Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with our financial statements and the notes related thereto which are included in "Part I, Item 1. Financial Statements" of this Quarterly Report on Form 10-Q. Certain information contained in the discussion and analysis set forth below includes forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those set forth under "Item 1A. Risk Factors" and elsewhere in our 2023 Annual Report. See "Cautionary Note Regarding Forward-Looking Statements" above for more information about forward-looking statements in this Quarterly Report on Form 10-Q.

Amounts in this section are presented in thousands, except for per share numbers and percentages.

Business Overview

Leafly is a leading online cannabis discovery marketplace and resource for cannabis consumers. Leafly provides an information resource platform with a deep library of content, including detailed information about cannabis strains, retailers and cannabis products. We are a trusted destination to discover legal cannabis products and order them from licensed retailers with offerings that include subscription-based products and digital advertising. Legacy Leafly was founded in 2010 and is headquartered in Seattle with 119 total employees, including 116 in the U.S. and 3 in Canada as of September 30, 2024.

Leafly is one of the cannabis industry's leading marketplaces for brands and retailers to reach one of the largest audiences of consumers interested in cannabis. Our platform includes educational information, strains data, and lifestyle content, enabling consumers to use Leafly's content library to have an informed shopping experience. Leafly reduces the friction caused by fragmented regulation of cannabis across North America by offering a compliant digital marketplace that connects cannabis consumers with legal and licensed retailers and brands nearest them.

Leafly allows each shopper to tailor their journey, by selecting the store, brand, and cannabis form-factor that appeals to them. Once that shopper builds a basket and is ready to order, our non-plant-touching business model sends that order reservation to the store for payment and fulfillment. By matching stores and shoppers, we deliver value to all constituencies. We monetize our platform primarily through the sale of subscription packages, bundling e-commerce software and advertising solutions, as well as non-subscription-based advertising to retailers and brands.

Key Metrics

In addition to the measures presented in our consolidated financial statements, our management regularly monitors certain metrics in the operation of our business:

Ending Retail Accounts

Ending retail accounts is the number of paying retailer accounts with Leafly as of the last month of the respective period. Retail accounts can include more than one retailer. We believe this metric is helpful for investors because it represents a portion of the volume element of our revenue and provides an indication of our market share. Management believes this metric offers useful information in understanding consumer behavior, trends in our business, and our overall operating results.

Retailer Average Revenue Per Account ("ARPA")

Retailer ARPA is calculated as monthly retail revenue, on an account basis, divided by the number of retail accounts that were active during that same month. An active account is one that had an active paying subscription with Leafly in the month. We believe this metric is helpful for investors because it represents the price element of our revenue. Management believes this metric offers useful information in understanding consumer behavior, trends in our business, and our overall operating results.

Results of Operations

Key Metrics

The table below presents these measures for the respective periods:

	Three Months Ended September 30,			
	2024	2023	Change	Change (%)
Key Operating Metrics:				
Ending retail accounts[1]	3,554	4,466	(912)	-20%
Retailer ARPA[2]	$ 695	$ 644	$ 51	8%

	Nine Months Ended September 30,			
	2024	2023	Change	Change (%)
Key Operating Metrics:				
Ending retail accounts[1]	3,554	4,466	(912)	-20%
Retailer ARPA[2]	$ 685	$ 585	$ 100	17%

1.Represents the amount outstanding on the last day of the month of the respective period.

2.Calculated as a simple average of monthly retailer ARPA for the period presented.

There was a 20% decline in year-over-year ending retail accounts for each of the three months and nine months ended September 30, 2024, compared to the same periods in 2023 primarily related to customer budget constraints and Leafly's ongoing removal of non-paying customers from the platform over the last 12 months. In addition, sequentially, ending retail accounts declined 1% from 3,595 at June 30, 2024.

The 8% increase in ARPA for the three months ended September 30, 2024, compared to the same period in 2023 was primarily the result of the removal of lower ARPA accounts from the platform, coupled with targeted price increases on Leafly products over the last twelve months. Sequentially, ARPA increased 2% from $684 at June 30, 2024 due to the reduction of lower ARPA accounts in 2024.

