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

FORM 8-K/A
(Amendment No. 1)

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): August 15, 2022 (July 19, 2022)

FAZE HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware	001-40083	84-2081659
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

720 N. Cahuenga Blvd. Los Angeles, CA	90038
(Address of principal executive offices)	(Zip Code)

(818) 688-6373
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	**FAZE**	**The Nasdaq Stock Market LLC**
Warrants, each whole warrant exercisable for one share of common stock	**FAZEW**	**The Nasdaq Stock Market LLC**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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. ☐

EXPLANATORY NOTE

This Amendment No. 1 on Form 8-K/A ("Amendment No. 1") amends the Current Report on Form 8-K of FaZe Holdings Inc., a Delaware corporation (the "Company"), filed on July 22, 2022 (the "Original Report"), in which the Company reported, among other events, the completion of the Business Combination (as defined in the Original Report).

This Amendment No. 1 is being filed solely for the purpose of amending the historical financial statements provided under Item 9.01(a) in the Original Report to include (i) the unaudited condensed consolidated financial statements of FaZe Clan Inc., a Delaware limited liability company ("Legacy FaZe"), as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 and (ii) the related Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy FaZe for the six months ended June 30, 2022 and 2021.

This Amendment No. 1 does not amend any other item of the Original Report or purport to provide an update or a discussion of any developments at the Company or its subsidiaries subsequent to the filing date of the Original Report. The information previously reported in or filed with the Original Report is hereby incorporated by reference to this Form 8-K/A. Capitalized terms used but not defined herein have the meanings assigned to them in the Original Report.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of businesses acquired.

The unaudited condensed consolidated financial statements of Legacy FaZe as of June 30, 2022 and for the six months ended June 30, 2022 and 2021 and the related notes thereto are attached as Exhibit 99.1 and are incorporated herein by reference.

Also included as Exhibit 99.2 and incorporated herein by reference is the Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy FaZe as of June 30, 2022 and for the six months ended June 30, 2022 and 2021.

(d) Exhibits

Exhibit Number	Description
99.1	Unaudited Condensed Consolidated Financial Statements of Legacy FaZe as of June 30, 2022 and for the six months ended June 30, 2022 and 2021.
99.2	Management's Discussion and Analysis of Financial Condition and Results of Operations of Legacy FaZe for the six months ended June 30, 2022.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURES

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

FAZE HOLDINGS INC.

Date: August 15, 2022	By: /s/ Lee Trink
	Name: Lee Trink
	Title: Chief Executive Officer

FaZe Clan Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except shares)
(unaudited)

	June 30, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 5,894	$ 17,018
Accounts receivable, net	10,135	6,266
Contract assets	2,804	4,118
Inventory	—	6
Content asset, net	—	474
Prepaid expenses and other assets	11,374	6,190
Total Current Assets	30,207	34,072
Restricted cash	600	600
Property, equipment and leasehold improvements, net	3,986	925
Intangible assets, net	851	738
Other long-term assets	715	733
TOTAL ASSETS	**$ 36,359**	**$ 37,068**
LIABILITIES, MEZZANINE EQUITY AND STOCKHOLDERS' DEFICIT		
LIABILITIES:		
Current liabilities:		
Accounts payable and accrued expenses	$ 28,199	$ 28,381
Short-term debt	24,165	3,148
Contract liabilities	2,770	7,902
Other current liabilities	—	7
Total Current Liabilities	55,134	39,438
Long-term debt, net of discounts (Note 5)	70,233	70,854
Other long term liabilities	27	—
Total Liabilities	**125,394**	**110,292**
COMMITMENTS AND CONTINGENCIES (Note 8)		
MEZZANINE EQUITY:		
Series A preferred stock, $0.00001 par value, 3,545,529 shares authorized at June 30, 2022 and December 31, 2021, respectively; 3,237,800 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively.	33,705	33,705
STOCKHOLDERS' DEFICIT:		
Common stock, $0.00001 par value; 31,900,878 shares authorized at June 30, 2022 and December 31, 2021, respectively; 8,612,791 and 8,461,706 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively.	—	—
Additional paid-in capital	8,532	5,479
Accumulated deficit	(131,272)	(112,408)
Total Stockholders' Deficit	**(122,740)**	**(106,929)**
TOTAL LIABILITIES, MEZZANINE EQUITY, AND STOCKHOLDERS' DEFICIT	**$ 36,359**	**$ 37,068**

FaZe Clan Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except shares and per-share information)

(unaudited)

	Six months ended June 30,	
	2022	**2021**
Revenues	$ 34,609	$ 25,263
Cost of revenues	24,177	20,875
Gross profit	10,432	4,388
Operating expenses:		
General and administrative	22,097	14,312
Sales and marketing	2,078	1,361
Impairment of content assets	1,073	—
Loss from operations	(14,816)	(11,285)
Other expense:		
Interest expense, net	4,032	2,118
Other, net	16	(67)
Total other expense:	4,048	2,051
Net loss	$ (18,864)	$ (13,336)
Net loss per common share - basic and diluted	$ (2.03)	$ (1.64)
Weighted-average number of common shares outstanding - basic and diluted	9,311,842	8,151,888

