge app's user base will depend on our ability to achieve the following, among others:

- anticipate and effectively respond to the growing number of mobile internet users in general and our Zedge app's users in particular;
- attract, retain and motivate talented application designers, product managers and engineers who have experience developing personalization products or other mobile internet products and services;
- effectively market our existing and new mobile internet products in response to evolving user needs;
- develop in a timely fashion and launch new products and features in our Zedge app, and develop and launch other mobile internet products cost-effectively;
- funnel our existing users and prospects into new products that we develop, independent of the Zedge app, and convert them into recurring users of these new products;

- successfully recruit new artists, individual creators and brands that offer their content to our Zedge app's users;
- further improve our Zedge app platform to provide a compelling and optimal user experience through integration of products and services provided by existing and new third-party developers or business partners; and
- continue to provide quality content to attract and retain our Zedge app's users and advertisers.

We cannot assure you that our existing products and services, including our Zedge app, will remain sufficiently popular with our users. We may be unsuccessful in adding compelling new enhancements; products and services to further diversify our Zedge app's product offerings. Unexpected technical, commercial or operational problems could delay or prevent the introduction of one or more of our new products or services to our Zedge app. Moreover, we cannot be sure that any of our Zedge app's new products and services, including Zedge Premium and our subscription service, will achieve widespread market acceptance or generate incremental revenue the way our existing Zedge app's products and services have. If we fail to continue to achieve sufficient user satisfaction through our Zedge app's products or services or our Zedge app's products and services fail to meet our expectation to maintain and expand its user base, our business, results of operations and financial condition will be materially and adversely affected.

Our marketplace for premium content, called Zedge Premium, may not yield the strategic goals and objectives that we envision, and our revenues, profitability and prospects may be materially and adversely negatively affected.

Our marketplace where we charge our users for premium content in our Zedge app is called Zedge Premium. Although we believe that Zedge Premium will act as an important driver in helping our Zedge app become a leading platform for professional artists, individual creators and brands looking to distribute their work to consumers looking for an easy, entertaining and unique way to express their voice, individuality and essence, it's premature to conclude this as being the case.

Thus far, the growth of Zedge Premium has been slower than anticipated and it is too early to state with conviction that Zedge Premium will have a materially positive impact on our business. In order to do so, we still need, among other things, to:

- demonstrate that a critical mass of artists, individual creators and brands will offer their content to our Zedge app's users;
- continue to add new premium content verticals, with ample content in each vertical, to secure end-user demand and consumption;
- continue to ensure that our Zedge app is building best-of-breed tools for content contributors in Zedge Premium that, amongst other things, meet their needs with respect to marketing, distribution, monetization, reporting, support, and ease of use;
- continue to develop a wide array of monetization mechanisms for Zedge Premium in order to optimize revenue generation;
- successfully market to the creative community and secure their adoption of our Zedge Premium platform as a must-have in their omnichannel distribution mix;
- establish that Zedge Premium can be valuable to a sufficient number of creators in achieving their marketing and monetization objectives; and
- continue to offer an excellent and differentiated consumer experience in Zedge Premium, including all end-user facing attributes ranging from the user interface to customer support.

If Zedge Premium fails to yield the strategic goals and objectives that we envision, our business, results of operations and financial condition will be materially and adversely affected.

Our Zedge app's user base is heavily weighted to the Android operating system and our revenues and profitability may suffer if the market demand for Android smartphones decreases.

Our Zedge app's user base is heavily weighted to smartphones running the Android operating system, which constituted approximately 94% of its MAU as of July 31, 2020, and most of our revenues for fiscal 2019. Any significant downturn in the overall demand for Android smartphones or the use of Android smartphones could significantly and adversely affect the demand for our Zedge app and would materially affect our revenues.

Although the Android smartphone market has grown rapidly in recent years, it is uncertain whether the Android smartphone market will continue growing at a similar rate in the future. In addition, due to the constantly evolving nature of the smartphone industry, another operating system for smartphones may eclipse the Android operating system and result in a decline in its popularity, which would likely adversely affect our Zedge app's popularity. To the extent that our Zedge app continues to be operated on Android smartphones and to the extent that our future revenues substantially depend on the use and sales of Android smartphones, our business and financial results would be vulnerable to any downturns in the Android smartphone market.

We may not be able to effectively manage our Zedge app's growth or implement our future business strategies, in which case our business and results of operations may be materially and adversely affected.

Our continued success depends on our ability to grow our Zedge app organically, attract new artists and establish cooperation with strategic partners. Our Zedge app has experienced periods of rapid growth and expansion that has placed, and continues to place, significant strain on our management and resources. We cannot assure you that these periods will recur or be sustainable. We believe that continued growth of our Zedge app will depend on our ability to develop and enhance its products and services, attract new artists and individual creators, grow its user base, retain existing users, continue developing innovative technologies in response to user demand, increase brand awareness through marketing and promotional activities, react to changes in market trends, expand into new market segments, attract new advertisers, retain existing advertisers and take advantage of the growth in the relevant markets. We cannot assure you that our Zedge app will achieve any or all of the above.

We may need to invest in paid user acquisition in order to grow our Zedge app's customer base. However, we may not be able to secure new users for our Zedge app at scale with a positive return on investment. Even if we can secure new profitable customers for our Zedge app, these new customers may be seasonal and/or unsustainable.

To manage our Zedge app's growth and for us to attain and maintain profitability, we will also need to further expand, train, manage and motivate our workforce and manage our relationships with users, consultants, business partners and advertisers. We anticipate that we will need to implement a variety of enhanced and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems. All of these endeavors involve risks and will require substantial management efforts and skills and additional expenditures.

Our Zedge app currently enjoys a global customer base. This geographic diversification may raise the level of difficulty in managing our Zedge app's growth and profitability. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations. In addition, we cannot assure you that we will be able to effectively manage our growth or implement our future business strategies effectively, and failure to do so may materially and adversely affect our business and results of operations.

During the past four years, we have experienced a shift in our Zedge app's regional customer make-up with MAU increasing in the emerging markets and decreasing in the well-developed markets. In fiscal 2020, our Zedge app's users in the emerging markets grew by 1.4% while its users in the well-developed regions declined 18.6% when compared to fiscal 2019. This shift has negatively impacted revenues because the well-developed markets command materially higher advertising rates when compared to those in the emerging markets. Although we are investing in reversing this trend, we may not be successful in this effort which may result in lower revenues and profitability.

Our products may contain errors, flaws or failures that may only become apparent after their release, especially in updates to our Zedge app. From time to time, we receive user feedback in connection with errors, flaws or failures and such errors, flaws or failures may also come to our attention during our internal testing process. We generally have been able to resolve such errors, flaws or failures in a timely manner, but we cannot assure you that we will be able to detect and resolve all of them effectively or in a timely manner. Errors, flaws or failures in our services and products, including our Zedge app, may adversely affect user experience and cause our users to stop using our services and products, which could materially and adversely affect our business and results of operations.

We may not be able to convert freemium users into paying subscribers or maintain paying subscribers for more than a year.

Much of our growth in our Zedge's app's MAU since January 2019 is attributable to offering a paid subscription option which is weighted to securing annual prepaid subscriptions. In addition, approximately, 40% of annual subscribers have renewed their subscription for a second year. Depending on the success of our product, the evolution of subscriptions and items beyond our control users may opt not to convert into paying subscribers and/or paying subscribers may choose not to renew their subscriptions. Either of these would adversely impact the business.

We do not have long-term agreements with our Zedge app's advertisers, and we may be unable to retain existing advertisers, attract new advertisers or replace departing advertisers with advertisers that can provide comparable revenues to us, in which case our business and results of operations may be materially and adversely affected.

In fiscal 2020, approximately 78% of our revenues were generated from our Zedge app selling advertising inventory. We anticipate that our growth and profitability will continue to depend on our Zedge app's ability to sell advertising inventory. Our success requires us to maintain and expand our Zedge app's current advertiser relationships and to develop new relationships.

Our contracts with our Zedge app's advertising partners generally do not include long-term obligations requiring them to purchase our Zedge app's inventory and are cancelable upon short or no notice and without penalty. Furthermore, the majority of our Zedge app's advertisers buy our inventory via third-party platforms and bidding exchanges that own the relationship with the advertiser. As a result, we may have limited visibility as to our Zedge app's future advertising revenue streams.

We cannot assure you that our Zedge app's advertisers will continue to purchase its inventory, or that we will be able to replace, in a timely or effective manner, Zedge app's departing advertisers with new advertisers that generate comparable revenue. If one or more major advertisers representing a significant portion of our Zedge app's business decide to materially reduce its advertising spend with us or cease purchasing our Zedge app's advertising inventory, our revenues and profitability could be significantly reduced.

Our Zedge app faces competition in all aspects of its business. If our Zedge app fails to compete effectively or if its reputation is damaged, our business, financial condition and results of operations may be materially and adversely affected.

Although our Zedge app is currently a leading platform for smartphone personalization, we cannot guarantee that it will be able to maintain this position. Our Zedge app faces potential competition from other mobile internet companies and smartphone manufacturers, and new market entrants may also emerge. If we are not able to differentiate our Zedge app from that of our competitors, drive value for our customers, and/or effectively align our resources with our goals and objectives, we may not be able to compete effectively against our competitors. Our failure to compete effectively against any of the foregoing competitive threats could materially and adversely harm our business. Increased competition may result in new products and offerings which may in turn require us to take actions to retain and attract our Zedge app's users and advertisers in such a fashion which would lower our gross margins. If we fail to compete effectively, our Zedge app's market share would decrease and our results of operations, revenues and profits would be materially and adversely affected.

Our Zedge app in the midst of expanding beyond mobile phone personalization and focusing on becoming a distribution platform for professional artists, individual creators and brands interested in offering their content to consumers that are looking for an easy, entertaining and unique way of using this content to express their voice, individuality and essence. We aspire to have our Zedge app be the destination that smartphone users turn to when looking for mobile optimized, digital content. If we are unsuccessful in meeting our goal, our brand may suffer resulting in diluting our value proposition, losing MAU and having lower revenues and profits.

If we are not able to effectively compete in any aspect of our business or if our reputation is harmed by rumors or allegations regarding our business or business practices, our Zedge app's overall user base may decrease, making it less attractive to advertisers. We may be required to spend additional resources to further increase our Zedge app's brand recognition and promote our products and services, and such additional spending could adversely affect our profitability.

If we fail to keep up with rapid technological changes in the internet and smartphone industries and adapt our products and services accordingly, our results of operations and future growth may be adversely affected.

The internet and smartphone industries are characterized by rapid and innovative technological changes. Our future success will depend, in part, on our ability to respond to fast changing technologies, adapt our products and services to evolving industry standards and improve the performance, functionality and reliability of our products and services. Our failure to continue to adapt to such changes could harm our business. If we are slow to develop products and services that are compatible with smartphones, or if the products and services we develop are not widely accepted and used by smartphone users, we may not be able to capture a significant share of this important market. In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes for smartphones could require substantial expenditures to modify or adapt our products, services or infrastructure. If we fail to keep up with rapid and innovative technological changes to remain competitive, our future growth may be materially and adversely affected and our results of operations could be materially and adversely affected.

Our international operations and availability expose us to additional risks that could harm our business, operating results and financial condition.

In addition to uncertainty about our ability to continue expanding and monetizing internationally, there are additional risks inherent in doing business internationally, including:

- tariffs, trade barriers, customs classifications and changes in trade regulations. For example, in May 2019, the United States banned U.S. companies from doing business with Huawei, a major smartphone manufacturer, the result of which is that our Zedge app will not be available on new Huawei phones, and in 2020 the United States threatened to ban downloads from Tik Tok;
- difficulties in developing, staffing, and simultaneously managing foreign operations as a result of distance, language, and cultural differences;
- stringent local labor laws and regulations;

- strict and unclear laws around data privacy;
- longer payment cycles;
- credit risk and higher levels of payment fraud;
- profit repatriation restrictions and foreign currency exchange restrictions;
- political or social unrest, economic instability, repression, or human rights issues;
- geopolitical events, including natural disasters, acts of war and terrorism;
- import or export regulations;
- compliance with U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting bribery and corrupt payments to government officials;
- antitrust and competition regulations;
- potentially adverse tax developments;
- seasonal volatility in business activity and local economic conditions;
- economic uncertainties relating to European sovereign and other debt;
- laws, regulations, licensing requirements, and business practices that favor local competitors or prohibit foreign ownership or investments;
- laws, regulations or rulings that block or limit access to our Zedge app;
- different, uncertain or more stringent user protection, content, data protection, privacy, intellectual property and other laws; and
- risks related to other government regulation, required compliance with local laws or lack of legal precedent.

We are subject to numerous and sometimes conflicting U.S. and foreign laws and regulations that increase our cost of doing business. Violations of these complex laws and regulations that apply to our international operations could result in damages, awards, fines, litigation, criminal actions, sanctions, or penalties against us, our officers or our employees, prohibitions on the conduct of our business and our ability to offer products and services, and damage to our reputation. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, or agents will not violate our policies or that our policies will be sufficient. These risks inherent in our international operations and expansion increase our costs of doing business internationally and could result in material harm to our business, operating results, and financial condition.

Companies and governmental agencies may restrict access to our website or mobile apps, or the internet generally, which could lead to the loss or slower growth of our Zedge app's user base, in which case our business and results of operations may be materially and adversely affected.

Our users need to access the internet and, in particular, our Zedge app. Companies and governmental agencies could block access to Zedge app or the internet generally. For example, in 2013 the Indian courts issued orders restraining internet service providers from providing access to various internet domains including ours. Access to our Zedge app through any mode was blocked in many parts of India from February 2013 until August 2019 as discussed more fully in the Legal Proceedings section below. If companies or governmental entities block or limit access to our Zedge app or otherwise adopt policies restricting access to our advertiser's products and services our business could be negatively impacted resulting in a loss or slow-down of user growth and/or revenues.

Our core values of focusing on our users and acting for the long-term may conflict with the short-term interests of our business.

One of our core values is a focus on our Zedge app's user experience, which we believe is essential to our success and serves the best, long-term interests of us and our stockholders. Therefore, we have made, in the past and/or may make in the future, significant investments or changes in strategy that we think will benefit our Zedge app's users, even if our decision negatively impacts our operating results in the short term. In addition, our philosophy of prioritizing our Zedge app's users may cause disagreements or negatively impact our relationships with advertisers or other third parties. Our decisions may not result in the long-term benefits that we expect, in which case the success of our business and operating results could be materially harmed.

Legal proceedings or allegations of impropriety could have a material adverse impact on our reputation, results of operations, financial condition and liquidity.

We have been, and may be in the future, subject to allegations or lawsuits by entities claiming that we engage in unethical, fraudulent or otherwise inappropriate business practices. Any such lawsuit or allegation, with or without merit, or any perceived unfair, unethical, fraudulent or inappropriate business practice by us or perceived wrong-doing by any key member of our management team could harm our reputation and user base and distract our management from our day-to-day operations. We cannot assure you that we will not be subject to lawsuits or allegations in the future. When we can make a reasonable estimate of the liability relating to pending litigation and determine that an adverse liability resulting from such litigation is probable, we will record a related contingent liability. As additional information becomes available, we will assess the potential liability and revise estimates as appropriate.

In fiscal years 2019 and 2020, we did not record any contingent liabilities relating to pending litigation. When we record or revise our estimates of contingent liabilities in the future, the amount of our estimates may be inaccurate due to the inherent uncertainties relating to litigation. In addition, the outcomes of actions we institute against third parties may not be successful or favorable to us. Litigations and allegations against us may also generate negative publicity that significantly harms our reputation, which may materially and adversely affect our user base and our ability to attract publishers and advertisers. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert management's and the board of directors' attention from operating our business. We may also need to pay damages or settle the litigation with a substantial amount of cash or equity. All of these could have a material adverse impact on our business, results of operation and cash flows.

A variety of new and existing U.S. and foreign government laws and regulations could subject us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices, in which case our business and results of operations may be materially and adversely affected.

We are subject to numerous U.S. and foreign laws and regulations covering a wide variety of subject matters. New laws and regulations, changes in existing laws and regulations or the interpretation of them, our introduction of new products, or an extension of our business into new areas, could increase our future compliance costs, make our products and services less attractive to our users, or cause us to change or limit our business practices. We may incur substantial expenses to comply with laws and regulations or defend against a claim that we have not complied with them. Further, any failure on our part to comply with any relevant laws or regulations may subject us to significant civil or criminal liabilities, penalties, taxes, fees, costs and negative publicity.

The application of existing domestic and international laws and regulations to us relating to issues such as user privacy and data protection, security, defamation, pricing, advertising, taxation, gambling, sweepstakes, promotions, consumer protection, accessibility, content regulation, quality of services, law enforcement demands, telecommunications, mobile, and intellectual property ownership and infringement in many instances is unclear or unsettled. Further, the application to us or our subsidiaries of existing laws regulating or requiring licenses for certain businesses of our Zedge app's advertisers can be unclear. U.S. export control laws and regulations also impose requirements and restrictions on exports to certain nations and persons and on our business. Internationally, we may also be subject to laws regulating our activities in foreign countries and to foreign laws and regulations that are inconsistent from country to country. As a replacement for the US-EU Safe Harbor framework which was invalidated by the European Court of Justice in October of 2015, the EU-U.S. Privacy Shield Framework was designed by the U.S. Department of Commerce and European Commission to provide U.S. companies with a mechanism to comply with EU data protection requirements when transferring personal data from the European Union to the United States. On July 12, 2016, the European Commission deemed the Privacy Shield Framework adequate to enable data transfers under EU law. To join the Privacy Shield Framework, we will be required to self-certify to the Department of Commerce and commit to comply with the Framework's requirements. The U.S. Department of Commerce began accepting applications for companies to join the Privacy Shield Framework. The result of us joining the Privacy Shield Framework will likely be an increase in cost of compliance, and an increase in potential for liability for non-compliance

In addition to the actual and potential changes to laws and regulations described elsewhere in these Risk Factors, compliance with privacy and data security regulations, particularly within the EU, is likely to require ongoing investment and changes in how we operate. For example, in May 2018 the EU implemented the General Data Protection Regulation, or GDPR, whose goal is to provide a uniform standard for data protection and privacy for all individuals in the EU and European Economic Area, including both end-users and employees. GDPR compliance required us to invest a considerable amount of resources in fiscal 2018 in addition to adopting new operational procedures in order to assure ongoing compliance. Last year, California passed the California Consumer Privacy Act, or CCPA, which is a privacy law that provides consumers significant rights over the use of their personal information, including the right to object to the "sale" of their personal information. These rights may restrict our ability to use personal information in connection with our business operations. The CCPA also provides a private right of action for security breaches. Washington and Massachusetts have introduced privacy bills and the U.S. Congress is debating federal privacy legislation, which if passed, may restrict our business operations and require us to incur additional costs for compliance. While we carefully consider the compliance mandates of the GDPR and CCPA, it is possible that these obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our business practices.