Revenue

We generate our revenue through the sale of online advertising and online order reservation enablement on the Leafly platform for suppliers in our Retail and Brands segments. Within our Retail segment, we monetize our multi-sided retail marketplace through monthly subscriptions that enable retailers to advertise to and acquire potential shoppers. Our solutions allow retailers, where legally permissible, to accept online orders from shoppers who visit Leafly.com or use a Leafly-powered online order reservation solution, including our iOS app. Within our Brands segment, our revenue is derived by creating custom advertising campaigns for both small and large brands that target Leafly's broad and diverse audience and offering brands profile listings on our platform, which are sold on a monthly recurring subscription or annual basis. Advertising opportunities include on-site digital display, native placements, email, branded content, and off-site audience extension. Leafly's advertising partners span a variety of verticals including hardware and accessories, THC-infused products, hemp, CBD, and seed.

	Three Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Revenue:				
Retail	$ 7,378	$ 9,266	$ (1,888)	-20%
Brands	975	1,317	(342)	-26%
Total revenue	$ 8,353	$ 10,583	$ (2,230)	-21%

	Nine Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Revenue:				
Retail	$ 22,590	$ 27,576	$ (4,986)	-18%
Brands	3,533	4,931	(1,398)	-28%
Total revenue	$ 26,123	$ 32,507	$ (6,384)	-20%

Retail

Retail revenues decreased $1,888 for the three months ended September 30, 2024 as compared to the same period in 2023 primarily due to a $870 decrease in subscriptions revenue, a $979 decrease in digital display ads, and a decrease in other revenues of $39 for the three months ended September 30, 2024 as compared to the same period in 2023. The net 20% decrease was driven by the reduction in ending retail accounts discussed above.

Retail revenues decreased $4,986 for the nine months ended September 30, 2024 as compared to the same period in 2023 primarily due to a $2,045 decrease in subscriptions revenue and a $3,030 decrease in digital display ads. These decreases were slightly offset by an increase in other revenues of $89 for the nine months ended September 30, 2024 as compared to the same period in 2023. The net 18% decrease was driven by the reduction in ending retail accounts discussed above.

Brands

For the three months ended September 30, 2024 as compared to the same period in 2023, Brands revenue decreased $342, due to a reduction in display ads of $200, a decrease in other revenues of $26, a branded content decrease of $89 and a direct-to-consumer marketing revenue decrease of $27. The decrease in brands revenue was driven primarily by reduced spend by our brand customers due primarily to changes in the macro environment and customer budget constraints.

For the nine months ended September 30, 2024 as compared to the same period in 2023, Brands revenue decreased $1,398, due to a reduction in display ads of $950, a decrease in other revenues of $164, a branded content decrease of $88 and a direct-to-consumer marketing revenue decrease of $196. The decrease in brands revenue was driven primarily by reduced spend by our brand customers due primarily to changes in the macro environment and customer budget constraints.

Cost of Revenue

	Three Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Cost of sales: [1]				
Retail	$ 793	$ 990	$ (197)	-20%
Brands	111	173	(62)	-36%
Total cost of sales	$ 904	$ 1,163	$ (259)	-22%

	Nine Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Cost of sales: [1]				
Retail	$ 2,437	$ 3,161	$ (724)	-23%
Brands	402	586	(184)	-31%
Total cost of sales	$ 2,839	$ 3,747	$ (908)	-24%

1.Prior period amounts have been revised to reflect the current period presentation.

Retail

Retail cost of sales reductions were driven by increased efficiency and lower platform costs, driving an improvement in gross margin of 89.3% versus 89.3% and 89.2% versus 88.5% for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in 2023 as described below.

For the three months ended September 30, 2024 as compared to the same period in 2023, retail cost of revenue decreased $197 due to decreased business platform and merchant processing costs of $145 and decreased website infrastructure costs of $44 and decreased labor allocation costs of $8.

For the nine months ended September 30, 2024 as compared to the same period in 2023, retail cost of revenue decreased $724 due to decreased business platform and merchant processing costs of $531, decreased labor allocation costs of $65 and decreased website infrastructure costs of $128.

Brands

Brands cost of sales reductions were a consequence of declining revenues and, to a lesser extent, increased efficiency as described below with a slight improvement in gross margin of 88.6% versus 86.9% and 88.6% versus 88.1% for the three and nine months ended September 30, 2024, respectively, as compared to the same periods in 2023.

Brands cost of revenue decreased $62 for the three months ended September 30, 2024 as compared to the same period in 2023, of which $40 corresponds to decreased associated revenue. Brands cost of revenue also decreased $22 for the three months ended September 30, 2024 as compared to the same period in 2023, due to reduced labor allocation costs.