FaZe Clan Inc.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

(in thousands, except shares and per-share information)

(unaudited)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2020	**7,397,055**	$ —	**$ 3,086**	**$ (75,542)**	**$ (72,456)**
Net loss	—	—	—	(13,336)	(13,336)
Balance at June 30, 2021	**7,397,055**	—	**3,086**	**(88,878)**	**(85,792)**
Balance at December 31, 2021	**8,461,706**	$ —	**$ 5,479**	**$ (112,408)**	**$(106,929)**
Stock based compensation expense	—	—	2,659	—	2,659
Issuance of common stock in connection with litigation settlement	13,021	—	294	—	294
Issuance of common stock upon vesting of restricted stock awards	20,192	—	—	—	—
Exercise of stock option	117,872	—	100	—	100
Net loss	—	—	—	(18,864)	(18,864)
Balance at June 30, 2022	**8,612,791**	$ —	**$ 8,532**	**$ (131,272)**	**$(122,740)**

FaZe Clan Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Six months ended June 30, 2022	Six months ended June 30, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (18,864)	$ (13,336)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense (recovery)	(36)	81
Additions to content asset	(599)	—
Depreciation & amortization expense	663	434
Content asset impairment	1,073	—
Stock-based compensation expense	2,659	—
Non-cash interest expense	4,032	2,118
Other	(37)	(73)
Change in operating assets and liabilities:		
Accounts receivable and contract assets	(2,519)	(805)
Inventory	6	4
Prepaid expenses and other assets	227	(611)
Accounts payable and accrued expenses	(7,171)	(3,149)
Contract liabilities	(5,132)	255
Other current liabilities	(7)	(32)
Other long term liabilities	27	—
NET CASH USED IN OPERATING ACTIVITIES	**(25,678)**	**(15,114)**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and leasehold improvements	(3,472)	(87)
Purchase of intangible assets	(356)	(53)
Issuance of note receivable	—	(85)
NET CASH USED IN INVESTING ACTIVITIES	**(3,828)**	**(225)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of term loan	20,000	—
Proceeds from issuance of convertible debt	—	20,000
Issuance of common stock in connection with exercise of stock options	100	—
Payment of deferred transaction costs	(1,718)	—
Payment of debt issuance costs	—	(181)
NET CASH PROVIDED BY FINANCING ACTIVITIES	**18,382**	**19,819**
NET CHANGE IN CASH AND RESTRICTED CASH	**(11,124)**	**4,480**
Cash and restricted cash at beginning of period	17,618	4,431
CASH AND RESTRICTED CASH AT END OF PERIOD	**$ 6,494**	**$ 8,911**
RECONCILIATION TO CONSOLIDATED BALANCE SHEETS		
Cash	$ 5,894	$ 8,911
Restricted cash	600	—
Cash and restricted cash	**$ 6,494**	**$ 8,911**
SUPPLEMENTAL DISCLOSURE FOR OPERATING ACTIVITIES:		
Cash paid for interest	$ —	$ —
SUPPLEMENTAL DISCLOSURE FOR NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Capitalization of deferred transaction costs included in accounts payable	$ 5,058	$ —
Issuance of common stock in connection with litigation settlement	294	—
Purchase of property, equipment and leasehold improvements in accrued expenses	9	—

1. DESCRIPTION OF THE BUSINESS

FaZe Clan, Inc. (the "Company"), founded in 2010, is a lifestyle and media platform rooted in gaming and youth culture. The Company's premium brand, talent network, and large audience can be monetized across a variety of products and services.

On October 24, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with B. Riley 150 Merger Corp. ("B. Riley 150"), a special purpose acquisition company, and BRPM Merger Sub, Inc., a directly wholly owned subsidiary of B. Riley 150 ("Merger Sub"), pursuant to which the Merger Sub will merge with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of B. Riley 150 (the "Merger"). The Merger is expected to be accounted for as a reverse capitalization whereby the Company is treated as the acquirer. At the closing of the business combination, B. Riley 150 will change its name to "FaZe Holdings Inc."

The closing of the Merger is subject to the satisfaction or waiver of certain customary closing conditions, including, among others, the receipt of required approval by the stockholders of B. Riley 150 and the Company, required regulatory approvals and the fulfillment of other conditions set forth in the Merger Agreement, and the effectiveness of the registration statement to be filed with the U.S. Securities and Exchange Commission in connection with the transaction.

In March 2022, the Company and B. Riley 150 entered into an amendment to the Merger Agreement. Pursuant to the amendment, among other things, as of the Merger effective time, each vested stock option of the Company that is not exercised shall not automatically be converted into shares of Company's common stock but instead will be converted into vested stock options exercisable into B. Riley 150 common stock as of merger effective time. Each vested stock option shall be treated as an issued and outstanding share of the Company's common stock for all purposes of the Merger Agreement, calculated on a cashless basis. As a result, the calculation of the Equity Value Exchange Ratio is not impacted. The "Equity Value Exchange Ratio" is the quotient obtained by dividing 65,000,000 by the fully diluted number of shares of the Company common stock outstanding immediately prior to the Effective Time (excluding certain shares, as determined in accordance with the Merger Agreement).