In addition, the Digital Millennium Copyright Act, or DMCA, has provisions that limit, but do not necessarily eliminate, our liability for hosting user-generated materials that infringe copyrights, so long as we comply with the statutory requirements in the DMCA. Also, Section 230 of the Communications Decency Act, or CDA, provides immunity from liability for providers of an interactive computer service who publish defamatory information provided by users of the service. While the immunity provisions of the DMCA and the CDA are well established, there are regular cases seeking to limit the application of such immunity. Various U.S. and international laws restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors. In the area of data protection, every state has passed a law requiring notification, and at times, the provision of identity theft protection, to users when there is a security breach for personal data. We face similar risks and costs as our products and services are offered in international markets and may be subject to additional regulations.

In many, but not all, territories outside of the United States there are laws similar to the DMCA which exempt us from copyright infringement liability that may arise due to hosting user-uploaded materials. In some countries, particularly in Europe and the APAC region, these laws are prone to change and uncertainty.

In June 2019, the European Union's Directive on Copyright in the Digital Single Market, or the Directive, came into effect, and each of the European Union's member states have until June 2021 to pass appropriate legislation to meet the Directive's requirements. Directive Article 17 (draft Article 13) replaces the "mere conduit" exemption from copyright infringement from for-profit "online content sharing service providers" with a new, conditional exemption to liability. These conditions are an implementation of "effective and proportionate measures", as claimed by service providers, to "prevent the availability of specific [unlicensed] works identified by rightsholders", acting "expeditiously" to remove them, and demonstrating that "best efforts" have been made to prevent their future availability. The article also extends any licenses granted to content hosts to their users, as long as those users are not acting "on a commercial basis".

Although we have invested and continue to invest in systems and resources, which are intended to ensure that we are compliant with the requirements of the GDPR, CCPA, DMCA, the Directive and other U.S. and international laws relating to, among other things, materials that infringe on copyrights and contain other objectionable content, our systems may not be sufficient or we may unintentionally err and fail to comply with these laws and regulations which could expose us to claims, judgments, monetary liabilities and other remedies, and to limitations on our business practices which could materially adversely affect our business and financial results.

If we are unable to license, acquire or otherwise obtain access to compelling content and services at reasonable cost or if we do not develop or commission compelling content of our own, the number of users of our Zedge app may not grow as anticipated, or may decline, or users' level of engagement with our Zedge app may decline, all or any of which could materially harm our business and operating results.

Our future success depends, in part, on our ability to aggregate and host compelling content and deliver that content to our users via our Zedge app. We achieve this when users upload their own user-generated content to our Zedge app, when artists, individual creators and brands upload their licensed content to our Zedge app, or when we create content or enter into business partnerships with content owners and distribute this content on our Zedge app.

We believe that users value high-quality content. As such, we may need to make substantial payments to third parties from whom we license or acquire such content or from whom we have create this content on our behalf. Our ability to maintain and build relationships with such third-party providers may become important to our success. As competition for compelling content increases both domestically and internationally, our partners may alter business terms under which they avail their content and services to our Zedge app and potential providers may not offer their content or services to our Zedge app at all, or may offer them on terms that are not agreeable to us. A change in these commercial terms could harm our operating results and financial condition. Further, much of the content that we acquire for our Zedge app may only be available on a non-exclusive basis allowing competitors the ability of offering this content to our disadvantage.

We may be subject to intellectual property infringement claims or other allegations, which could require us to pay substantial statutory penalties or other damages and fines, remove relevant content, enter into license agreements which may not be available on commercially reasonable terms or could result in our Zedge app being barred from third-party distribution platforms, which could harm our business and competitive position.

There may be owners of technology patents, copyrights, trademarks, trade secrets and content, who assert claims against us. If a claim of infringement is brought against us we may be required to pay substantial penalties or other damages and fines, remove relevant content, enter into license agreements that may not be available on commercially reasonable terms or at all or be barred from any of the third-party distribution platforms. Even though the allegations or claims could be baseless, our defense against any of these allegations or claims would be both costly and time-consuming and could significantly divert the efforts and resources of our management and other personnel.

If we are unable to attract and retain highly qualified employees, we may not be able to grow effectively.

Our ability to compete and grow depends in large part on the efforts and talents of our employees. Such employees, particularly product managers, designers and engineers, are in high demand, and we devote significant resources to identifying, hiring, training, successfully integrating and retaining these employees. The loss of employees or the inability to hire additional skilled employees as necessary could result in significant disruptions to our business, and the integration of replacement personnel could be time-consuming and expensive and cause additional disruptions to our business.

At the end of the first quarter of fiscal 2017, we implemented a modest reduction in workforce, primarily in Norway. This action may have impacted employee morale and led, or may lead, to higher rates of voluntary attrition compared to prior years. If we are unable to retain and attract qualified employees, particularly in critical areas of operations such as engineering, we may not achieve our strategic goals and our business and operations could be harmed.

In August of 2018 we opened a development center in Vilnius, Lithuania in order to diversify our talent pool with a qualified and more affordable talent base. If we are unable to recruit and retain well qualified candidates at an attractive rate or manage them well, our business will struggle to meet its development goals and objectives. We were successful in ramping up the recruitment and hiring in fiscal 2020 and ended the fiscal year with a team of 16 engineers and designers. In August 2020, we moved to a serviced office space which provides maximum flexibility during the pandemic.

We believe that two critical components of our success are our ability to retain our best people by preserving our culture and maintaining competitive compensation practices. As we continue to grow rapidly, and we develop the infrastructure of a public company, we may find it difficult to maintain our entrepreneurial, execution-focused culture. In addition, some of our employees are able to receive material proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us.

We may not be able to prevent others from unauthorized use of our intellectual property, which could materially harm our business and competitive position.

We regard our trademarks, service marks, patents, domain names, trade secrets, proprietary technologies and similar intellectual property as critical to our success, and we rely on trademark and patent law, trade secret protection and confidentiality and license agreements with our employees and others to protect our proprietary right. As of July 31, 2020, we have registered, amongst others, the following domain names: www.zedge.net and www.zedge.com. In addition, we have been granted trademark protection for "Zedge" in the United States, European Union, United Kingdom, India, and Canada and for "Tonesync" in the European Union. As discussed in the Business section, we also have applied for trademark protections for other marks in the United States as well as for copyright protection for our flagship app, Zedge.

Monitoring unauthorized use of our intellectual property rights is difficult and costly, and we cannot be certain that we can effectively prevent misappropriation of our intellectual property, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States. From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources and may not be successful.

In addition, it is often difficult to create and enforce intellectual property rights in certain international markets. Patents, trademarks and service marks may also be invalidated, circumvented, or challenged. Trade secrets are difficult to protect, and our trade secrets may be leaked or otherwise become known or be independently discovered by others. Confidentiality agreements may be breached, and we may not have adequate remedies for any breach. Even where adequate and relevant laws exist it may not be possible to obtain swift and equitable enforcement of such laws, or to obtain enforcement of a court judgment or an arbitration award delivered in another jurisdiction, and accordingly, we may not be able to effectively protect our intellectual property rights or enforce agreements in such countries

We rely on third parties to provide the technologies necessary to deliver content, advertising, and services to our users, and any change in the licensing terms, costs, availability, or acceptance of these formats and technologies could materially adversely affect our business.

Our service and hosting providers may experience downtime from time to time, which may negatively affect our brand and user perception of the reliability of our service. Any scheduled or unscheduled interruption of our Zedge app could result in an immediate, and possibly substantial, loss of revenues. Although we seek to reduce the possibility of disruptions or other outages, our Zedge app may be disrupted by problems relating either to our own technology or third-party technology that is used for it. Our systems may be vulnerable to damage or interruption from telecommunication failures, power loss, computer attacks or viruses, earthquakes, floods, fires, terrorist attacks and similar events. Parts of our system are not fully redundant or backed up, and our disaster recovery planning may not be sufficient for all eventualities. Despite any precaution we may take, the occurrence of a natural disaster or other unanticipated problems at our hosting facilities could result in lengthy interruptions in the availability of our Zedge app. Any interruption in the ability of our Zedge app's users could reduce our future revenues, harm our future profits, subject us to regulatory scrutiny and lead users to seek alternative internet mobile products.

There can be no assurance that these providers will continue licensing their technologies or intellectual property to us on reasonable terms, or at all. Providers may change the fees they charge users or otherwise change their business model in a manner that slows the widespread acceptance of their technologies. Any change in the licensing terms, costs, availability, or user acceptance of these technologies could materially and adversely affect our business, revenues and profitability.

We use open source software in our platform that may subject our technology to general release or require us to re-engineer our solutions, which may cause materially harm to our business.

We use open source software in connection with our services. From time to time, companies that incorporate open source software into their products have faced claims challenging the ownership of open source software and/or compliance with open source license terms. Therefore, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software or noncompliance with open source licensing terms. Some open source software licenses require users who distribute or make available open source software as part of their software to publicly disclose all or part of the source code to such software and/or make available any derivative works of the open source code on unfavorable terms or at no cost. While we monitor our use of open source software and try to ensure that none is used in a manner that would require us to disclose the source code or that would otherwise breach the terms of an open source agreement, such use could nevertheless occur and we may be required to release our proprietary source code, pay damages for breach of contract, re-engineer our applications, discontinue use in the event re-engineering cannot be accomplished on a timely basis or take other remedial action that may divert resources away from our development efforts, any of which could materially and adversely affect our business, financial condition or operating results.

Our business depends on our ability to collect and use data to deliver relevant content and advertisements, and any limitation on the collection and use of this data could significantly diminish the value of our services and cause us to lose clients and revenues.

When one uses our products and services, including our Zedge app, we may collect both personally identifiable and non-personally identifiable data about the user. This may include but is not limited to the user's name, telephone number, email address, Facebook and other login credentials, phone model, operating system, location, Identifier for Advertising (IDFA), Android Advertising ID, the collection of apps running on the user's mobile device as well as information relating to their interaction with advertisements appearing within our Zedge app. Often we use some of this data to provide a better experience for the user by delivering both relevant content and advertisements. In addition, we use some of this data for advertising reporting purposes.

Although our Privacy Policy and Terms of Service provide extensive details about how we use customer data our clients may decide not to allow us to collect some or all of this data or may limit our use of this data. Any limitation on our ability to collect data about user behavior and app interactions would likely make it more difficult for us to deliver germane content to our users and effective mobile advertising campaigns that meet the demands of our advertisers.

Our contracts with advertisers generally permit us to aggregate data from advertising campaigns, yet these clients might nonetheless request that we discontinue using data obtained from their campaigns that have already been aggregated with other clients' campaign data. It would be difficult, if not impossible, to comply with these requests, and these kinds of requests could also cause us to invest significant amounts of resources. Interruptions, failures or defects in our data collection, mining, analysis and storage systems, as well as privacy concerns and regulatory restrictions regarding the collection of data, could also limit our ability to aggregate and analyze mobile device user data from our clients' advertising campaigns. If that happens, we may not be able to optimize the placement of advertising for the benefit of our advertiser clients, which could make our services less valuable, and, as a result, we may lose clients and our revenues may materially decline.

Concerns about collection and use of personal data could damage our reputation and deter current and potential users from using our products and services, which could have material adverse effects on our business and results of operations.

Concerns about our Zedge app with regard to the collection, use or disclosure of personal information or other privacy-related matters, even if unfounded, could damage our reputation and results of operations. We apply strict management and protection of user-provided data and only use this data as described in our Privacy Policy and Terms of Service. While we strive to comply with our Privacy Policy as well as all applicable data protection laws and regulations, including GDPR and soon to be the CCPA, any failure or perceived failure to comply may result in proceedings or actions against us by government entities or others, and could damage our reputation. User and regulatory attitudes towards privacy are evolving, and future regulatory or user concerns about the extent to which personal information is used or shared with advertisers or others may adversely affect our ability to share certain data with advertisers, which may limit certain methods of targeted advertising. In addition, new regulatory requirements or orders or other federal, state or international privacy or consumer protection-related laws and regulations or proceedings or actions against us by governmental entities or others (e.g., class action privacy litigation) could result in us having to change our business practices, increase our costs and adversely affect our business. For instance, U.S. courts have begun to define a level of reasonable security that is required when maintaining personal information, and such requirements could both increase our cost of operations and subject us to liability for failure to maintain such levels of security.

Data collection, privacy and security have become the subject of increasing public concern. If internet and mobile customers were to reduce their use of our products, and services as a result of these concerns, our business could be harmed. As noted above, we are also subject to the possibility of security breaches, which themselves may result in a violation of these laws.

Concerns about the security of personal data could also lead to a decline in general usage of our products and services, which could lead to lower user numbers. A significant reduction in user numbers could have a material and adverse effect on our business, financial condition and results of operations.

Activities of our advertiser clients could damage our reputation or give rise to legal claims against us.

Our advertisers may not comply with federal, state and local laws, including, but not limited to, laws and regulations relating to mobile communications. Failure of our clients to comply with federal, state or local laws or our policies could damage our reputation and expose us to liability under these laws. We may also be liable to third parties for content in the advertisements we deliver if the artwork, text or other content involved violates copyrights, trademarks or other intellectual property rights of third parties or if the content is defamatory, unfair and deceptive, or otherwise in violation of applicable laws. Although we generally receive assurance from our advertising partners that their advertisements are lawful and that they have the right to use any copyrights, trademarks or other intellectual property included in an advertisement, and although we are normally indemnified by the advertisers, a third party or regulatory authority may still file a claim against us. Any such claims could be costly and time consuming to defend and could also hurt our reputation within the mobile advertising industry. Further, if we are exposed to legal liability, we could be required to pay substantial fines or penalties, redesign our business methods, discontinue some of our services or otherwise expend significant resources.

Security breaches or computer virus attacks could have a material adverse effect on our business prospects and results of operations.

Any significant breach of security of our computer systems could significantly harm our business, reputation and results of operations and could expose us to lawsuits brought by our users and partners and to sanctions by governmental authorities in the jurisdictions in which we operate. We cannot assure you that our IT systems will be secure from future security breaches or computer virus attacks. Anyone who is able to circumvent our security measures could misappropriate proprietary information, including the personal information of our users, obtaining users' names and passwords and enabling the hackers to access user's other online and mobile accounts, if those users use identical usernames and passwords. They could also misappropriate other information, including our content. These circumventions may cause interruptions in our operations or damage our brand image and reputation. Our servers may be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could cause system interruptions, website slowdown or unavailability, delays in communication or transactions, or loss of data. We may be required to incur significant additional costs to protect against security breaches or to alleviate problems caused by such breaches. In addition, a significant security breach or virus attack on our system could result in a material adverse impact on our business and results of operations.

We have granted, and may continue to grant, options, restricted shares and other types of awards under our stock option and equity incentive plans and otherwise, which may result in increased equity-based compensation expenses.

The expenses associated with equity-based compensation have affected our net income and may reduce our net income in the future, and any additional equity issued under equity-based compensation schemes will dilute the ownership interests of our stockholders. We believe the granting of equity-based compensation is of significant importance to our ability to attract and retain key personnel and employees, consultants and directors, and we will continue to grant equity-based compensation in the future. As a result, our expenses associated with equity-based compensation may increase, which may have an adverse effect on our results of operations and would dilute the ownership interests of our stockholders.

Investors may suffer dilution.

We may engage in equity financing to fund our future operations and growth or acquisitions. If we raise additional funds and/or provide consideration in acquisitions by issuing equity securities, stockholders may experience significant dilution of their ownership interest (both with respect to the percentage of total securities held, and with respect to the book value of their securities) and such securities may have rights senior to those of the holders of our Class B common stock. For example, on February 5, 2020, we closed on our registered direct offering of 1,734,459 shares of our Class B common stock for gross proceeds of \$2.25 million. We sold 1,657,813 shares at a purchase price of \$1.28 per share which represented a 20% discount from the 10 Day Volume Weighted Average Price (VWAP) through January 31, 2020, and certain of our insiders purchased an additional 76,646 shares at a purchase price of \$1.67 per share, the closing price on February 3, 2020.

Any such equity financing could occur at prices below, or well below, the then-current trading price of our Class B common stock, which would further exacerbate the ownership interests of our stockholders.

We are exposed to fluctuations in foreign currency exchange rates.

We have significant operations in Europe that are denominated in foreign currencies, primarily the Norwegian Kroner, subjecting us to foreign currency risk. The strengthening or weakening of the U.S. Dollar versus these currencies impacts the expenses generated in these foreign currencies when converted into the U.S. Dollar. In fiscal 2020 and fiscal 2019, we recorded a loss of \$152,000 and \$242,000, respectively, from foreign currency movements relative to the U.S. Dollar. Included in these amounts were losses from hedging activities of \$218,000 and \$278,000 in fiscal 2020 and fiscal 2019, respectively. While we regularly enter into transactions to hedge portions of our foreign currency exposure, it is impossible to predict or eliminate the effects of this exposure. Fluctuations in foreign exchange rates could significantly impact our financial results.

If we fail to implement and maintain an effective system of internal controls over financial reporting, we may be unable to accurately report our results of operations, meet our reporting obligations or prevent fraud.

Under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to include a report of management on our internal control over financial reporting in our annual report on Form 10-K. In addition, should we become an accelerated filer, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Our management may conclude that our internal control over financial reporting is not effective. Moreover, even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm, after conducting its own independent testing, may issue a report that is qualified if it is not satisfied with our internal controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. In addition, our reporting obligations may place a significant strain on our management, operational and financial resources and systems for the foreseeable future. We may be unable to timely complete our evaluation testing and any required remediation.

During the course of documenting and testing our internal control procedures, in order to satisfy the requirements of Section 404, we may identify weaknesses and deficiencies in our internal control over financial reporting. In addition, if we fail to maintain the adequacy of our internal control over financial reporting, as these standards are modified, supplemented or amended from time to time, we may not be able to conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404. If we fail to achieve and maintain an effective internal control environment, we could suffer material misstatements in our financial statements and fail to meet our reporting obligations, and we may be required to restate our financial statements from prior periods, any of which would likely cause investors to lose confidence in our reported financial information. This could in turn limit our access to capital markets, harm our results of operations, and lead to a decline in the trading price of our stock.

Additionally, ineffective internal control over financial reporting could expose us to increased risk of fraud or misuse of corporate assets and subject us to potential delisting from the stock exchange on which we list, regulatory investigations and civil or criminal sanctions.

Future strategic alliances or acquisitions may not be successful and may have a material and adverse effect on our business, reputation and results of operations.