Brands cost of revenue decreased $184 for the nine months ended September 30, 2024 as compared to the same period in 2023, of which $139 corresponds to decreased associated revenue. Brands cost of revenue also decreased $45 for the nine months ended September 30, 2024 as compared to the same period in 2023, due to reduced labor allocation costs.

Operating Expenses

As described below, operating expenses declined significantly overall as a result of the reductions in force and cost reduction activities in early 2023.

	Three Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Operating expenses:				
Sales and marketing	$ 2,149	$ 2,563	$ (414)	-16%
Product development	2,205	2,533	(328)	-13%
General and administrative	3,642	5,799	(2,157)	-37%
Total operating expenses	$ 7,996	$ 10,895	$ (2,899)	-27%

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	Nine Months Ended September 30,			
	2024	2023	Change ($)	Change (%)
Operating expenses:				
Sales and marketing	$ 7,143	$ 10,326	$ (3,183)	-31%
Product development	6,995	8,133	(1,138)	-14%
General and administrative	12,087	17,475	(5,388)	-31%
Total operating expenses	$ 26,225	$ 35,934	$ (9,709)	-27%

Sales and Marketing

Sales and marketing expenses decreased $414 for the three months ended September 30, 2024 as compared to the same period in 2023 due to: a $346 decrease in compensation costs and a $68 reduction in other costs.

Sales and marketing expenses decreased $3,183 for the nine months ended September 30, 2024 as compared to the same period in 2023 due to: a $2,948 decrease in compensation costs and a $256 reduction in other costs partially offset by an increase in advertising and professional services of $21.

Product Development

Product development expenses decreased $328 for the three months ended September 30, 2024 as compared to the same period in 2023 due to a $366 decrease in compensation costs (or $328 excluding capitalized costs) and a $64 reduction in other costs, which were partially offset by a $102 increase in depreciation expense primarily related to capitalized internal use software. Product development expenses are reported net of $483 and $254 of costs capitalized to internal-use software for the three months ended September 30, 2024 and 2023, respectively.

Product development expenses decreased $1,138 for the nine months ended September 30, 2024 as compared to the same period in 2023 due to a $1,321 decrease in compensation costs (or $1,283 excluding capitalized costs); and a $279 reduction in other costs, partially offset by a $346 increase in depreciation expense primarily related to capitalized internal use software and a $116 increase in professional services. Product development expenses are reported net of $1,080 and $1,042 of costs capitalized to internal-use software for the nine months ended September 30, 2024 and 2023, respectively.

General and Administrative

General and administrative expenses decreased $2,157 for the three months ended September 30, 2024 as compared to the same period in 2023 due to a $905 decrease in bad debts expense due to recoveries in the current year period, a $585 decrease in compensation costs, $454 reduction in insurance expense, an $82 decrease in legal and professional services and a $131 decline in other costs.

General and administrative expenses decreased $5,388 for the nine months ended September 30, 2024 as compared to the same period in 2023 due to a $1,890 decrease in bad debts expense due to recoveries in the current year period, a $1,454 decrease in legal and professional services, a $1,373 reduction in insurance, a $761 decrease in compensation costs and a $193 decline in other costs partially offset by a $283 increase in business tax expenses related to franchise and license taxes.

Legal and professional services expenses include $100 and $304 for the three and nine months ended September 30, 2024, respectively, related to advisors for strategic alternatives as discussed below under *Liquidity and Capital Resources — Going Concern*.

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Other Income and Expense

	Three Months Ended September 30,			
	2024	2023	Change ($)	Change (%) [1]
Other income (expense):				
Interest expense, net	$ (629)	$ (720)	$ 91	-13%
Other income (expense), net	37	(15)	52	-347%
Total other income (expense)	$ (592)	$ (735)	$ 143	-19%

	Nine Months Ended September 30,			
	2024	2023	Change ($)	Change (%) [1]
Other income (expense):				
Interest expense, net	$ (1,874)	$ (2,157)	$ 283	-13%
Other income (expense), net	14	288	(274)	-95%
Total other income (expense)	$ (1,860)	$ (1,869)	$ 9	0%

Interest expense, net decreased by $91 and $283 for the three and nine months ended September 30, 2024 compared to the same periods in 2023 due primarily to a $101 and $354 increase, respectively, in interest income related to an increase in average balances invested.