We may enter into strategic alliances, including joint ventures or minority equity investments, or acquisitions with various third parties to further our business purpose from time to time. These alliances and acquisitions could subject us to a number of risks, including risks associated with sharing proprietary information, non-performance by the third party and increased expenses in establishing new strategic alliances, any of which may materially and adversely affect our business. We may have limited ability to monitor or control the actions of these third parties and, to the extent any of these strategic third parties suffers negative publicity or harm to their reputation from events relating to their business, we may also suffer negative publicity or harm to our reputation by virtue of our association with any such third party.

In addition, if appropriate opportunities arise, we may acquire additional assets, products, technologies or businesses that we believe are complementary to our existing business. Future acquisitions and the subsequent integration of new assets and businesses into our own would require significant attention from our management and could result in a diversion of resources from our existing business, which in turn could have an adverse effect on our business operations. Acquired assets or businesses may not generate the financial results we expect. Acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, the occurrence of significant goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential unknown liabilities of the acquired business. Moreover, the costs of identifying and consummating acquisitions may be significant. In addition to possible stockholders' approval, we may also have to obtain approvals and licenses from relevant government authorities for the acquisitions and to comply with any applicable laws and regulations, which could result in increased delay and costs.

Our business, results of operation and financial condition could be adversely affected by the coronavirus COVID-19 pandemic and the restrictions put in place in connection therewith.

Our business could be adversely affected by health epidemics, including the current COVID-19 pandemic, impacting the markets and communities in which we, our partners and customers operate. The COVID-19 pandemic has caused and continues to cause significant business and financial markets disruption worldwide and there is material uncertainty about the duration of this pandemic and its impact on the ongoing effects on our business.

The COVID-19 pandemic has resulted in a dramatic increase in unemployment that could result in interfering with freemium users converting into paid subscribers or in paid subscribers renewing their subscriptions because of the impact on discretionary spend. In addition, we may experience a decline in advertising.

The COVID-19 pandemic has negatively impacted our Zedge app's new user growth. We believe that new smartphone sales have suffered as a result of retail business closures, negatively impacting new user growth, especially in well-developed markets. Assuming the retail business rebounds from the COVID-19 pandemic, we expect that our Zedge app's new user growth will also recover and we will benefit accordingly but there can no assurance of such rebound or new user growth

In addition, in response to the spread of COVID-19, many of our employees have had to work from home which may negatively impact productivity and innovation. More generally, the COVID-19 outbreak has adversely affected economies and financial markets globally, which could decrease technology spending and adversely affect demand for our products.

As of July 31, 2020, we had not experienced significant adverse impacts to our results of operations, financial condition, or cash flows. However, the situation remains fluid and we cannot predict with certainty the potential impact of COVID-19 on our business, results of operations, financial condition, and cash flows.

Our business, financial condition and results of operations, as well as our ability to obtain additional financing, may be adversely affected by downturn in the global economy.

The global financial markets have experienced significant disruptions over the past ten years and the recovery from the lows of 2008 and 2009 has been uneven. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies adopted by the central banks and financial authorities of some of the world's leading economies. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets. We may be affected by economic downturns. A prolonged slowdown in the world economy may lead to a reduced amount of mobile internet advertising, which could materially and adversely affect our business, financial condition and results of operations.

Moreover, a slowdown or disruption in the global economy may have a material and adverse impact on financings available to us. The weakness in the economy could erode investor confidence, which constitutes the basis of the credit market. Turmoil affecting the financial markets and banking system may significantly restrict our ability to obtain financing in the capital markets or from financial institutions on commercially reasonable terms, or at all.

There is currently a limited public market for our shares, and if an active market does not develop, investors may have difficulty selling their shares.

Our Class B common stock is currently listed for trading on the NYSE American stock exchange, formerly known as the NYSE MKT stock exchange, under the symbol "ZDGE", and there is currently only a limited public trading market for our Class B common stock. We cannot predict the extent to which investor interest in us and our Class B common stock will lead to the development or continuance of an active trading market or how liquid that trading market for our Class B common stock might become. If an active trading market for our Class B common stock does not develop or is not sustained, it may be difficult for investors to sell shares, particularly large quantities, of our Class B common stock at a price that is attractive or at all. As a result, an investment in our Class B common stock may be illiquid and investors may not be able to liquidate their investment readily or at all when they desire to sell.

The trading price of the shares of our Class B common stock is may be volatile, and purchasers of our Class B common stock could incur substantial losses.

Our stock price could be volatile. The stock market in general and the market for mobile internet companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their Class B common stock at or above the price paid for the shares. The market price for our Class B common stock may be influenced by many factors, including:

- actual or anticipated variations in quarterly operating results;
- changes in financial estimates by us or by any securities analysts who might cover our stock;
- conditions or trends in our industry;

- stock market price and volume fluctuations of other publicly traded companies and, in particular, those that operate in the advertising, internet or media industries;
- announcements by us or our competitors of new product or service offerings, significant acquisitions;
- strategic partnerships or divestitures;
- announcements of investigations or regulatory scrutiny of our operations or lawsuits filed against us;
- changes to regulations including but not limited to, data privacy, and copyrighted content;
- capital commitments;
- additions or departures of key personnel; and
- sales of our Class B common stock, including sales by our directors and officers or specific stockholders.

In addition, in the past, stockholders have initiated class action lawsuits against technology companies following periods of volatility in the market prices of these companies' stock. Such litigation, if instituted against us, could cause us to incur substantial costs and divert management's attention and resources.

We are controlled by our majority stockholder, which limits the ability of other stockholders to affect our management.

Michael Jonas is our majority stockholder, Executive Chairman, Chairman of the Board and a director, and, as of October 22, 2020, has voting power over 1,866,085 shares of our Class B common stock (which includes 524,775 shares of our Class A common stock, which are convertible into shares of our Class B common stock on a 1-for-1 basis, and 1,341,310 shares of our Class B common stock), representing approximately 62.1% of the combined voting power of our outstanding capital stock. Mr. Jonas is able to control matters requiring approval by our stockholders, including the election of all of the directors and the approval of significant corporate matters, including any merger, consolidation or sale of all or substantially all of our assets. As a result, the ability of any of our other stockholders to influence our management is limited.

We exercised our option for the "controlled company" exemption under NYSE American stock exchange rules with respect to our Nominating Committee.

We are a "controlled company" as defined in section 801(a) of the NYSE American Company Guide because more than 50% of the combined voting power of all of our outstanding common stock is beneficially owned by a single stockholder. As a "controlled company," we are exempt from certain NYSE American rules requiring a board of directors with a majority of independent members, a compensation committee composed entirely of independent directors and a nominating committee composed entirely of independent directors. These independence standards are intended to ensure that directors who meet those standards are free of any conflicting interest that could influence their actions as directors. We applied this "controlled company" exemption for our corporate governance practices only with respect to the requirement of a Nominating Committee and we disbanded our Nominating Committee in fiscal 2020. Accordingly, with respect to our lack of a Nominating Committee you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE American stock exchange, and if we were to apply the controlled company exemption to other independence requirements, you would not have the protection afforded by those requirements either.

If securities or industry analysts do not publish research or publish unfavorable research about our business or our stock, our stock price and trading volume could decline.

The trading market for our common Class B common stock relies in part on the research and reports that equity research analysts publish about us and our business. We do not currently have and may never obtain research coverage by equity research analysts. Equity research analysts may elect not to provide research coverage of our Class B common stock, and such lack of research coverage may adversely affect the market price of our Class B common stock. In the event we do receive equity research analyst coverage, we will not have any control over the analysts or the content and opinions included in their reports. The price of our stock could decline if one or more equity research analysts downgrade our stock or issue other unfavorable commentary or research. If one or more equity research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our stock could decrease, which in turn could cause our stock price and/or trading volume to decline.

Our Class B common stock is deemed to be a "penny stock," which may make it more difficult for investors to sell their shares due to suitability requirements.

The Securities and Exchange Commission has adopted regulations that define a "penny stock," generally, to be an equity security that has a market price of less than \$5.00 per share. The price of our Class B common stock has been less than \$5.00 per share for a significant amount of the time since it started publicly trading in June 2016 and was less than \$5.00 per share on October 25, 2020 and is therefore considered a "penny stock." This designation requires any broker or dealer buying our securities to disclose certain information concerning the transaction, obtain a written agreement from the purchaser and determine that the purchaser is reasonably suitable to purchase the securities given the increased risks generally inherent in penny stocks. These rules may restrict the ability or willingness of brokers or dealers to buy or sell our Class B common stock, either directly or on behalf of their clients, may discourage potential shareholders from purchasing our Class B common stock, or may adversely affect the ability of shareholders to sell their shares.

Our results of operations may be subject to wide fluctuations due to a number of factors, which may adversely affect the trading price of our Class B common stock.

We may experience seasonality and other fluctuations in our business, reflecting fluctuations in mobile internet and smartphone usage and advertising. Revenues from mobile application products and services are typically higher in the fourth quarter of the calendar year due to increased year-end advertising and marketing budgets. Conversely, we generally experience lower advertising revenues during the first quarter of the calendar year due to weaker advertising spend following the holidays. Thus, our operating results in one or more future quarters or years may fluctuate substantially or fall below the expectations of securities analysts and investors. In such event, the trading price of our Class B common stock may fluctuate significantly or decrease significantly.

Item 2. Properties

Our principal executive office was located in a leased premise comprising approximately 500 square feet of space in New York City, which lease was terminated on July 15, 2020. We have moved to a virtual office because our staffs have been working remotely because of the COVID-19 pandemic. This location housed commercial operations including sales, accounting and finance, and business development. Our Trondheim, Norway facility, with approximately 11,500 square feet of space, accommodates our product, design and technology teams and is under lease through 2021. We also lease a satellite development centers in Vilnius, Lithuania. Our servers are hosted in leased data centers in different geographic locations in the United States. These data centers are owned and maintained by a third-party data center provider.

Item 3. Legal Proceedings

In March 2014, Saregama India, Limited filed a lawsuit against us before the Barasat District Court, seeking approximately \$1.6 million as damages and an injunction for copyright infringement. Saregama India alleged that we made available Saregama India's sound recordings through our platform with full knowledge that the sound recordings had been uploaded and were being communicated to the public without obtaining any license from Saregama India. On August 20, 2019, the Court lifted the injunction and, subsequently, Saregama India executed a consent pursuant to which the case against us was dismissed.

We 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, we do not expect any of those legal proceedings to have a material adverse effect on our results of operations, cash flows or financial condition.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Class B Common Stock

Our Class B common stock is quoted on the NYSE American stock exchange under the trading symbol ZDGE. Trading commenced on the NYSE American on June 1, 2016. On October 21, 2020, the last sales price reported on the NYSE American for our Class B common stock was \$1.60 per share.

On October 21, 2020, there were 310 holders of record of our Class B common stock and 1 holder of record of our Class A common stock. As of October 22, 2020, all shares of Class A common stock are beneficially owned by Michael Jonas. The number of holders of record of our Class B common stock does not include the number of persons whose shares are in nominee or in "street name" accounts through brokers.

We do not anticipate paying dividends on our common stock until we achieve sustainable profitability (after satisfying all of our operational needs) and retain certain minimum cash reserves. Distributions will be subject to the need to retain earnings for investment in growth opportunities or the acquisition of complementary assets. The payment of dividends in any specific period will be at the sole discretion of our Board of Directors.

The information required by Item 201(d) of Regulation S-K will be contained in our Proxy Statement for our Annual Stockholders Meeting, which we will file with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

Recent Sales of Unregistered Securities

On February 5, 2020, we closed on our registered direct offering of 1,734,459 shares of our Class B common stock for gross proceeds of \$2.25 million. We sold 1,657,813 shares at a purchase price of \$1.28 per share which represented a 20% discount from the 10 Day Volume Weighted Average Price (VWAP) through January 31, 2020, and certain of our insiders purchased an additional 76,646 shares at a purchase price of \$1.67 per share, the closing price on February 3, 2020.

We received proceeds of approximately \$12,000 from the exercise of stock options in fiscal 2020 for which we issued 86,197 shares of our Class B common stock.

We received proceeds of approximately \$5,300 from the exercise of stock options in fiscal 2019 for which we issued 40,700 shares of our Class B common stock.

Issuer Repurchases of Equity Securities

On January 1, 2020, we purchased 4,327 shares of our Class B common stock from a former Freeform employee for \$6,772 in connection with the vesting of restricted stock.

On September 18, 2019, we purchased 14,114 shares of our Class B common stock from former Freeform employees for \$22,300 in connection with the vesting of restricted stock.

On June 1, 2019, we purchased 7,684 shares of our Class B common stock from former Freeform employees for \$16,256 in connection with the vesting of restricted stock.

On September 21, 2018, we purchased 14,137 shares of our Class B common stock from former Freeform employees for \$30,543 in connection with the vesting of restricted stock.

Item 6. Selected Financial Data.

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This Annual Report 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 the results projected in any forward-looking statement. In addition to the factors specifically noted in the forward-looking statements, other important factors, risks and uncertainties that could result in those differences include, but are not limited to, those discussed under Item 1A to Part I "Risk Factors" in this Annual Report. The forward-looking statements are made as of the date of this Annual 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 Securities and Exchange Commission pursuant to the Securities Act of 1933 and the Securities Exchange Act of 1934, including our reports on Forms 10-Q and 8-K.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in Item 8 of this Annual Report.

Overview

We offer a state-of-the-art digital publishing platform. We use this platform to power our consumer-facing mobile personalization app, called Zedge, available in the Google Play store and App Store, which offers an easy, entertaining and immersive way for end-users to engage with our rich and diverse catalogue of wallpapers, video wallpapers, ringtones, notification sounds on Android and wallpapers, video wallpapers and ringtones, on iOS. We secure our content from amateur and professional artists, and also from emerging and major brands. Artists have the ability to easily launch a virtual storefront in our Zedge app where they can market and sell their content to our user base. In fiscal 2020, we introduced a new entertainment app called "Shortz – Chat Stories by Zedge", which is focused on serialized, short-form, fiction stories, as a beta that runs on our publishing platform.

Our Zedge app has been installed approximately 450 million times, and at July 31, 2020, boasted approximately 32 million monthly active users, or MAU. MAU is a key performance indicator that captures the number of unique users that used our Zedge app during the previous 30-day of the relevant period. Our Zedge app has consistently ranked as one of the most popular free apps in the Google Play store in the United States. Historically, we have not made a material investment in paid user acquisition for our Zedge app.

Our Zedge app's success stems from its ability to meet consumer demand for a rich and diverse catalogue of both long-tail and popular content in a fun, intuitive and user-friendly fashion that aligns with their interest in expressing their essence in a bespoke manner, to offer reliable search and discovery capabilities and to make relevant content recommendations to our users. To this end, we invest heavily in both product design and development and the underlying technology required to satisfy both our Zedge app's users' and content contributors' expectations. Our Zedge app utilizes both user-generated and licensed, third-party content to achieve these goals.

In March 2018, we launched Zedge Premium, a marketplace within our Zedge app where professional creators and brands market, distribute and sell their digital content to our consumers. Since launching Zedge Premium, we have made and continue making material investments in optimizing our Zedge app's homepage design in order to maximize exposure to premium content with the goal of driving sales. Over time, we expect that Zedge Premium will contribute to a virtuous cycle whereby it drives new consumers into our Zedge app resulting in more artist payouts, which in turn makes the platform more attractive for artists and brands looking to expand their reach and increase their income.

In January 2019, we started offering freemium Zedge app users the ability to convert into paying subscribers for amongst other things the ability to remove unsolicited advertisements from our Zedge app. As of July 31, 2020, we had more than 504,000 active paid subscribers. In fiscal 2021, we hope to further optimize the offer based on user type, geography and price point as well as introduce new subscription enhancements like content bundles and rewards.

In December 2019, we completed the beta launch of 'Shortz' our new entertainment app offering serialized, short-form fiction delivered in a text-message format across both Android and iOS, focusing on users in the United States, the United Kingdom and Canada and it is now available globally.

Over the past several years, our Zedge app has experienced a continuing decline in its MAU as well as a shift in the regional customer make-up with MAU in emerging markets representing an increasing portion of our user base. As of July 31, 2020, users in emerging markets represented 70% of our MAU compared to 65% a year prior. This shift has negatively impacted revenue because advertising rates in emerging markets are materially lower than in well-developed markets. In the fourth quarter of fiscal 2020, users in emerging markets grew by 1.4% while users in well-developed economies declined 18.6% when compared to the same period in fiscal 2019. As of July 31, 2020, approximately 50% of our Zedge app's user base was located in North America and Europe (including Eastern Europe) with a split of 26% and 24%, respectively, compared with 54% as of July 31, 2019 with 27% in each of North America and Europe (including Eastern Europe).

MAU growth is tightly coupled with securing new users. Historically, our relatively high ranking in the Google Play store has been one of the primary drivers for securing new users. Although still an important factor, we now also dedicate resources to growth initiatives, both organic and paid. With time, we believe that we can change our growth dynamic in well-developed markets. Aside from targeted growth initiatives, we need to continually improve the core user experience, test different mechanisms and content verticals that may spur growth and capitalize on the role that Zedge Premium artists can have on driving new users into the Zedge platform.

The COVID-19 pandemic has negatively impacted our Zedge app's new user growth. We believe that new smartphone sales have suffered as a result of retail business closures, negatively impacting new user growth, especially in well-developed markets. Assuming the retail business rebounds from the COVID-19 pandemic, we expect that our Zedge app's new user growth will also recover and we will benefit accordingly.

During the quarter and fiscal year ended July 31, 2020, we generated approximately 73% and 78%, respectively, of our revenues from selling our Zedge app's advertising inventory to advertising networks, advertising exchanges, and direct arrangements with advertisers. Advertising networks and advertising exchanges are third-party technology platforms that facilitate the buying and selling of media advertising inventory from multiple ad networks. The price of advertising inventory is fixed on an advertising network whereas the price for inventory is determined through real-time bidding on an advertising exchange. Advertisers are attracted to our Zedge app because of its sizable user base.

In our Zedge Premium marketplace, the content owner sets the price and the user can purchase the content by paying for it with Zedge Credits, our closed virtual currency. A user can earn Zedge Credits when taking specific actions such as watching a rewarded video. Alternatively, users can buy Zedge Credits via an in-app purchase. If a user purchases Zedge Credits, Google Play or App Store keeps 30% of the purchase price with the remaining 70% being paid to us. When a user purchases Zedge Premium content, the artist or brand receives 70% of the actual value of the Zedge Credits used to buy the content item as a royalty and we retain the remaining 30% as our fee, which we recognize as revenue. As Zedge Premium matures and expands, we expect to also diversify our revenue source mix.

In January 2019, we started offering a subscription-based product to Android users of our Zedge app in which the payment of a monthly or annual fee would remove unsolicited ads when using our Zedge app. During the first 12 months after a customer's sign up for the subscription-based product, Google retains up to 30% as a fee, which decreases to 15% from month 13 and beyond. As of July 31, 2020, we had more than 504,000 active paid subscribers, 89% of which had subscribed on an annual basis. During fiscal 2020, subscriptions have generated approximately \$2.4 million in gross revenue.

Prior to May 31, 2019, we generated service revenue from managing and optimizing the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher. The agreement with this mobile application publisher was terminated effective May 31, 2019, and we are no longer providing these services.

Reportable Segments

Our business consists of one reportable segment.

CRITICAL ACCOUNTING POLICIES

Our financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue 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 capitalized software and technology development costs, revenue recognition and goodwill. 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. See Note 1 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for a complete discussion of our significant accounting policies.

Capitalized software and technology development costs

Software and technology development activities generally fall into three stages:

1. **Planning Stage activities** include developing a project or business plan that outlines the goals for the content distribution platform or new product or service; determining the functionality; identifying hardware and software applications that will achieve functionality, security, and traffic flows; and selecting the internal resources that will be assigned to the project as well as the external vendors where applicable.
2. **Application and Infrastructure Development Stage activities** focus on acquiring or developing hardware and software to operate a content distribution platform or new product and service; and
3. **Post-Implementation/Operating Stage activities** address training, administration, maintenance, and all other activities to operate an existing content distribution platform or new product or service.

During the Planning Stage, we charge all costs to expense as incurred.

During the Application and Infrastructure Development Stage, we begin to capitalize costs when the project has been properly authorized and we determine that completion is probable. If a project is subsequently cancelled prior to placement in service, costs that have been capitalized to date will be reviewed for potential impairment. Capitalization ceases no later than the point at which a computer software project is substantially complete and ready for its intended use.

Amortization, which is generally over three years, begins for each project when the code is ready for use, whether or not it is actually placed in service at that time (an exception being if the project's functionality completely depends on the completion of another project; then, amortization begins when that other project is ready for use).

During the Post-Implementation/Operation Stage, we expense training costs and maintenance costs as incurred. However, upgrades and enhancements, defined as modifications to existing internal-use software that result in additional functionality (modifications to enable the software to perform tasks that it was previously incapable of performing, normally requiring new software specifications and perhaps a change to all or part of the existing software specifications) are treated as though they were new projects, and are assessed utilizing the same stages and criteria on a project by project basis. As such, internal costs incurred for upgrades and enhancements are expensed or capitalized based on the requirements noted above, while costs incurred for maintenance are expensed as incurred. These projects are tracked individually, such that the beginning and ending of the capitalization can be appropriately established, as well as the amounts capitalized therein.

Amortization of these costs is included in depreciation and amortization in the Statement of Comprehensive Loss.

Revenue Recognition

On August 1, 2018, we adopted Financial Accounting Standards Board Accounting Standards Codification Topic 606, applying the modified retrospective method to those contracts not yet substantially completed as of August 1, 2018. The impact of adopting the new revenue standard was not material to our consolidated financial statements and there was no adjustment to beginning retained earnings on August 1, 2018.

We generate revenue from four sources: (1) Advertising; (2) Paid Subscriptions; (3) Zedge Premium and Other and (4) Service. The substantial majority of our revenue is generated from selling our advertising inventory ("Advertising Revenue") to advertising networks and advertising exchanges, and through direct arrangements with advertisers. Our monthly and annual subscriptions allow users to prepay a fixed fee to remove unsolicited advertisements from our Android Zedge app although we are working on adding additional capabilities to subscriptions including offering subscriptions to iOS Zedge App users. In Zedge Premium, we retain 30% as fee when users purchase licensed content using Zedge Credits or unlock licensed content by watching a video or taking a survey on Zedge Premium. In fiscal 2019, we also generated revenue from managing and optimizing the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher ("Service Revenue"). The contract with this publisher was terminated effective May 31, 2019.

Advertising Revenue: We generates the bulk of our revenue from selling our Zedge app's advertising inventory to advertising networks and advertising exchanges and direct sales to advertisers. We also generate revenue from app publishers that pay us for installations of their apps.

- **Advertising Networks.** An advertising network is a third-party relationship where buyers of advertising inventory go to purchase either specific targeted inventory or a large scale of inventory at a set price. Advertising Networks serve as an indirect source of advertising fill to a variety of branded ad campaigns and performance-based ad campaigns.
- **Advertising Exchanges.** An advertising exchange is similar to an advertising network, except that the exchange typically bids in real-time for inventory. Advertisers may utilize an exchange when looking for scale or specific audiences, and accept that the price will vary based on when and how much volume of inventory they wish to buy.
- **Direct Sales to Advertisers.** We sell advertising directly to advertisers through a contractual relationship. These relationships typically offer higher than average pricing than realized from sales via advertising networks or advertising exchanges.
- **App Installs.** We earn revenue when a Zedge user installs an app offered by a publisher in the Game Channel that pays the Company a pre-negotiated fee for the installation (referred to as Cost Per Install or CPI). In October 2018, the Company replaced the Game Channel with a game wall which offers Zedge users with a mix of interactive playable ads and HTML5 games which, if installed by the user, generate revenue for Zedge. The Company discontinued game wall in the second quarter of fiscal 2020.

We recognize advertising revenue as advertisements are delivered to users through impressions, ad views or app installs (depending on the terms agreed upon with the advertiser). For in-app display ads, in-app offers, engagement advertisements and other advertisements, our performance obligation is satisfied over the life of the relevant contract (i.e., over time), with revenue being recognized as advertising units are delivered. The advertiser may compensate us on a cost-per-impression, cost-per-click, cost-per-action or cost-per-install basis.

Paid Subscription Revenue: Beginning in January 2019, we started offering monthly and annual paid subscription services sold through Google Play. When a customer subscribes, they execute a clickthrough agreement with Zedge outlining the terms and conditions of the subscription. Google Play processes subscription prepayment on Zedge's behalf, and retains up to 30% as its fee. Paid subscription revenue is a series type performance obligation and is recognized net of sales tax amounts collected from subscribers. Both monthly and yearly subscriptions are nonrefundable after a period of 7 days. Paid subscriptions are automatically renewed at expiration unless cancelled by subscribers. The enforceable rights in monthly and yearly subscription contracts are the service period. Because of the cancellation clauses for these subscriptions, the duration of these contracts is daily, and revenue for these contracts is recognized on a daily ratable basis. The payment terms for subscriptions sold through Google Play is net 30 days after month-end.

Zedge Premium: Zedge Premium is our marketplace where artists and brands can market, distribute and sell their digital content to Zedge's users. The content owner sets the price and the user can purchase the content by paying for it with Zedge Credits, our closed virtual currency. A user can earn Zedge Credits when taking specific actions such as watching rewarded videos or completing electronic surveys. Alternatively, users can buy Zedge Credits with an in-app purchase. If a user purchases Zedge Credits (ranging from 500 credits for \$0.99 to 14,000 credits for \$19.99), Google Play or iTunes retains 30% of the purchase price as its fee. When a user purchases Zedge Premium content, the artist or brand receives 70% of the actual revenue ("Royalty Payment") and the Company receives the remaining 30%, which is recognized as revenue.

Service Revenue: Through May 2019, we managed and optimized the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher. In exchange for these management and optimization services, Zedge shared a portion the advertising revenues from this publisher whose revenue is also derived from sales of advertising. The contract with this publisher was terminated effective May 31, 2019.

Gross Versus Net Revenue Recognition

We report revenue on a gross or net basis based on management's assessment of whether we act as a principal or agent in the transaction. To the extent we act as the principal, revenue is reported on a gross basis unless we are unable to determine the amount on a gross basis, in which case we report revenue on a net basis. The determination of whether we act as a principal or an agent in a transaction is based on an evaluation of whether we control the good or service prior to transfer to the customer.

We generally report our advertising revenue net of amounts due to agencies and brokers because we are not the primary obligor in the relevant arrangements, we do not finalize the pricing, and we do not establish or maintain a direct relationship with the advertiser. Certain advertising arrangements that are directly between us and advertisers are recognized on a gross basis equal to the price paid to us by the customer since we are the primary obligor and we determines the price. Any third-party costs related to such direct relationships are recognized as direct cost of revenues.

We report subscription revenue gross of the fee retained by Google Play, as the subscriber is our customer in the contract and we control the service prior to the transfer to the subscriber.

Goodwill

Goodwill is deemed to have an indefinite life and is not amortized. Goodwill is reviewed annually (or more frequently under certain conditions) for impairment using a fair value approach. We perform our annual or interim goodwill impairment test by comparing the fair value of the relevant reporting unit with its carrying amount. We would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to that reporting unit. Additionally, we consider income tax effects from any tax-deductible goodwill on the carrying amount of our reporting unit when measuring the goodwill impairment loss, if applicable. We estimate the fair value of our reporting unit using the market approach (guideline company method).

We have the option to perform a qualitative assessment to determine whether it is necessary to perform the quantitative goodwill impairment test. However, we may elect to perform the quantitative goodwill impairment test even if no indications of a potential impairment exist.

For our annual impairment tests in fiscal years 2020 and 2019, our estimated fair value exceeded our carrying value, therefore, no impairment charge was required. Calculating the fair value of the reporting unit requires significant estimates and assumptions by management. Should our estimates or assumptions regarding the fair value of our reporting unit prove to be incorrect, we may be required to record impairment of goodwill in future periods and such impairment could be material.

RECENT ISSUED ACCOUNTING STANDARDS NOT YET ADOPTED

Recently issued accounting standards not yet adopted by us are more fully described in Note 1 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

COVID

The COVID-19 pandemic has resulted in public health responses including travel bans, restrictions, social distancing requirements, and shelter-in place orders, which have negatively impacted our business, operations and financial performance. While we initially experienced a significant decrease in advertising spend when the pandemic became global in March 2020, starting in the late spring advertising rates started to stabilize and subscriptions rebounded.

In light of the current operating and economic environment, the Company has shifted resources and priorities to increase focus on generating incremental revenue at the expense of delivering new product. We imposed a temporary hiring freeze and lowered our discretionary spend to preserve cash for mission critical projects. We have responded quickly and decisively to the challenges presented by the pandemic in order to ensure the continuity of our service. In light of the improvement in our revenue in fourth quarter of fiscal 2020 we have begun selectively investing in our products by hiring several software developers and consultants in Lithuania.

Given the unprecedented uncertainty and rapidly shifting market conditions of the business environment, we cannot reasonably estimate the full impacts of the COVID-19 pandemic on our future financial and operational results. Our past results may not be indicative of our future performance, and historical trends in revenue, income (loss) from operations, net income (loss), and net income (loss) per share may differ materially. For example, to the extent the pandemic continues to disrupt economic activity globally, it could adversely affect our business, operations and financial results through prolonged decreases in advertising spend, credit deterioration of our customers, depressed economic activity, or declines in capital markets, including volatility of our stock price. We continue to monitor the rapidly evolving situation and guidance from international and domestic authorities, including federal, state and local public health authorities, and there may be developments outside our control requiring us to adjust our operating plan. As such, given the unprecedented uncertainty around the duration and severity of the impact on market conditions and the business environment, we cannot reasonably estimate the full impacts of the COVID-19 pandemic on our operating results in the future.

Key Performance Indicators

Our results of operations discussion include disclosure of two key performance indicators - Monthly Active Users (MAU) and Average Revenue Per Monthly Active User (ARPMU). MAU is a key performance indicator that captures the number of unique users that used our Zedge app in the last thirty days of the relevant period, which is important to understanding the size of the user base for our Zedge app which is a significant driver of revenue. Changes and trends in MAU are useful for measuring the general health of our business, gauging both present and potential customers' experience, assessing the efficacy of product improvements and marketing campaigns and overall user engagement. ARPMU is valuable because it provides insight into how well we monetize our users and the changes and trends in ARPMU are indications of how effective our monetization investments are.

As of July 31, 2020 MAU, was down 5.6% year over year we believe primarily due to slowing new phone sales which resulted in lower app installs and engagement which are typical user behavior patterns when they purchase a new handset. Over the past several years, we have experienced a continuing shift in the regional customer make-up with MAU in emerging markets representing an increasing portion of our user base. As of July 31, 2020, users in emerging markets represented 70% of our MAU compared to 65% a year prior. This shift has negatively impacted revenue because advertising rates in emerging markets are materially lower than in well-developed markets.

ARPMU was up 50.3% for the three months ended July 31, 2020 when compared to the same period a year ago, pointing to progress we have made in generating more value from our users, particularly from subscriptions.

(in millions, except ARPMU)	Three months ended July 31,		% Change
	2020	2019	
MAU	31.9	33.8	-5.6%
Developed Markets MAU	9.6	11.8	-18.6%
Emerging Markets MAU	22.3	22.0	1.4%
Emerging Markets MAU/Total MAU	70%	65%	7.4%
ARPMU	\$ 0.0284	\$ 0.0189	50.3%

RESULTS OF OPERATIONS

The following table set forth our consolidated statements of operations data for the fiscal year ended July 31, 2020 compared to the fiscal year ended July 31, 2019:

(in thousands) Fiscal year ended July 31,			Change	
	2020	2019	\$	%
Revenues	\$ 9,470	\$ 8,816	\$ 654	7.4%
Direct cost of revenues	1,195	1,379	(184)	-13.3%
Selling, general and administrative	7,110	8,897	(1,787)	-20.1%
Depreciation and amortization	1,568	1,427	141	9.9%
Loss from operations	(403)	(2,887)	2,484	86.0%
Interest and other income (expense), net	11	(199)	210	105.5%
Net loss resulting from foreign exchange transactions	(152)	(242)	90	37.2%
Provision for income taxes	15	16	(1)	-6.3%
Net loss	\$ (559)	\$ (3,344)	\$ 2,785	83.3%

The following table sets forth the composition of our revenues for the fiscal years ended July 31, 2020 and 2019:

	Fiscal Year Ended		Changes	% of total revenue	
	July 31,			FY	FY'20
	2020	2019			
	(in thousands)				
Advertising revenue	\$ 7,410	\$ 7,939	-6.7%	78.2%	90.1%
Paid subscription revenue	1,599	155	931.6%	16.9%	1.8%
Zedge Premium and Shortz revenues	461	130	254.6%	4.9%	1.5%
Service revenue	-	592	-100.0%	0.0%	6.7%
Total Revenues	\$ 9,470	\$ 8,816	7.4%	100.0%	100.0%

Advertising revenue. Advertising revenue declined 6.7% in fiscal 2020 compared to fiscal 2019 primarily due to the shift in the makeup of our user base from well-developed markets that command relatively higher advertising rates to emerging markets where the rates are lower. The 5.6% decline in the overall MAU also contributed the decline in advertising revenue despite improvement in user engagement in fiscal 2020.

Paid subscription revenue. We rolled out a subscription-based product on Android in January 2019, whereby users of our Zedge app could pay a monthly or annual fee to remove unsolicited ads when using our Zedge app. In general, pricing of our monthly subscriptions is \$0.99 per month and \$3.99 for yearly subscription. We generated \$2,406,000 and \$516,000 in gross prepaid subscription sales consisting of both monthly and annual subscriptions for the fiscal years ended July 31, 2020 and 2019 respectively. We expect that from time to time the prices of our subscription in each country/region may change and we may test other plan and price variations.

The following table summarizes subscription revenue for the fiscal years ended July 31, 2020 and 2019.

	As of/Years Ended		Change	
	31-Jul-20	31-Jul-19	FY'20 vs. FY'19	
	(in thousands, except revenue per subscriber and percentages)			
Revenues	\$ 1,599	\$ 155	1,444	932%
Paid net subscriber additions	370	134	236	176%
Paid subscriber at end of period	504	134	370	276%
Average paid subscribers	304	103	201	195%
Average monthly revenue per paid subscriber	\$ 0.43	\$ 0.41	0.02	5%

Zedge Premium. We completed the initial rollout of Zedge Premium in March 2018 to a segment of our Android user base and we expanded it to 100% of our Android user base in January 2019. In fiscal 2020, gross transaction value (the total sales volume transacting through the platform), or "GTV," and net revenue generated from Zedge Premium were \$728,000 and \$459,000, respectively. In fiscal 2019, GTV and net revenue generated from Zedge Premium were \$485,000 and \$130,000 respectively. Net revenue includes breakage related to expired Zedge Credits.

We continue to focus on topline growth strategy by testing new monetization drivers including a variety of ad units, merchandising, coin sales as well as certain growth initiatives such as new content vertical in our app and/or new app.

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

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Direct cost of revenues	\$ 1,195	\$ 1,379	\$ (184)	-13.3%
As a percentage of revenues	12.6%	15.6%		

Direct cost of revenues decreased by 13.3% in fiscal 2020 to \$1.2 million from \$1.4 million in fiscal 2019, primarily attributable to the savings from the migration of our backend infrastructure to cloud-based providers.

As a percentage of revenue, direct cost of revenues in fiscal 2020 were 12.6% as compared to 15.6% in fiscal 2019 due to the combination of higher revenue and lower direct costs in fiscal 2020 compared to fiscal 2019.

Selling, general and administrative expense. Selling, general and administrative expense ("SG&A") consists mainly of payroll, benefits, recruiting fees, facilities, marketing, content acquisition costs, consulting, professional fees, software licensing ("SaaS") and public company related expenses.

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Selling, general and administrative	\$ 7,110	\$ 8,897	\$ (1,787)	-20.1%
As a percentage of revenues	75.1%	100.9%		

SG&A expenses decreased \$1.8 million or 20.1% in fiscal 2020 to \$7.1 million from \$8.9 million in fiscal 2019. These decreases were primarily attributable to a \$2.1 million reduction in net compensation costs resulting from the workforce reduction plan we implemented in May 2019 and lower discretionary expenses including lower travel expenses caused by the travel ban related to COVID-19, offset by \$471,000 higher sales and marketing costs related to the Google fee on subscriptions sales severance payments, a one-time payment related to copyright matters and content acquisition costs associated with the 'Shortz' app which was launched in December 2019. As the majority of our employees are based in Norway a stronger U.S. Dollar against NOK in fiscal 2020 when compared to fiscal 2019 also contributed to the overall decline of SG&A.

Our headcount totaled 39 as of July 31, 2020 compared to 53 as of July 31, 2019, primarily resulting from the workforce reduction and organic staff attrition in Norway and the U.S., offset by 7 new hires in Lithuania during fiscal 2020 bringing total headcount in Lithuania to 16 at July 31, 2020.

SG&A expenses also included non-cash stock-based compensation expense of \$402,000 and \$499,000 in fiscal 2020 and 2019, respectively. We also opted to use Class B common stock to pay a portion of our Board of Directors' compensation and to fund 401(k) matching contributions that aggregated to \$90,000 and \$120,000 in fiscal 2020 and 2019, respectively. See Note 12 to the Consolidated Financial Statements in this Annual Report for a complete discussion of our stock-based compensation.

Depreciation and amortization. Depreciation and amortization expense consists mainly of amortization of 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 mobile app service.