Other income (expense), net increased by $52 and decreased by $274 for the three and nine months ended September 30, 2024 as compared to the same periods in 2023 due primarily to a $0 and $253 reduction, respectively, in the change in fair value of derivatives.

Net Loss

Net loss was $1,139 and $4,801 for the three months and nine months ended September 30, 2024, respectively, compared to net loss of $2,210 and $9,043 for the three and nine months ended September 30, 2023, respectively. The reductions in net loss were primarily due to the realization of cost savings from the 2023 reduction in force and cost cutting measures, as discussed above.

Non-GAAP Financial Measures

Earnings Before Interest, Taxes and Depreciation and Amortization (EBITDA) and Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed EBITDA and Adjusted EBITDA, both of which are non-GAAP financial measures that we calculate as net loss before interest, taxes and depreciation and amortization expense in the case of EBITDA and further adjusted to exclude non-cash, unusual and/or infrequent costs in the case of Adjusted EBITDA. Below we have provided a reconciliation of net loss (the most directly comparable GAAP financial measure) to EBITDA and from EBITDA to Adjusted EBITDA.

We present EBITDA and Adjusted EBITDA because these metrics are key measures used by our management to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of investment capacity. Accordingly, we believe that EBITDA and Adjusted EBITDA provide useful information to investors and others in understanding and evaluating our operating results in the same manner as our management.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider these in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are as follows:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and both EBITDA and Adjusted EBITDA do not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs; and
- EBITDA and Adjusted EBITDA do not reflect interest or tax payments that may represent a reduction in cash available to us.

Because of these limitations, you should consider EBITDA and Adjusted EBITDA alongside other financial performance measures, including net loss and our other GAAP results.

A reconciliation of net loss to non-GAAP EBITDA and Adjusted EBITDA follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	$ (1,139)	$ (2,210)	$ (4,801)	$ (9,043)
Interest expense, net	629	720	1,874	2,157
Depreciation and amortization expense	378	276	1,030	697
EBITDA	(132)	(1,214)	(1,897)	(6,189)
Stock-based compensation	424	997	1,629	2,235
Transaction related expenses - strategic alternatives, reverse stock split	100	55	304	55
Reduction in force	—	—	—	754
Change in fair value of derivatives	(14)	(14)	(42)	(295)
Adjusted EBITDA	$ 378	$ (176)	$ (6)	$ (3,440)

The favorable changes in EBITDA and Adjusted EBITDA for the three and nine months ended September 30, 2024 versus the same periods in 2023 are primarily due to cost savings resulting from Leafly's reductions in force and cost cutting measures described above.

Financial Condition

Cash, Cash Equivalents, and Restricted Cash

Cash, cash equivalents, and restricted cash totaled $13,815 and $15,544 as of September 30, 2024 and December 31, 2023, respectively. Explanations of our cash flows for the periods presented follow.

Cash Flows

Nine Months Ended September 30, 2024

During the nine months ended September 30, 2024, we utilized a total of $1,729 of cash to fund cash operating losses of approximately $1,291 partially offset by favorable changes in current assets and liabilities of $975, investing activities (primarily capitalized software costs) of $1,078, and financing activities of $335 (primarily the $1,109 repayment of the short-term financing partially offset by $908 of funds raised in the ATM Offering net of offering costs). The changes in current assets and liabilities during the nine months ended September 30, 2024 included reductions in accounts payable and accrued expenses of $451 as well as a decrease in prepaid expenses and other current assets of $1,162.

Nine Months Ended September 30, 2024 Compared to Nine Months Ended September 30, 2023

As compared to the nine months ended September 30, 2023, cash used in operations decreased by $9,322 to $316 for the nine months ended September 30, 2024, mainly due to decreased net loss from operations as a result of the reductions in force, the cost cutting measures employed in 2023 and the payment of 2022 bonuses in early 2023. Cash used in investing activities increased $63 to $1,078 for the nine months ended September 30, 2024 primarily due to higher software capitalization in the current year period. Cash and restricted cash used by financing activities increased $504 from the 2023 period to a use of $335 for the nine months ended September 30, 2024 (primarily the $1,109 repayment of the short-term financing partially offset by $908 of funds raised in the ATM Offering net of offering costs in 2024).

Deferred Revenue

Deferred revenue is primarily related to software subscriptions and display ads. The revenue deferred at September 30, 2024 is expected to be recognized in the near term. See Note 8 to our consolidated financial statements within this Quarterly Report for further discussion.