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Depreciation and amortization	\$ 1,568	\$ 1,427	\$ 141	9.9%
As a percentage of revenues	16.6%	16.2%		

The increase in depreciation and amortization in fiscal 2020 compared to fiscal 2019 was primarily attributable to the completion of four projects with an aggregate value of \$459,000 in fiscal 2020. We started amortizing these capitalized software and technology development costs once these projects were completed.

Interest and other income (expense), net. The increase in interest and other income (expenses), net in fiscal 2020 when compared to fiscal 2019 was primarily due to the impairment charges of \$250,000 in investment in privately-held company recorded in July 2019. See Note 17 to the Consolidated Financial Statements in this Annual Report for a complete discussion of our investment in privately-held company.

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Interest and other income (expense), net	\$ 11	\$ (199)	\$ 210	105.5%
As a percentage of revenues	0.1%	-2.3%		

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

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Net loss resulting from foreign exchange transactions	\$ (152)	\$ (242)	\$ 90	37.2%
As a percentage of revenues	-1.6%	-2.7%		

In fiscal 2020 and 2019, we incurred losses of \$218,000 and \$278,000, respectively, from NOK hedging activities due to U.S. Dollar's continued climb against NOK during fiscal 2020.

Provision for income taxes. The tax expense consists of minimum state taxes based on allocated net worth and certain income taxes payable in foreign jurisdictions where our subsidiaries reside.

(in thousands)	Fiscal year ended July 31,		Change	
	2020	2019	FY'20 vs. FY'19	
Provision for income taxes	\$ 15	\$ 16	\$ (1)	-6.3%
As a percentage of revenues	0.2%	0.2%		

As part of the Tax Cuts and Jobs Act of 2017, Global Intangible Low-Taxed Income inclusion (GILTI) and Foreign Derived Intangible Income (FDII) deduction became effective on January 1, 2018. There was no impact to income tax expense resulting from the GILTI and FDII in light of the Company's available NOL carry forward and its full valuation allowance.

On March 27, 2020, the CARES Act was signed into law. The Act contains several new or changed income tax provisions, including but not limited to the following: increased limitation threshold for determining deductible interest expense, class life changes to qualified improvements (in general, from 39 years to 15 years), and the ability to carry back net operating losses incurred from tax years 2018 through 2020 up to the five preceding tax years. Most of these provisions are either not applicable or have no material effect on the Company.

LIQUIDITY AND CAPITAL RESOURCES

General

At July 31, 2020, we had cash and cash equivalents of \$5.1 million and working capital (current assets less current liabilities) of \$3.9 million. We currently 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 months ending July 31, 2021. We also maintain a revolving line of credit of up to \$2.0 million and a foreign exchange contract facility of up to \$6.5 million with Western Alliance Bank, as discussed below in Financing Activities.

The following tables present selected financial information for the twelve months ended July 31, 2020 and 2019:

(in thousands)	Fiscal year ended July 31,	
	2020	2019
Cash flows provided by (used in):		
Operating activities	\$ 2,122	\$ 76
Investing activities	(759)	(1,740)
Financing activities	2,169	(42)
Effect of exchange rate changes on cash and cash equivalents	(30)	(93)
Increase (decrease) in cash and cash equivalents	\$ 3,502	\$ (1,799)

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 is also impacted by the factors impacting revenue discussed above. The change in cash provided by operating activities in fiscal 2020 compared to fiscal 2019 was primarily due to higher revenues coupled with lower costs and expenses, an increase in deferred revenues from paid subscriptions and Zedge Premium, as well as increases in certain non-cash costs and expenses items such as stock-based compensation, impairment of investment in privately-held company and depreciation and amortization which did not consume cash.

Investing Activities

Cash used in investing activities in fiscal 2020 and fiscal 2019 consisted mostly 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.

On August 23, 2018, the Company made a \$250,000 investment in TreSensa, Inc. ("TreSensa") representing a less than 1% equity ownership interest on a fully-diluted basis, and concurrently entered into a playable ad distribution agreement with TreSensa under which the Company shall be paid a higher percentage of revenue derived from all playable ads provided by TreSensa, from its available catalogue for distribution through the Zedge App, when compared to industry norms. In July 2019, we recorded an impairment charge of \$250,000 and thus reduced the fair value to \$0.

On June 30, 2020, TreSensa agreed to transfer substantially all of its assets to its lender in full satisfaction of its obligations under certain loan agreement dated March 27, 2020. See Note 17 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

Financing Activities

On February 5, 2020, we closed a registered direct offering of 1,734,459 shares of its Class B common stock for net proceeds of \$2.1 million from both new and existing investors. See Note 19 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

On April 22, 2020, we received \$218,000 in proceeds from a PPP loan from Western Alliance Bank, which was administered by the Small Business Administration and established under the CARES Act, as more fully described in Note 18 to the Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

In July 2019, we obtained a loan of \$140,000 to finance about 85% of various insurance policies, at an annual percentage interest rate of 4.79% to be repaid over nine equal monthly installments of \$15,976.20 starting from September 1, 2019. We repaid this loan in full as of July 31, 2020. Effective August 1, 2020, we obtained a loan of \$181,462 to pay for our insurance policies, repayable in nine equal installments of \$20,491 starting from September 1, 2020 which represented a 3.89% annual percentage interest rate.

We received proceeds of \$11,571 from the exercise of stock options in fiscal 2020 in connection with which we issued 86,197 shares of our Class B common stock. We received proceeds of \$5,291 from the exercise of stock options in fiscal 2019 in connection with which we issued 40,700 shares of our Class B common stock.

As of September 27, 2016, the Company entered into a loan and security agreement with Western Alliance Bank for a revolving credit facility of up to \$2.5 million for an initial two years term which was extended for another two years term expiring September 26, 2020. Advances under this facility may not exceed the lesser of \$2.5 million or 80% of the Company's eligible accounts receivable, subject to certain concentration limits. The revolving credit facility is secured by a lien on substantially all of the Company's assets. The outstanding principal amount bears interest per annum at the greater of 5.0% or the prime rate plus 1.25%. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of September 26, 2020. The Company is required to pay an annual facility fee of \$12,500 to Western Alliance Bank. The Company is 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 include a prohibition on the Company paying any dividend on its capital stock. The Company may terminate this agreement at any time without penalty or premium provided that it pays down any outstanding principal, accrued interest and bank expenses. At July 31, 2020, there were no amounts outstanding under the revolving credit facility and the Company was in compliance with all of the covenants. On September 25, 2020, this agreement was extended for another two-year term at substantially comparable terms except for the minimum interest rate which was reduced from 5.0% to 3.5%, and the facility was reduced from \$2.5 million to \$2.0 million at the Company's request.

As of November 16, 2016, the Company entered into a Foreign Exchange Agreement with Western Alliance Bank 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 \$6.5 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 Western Alliance Bank, in its reasonable discretion from time to time, which was initially set at 10% of the nominal amount of the foreign exchange contracts in effect at the relevant time. In December 2016, the applicable foreign exchange reserve percentage was changed so that the reduction of available borrowing for major currency forward contracts of less than six months tenor is set at 10% of the nominal amount of the foreign exchange contracts, and for contracts over six months tenor, 12.5% of the nominal amount of the foreign exchange contracts. At July 31, 2020, there were \$2.6 million of outstanding foreign exchange contracts under the credit facility, which reduced the available borrowing under the revolving credit facility by \$269,000, see Note 4 to the Consolidated Financial Statements included in Item 8 of this annual report on Form 10-K.

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.

Changes in Trade Accounts Receivable

Gross trade accounts receivable were \$1.4 million and \$1.1 million at July 31, 2020 and 2019 respectively. Our cash collections in fiscal 2020 and fiscal 2019 were \$9.2 million and \$9.4 million, respectively.

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 digital 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. MoPub (owned by Twitter), Google and Facebook, 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 fiscal year ended July 31, 2020, two customers represented 29% and 26% of the Company's revenue, and in the fiscal year ended July 31, 2019, three customers represented 28%, 28% and 10% of the Company's revenue. At July 31, 2020, two customers represented 35% and 32% of the Company's accounts receivable balance and at July 31, 2019, three customers represented 32%, 17% and 17% of the Company's accounts receivable balance. All of these significant customers were advertising exchanges operated by leading companies, and the receivables represent many smaller amounts due from 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 July 31, 2020, 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, other than the following.

In connection with our Spin-Off, we and IDT entered into various agreements prior to the Spin-Off including a Separation and Distribution Agreement to effect the separation and provide a framework for our relationship with IDT after the Spin-Off, and a Tax Separation Agreement, which sets forth the responsibilities of us and IDT with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the Spin-Off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods. Pursuant to Separation and Distribution Agreement, among other things, we indemnify IDT and IDT indemnifies us for losses related to the failure of the other to pay, perform or otherwise discharge, any of the liabilities and obligations set forth in the agreement. Pursuant to the Tax Separation Agreement, among other things, IDT indemnifies us from all liability for taxes of ours and any of our subsidiaries or relating to our business with respect to taxable periods ending on or before the Spin-Off, and we indemnify IDT from all liability for taxes of ours and any of our subsidiaries or relating to our business accruing after the Spin-Off. Notwithstanding the foregoing, we are responsible for, and IDT has no obligation to indemnify us for, any tax liability of ours resulting from an audit, examination or other proceeding related to any tax returns that relate solely to us and our subsidiaries regardless of whether such tax return relates to a period prior to or following the Spin-Off.

Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

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

Item 8. Financial Statements and Supplementary Data.

The Consolidated Financial Statements of the Company and the report of the independent registered public accounting firm thereon starting on page F-1 are included herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. 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 Annual Report on Form 10-K. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of July 31, 2020.

Report of Management on Internal Control over Financial Reporting

We, the management of Zedge, Inc. and subsidiaries (the “Company”), are responsible for establishing and maintaining adequate internal control over financial reporting of the Company.

The Company’s internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, the Company’s principal executive and principal financial officers and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with generally accepted accounting principles in the United States and includes those policies and procedures that:

1. Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets of the Company;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

Management has assessed the effectiveness of the Company's internal control over financial reporting as of July 31, 2020. In making this assessment, the Company's management used the criteria established in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our internal control over financial reporting, as prescribed above, as of July 31, 2020. Based on our evaluation, our principal executive officer and principal financial officer concluded that the Company's internal control over financial reporting was effective as of July 31, 2020. Accordingly, management believes the consolidated financial statements included in this Form 10-K fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting because as a smaller reporting company we are not subject to attestation by our independent registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of fiscal 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

PART III

Item 10. Directors and Executive Officers of the Registrant, and Corporate Governance

The following is a list of our directors and executive officers along with the specific information required by Rule 14a-3 of the Securities Exchange Act of 1934:

Executive Officers

Jonathan Reich – Chief Executive Officer and President
Yi Tsai – Chief Financial Officer and Treasurer
Michael Jonas – Executive Chairman

Directors

Michael Jonas, Chairman of the Board
Howard Jonas, Vice Chairman of the Board
Mark Ghermezian
Elliot Gibber
Paul Packer
Gregory Suess

The remaining information required by this Item will be contained in our Proxy Statement for our Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

Corporate Governance

We have included as exhibits to this Annual Report on Form 10-K certificates of our Chief Executive Officer and Chief Financial Officer certifying the quality of our public disclosure.

We make available free of charge through the investor relations page of our web site (investor.zedge.net) our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports, and all beneficial ownership reports on Forms 3, 4 and 5 filed by directors, officers and beneficial owners of more than 10% of our equity, as soon as reasonably practicable after such reports are electronically filed with the Securities and Exchange Commission. We have adopted codes of business conduct and ethics for all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. Copies of the codes of business conduct and ethics are available on our web site.

Our web site and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K or our other filings with the Securities and Exchange Commission.

Item 11. Executive Compensation

The information required by this Item will be contained in our Proxy Statement for our Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be contained in our Proxy Statement for our Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be contained in our Proxy Statement for our Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

Item 14. Principal Accounting Fees and Services

The information required by this Item will be contained in our Proxy Statement for our Annual Stockholders Meeting, which will be filed with the Securities and Exchange Commission within 120 days after July 31, 2020, and which is incorporated by reference herein.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Report:

1. Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

Consolidated Financial Statements covered by Report of Independent Registered Public Accounting Firm

2. Financial Statement Schedule.

All schedules have been omitted since they are either included in the Notes to Consolidated Financial Statements or not required or not applicable.

3. Exhibits. Exhibit Numbers 10.1, 10.6, 10.7, 10.8 and 10.9 are management contracts or compensatory plans or arrangements.

The exhibits listed in paragraph (b) of this item are filed, furnished, or incorporated by reference as part of this Form 10-K.

Certain of the agreements filed as exhibits to this Form 10-K contain representations and warranties by the parties to the agreements that have been made solely for the benefit of the parties to the agreement. These representations and warranties:

- may have been qualified by disclosures that were made to the other parties in connection with the negotiation of the agreements, which disclosures are not necessarily reflected in the agreements;
- may apply standards of materiality that differ from those of a reasonable investor; and
- were made only as of specified dates contained in the agreements and are subject to subsequent developments and changed circumstances.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date that these representations and warranties were made or at any other time. Investors should not rely on them as statements of fact.

(b) Exhibits.

Exhibit Number	Description of Exhibits
3.1(1)	Third Amended and Restated Certificate of Incorporation of Zedge, Inc.
3.2(2)	Second Amended and Restated By-Laws of Zedge, Inc.
10.1(3)	2016 Stock Option and Incentive Plan, as Amended and Restated
10.2(1)	Transition Services Agreement
10.3(1)	Tax Separation Agreement
10.4(4)	Google Services Agreement between Zedge, Inc. and Google, Inc., dated June 18, 2014
10.5(4)	Marketplace for Premier Publishers Agreement between Zedge, Inc. and MoPub, Inc., dated February 20, 2013
10.6(5)	Zedge Holdings, Inc. 2008 Omnibus Stock Incentive Plan, as amended and restated on November 1, 2011
10.7(1)	Form of ISO Stock Option Agreement
10.8(1)	Form of Nonqualified Stock Option Agreement
10.9(1)	Form of Restricted Stock Agreement
21.01*	Subsidiaries of the Registrant
23.01*	Consent of Mayer Hoffman McCann CPAs, The New York Practice of Mayer Hoffman McCann P.C., Independent Registered Public Accounting Firm
31.01*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01*	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.02*	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* filed herewith.

- (1) Incorporated by reference to Form 10-12G/A, filed June 1, 2016.
- (2) Incorporated by reference to Form 10-K, filed October 28, 2019
- (3) Incorporated by reference to the Schedule 14A, filed November 21, 2019.
- (4) Incorporated by reference to Form 10-12G/A, filed April 25, 2016.
- (5) Incorporated by reference to Form 10-12G/A, filed May 20, 2016.

Item 16. Form 10-K Summary.

None.

Zedge, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Zedge, Inc. (the "Company") as of July 31, 2020 and 2019, the related consolidated statements of comprehensive loss, stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of July 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases effective August 1, 2019 due to the adoption of Accounting Standards Update No. 2016-02, *Leases (Topic 842)* under the modified retrospective method.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Mayer Hoffman McCann CPAs
(The New York Practice of Mayer Hoffman McCann P.C.)

We have served as the Company's auditor since 2018.

New York, New York
October 28, 2020

ZEDGE, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except par value)

July 31,	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 5,111	\$ 1,609
Trade accounts receivable, net of allowance for doubtful accounts of \$0 at July 31, 2020 and 2019	1,407	1,133
Prepaid expenses	123	380
Other current assets	113	103
Total current assets	6,754	3,225
Property and equipment, net	2,584	3,396
Goodwill	2,196	2,266
Other assets	471	120
Total assets	\$ 12,005	\$ 9,007
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	\$ 290	\$ 217
Insurance premium loan payable	-	141
Accrued expenses and other current liabilities	1,210	1,172
Deferred revenues	1,338	517
Total current liabilities	2,838	2,047
Loans Payable	218	-
Other liabilities	64	-
Total liabilities	3,120	2,047
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$.01 par value; authorized shares—2,400; no shares issued	-	-
Class A common stock, \$.01 par value; authorized shares—2,600; 525 shares issued and outstanding at July 31, 2020 and 2019	5	5
Class B common stock, \$.01 par value; authorized shares—40,000; 11,789 shares issued and 11,749 shares outstanding at July 31, 2020, and 9,876 shares issued and 9,854 outstanding at July 31, 2019	118	99
Additional paid-in capital	25,725	23,131
Accumulated other comprehensive loss	(1,085)	(985)
Accumulated deficit	(15,802)	(15,243)
Treasury stock, 40 shares at July 31, 2020 and 22 shares at July 31, 2019, at cost	(76)	(47)
Total stockholders' equity	8,885	6,960
Total liabilities and stockholders' equity	\$ 12,005	\$ 9,007

See accompanying notes to consolidated financial statements.

ZEDGE, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands, except per share data)

Year ended July 31,	2020	2019
Revenues	\$ 9,470	\$ 8,816
Costs and expenses:		
Direct cost of revenues (exclusive of amortization of capitalized software and technology development costs included below)	1,195	1,379
Selling, general and administrative	7,110	8,897
Depreciation and amortization	1,568	1,427
Loss from operations	(403)	(2,887)
Interest and other income (expense), net	11	(199)
Net loss resulting from foreign exchange transactions	(152)	(242)
Loss before income taxes	(544)	(3,328)
Provision for income taxes	15	16
Net loss	(559)	(3,344)
Other comprehensive loss:		
Changes in foreign currency translation adjustment	(100)	(283)
Total other comprehensive loss	(100)	(283)
Total comprehensive loss	\$ (659)	\$ (3,627)
Loss per share attributable to Zedge, Inc. common stockholders:		
Basic and diluted	\$ (0.05)	\$ (0.33)
Weighted-average number of shares used in calculation of loss per share:		
Basic and diluted	11,126	10,083

See accompanying notes to consolidated financial statements.

ZEDGE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Other	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		Comprehensive Loss			
Balance – July 31, 2018	525	\$ 5	9,786	\$ 98	\$ 22,508	\$ (702)	\$ (11,899)	\$ -	\$ 10,010
Exercise of stock options	-	-	41	-	5	-	-	-	5
Stock-based compensation	-	-	30	1	570	-	-	-	571
Stock issued for matching contributions to the 401(k) Plan	-	-	19	-	48	-	-	-	48
Purchase of treasury stock	-	-	-	-	-	-	-	(47)	(47)
Foreign currency translation adjustment	-	-	-	-	-	(283)	-	-	(283)
Net loss	-	-	-	-	-	-	(3,344)	-	(3,344)
Balance – July 31, 2019	525	\$ 5	9,876	\$ 99	23,131	(985)	(15,243)	(47)	6,960
Net proceeds from sales of Class B Common Stock	-	-	1,734	17	2,092	-	-	-	2,109
Exercise of stock options	-	-	86	1	11	-	-	-	12
Stock-based compensation	-	-	66	1	450	-	-	-	451
Stock issued for matching contributions to the 401(k) Plan	-	-	26	-	41	-	-	-	41
Purchase of treasury stock	-	-	-	-	-	-	-	(29)	(29)
Foreign currency translation adjustment	-	-	-	-	-	(100)	-	-	(100)
Net loss	-	-	-	-	-	-	(559)	-	(559)
Balance – July 31, 2020	525	\$ 5	11,788	\$ 118	25,725	(1,085)	(15,802)	(76)	8,885

See accompanying notes to consolidated financial statements.

ZEDGE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

Year ended July 31,	2020	2019
Operating activities		
Net loss	\$ (559)	\$ (3,344)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,568	1,427
Impairment of investment in privately-held company	-	250
Loss on disposal of furniture and fixtures	-	3
Stock-based compensation	492	619
Change in assets and liabilities:		
Trade accounts receivable	(274)	644
Prepaid expenses and other current assets	247	277
Other assets	(55)	5
Trade accounts payable and accrued expenses	(118)	(311)
Deferred revenue	821	506
Net cash provided by operating activities	2,122	76
Investing activities		
Capitalized software and technology development costs and purchase of equipment	(759)	(1,490)
Investment in privately-held company	-	(250)
Net cash used in investing activities	(759)	(1,740)
Financing activities		
Proceeds from sales of Class B Common Stock	2,250	-
Payment of issuance costs	(141)	-
Proceeds from PPP loan payable	218	-
Repayment of insurance premium loan payable	(141)	-
Proceeds from exercise of stock options	12	5
Purchase of treasury stock in connection with restricted stock vesting	(29)	(47)
Net cash provided by (used in) financing activities	2,169	(42)
Effect of exchange rate changes on cash and cash equivalents	(30)	(93)
Net increase (decrease) in cash and cash equivalents	3,502	(1,799)
Cash and cash equivalents at beginning of year	1,609	3,408
Cash and cash equivalents at end of year	\$ 5,111	\$ 1,609
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments made for income taxes	\$ 1	\$ 1
Cash payments made for interest expenses	\$ 3	\$ -
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Note payable issued for insurance premium financing	\$ -	\$ 141

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Description of Business and Summary of Significant Accounting Policies

Description of Business

Zedge, Inc. (the “Company”) offers a state-of-the-art digital publishing platform. The Company use this platform to power its consumer-facing mobile personalization app, called Zedge, available in the Google Play store and iTunes, which offers an easy, entertaining and immersive way for end-users to engage with its rich and diverse catalogue of wallpapers, stickers, ringtones, notification sounds and video wallpapers. The Company is evolving by developing new, entertainment-focused apps, that will run on its publishing platform. The Company secures its content from artists, both amateurs and professionals as well as emerging and major brands. Artists have the ability to easily launch a virtual storefront in the Zedge app where they can market and sell their content to the Company’s user base. Zedge app has been installed approximately 450 million times, boasts approximately 32 million monthly active users, or MAU, and has consistently averaged in the ‘Top 100’ most popular free apps in the Google Play store in the United States. The Company conducts business as a single operating segment.

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 2020 refers to the fiscal year ended July 31, 2020).

The Spin-Off

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 company through a pro rata distribution of the Company’s common stock held by IDT to IDT’s stockholders (the “Spin-Off”).

COVID-19 Impact on Financial and Operational Results

The COVID-19 pandemic has caused, and continues to cause, widespread economic disruption impacting the Company in a number of ways, most notably, with a significant decrease in global advertising spend and a decline in mobile handset sales. However, the Company lacks clarity about how the pandemic will influence its future financial and operational results.

In light of the uncertainty brought about by the pandemic-impacted operating and economic environment, the Company initially shifted resources and priorities to increase focus on generating incremental revenue at the expense of delivering new product. The Company imposed a temporary hiring freeze and lowered its discretionary spend to preserve cash for mission critical projects. The Company has responded quickly and decisively to the challenges presented by the pandemic in order to ensure the continuity of its service. More recently we have selectively started investing in our products by hiring several software developers and consultants in Lithuania.

As of July 31, 2020, the Company had \$5.1 million of cash and cash equivalents. The Company has developed contingency plans to preserve liquidity if such actions may be determined to be necessary due to worsening conditions, including related to an increase in impacts from the COVID-19 pandemic or if the effects of the pandemic last longer than currently anticipated. At the current time, the Company does not believe taking such actions is prudent nor, does it expect to need to take such action based on its current forecasts. The Company believes that its existing cash and cash equivalents, together with cash generated by operations will be sufficient to meet its working capital and capital expenditure requirements for the foreseeable future when accounting for the ill effects of the COVID-19 pandemic.

The Company considered the impacts of the COVID-19 pandemic on its significant estimates and judgments used in applying its accounting policies in the fiscal year ended July 31, 2020. In light of the pandemic, there is a greater degree of uncertainty in applying these judgments and depending on the duration and severity of the pandemic, changes to its estimates and judgments could result in a meaningful impact to its financial statements in future periods. Of the more significant items subject to a greater degree of uncertainty during this time include estimates of revenue collectability and credit losses related to accounts receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Revenue Recognition

On August 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, applying the modified retrospective method to those contracts not yet substantially completed as of August 1, 2018. The impact of adopting the new revenue standard was not material to the Company’s consolidated financial statements and there was no adjustment to beginning retained earnings on August 1, 2018.

The Company generates revenue from four sources: (1) Advertising; (2) Paid Subscriptions; (3) Zedge Premium and Others and (4) Service. The substantial majority of the Company’s revenue is generated from selling its advertising inventory (“Advertising Revenue”) to advertising networks, advertising exchanges, and direct arrangements with advertisers. The Company’s monthly and yearly subscriptions allow users to prepay a fixed fee to remove unsolicited advertisements from its Android Zedge app although the Company is working on adding additional capabilities to subscriptions including offering subscriptions to iOS Zedge App users. In Zedge Premium, the Company retains 30% as fee when users purchase licensed content using Zedge Credits or unlock licensed content by watching a video or taking a survey on Zedge Premium. In fiscal 2019 the Company also generated revenue from managing and optimizing the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher (“Service Revenue”). The contract with this publisher was terminated effective May 31, 2019.

Advertising Revenue: The Company generates the bulk of its revenue from selling its Zedge app’s advertising inventory to advertising networks and advertising exchanges and direct sales to advertisers. The Company also generate revenue from app publishers that pay the Company for installations of their app.

- Advertising Networks. An advertising network is a third-party relationship where buyers of advertising inventory go to purchase either specific targeted inventory or a large scale of inventory at a set price. Advertising Networks serve as an indirect source of advertising fill to a variety of branded ad campaigns and performance-based ad campaigns.
- Advertising Exchanges. An advertising exchange is similar to an advertising network, except that the exchange typically bids in real-time for inventory. Advertisers may utilize an exchange when looking for scale or specific audiences, and accept that the price will vary based on when and how much volume of inventory they wish to buy.
- Direct Sales to Advertisers. The Company sell advertising directly to advertisers through a contractual relationship. These relationships typically offer higher than average pricing than realized from sales via advertising networks or advertising exchanges.
- App Installs. The Company earns revenue when a Zedge user installs an app offered by a publisher in the Game Channel that pays the Company a pre-negotiated fee for the installation (referred to as Cost Per Install or CPI). In October 2018, the Company replaced the Game Channel with a game wall which offers Zedge users with a mix of interactive playable ads and HTML5 games which, if installed by the user, generate revenue for Zedge. The Company discontinued game wall in the second quarter of fiscal 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company recognize advertising revenue as advertisements are delivered to users through impressions, ad views or app installs (depending on the terms agreed upon with the advertiser). For in-app display ads, in-app offers, engagement advertisements and other advertisements, The Company's performance obligation is satisfied over the life of the relevant contract (i.e., over time), with revenue being recognized as advertising units are delivered. The advertiser may compensate the Company on a cost-per-impression, cost-per-click, cost-per-action or cost-per-install basis.

Paid Subscription Revenue: Beginning in January 2019, the Company started offering monthly and yearly paid subscription services sold through Google Play. When a customer subscribes, they execute a clickthrough agreement with Zedge outlining the terms and conditions between Zedge and the subscriber. Google Play processes subscription prepayment on Zedge's behalf, and retains up to 30% as its fee. Paid subscription revenue is a series type performance obligation and is recognized net of sales tax amounts collected from subscribers. Both monthly and yearly subscriptions are nonrefundable after a period of 7 days. Paid subscriptions are automatically renewed at expiration unless cancelled by subscribers. The enforceable rights in monthly and yearly subscription contracts are the service period. Because of the cancellation clauses for these subscriptions, the duration of these contracts is daily, and revenue for these contracts is recognized on a daily ratable basis. The payment terms for subscriptions sold through Google Play is net 30 days after month-end.

Zedge Premium: Zedge Premium is the Company's marketplace where artists and brands can market, distribute and sell their digital content to Zedge's users. The content owner sets the price and the end user can purchase the content by paying for it with Zedge Credits, the Company's closed virtual currency. A user can earn Zedge Credits when taking specific actions such as watching rewarded videos or completing electronic surveys. Alternatively, users can buy Zedge Credits with an in-app purchase. If a user purchases Zedge Credits (ranging from 500 credits for \$0.99 to 14,000 credits for \$19.99), Google Play or iTunes retains 30% of the purchase price as its fee. When a user purchases Zedge Premium content, the artist or brand receives 70% of the actual revenue ("Royalty Payment") and the Company receives the remaining 30%, which is recognized as revenue.

Service Revenue: Through May 2019, the Company managed and optimized the advertising inventory of a third-party mobile application publisher, as well as overseeing the billing, collections and reporting related to advertising for this publisher. In exchange for these management and optimization services, Zedge shared a portion the advertising revenues from this publisher whose revenue is also derived from sales of advertising. The contract with this publisher was terminated effective May 31, 2019.

Gross Versus Net Revenue Recognition

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. To the extent the Company acts as the principal, revenue is reported on a gross basis unless the Company is unable to determine the amount on a gross basis, in which case the Company reports revenue on a net basis. The determination of whether the Company act as a principal or an agent in a transaction is based on an evaluation of whether the Company control the good or service prior to transfer to the customer.

The Company generally reports its advertising revenue net of amounts due to agencies and brokers because the Company is not the primary obligor in the relevant arrangements, the Company does not finalize the pricing, and the Company does not establish or maintain a direct relationship with the advertiser. Certain advertising arrangements that are directly between us and advertisers are recognized on a gross basis equal to the price paid to us by the customer since the Company is the primary obligor and the Company determines the price. Any third-party costs related to such direct relationships are recognized as direct cost of revenues.

The Company reports subscription revenue gross of the fee retained by Google Play, as the subscriber is the Company's customer in the contract and the Company controls the service prior to the transfer to the subscriber.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Concentration of Credit Risk and Significant Customers

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of cash, cash equivalents and trade accounts receivable. The Company holds cash and cash equivalents at several major financial institutions, which may exceed FDIC insured limits. Historically, the Company has not experienced any losses due to such concentration of credit risk. The Company's temporary cash investments policy is to limit the dollar amount of investments with any one financial institution and monitor the credit ratings of those institutions. While the Company may be exposed to credit losses due to the nonperformance of the holders of its deposits, the Company does not expect the settlement of these transactions to have a material effect on its results of operations, cash flows or financial condition.

The Company routinely assesses the financial strength of its customers. As a result, the Company believes that its accounts receivable credit risk exposure is limited and has not experienced significant write-downs in its accounts receivable balances. In the fiscal year ended July 31, 2020, two customers represented 29% and 26% of the Company's revenue, and in the fiscal year ended July 31, 2019, three customers represented 28%, 28% and 10% of the Company's revenue. At July 31, 2020, two customers represented 35% and 32% of the Company's accounts receivable balance and at July 31, 2019, three customers represented 32%, 17% and 17% of the Company's accounts receivable balance. All of these significant customers are advertising exchanges operated by leading companies, and the receivables represent many smaller amounts due from advertisers.

Direct Cost of Revenues

Direct cost of revenues for the Company consists of fees paid to third parties that provide the Company with internet hosting, content serving and filtering, and marketing automation services. Such costs are charged to expense as incurred.

Long-Lived Assets

Property and equipment is recorded at cost and depreciated on a straight-line basis over its estimated useful lives, which range as follows: capitalized software and technology development costs—3 years; and other—3, 5, 7, 10 or 20 years. Other is comprised of furniture and fixtures, office equipment, video conference equipment, computer hardware and computer software.

The Company tests the recoverability of its long-lived assets with finite useful lives whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. The Company tests for recoverability based on the projected undiscounted cash flows to be derived from such asset. If the projected undiscounted future cash flows are less than the carrying value of the asset, the Company will record an impairment loss, if any, based on the difference between the estimated fair value and the carrying value of the asset. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows from such asset using an appropriate discount rate. Cash flow projections and fair value estimates require significant estimates and assumptions by management. Should the estimates and assumptions prove to be incorrect, the Company may be required to record impairments in future periods and such impairments could be material.

Capitalized Software and Technology Development Costs

The Company accounts for capitalized software and technology development costs in accordance with FASB ASC 350-40. These costs consist of internal development costs on various projects that the Company invested in specific to the various platforms on which the Company operates its service that are capitalized during the application development stage. Capitalized software and technology development costs are included in property and equipment, net and are amortized over the estimated useful life of the software, generally three years. All ordinary maintenance costs are expensed as incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of the business acquired. Under ASC 350, *Intangibles-Goodwill and Other*, goodwill is not amortized, but instead is tested for impairment annually, or if certain circumstances indicate a possible impairment may exist. The Company determined that it is a single reporting unit for its annual impairment test.

The Company performs its annual, or interim, goodwill impairment test by comparing the fair value of its reporting unit with its carrying amount. The Company would recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized would not exceed the total amount of goodwill allocated to that reporting unit. Additionally, the Company considers income tax effects from any tax-deductible goodwill on the carrying amount of its reporting unit when measuring the goodwill impairment loss, if applicable.

The Company's estimated fair value exceeded its carrying value in Step 1 of the Company's annual impairment tests as of May 1st for the fiscal years ended July 31, 2020 and 2019. The Company concluded that no goodwill impairment existed in the fiscal years ended July 31, 2020 and 2019. The Company uses the market approach (guideline company method) for its Step 1 analysis.

Investment in Privately-Held Company

The Company's investment in privately-held company is a non-marketable equity security without readily determinable fair value. On August 1, 2018, the Company adopted a new accounting standard and adjusts the carrying value of its non-marketable equity securities to fair value upon observable transactions for identical or similar investments of the same issuer or upon impairment (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in interest and other income (expense), net in the consolidated statements of comprehensive loss.

The Company periodically evaluates the carrying value of the investment in a privately-held company, when events and circumstances indicate that the carrying amount of the investment may not be recovered. The Company estimates the fair value of the investment to assess whether impairment losses shall be recorded using Level 3 inputs. This investment includes the Company's holdings in a privately-held company that is not exchange traded and therefore not supported with observable market prices; hence, the Company may determine the fair value by reviewing equity valuation reports, current financial results, long-term plans of the private company, the amount of cash that the privately-held company has on-hand, the ability to obtain additional financing and overall market conditions in which the private company operates or based on the price observed from the most recent completed financing.

Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Income Taxes

The accompanying financial statements include provisions for federal, state and foreign income taxes. The Company recognizes deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the period in which related temporary differences become deductible. The Company considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in its assessment of a valuation allowance. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company uses a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company presumes that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. Tax positions that meet the more-likely-than-not recognition threshold are measured to determine the amount of tax benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

The Company classifies interest and penalties on income taxes as a component of income tax expense.

Contingencies

The Company accrues for loss contingencies when both (a) information available prior to issuance of the financial statements indicates that it is probable that a liability had been incurred at the date of the financial statements and (b) the amount of loss can reasonably be estimated. When the Company accrues for loss contingencies and the reasonable estimate of the loss is within a range, the Company records its best estimate within the range. When no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount in the range. The Company discloses an estimated possible loss or a range of loss when it is at least reasonably possible that a loss may have been incurred.

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 and to assume exercise of potentially dilutive stock options using the treasury stock method, unless the effect of such increase is anti-dilutive.

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:

**Fiscal Year Ended July 31,
(in thousands)**

	2020	2019
	(in thousands)	
Basic weighted-average number of shares	11,126	10,083
Effect of dilutive securities:		
Stock options	-	-
Non-vested restricted Class B common stock	-	-
Deferred stock units	-	-
Diluted weighted-average number of shares	<u>11,126</u>	<u>10,083</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following shares were excluded from the diluted earnings per share computation because their inclusion would have been anti-dilutive:

**Fiscal Year Ended July 31,
(in thousands)**

	2020	2019
Stock options	1,227	1,231
Non-vested restricted Class B common stock	105	195
Deferred stock units	61	-
Shares excluded from the calculation of diluted earnings per share	<u>1,393</u>	<u>1,426</u>

For both fiscal 2020 and fiscal 2019, the diluted earnings per share equals basic earnings per share because the Company had a net loss and the impact of the assumed exercise of stock options and vesting of restricted stock and deferred stock units would have been anti-dilutive.

Stock-Based Compensation

The Company recognizes compensation expense for all of its grants of stock-based awards based on the estimated fair value on the grant date. Compensation cost for awards is recognized using the straight-line method over the vesting period. Stock-based compensation is included in selling, general and administrative expense.

Fair Value Measurements

Fair value of financial and non-financial assets and liabilities is defined as an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used to measure fair value, which prioritizes the inputs to valuation techniques used to measure fair value, is as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 – unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Derivative Instruments – Foreign Exchange Forward Contracts

The Company's earnings and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, primarily the U.S. Dollar – Norwegian Krone ("NOK") exchange rate and Euro ("EUR"). The Company's risk management policy allows for the use of derivative financial instruments to prudently manage foreign currency exchange rate exposure. Foreign currency derivative activities are subject to the management, direction and control of the executive management. Foreign exchange forward contracts are recognized on the consolidated balance sheet at their fair value in "Other current assets" or "Accrued expenses and other current liabilities", and changes in fair value are recognized in "Net loss resulting from foreign exchange transactions" in the consolidated statements of comprehensive loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Functional Currency

The U.S. Dollar is the Company's functional currency. The functional currencies for the Company's subsidiaries that operate outside of the United States are NOK for Zedge Europe AS and EUR for Zedge Lithuania UAB which is a wholly-owned subsidiary of Zedge Europe AS, which are the currencies of the primary economic environments in which they primarily expend cash. The Company translates assets and liabilities denominated in foreign currencies to U.S. Dollars at the exchange rate in effect as of the financial statement date, and translates accounts from the statements of comprehensive loss using the weighted average exchange rate for the period. Gains or losses resulting from foreign currency translations are recorded in "Accumulated other comprehensive loss" in the accompanying consolidated balance sheets. Foreign currency transaction gains and losses including gains and losses from currency exchange rate changes related to intercompany receivables and payables are reported in "Net loss resulting from foreign exchange transactions" in the accompanying consolidated statements of comprehensive loss.