Contractual Obligations and Other Planned Uses of Capital

We are obligated to repay the operating liabilities on our Consolidated Balance Sheets, such as accrued liabilities. In addition, we are obligated to pay any 2022 Notes when they come due on January 31, 2025 that do not ultimately convert to equity. See Note 9 to our consolidated financial statements within this Quarterly Report for more information.

Liquidity and Capital Resources

We primarily fund our operations and capital expenditures through cash flows generated by operations and our cash, cash equivalents and restricted cash on hand. Our principal liquidity needs in the "near-term" (within the next twelve months) include the direct costs associated with revenues earned, operating expenses, payment of principal and interest on the 2022 Notes and tax payments. The 2022 Notes bear interest at 8% annually, paid in cash semi-annually in arrears on July 31 and January 31 of each year, and mature on January 31, 2025.

To the extent existing sources of liquidity are not sufficient to fund future activities, meet our payment obligations under the 2022 Notes or pursue strategic opportunities, we may need to raise additional funds, which we may seek to do through equity or debt financings, or seek to refinance the 2022 Notes. Any additional equity financing may be dilutive to stockholders. Debt financing, if available, may involve agreements that include equity conversion rights, covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, expending capital, or pursuing certain business opportunities. There can be no assurance that, if needed, we will be able to obtain additional or adequate financing or to refinance or restructure our indebtedness on terms favorable to us, if at all. See, Part I, Item 1A Risk Factors in our 2023 Annual Report under the headings "*— We may need to raise additional capital, which may not be available on favorable terms, if at all, causing dilution to our stockholders, restricting our operations or adversely affecting our ability to operate our business." and "— Risks Relating to our Indebtedness."* In addition, if our securities are delisted, our ability to raise additional equity financing will be limited, and we may no longer have access to our ATM Program. See *Section 1A. Risk Factors – "Our failure to regain compliance with the continued listing requirements of the Nasdaq Capital Market could result in a delisting of our common stock."*

Going Concern

Under the rules of ASC Subtopic 205-40 *"Presentation of Financial Statements — Going Concern"* ("ASC 205-40"), reporting companies are required to evaluate whether conditions and/or events raise substantial doubt about their ability to meet their future financial obligations as they become due within one year after the date that the financial statements are issued. This evaluation takes into account a company's current available cash and projected cash needs over the one-year evaluation period but may not consider things beyond its control.

We have $29,425 of 2022 Notes maturing on January 31, 2025 and based on our current liquidity position would not be able to repay the 2022 Notes when due. Note 9 to our consolidated financial statements within this Quarterly Report provides additional information regarding the 2022 Notes. In addition, as noted above, we have experienced revenue declines, incurred recurring operating losses, used cash from operations, and relied on the capital raised in the Business Combination to continue ongoing operations. We have incurred operating losses since our inception and had an accumulated deficit of $78,999 and $74,198 at September 30, 2024 and December 31, 2023, respectively. These conditions, when considered in the aggregate, raise substantial doubt about our ability to continue as a going concern within one year of the date the financial statements included in this Quarterly Report are issued. In response to these conditions, we took the following actions:

- We implemented previous restructuring plans, most recently in the first quarter of 2023, which reduced our labor force and substantially decreased costs in fiscal year 2023 as compared to fiscal year 2022. We still expect to recognize the full-year impact of our 2023 restructuring in 2024.
- During the fourth quarter of 2023, we began exploring opportunities to address the upcoming maturity of our 2022 Notes. In December 2023 and May 2024, we worked with our noteholders and converted $300 and $275, respectively, of the outstanding principal to equity (Note 9). In addition, during the three and nine months ended September 30, 2024, we sold 470,000 common shares for net proceeds of $908 under our ATM program (Note 11).
- In early 2024, we began an initiative that we believe will improve revenues by hiring additional sales professionals and implementing improved selling strategies. In addition, during the nine months ended September 30, 2024, total employees declined by 12 persons from 131 to 119.
- We continue to work with the advisors we engaged during the second quarter of 2024 to explore financing and strategic opportunities to maximize stakeholder value.