Allowance for Doubtful Accounts

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the accounts receivable balance. The allowance is determined based on known troubled accounts, historical experience and other currently available evidence. Doubtful accounts are written-off upon final determination that the trade accounts will not be collected.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of two components, net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) refers to gains and losses that are recorded as an element of stockholders' equity and are excluded from net income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive loss are comprised principally of foreign currency translation adjustments.

Leases

The Company leases office spaces and equipment in multiple locations under non-cancelable lease agreements. The leases are reviewed for classification as operating and capital leases. For operating leases, rent is recognized on a straight-line basis over the lease period. For capital leases, the Company records the leased asset with a corresponding liability. Payments are recorded as reductions to the liability with an appropriate interest charge recorded based on the then-outstanding remaining liability. Upon adoption of Accounting Standards Update ("ASU") 2016-02 — *Leases* on August 1, 2019, the Company recognized additional operating liabilities and corresponding right-of-use assets based on the present value of the remaining minimum rental payments under current leasing standards for existing operating leases. See "Recently Adopted Accounting Standard" below and Note 10 for additional information on the impact of ASU 2016-02 — *Leases*.

Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02 — *Leases* (Topic 842), and additional changes, modifications, clarifications, or interpretations related to this guidance thereafter, which require a reporting entity to recognize right-of-use ("ROU") assets and lease liabilities on the balance sheet for operating leases to increase the transparency and comparability.

The Company adopted this standard in the first quarter of fiscal 2020, effective as of August 1, 2019, using the modified retrospective approach. The adoption of Topic 842 had a material impact on the Company's consolidated balance sheets, but did not impact its consolidated statements of comprehensive loss, consolidated statements of stockholders' equity, or consolidated statements of cash flows. There was no adjustment to beginning retained earnings on August 1, 2019. The Company elected the short-term lease recognition exemption for all leases that qualify. Accordingly, the Company did not recognize ROU assets or lease liabilities for leases that qualify, including leases for existing short-term leases in effect at transition and continue to recognize those lease payments as expenses on the Company's consolidated statements of comprehensive loss on a straight-line basis over the lease term. The Company elected the practical expedient to not separate lease and non-lease components for all its leases. Upon adoption, the Company recognized new ROU assets and lease obligations on the Consolidated Balance Sheet for its operating leases of \$538,000 and \$512,000, respectively. See Note 10 – Lease for further details.

In August 2017, the FASB issued ASU 2017-12 – *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting Hedging Activities*, which was intended to improve the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the ASU includes certain targeted improvements to simplify the application of hedge accounting guidance in U.S. GAAP. The amendments in this ASU were effective for the Company on August 1, 2019. Entities were to apply the amendments to qualified hedge relationships that existed on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements were to be applied prospectively. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements as the Company's hedging activities of foreign currency are not designated and/or do not qualify as hedging instruments. See Note 4 – Derivative Instruments for further details.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASU 2016-13) which changes the impairment model for most financial assets and certain other instruments. For receivables, loans and other instruments, entities will be required to use a new forward-looking “expected loss” model that generally will result in the earlier recognition of allowance for losses. For available-for-sale debt securities with unrealized losses, entities will measure credit losses in a manner similar to current practice, except the losses will be recognized as allowances instead of reductions in the amortized cost of the securities. In addition, an entity will have to disclose significantly more information about allowances, credit quality indicators and past due securities. The new provisions will be applied as a cumulative-effect adjustment to retained earnings. The Company will adopt the new standard on August 1, 2020. The Company does not expect that the new standard will have a significant impact on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standard Update No. 2018-13, *Changes to Disclosure Requirements for Fair Value Measurements (Topic 820)* (ASU 2018-13), which improved the effectiveness of disclosure requirements for recurring and nonrecurring fair value measurements. The standard removes, modifies, and adds certain disclosure requirements. The Company will adopt the new standard effective August 1, 2020 and does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued Accounting Standard Update No. 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company will adopt the new standard effective August 1, 2020 and does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued Accounting Standard Update No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (ASU 2019-12), which simplifies the accounting for income taxes. This guidance will be effective for the Company in the first quarter of fiscal 2022 on a prospective basis, and early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Note 2—Revenue**Disaggregation of Revenue**

The following table summarizes revenue by type of monetization mechanisms of the Zedge app for the periods presented:

	Fiscal Year Ended	
	July 31,	
	2020	2019
	(in thousands)	
Advertising revenue	\$ 7,410	\$ 7,939
Paid subscription revenue	1,599	155
Zedge Premium and Shortz revenues	461	130
Service revenue	-	592
Total Revenues	<u>\$ 9,470</u>	<u>\$ 8,816</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Contract Balances*Deferred revenues*

The Company 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 redeem Zedge Credits to acquire Zedge Premium content or upon expiration of the Zedge Credits upon 180 days of account inactivity. As of July 31, 2020, and 2019, the Company's deferred revenue balance related to Zedge Premium was approximately \$169,000 and \$155,000, respectively.

The Company also records deferred revenues related to the unsatisfied performance obligations with respect to subscription revenue. As of July 31, 2020, the Company's deferred revenue balance related to subscriptions was approximately \$1,169,000, representing approximately 504,000 active subscribers. As of July 31, 2019, the Company's deferred revenue balance related to paid subscriptions was approximately \$362,000, representing approximately 134,000 active subscribers which was recognized during fiscal 2020.

Total deferred revenues increased \$821,000 from \$517,000 at July 31, 2019 to \$1,338,000 at July 31, 2020, primarily due to the Company's new revenue streams from subscriptions and Zedge Premium as discussed above.

Significant Judgments

The advertising networks and advertising exchanges to which we sell our inventory track and report the impressions and installs 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 installs 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 related to the subscriptions revenue when incurred because the duration of the contracts for which the Company pay commissions are less than one year. These costs are included in the selling, general and administrative expenses of the Consolidated Statements of Comprehensive Loss.

Note 3—Fair Value Measurements

The following table presents the balance of assets and liabilities measured at fair value on a recurring basis:

	Level 1 (1)	Level 2 (2)	Level 3 (3)	Total
	(in thousands)			
July 31, 2020				
Assets:				
Foreign exchange forward contracts	\$ -	\$ 10	\$ -	\$ 10
Liabilities:				
Foreign exchange forward contracts	\$ -	\$ -	\$ -	\$ -
July 31, 2019				
Assets:				
Foreign exchange forward contracts	\$ -	\$ -	\$ -	\$ -
Liabilities:				
Foreign exchange forward contracts	\$ -	\$ 38	\$ -	\$ 38

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fair Value of Other Financial Instruments

The Company's other financial instruments at July 31, 2020 and 2019 included trade accounts receivable, trade accounts payable, insurance premium and other loan payable. The carrying amounts of the trade accounts receivable, trade accounts payable, insurance premium and other loan 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 to NOK and EUR exchange rates. The Company is party to a Foreign Exchange Agreement with Western Alliance Bank allowing the Company to enter into foreign exchange contracts under its revolving credit facility with the bank (see Note 15). The Company does not apply hedge accounting to these contracts; therefore the changes in fair value are recorded in earnings. 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 July 31, 2020 were as follows:

Settlement Date	U.S. Dollar Amount	NOK Amount
Aug-20	\$ 350,000	3,216,324
Sep-20	200,000	1,819,629
Oct-20	200,000	1,819,409
Nov-20	200,000	1,819,209
Dec-20	200,000	1,819,109
Jan-21	200,000	1,818,709
Feb-21	200,000	1,818,509
Total	<u>\$ 1,550,000</u>	<u>14,130,898</u>

Settlement Date	U.S. Dollar Amount	EUR Amount
Sep-20	175,000	149,557
Oct-20	175,000	149,455
Nov-20	175,000	149,365
Dec-20	175,000	149,276
Jan-21	175,000	149,111
Feb-21	175,000	149,009
	<u>\$ 1,050,000</u>	<u>895,773</u>

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

July 31, (in thousands)	Balance Sheet Location	2020	2019
Assets and Liabilities Derivatives:			
Derivatives not designated or not qualifying as hedging instruments			
Foreign exchange forward contracts	Other current assets	\$ 10	\$ -
Foreign exchange forward contracts	Accrued expenses and other current liabilities	\$ -	\$ 38

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

Amount of Loss Recognized on Derivatives

Year ended July 31,

(in thousands)

	2020	2019
Derivatives not designated or not qualifying as hedging instruments		
	Location of Loss Recognized on Derivatives	
Foreign exchange forward contracts	\$ (218)	\$ (278)

Note 5—Property and Equipment

Property and equipment consisted of the following:

July 31,

(in thousands)

	2020	2019
Capitalized software and technology development costs	\$ 7,246	\$ 9,555
Other	324	310
	7,570	9,865
Less accumulated depreciation and amortization	(4,986)	(6,469)
Total	\$ 2,584	\$ 3,396

Depreciation and amortization expense pertaining to property and equipment was \$1.6 million and \$1.4 million for the fiscal years ended July 31, 2020 and 2019, respectively.

Note 6—Goodwill

The Company's goodwill related to an acquisition made in a prior period and is carried on the balance sheet of Zedge Europe AS.

The table below reconciles the change in the carrying amount of goodwill for the period from July 31, 2018 to July 31, 2020:

(in thousands)

Balance at July 31, 2018	\$ 2,447
Foreign currency translation adjustments	(181)
Balance at July 31, 2019	2,266
Foreign currency translation adjustments	(70)
Balance at July 31, 2020	\$ 2,196

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 7—Accrued Expenses and Other Current Liabilities

Accrued expenses consist of the following:

July 31,

(in thousands)

	2020	2019
Accrued vacation	\$ 392	\$ 503
Accrued payroll taxes	274	183
Accrued payroll and bonuses	132	235
Operating lease liability	232	-
Derivative liability	-	38
Accrued professional fees	-	57
Due to artists	136	56
Other	44	100
Total accrued expenses and other current liabilities	\$ 1,210	\$ 1,172

Note 8—Equity*Class A Common Stock and Class B Common Stock*

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. The holders of Class A common stock and Class B common stock have the right to receive identical dividends per share if and when declared by the Company's Board of Directors. In addition, the holders of Class A common stock and Class B common stock have identical and equal priority rights per share in liquidation. The Class A common stock and Class B common stock do not have any other contractual participation rights. The holders of Class A common stock are entitled to three votes per share and the holders of Class B common stock are entitled to one-tenth of a vote per share. Each share of Class A common stock may be converted into one share of Class B common stock, at any time, at the option of the holder. Shares of Class A common stock are subject to certain limitations on transferability that do not apply to shares of Class B common stock.

Note 9—Commitments and Contingencies*Legal Proceedings*

In March 2014, Saregama India, Limited filed a lawsuit against the Company before the Barasat District Court, seeking approximately \$1.6 million as damages and an injunction for copyright infringement. Saregama India alleged that the Company made available Saregama India's sound recordings through the Company's platform with full knowledge that the sound recordings had been uploaded and were being communicated to the public without obtaining any license from Saregama India. On August 20, 2019, the Court lifted the injunction and, subsequently, Saregama India executed a consent pursuant to which the case against the Company was dismissed.

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.

Note 10— Leases

At the inception of certain arrangements, the Company determines whether the arrangement is or contains a lease based on the unique facts and circumstances present. Operating leases are included in other assets, accrued expenses and other current liabilities, and other liabilities on the Company's Consolidated Balance Sheets. The Company does not have any finance leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Leases with a term greater than one year are recognized on the Consolidated Balance Sheet as right-of-use (“ROU”) assets, lease obligations and, if applicable, long-term lease obligations in the line items cited above. The Company has elected not to recognize leases with terms of one year or less on the Consolidated Balance Sheets. Lease obligations and their corresponding ROU assets are recorded based on the present value of lease payments over the expected lease term. As the interest rate implicit in lease contracts is typically not readily determinable, the Company utilizes the appropriate incremental borrowing rate, which is the rate incurred to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. The lease term may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

The Company has elected to combine lease components (including land, building or other similar items) and non-lease components (including common area maintenance, maintenance, consumables, or other similar items) as a single component and therefore the non-lease components are included the calculation of the present value of lease payments. The lease expense is recognized over the expected term on a straight-line basis.

The Company currently leases 11,578 square feet of office space for its technology development center located in Trondheim, Norway, under a noncancelable lease that expires in 2021. The Company uses these facilities to accommodate its product, design and technology team. Additionally, the Company also has or had short-term leases for its offices in 1) New York City (which lease was terminated on July 15, 2020), 2) Vilnius, Lithuania, a satellite development center and 3) Bodo, Norway that meet short-term lease criteria and are not recognized on the Consolidated Balance Sheets. Most leases include one or more options to renew, and the exercise of these options is at the Company’s sole discretion. The Company determined that its options to renew would not be reasonably certain in determining the expected lease term, and therefore are not included as part of its ROU assets and lease liabilities.

In calculating the present value of the lease payments, the Company has elected to utilize its estimated incremental borrowing rate based on the remaining lease term and not the original lease term. The depreciable life of assets and leasehold improvements are limited by the expected lease term.

The elements of lease expense were as follows (in thousands):

	Fiscal Year Ended July 31, 2020
Operating lease cost	\$ 227
Other lease cost, net (1)	143
Total lease cost	\$ 370

(1) Other lease cost, net includes short-term lease costs and variable lease costs, which are immaterial.

Rental expense under operating leases was \$354,000 for the years ended July 31, 2019.

The following table presents the lease-related assets and liabilities recorded on the Consolidated Balance Sheet (in thousands):

	As of July 31, 2020
Operating leases:	
Other assets	\$ 317
Other current liabilities	\$ 232
Other liabilities	64
Total operating lease liabilities	\$ 296

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes the weighted average remaining lease term and weighted average discount rate as of July 31, 2020:

	<u>As of July 31, 2020</u>
Weighted average remaining lease term:	
Operating leases	1.42 years
Weighted average discount rate:	
Operating leases	5.00%

Supplemental cash flow information related to leases was as follows (in thousands):

	<u>Fiscal Year Ended July 31, 2020</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows used in operating leases	\$ 225

Future minimum lease payments under non-cancelable leases for the years ending July 31, 2021 and 2022 are as follows (in thousands):

	<u>Operating Leases</u>
2021	243
2022	66
Total future minimum lease payments	309
Less imputed interest	13
Total	<u>\$ 296</u>

As of July 31, 2020, the Company did not have any leases that have not yet commenced that create significant rights and obligations.

Note 11—Income Taxes

The components of loss before income taxes are as follows:

Fiscal year ended July 31, (in thousands)	<u>2020</u>	<u>2019</u>
Domestic	\$ (630)	\$ (3,199)
Foreign	86	(129)
Loss before income taxes	<u>\$ (544)</u>	<u>\$ (3,328)</u>

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Provision for income taxes consisted of the following:

Fiscal year ended July 31, (in thousands)	2020	2019
Current:		
Foreign	\$ 14	\$ 15
Federal	-	-
State	1	1
Total current expense	<u>15</u>	<u>16</u>
Deferred:		
Foreign	-	-
Federal	-	-
State	-	-
Total deferred expense	<u>-</u>	<u>-</u>
Provision for income taxes	<u>\$ 15</u>	<u>\$ 16</u>

The differences between income taxes expected at the U.S. federal statutory income tax rate and income taxes reported were as follows:

Fiscal year ended July 31, (in thousands)	2020	2019
U.S federal income tax (benefit) at statutory rate	\$ (114)	\$ (699)
State tax (net of federal benefit)	29	(449)
Change in valuation allowance	13	1,147
Foreign tax rate differential	(6)	7
Stock based compensation and employment credits	-	(3)
Other	93	13
Provision for income taxes	<u>\$ 15</u>	<u>\$ 16</u>

On March 27, 2020, the CARES Act was signed into law. The Act contains several new or changed income tax provisions, including but not limited to the following: increased limitation threshold for determining deductible interest expense, class life changes to qualified improvements (in general, from 39 years to 15 years), and the ability to carry back net operating losses incurred from tax years 2018 through 2020 up to the five preceding tax years. Most of these provisions are either not applicable or have no material effect on the Company.

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of the Company's deferred tax assets and deferred tax liabilities are as follows:

July 31, (in thousands)	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	\$ 1,783	\$ 1,616
Reserves and accruals	185	370
Stock-based compensation	242	211
Net deferred tax assets	2,210	2,197
Less valuation allowance	(2,210)	(2,197)
Total deferred tax assets	\$ -	\$ -

At July 31, 2020, the Company had available U.S. federal and state net operating loss ("NOL") carryforwards from domestic operations of approximately \$5.6 million and \$5.9 million, respectively, to offset future taxable income. Approximately \$3.3 million federal NOLs can be carried forward indefinitely but it is limited to 80% of future taxable income. The federal and state NOL carryforwards will begin to expire in 2036. As of July 31, 2020, the Company has available NOL carryforwards of approximately \$433,000 to offset future foreign taxable income.

Due to its history of losses, the Company believes that it is more-likely-than-not that substantially all of the deferred tax assets will not be realized. Therefore, the Company has a full valuation allowance on all U.S. and foreign deferred tax assets. The change in the valuation allowance is as follows:

Fiscal year ended July 31, (in thousand)	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Balance at end of year
2020				
Reserves deducted from deferred income taxes, net:				
Valuation allowance	\$ 2,197	\$ 13	\$ -	\$ 2,210
2019				
Reserves deducted from deferred income taxes, net:				
Valuation allowance	\$ 1,050	\$ 1,147	\$ -	\$ 2,197

At July 31, 2020 and 2019, the Company did not have any unrecognized tax benefits and did not anticipate any significant changes to the unrecognized tax benefits within twelve months of this reporting date. In the fiscal years ended July 31, 2020 and 2019, the Company recorded no interest and penalties on income taxes. At July 31, 2020 and 2019, there was no accrued interest included in income taxes payable.

The Company currently remains subject to examinations of its U.S. tax returns as follows: U.S. federal tax returns for fiscal 2017 to fiscal 2019, state and local tax returns generally for fiscal 2017 to fiscal 2019 and foreign tax returns generally for fiscal 2018 to fiscal 2019.

In connection with the Spin-Off, the Company and IDT entered into various agreements prior to the Spin-Off including a Separation and Distribution Agreement to effect the separation and provide a framework for the Company's relationship with IDT after the Spin-Off, and a Tax Separation Agreement, which sets forth the responsibilities of the Company and IDT with respect to, among other things, liabilities for federal, state, local and foreign taxes for periods before and including the Spin-Off, the preparation and filing of tax returns for such periods and disputes with taxing authorities regarding taxes for such periods. Pursuant to Separation and Distribution Agreement, among other things, the Company indemnifies IDT and IDT indemnifies the Company for losses related to the failure of the other to pay, perform or otherwise discharge, any of the liabilities and obligations set forth in the agreement. Pursuant to the Tax Separation Agreement, among other things, IDT indemnifies the Company from all liability for taxes of the Company and any of its subsidiaries or relating to its business with respect to taxable periods ending on or before the Spin-Off, and the Company indemnifies IDT from all liability for taxes of the Company and any of its subsidiaries or relating to its business accruing after the Spin-Off. Notwithstanding the foregoing, the Company is responsible for, and IDT has no obligation to indemnify the Company for, any tax liability of the Company resulting from an audit, examination or other proceeding related to any tax returns that relate solely to it and its subsidiaries regardless of whether such tax return relates to a period prior to or following the Spin-Off.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Research and Development Credits

As of July 31, 2020 and 2019, the balance of the Company's receivable from Norway's SkatteFUNN government program designed to stimulate research and development in Norwegian trade and industry was \$0 and \$35,000, respectively, which was included in "Other current assets" in the consolidated balance sheet. The Company has not worked on SkatteFUNN approved projects since January 2018.

Note 12—Stock-Based Compensation*2016 Stock Option and Incentive Plan*

The Company adopted the Zedge, Inc. 2016 Stock Option and Incentive Plan (as amended to date, the "2016 Incentive Plan"), which became effective upon the consummation of the Spin-Off. The 2016 Incentive Plan is intended to provide incentives to executive officers, employees, directors and consultants of the Company. Incentives available under the 2016 Incentive Plan include restricted stock, deferred stock unit, stock options and stock appreciation rights. The 2016 Incentive Plan is administered by the Compensation Committee of the Company's Board of Directors.

In November 2019, the Company's Board of Directors amended 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 230,000 shares to an aggregate of 1,271,000 shares. This amendment was ratified by the Company's stockholders during Annual Meeting held on January 13, 2020. At July 31, 2020, there were 262,000 shares of the Company's Class B common stock available for awards under the 2016 Incentive Plan.

Pursuant to the 2016 Incentive Plan, the option exercise price for all stock option awards that are designated as "Incentive Stock Options" must not be less than the Fair Market Value of the shares of Class B Common Stock covered by the option award on the date of grant. In general, Fair Market Value means the closing sale price per share of Class B Common Stock on the exchange on which the Class B Common Stock is principally traded for the last preceding date on which there was a sale of Class B Common Stock on such exchange.

In the fiscal years ended July 31, 2020 and 2019 there was no income tax benefit resulting from tax deductions in excess of the compensation cost recognized for the Company's stock-based compensation.

Stock Options

The Company's option awards generally have a maximum term of 10 years from grant date, are exercisable upon vesting unless otherwise designated for early exercise by the Board of Directors at the time of grant and are pursuant to individual written agreements. Grants generally vest over a three-year period. Certain option agreements provide for accelerated vesting of options upon the effective date of an initial public offering or a change in control of the Company.

In fiscal years 2020 and 2019, the Compensation Committee approved equity grants of options to purchase 207,996 and 27,493 shares respectively of the Company's Class B common stock to various executives, consultants and employees, vesting mostly over a three-year period. Unrecognized compensation expense related to these grants were \$265,000 and \$33,000 in fiscal 2020 and 2019 respectively based on the estimated fair value of the options on the grant dates.

In fiscal 2020, the Company received proceeds of \$11,571 from the exercise of stock options for which the Company issued 86,197 shares of its Class B common stock. In fiscal 2019, the Company received proceeds of \$5,291 from the exercise of stock options for which the Company issued 40,700 shares of its Class B common stock.

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The Company cancelled or forfeited options grants of 126,000 shares and 69,000 shares in fiscal 2020 and fiscal 2019 respectively primarily due to employee resignations or layoffs.

The fair value of stock options was estimated on the date of the grant using a Black-Scholes valuation model (“BSM”) and the assumptions in the following table. Expected volatility is based on historical volatility of the Company’s Class B common stock and other factors. The Company uses historical data on exercise of stock options, post vesting forfeitures and other factors to estimate the expected term of the stock-based payments granted. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The Company used the following weighted average assumptions in its BSM pricing model:

Fiscal year ended July 31,	2020	2019
Expected term	6.0 years	6.0 years
Volatility	82.9%	73.8%
Risk free interest rate	1.6%	2.7%
Dividends	—	—

The following represents option activity for the fiscal years ended July 31, 2020 and 2019, including options granted prior to the spin-off on June 1, 2016 and options granted under the 2016 Incentive Plan adopted on June 2, 2016:

	Number of Options (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at July 31, 2018	1,314	\$ 1.58	7.40	\$ 2,055
Granted	27	1.80		
Exercised	(41)	0.13		
Cancelled / forfeited	(69)	1.99		
Outstanding at July 31, 2019	1,231	\$ 1.60	6.32	\$ 642
Granted	208	1.82		
Exercised	(86)	0.13		
Cancelled / forfeited	(126)	1.35		
Outstanding at July 31, 2020	1,227	\$ 1.76	5.95	\$ 402
Exercisable at July 31, 2020	1,000	\$ 1.75	5.20	\$ 396

The following table summarizes the weighted average grant date fair value of options granted, intrinsic value of options exercised and fair value of awards vested in the periods indicated:

July 31, (in thousands except per share amounts)	2020	2019
Weighted average grant date fair value of options granted	\$ 1.28	\$ 1.19
Intrinsic value of options exercised	109	66
Fair value of awards vested	197	252

At July 31, 2020, there was \$217,000 of total unrecognized compensation cost related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.4 years.

ZEDGE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Restricted Stock

In fiscal 2020, the Company granted 30,534 restricted shares of its Class B common stock, which vested over a six-month period, to its interim Chief Executive Officer at a grant date fair value of \$1.97 per share. The Company also granted 1,411 restricted shares of its Class B common stock, which vested over three year, to Chairman of the Board at a grant date fair value of \$1.97 per share.

In fiscal 2020, the Company granted 34,066 restricted shares of its Class B common stock, which vested immediately, to its non-employee Board of Directors at an average grant date fair value of \$1.41 per share. In fiscal 2019, the Company granted 30,558 restricted shares of its Class B common stock, which vested immediately, to its non-employee Board of Directors at an average grant date fair value of \$2.33 per share. These shares were awarded pursuant to the non-employee Board of Director's semi-annual grant.

At July 31, 2020, there were 105,128 non-vested restricted shares of the Company's Class B common stock. At July 31, 2020, there was \$132,000 of total unrecognized compensation cost related to these non-vested restricted shares, which is expected to be recognized over a weighted-average period of 0.9 years.

The following represents restricted shares activity for the fiscal years ended July 31, 2020 and 2019:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock award as of July 31, 2018	301,506	\$ 2.28
Granted	-	-
Vested	(106,131)	2.30
Forfeited	-	-
Non-vested stock award as of July 31, 2019	195,375	2.33
Granted	31,945	1.97
Vested	(122,192)	2.26
Forfeited	-	-
Non-vested stock award as of July 31, 2020	<u>105,128</u>	<u>\$ 2.30</u>

Deferred Stock Units

In fiscal 2020, the Compensation Committee approved the grant of 92,544 Deferred Stock Units (DSUs) to 13 of its non-executive employees based in Norway and Lithuania. Each DSU represents a right to receive one share of Class B Common Stock. The DSUs primarily vest over a four-year period from grant. On the grant date, unrecognized compensation expense related to this grant was an aggregate of \$144,000 based on the estimated fair value of the DSUs on the grant date. The unrecognized compensation expense is being recognized on a straight-line basis over the vesting period. At July 31, 2020, unrecognized compensation expense related to unvested DSUs was an aggregate of \$69,000 which is expected to be recognized over a weighted-average period of 3.0 years.

The following represents restricted shares activity for the fiscal years ended July 31, 2020:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested DSU award as of July 31, 2019	-	\$ -
Granted	92,544	1.55
Vested	-	-
Forfeited	(32,000)	1.54
Non-vested DSU award as of July 31, 2020	<u>60,544</u>	<u>\$ 1.56</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13—Related Party Transactions

Following the Spin-Off, IDT charges the Company for services it provides pursuant to the Transition Services Agreement (“TSA”). In fiscal 2020 the Company was charged by IDT a total of \$107,000 for legal services. In addition, the Company charged IDT \$148,000 for consulting services provided to IDT by a Zedge employee. As of July 31, 2020, IDT owed the Company \$39,000.

The activities between the Company and IDT were as follows:

**Fiscal years ended July 31,
(in thousands)**

	2020	2019
Balance at beginning of year	\$ -	\$ 1
Legal services provided by IDT	107	117
Consulting services provided to IDT	(148)	(96)
Cash payments received from IDT	14	4
Cash payments made to IDT	(12)	(26)
Due (from) to IDT*	<u>\$ (39)</u>	<u>\$ -</u>

* Due from IDT is included in other current assets. Due to IDT is included in accrued expenses and other current liabilities.

In the fiscal years ended July 31, 2020 and 2019, the Company paid \$143,000 and \$171,000, respectively, to Braze Inc. (formerly “Appboy, Inc.”) for use of its customer relationship management and lifecycle marketing platform. The former Chief Executive Officer and Co-Founder of Braze, Inc. is a member of the Company’s Board of Directors.

In the fiscal years ended July 31, 2020 and 2019, the Company paid \$35,000 and \$57,500, respectively, to Activist Artists Management, LLC pursuant to certain referral agreement. A member of the Company’s Board of Directors owns 33.4% of Activist Artist with which the Company entered into an amended retainer agreement on August 1, 2020, pursuant to which the Company pays Activist Artists \$3,750 per month, plus possible commissions.

Note 14—Business Segment and Geographic Information

The Company provides a content platform, worldwide, centered on self-expression, attracting both creators looking to promote their content and consumers who utilize such content to express their identity, feelings, tastes and interests. The Company’s platform enables consumers to personalize their mobile devices with mostly free, high-quality ringtones, wallpapers, home screen app icons, widgets and notification sounds. In March 2018, the Company completed its rollout of Zedge Premium, a marketplace where artists and brands can monetize their licensed content by making it available to the Company’s existing user base. The Company conducts business as one operating segment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

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

	United States	Foreign	Total
	(in thousands)		
Long-lived assets, net:			
July 31, 2020	\$ 2,513	\$ 542	\$ 3,055
July 31, 2019	\$ 3,304	\$ 212	\$ 3,516
Total assets:			
July 31, 2020	\$ 7,730	\$ 4,275	\$ 12,005
July 31, 2019	\$ 5,508	\$ 3,499	\$ 9,007

Note 15—Revolving Credit Facility

As of September 27, 2016, the Company entered into a loan and security agreement with Western Alliance Bank for a revolving credit facility of up to \$2.5 million for an initial two years term which was extended for another two years term expiring September 26, 2020. Advances under this facility may not exceed the lesser of \$2.5 million or 80% of the Company's eligible accounts receivable, subject to certain concentration limits. The revolving credit facility is secured by a lien on substantially all of the Company's assets. The outstanding principal amount bears interest per annum at the greater of 5.0% or the prime rate plus 1.25%. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of September 26, 2020. The Company is required to pay an annual facility fee of \$12,500 to Western Alliance Bank. The Company is 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 include a prohibition on the Company paying any dividend on its capital stock. The Company may terminate this agreement at any time without penalty or premium provided that it pays down any outstanding principal, accrued interest and bank expenses. At July 31, 2020, there were no amounts outstanding under the revolving credit facility and the Company was in compliance with all of the covenants. On September 25, 2020, this agreement was extended for another two-year term at substantially comparable terms except for the minimum interest rate which was reduced from 5.0% to 3.5%, and the facility was reduced from \$2.5 million to \$2.0 million at the Company's request.

As of November 16, 2016, the Company entered into a Foreign Exchange Agreement with Western Alliance Bank 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 \$6.5 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 Western Alliance Bank, in its reasonable discretion from time to time, which was initially set at 10% of the nominal amount of the foreign exchange contracts in effect at the relevant time. In December 2016, the applicable foreign exchange reserve percentage was changed so that the reduction of available borrowing for major currency forward contracts of less than six months tenor is set at 10% of the nominal amount of the foreign exchange contracts, and for contracts over six months tenor, 12.5% of the nominal amount of the foreign exchange contracts. At July 31, 2020, there were \$2.6 million of outstanding foreign exchange contracts under the credit facility, which reduced the available borrowing under the revolving credit facility by \$269,000 see Note 4 above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 16—Defined Contribution Plan

In September 2016, the Company adopted a 401(k) Plan, effective August 1, 2016, available to all employees meeting certain eligibility criteria. The Plan permits participants to elect pre-tax or after-tax salary deferrals that will be contributed to the Plan, not to exceed the limits established by the Internal Revenue Code. The Plan provides for enhanced safe harbor employer matching contributions. All contributions made by participants and safe harbor matching contributions by the Company will be fully vested. The Company's Class A common stock and Class B common stock are not investment options for elective deferrals by the Plan's participants. However, matching contributions may be made in shares of the Company.

The Company's cost for matching contributions to the Plan were \$41,000 and \$48,000 for the fiscal years ended July 31, 2020 and 2019, respectively. In lieu of making cash contributions, the Company opted to contribute 26,193 shares and 19,479 shares of the Company's Class B common stock to the Plan for fiscal 2020 and fiscal 2019, respectively.

Note 17— Investment in Privately-Held Company

In August 2018, the Company made a \$250,000 investment in TreSensa, Inc. ("TreSensa"), representing a less than 1% equity ownership interest on a fully-diluted basis, and concurrently entered into a playable ad distribution agreement with TreSensa under which the Company shall be paid a higher percentage (when compared to industry norms) of revenue derived from all playable ads provided by TreSensa, from its available catalogue for distribution through the Zedge App. This distribution agreement was terminated in April 2019.

The Company's ownership interest in TreSensa, a privately-held company, is comprised of non-marketable equity securities without a readily determinable fair value. On August 1, 2018, the Company adopted ASU 2016-01, a new standard on the classification and measurement for non-marketable securities. The Company adjusts the carrying value of its non-marketable equity securities to fair value upon observable transactions for identical or similar investments of the same issuer or upon impairment (referred to as the measurement alternative). All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in interest and other income (expense), net.

The Company periodically evaluates the carrying value of the investments in privately-held company when events and circumstances indicate that the carrying amount of the investment may not be recovered. The Company estimates the fair value of the investments to assess whether impairment losses shall be recorded using Level 3 inputs. These investments include the Company's holdings in privately-held company that are not exchange traded and therefore not supported with observable market prices; hence, the Company may determine the fair value by reviewing equity valuation reports, current financial results, long-term plans of the privately-held company, the amount of cash that the privately-held company have on-hand, the ability to obtain additional financing and overall market conditions in which the privately-held company operate or based on the price observed from the most recent completed financing round.

TreSensa has incurred quarterly operating losses for several consecutive quarters which was funded in large part through short-term borrowings. The Company recorded an impairment charges of \$250,000 in July 2019 which was included in interest and other income (expense), net in the consolidated statements of comprehensive loss, and reduced the carrying value of the Company's non-marketable equity securities to \$0 as of July 31, 2020.

On June 30, 2020, TreSensa agreed to transfer substantially all of its assets to its lender in full satisfaction of its obligations under certain loan agreement dated March 27, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 18—Loans Payable

On July 16, 2019, the Company obtained a loan of \$140,000 to pay for its insurance coverages, repayable in nine equal installments of \$15,976 starting from September 1, 2019 which represented a 4.79% annual percentage interest rate.

Effective August 1, 2020, the Company obtained a loan of \$181,462 to pay for its insurance coverages, repayable in nine equal installments of \$20,491 starting from September 1, 2020 which represented a 3.89% annual percentage interest rate.

On March 27, 2020, Congress passed CARES Act to provide an estimated \$2.2 trillion to fight the COVID-19 pandemic and stimulate the U.S. economy, including \$349 billion that was earmarked for the Paycheck Protection Program (PPP) to provide certain small businesses with liquidity to support their operations, to be administered by the Small Business Administration (SBA). An additional \$310 billion was later authorized for the PPP.

Under the PPP, eligible small businesses can apply to an SBA-approved lender for a loan that doesn't require collateral or personal guarantees. The loans have a 1% fixed interest rate and are due in two years. However, they are eligible for forgiveness (in full or in part, including any accrued interest) under certain conditions. For loans (or parts of loans) that are forgiven, the lender will collect the forgiven amount from the U.S. government.

The Company believes it qualified for a PPP loan and applied for and received a \$218,000 loan from Western Alliance Bank, a loan servicer and the Company's lender (see Note 15), on April 22, 2020. The Company is using these proceeds primarily for payroll purposes for U.S. employees during the covered period provided under the PPP (which was extended to 24 weeks) and therefore expects that most of this loan will be forgiven. Any portion of the loan that is not forgiven will be due two years after inception of the loan.

Note 19—Sales of Class B Common Stock

On February 5, 2020, the Company closed on its registered direct offering of 1,734,459 shares of its Class B common stock for gross proceeds of \$2.25 million. The Company sold 1,657,813 shares at a purchase price of \$1.28 per share which represented a 20% discount from the 10 Day Volume Weighted Average Price (VWAP) through January 31, 2020, and certain Company insiders purchased an additional 76,646 shares at a purchase price of \$1.67 per share, the closing price on February 3, 2020. In connection with this offering, the Company incurred a total issuance costs of \$141,000. The Company intends to use the net proceeds from the offering for working capital and other general corporate purposes.

DOMESTIC SUBSIDIARIES

None

FOREIGN SUBSIDIARIES

Name	Country of Formation
Zedge Europe AS	Norway

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Zedge, Inc.:

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 of Zedge, Inc. (No. 333-212600, 333-214258, 333-221214 and 333-235422) of our report dated October 28, 2020, with respect to our audit of the consolidated financial statements of Zedge, Inc. as of July 31, 2020 and 2019 and for the years then ended, which appears in this Annual Report on Form 10-K of Zedge, Inc.

/s/ Mayer Hoffman McCann CPAs
(The New York Practice of Mayer Hoffman McCann P.C.)

New York, New York
October 28, 2020

Certification of Chief Executive Officer
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jonathan Reich, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 subsidiaries, 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: October 28, 2020

/s/ Jonathan Reich

Jonathan Reich
Chief Executive Officer

Certification of Chief Financial Officer
pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Yi Tsai, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 subsidiaries, 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: October 28, 2020

/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 Annual Report of Zedge, Inc. (the "Company") on Form 10-K for fiscal 2020 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: October 28, 2020

/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 Annual Report of Zedge, Inc. (the "Company") on Form 10-K for fiscal 2020 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: October 28, 2020

/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.