The restructuring plans above have been implemented and are expected to continue contributing to the cash savings of the Company. We are closely monitoring and reducing operating expenses where we are able to, while intending to ensure the trajectory and viability of the business remains intact. However, we cannot meet our debt maturity obligations without a significant capital infusion or a lender's commitment to refinance our debt. After considering all available evidence, Leafly determined that the combined impact of our cost reduction measures outlined in both actions above and planned operations will be not sufficient to meet our capital requirements for a period of at least twelve months from the date that our September 30, 2024 financial statements are issued. We believe substantial doubt exists about our ability to continue as a going concern within one year of the date these financial statements are issued. Management will continue to evaluate our liquidity and capital resources.

We believe that our capital resources are not sufficient to fund our operations for at least the following 12 months, because we do not currently have the ability to repay our 2022 Notes due in January 2025.

ATM Offering

On June 27, 2024, we entered into the Equity Distribution Agreement with the Agent pursuant to which we could sell, at our option, up to an aggregate of $2,519 in shares of our common stock through the Agent under the ATM Offering. During the three and nine months ended September 30, 2024, we raised net proceeds totaling $908 under the ATM Offering (Note 11).

Noncompliance with Nasdaq Continued Listing Standards

From January 1, 2024 until March 25, 2024, we were out of compliance with the Audit Committee Rule, which requires our Board's Audit Committee to be composed of at least three independent members. On January 3, 2024, we received a letter from the Staff confirming our noncompliance with the Audit Committee Rule and providing us with a cure period to regain compliance (i) until the earlier of our next annual meeting of stockholders or January 2, 2025; or (ii) if the next annual meeting of stockholders was held before July 1, 2024, then we had to evidence compliance no later than July 1, 2024. As a result of the Board's appointment on March 25, 2024 of two new independent directors, Messrs. Monat and Nannetti, to the Board and to the Board's Audit Committee, on April 1, 2024, we received written notice from the Staff confirming that we regained compliance with the Audit Committee Rule and this matter is now closed.

On April 9, 2024, we received the Notice from the Staff notifying us that we no longer comply with Nasdaq's requirements contained in Nasdaq Listing Rule 5550 for companies traded on the Capital Market. Nasdaq Listing Rule 5550 requires a company listed on the Capital Market to continuously meet at least one of the Continued Listing Standards set forth in Nasdaq Listing Rule 5550(b), as follows:

Continued Listing Standard	Requirement
"Stockholders' Equity"	Minimum $2.5 million
"Market Value of Listed Securities"	Minimum $35 million
"Net Income"	Minimum $500 thousand from continuing operations – most recent fiscal year or in two of three of last three fiscal years

As confirmed by the Notice, we do not currently meet any of the Continued Listing Standards. The Notice has no immediate effect on the listing of the Company's common stock or warrants, and its common stock and warrants will continue to trade on the Capital Market under the symbols "LFLY" and "LFLYW," respectively. As set forth in the Notice, within 45 calendar days from the date of the Notice, we had the right to submit to Nasdaq a plan to regain compliance with Nasdaq's Stockholders' Equity and/or Market Value of Listed Securities standards, and the Staff may grant an extension of up to 180 calendar days from the date of the Notice to evidence compliance. On May 24, 2024, we submitted a proposed plan of compliance to Nasdaq showing how we intend to regain compliance with the Stockholders' Equity standard, and subsequently, upon request by Nasdaq, we provided updates on our progress under the proposed plan. On October 4, 2024, the Company received a plan denial and delisting determination letter from the Staff. The Company requested a hearing before a Nasdaq Hearing Panel ("Panel"). Any suspension or delisting of the Company's common stock and warrants on the Capital Market has been stayed, pending the scheduled hearing and a final written decision from the Panel. The Panel hearing is scheduled for December 5, 2024. If the Panel denies the Company's appeal, then the Company's common stock and warrants will be delisted from the Capital Market. There can be no assurance that the Panel will grant the Company an extension period or that the Company will ultimately meet all applicable criteria for continued listing on the Capital Market.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2024.

Contractual Obligations

Other than our 2022 Notes (see Note 9 to our consolidated financial statements), we do not have any long-term debt, lease obligations or other long-term liabilities. We have entered into several multi-year licensing and administration agreements in the ordinary course of business, the cost of which are reflected within general and administrative expense within our statements of operations as costs are incurred.

Critical Accounting Estimates

The preparation of financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and income and expenses during the periods reported. Actual results could materially differ from those estimates.

We believe there have been no material changes to the items that we disclosed as our critical accounting estimates under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," in our 2023 Annual

Report.

Recently Issued and Adopted Accounting Pronouncements

Reference is made to Note 2 for information about recently issued accounting pronouncements.