In March 2022, the Company entered into an agreement for a term loan with B. Riley Principal Commercial Capital, LLC, an affiliate of B. Riley 150, allowing the Company to borrow an aggregate principal amount of up to $20 million maturing on the closing date of the Merger Agreement. As of June 30, 2022, the Company had borrowed $20 million. In the same agreement, the Company waived the minimum cash condition for closing in the proposed merger with B. Riley 150.

In July 2022, the Company and the restricted stock awards holders entered into an amendment to the restricted stock awards agreements entered on October 18 and October 19, 2021. Pursuant to the amendment, among other things, the acceleration of vesting shall happen upon the ninetieth (90th) day following the date of the transactions, instead of on the date of the transactions. As the calculation of company restricted stock awards is defined to include both vested and unvested restricted stock awards pursuant to the Merger Agreement, the calculation of the Equity Value Exchange Ratio is not impacted.

On July 19, 2022 (the "Closing Date"), the Company and B. Riley 150 consummated the Merger and the Company is now a wholly-owned subsidiary of B. Riley 150, subsequently renamed "FaZe Holdings Inc." The Merger is further described in Note 12, *Subsequent Events*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts and operations of the Company. All intercompany accounts and transactions have been eliminated. The condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from these estimates and assumptions.

Unaudited Interim Condensed Consolidated Financial Information

The accompanying Condensed Consolidated Balance Sheet as of June 30, 2022, Condensed Consolidated Statements of Operations for the six months ended June 30, 2022 and 2021, Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021 and Condensed Consolidated Statements of Stockholders' Deficit for the six months ended June 30, 2022 and 2021 are unaudited. The financial data and other information contained in the notes thereto as of and for the six months ended June 30, 2022 and 2021 are also unaudited. The Condensed Consolidated Balance Sheet as of December 31, 2021 was derived from the Company's audited consolidated financial statements incorporated by reference in the Company's Form 8-K, which was filed with the SEC on July 22, 2022.

The unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements, and in the opinion of management, reflect all normal recurring adjustments necessary for the fair presentation of the Company's financial position as of June 30, 2022, the results of its operations for the six months ended June 30, 2022 and 2021, and its cash flows for the six months ended June 30, 2022 and 2021. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements as of and for the years ended December 31, 2021 and 2020, and the notes thereto.

The results for the six months ended June 30, 2022 are not necessarily indicative of results to be expected for the year ended December 31, 2022, or any other interim periods, or any future year or period.

The significant accounting policies used in preparation of these unaudited interim condensed consolidated financial statements are consistent with those described in the Company's audited consolidated financial statements as of and for the years ended December 31, 2021 and 2020.

Going Concern

The Company evaluated whether there are any conditions and events, considered in the aggregate, that raise substantial doubt about its ability to continue as a going concern over the next twelve months through August 2023. The Company has incurred net losses since inception. The Company expects to continue to incur significant operating losses for the foreseeable future. However, based on cash received from the completion of the merger as more fully described in Note 12, *Subsequent Events* and cash needs to fund operations, the Company currently expects that it will have sufficient cash to fund its operating expenses and capital expenditure requirements for at least the next 12 months from issuance. As such, substantial doubt about the Company's ability to continue as a going concern has been alleviated.

Emerging Growth Company

Section 102(b)(1) of the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act") exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that an emerging growth company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period, which means that when a standard is issued or revised, and it has different application dates for public and private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

This may make comparison of the Company's condensed consolidated financial statements with another public company that is neither an emerging growth company nor an emerging growth company that has opted out of using the extended transition period difficult or impossible because of the potential differences in accounting standards used.

Use of Estimates

The preparation of the Company's condensed consolidated financial statements in conformity with U.S. GAAP requires the Company 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 condensed consolidated financial statements, and the reported amounts of income and expenses during the reporting period. These estimates are based on information available as of the date of the condensed consolidated financial statements. The inputs into certain of these estimates and assumptions include the consideration of the economic impact of the COVID-19 pandemic. Significant estimates include revenue recognition, allowance for doubtful accounts, valuation of our common stock, stock-based compensation expense and income taxes. These estimates generally involve complex issues and require us to make judgments, involve analysis of historical and future trends, can require extended periods of time to resolve, and are subject to change from period to period. In all cases, actual results could differ materially from our estimates.

COVID-19

The continuing spread of COVID-19 around the world is affecting the United States and global economies and has affected our operations and those of third parties on which we rely, including disruptions in staffing, order fulfillment and demand for product. In addition, the COVID-19 pandemic has and may continue to affect our revenue significantly. Additionally, while the potential economic impact brought by, and the duration of the COVID-19 pandemic, are difficult to assess or predict, the impact of the COVID-19 pandemic on the global financial markets may reduce our ability to access capital, which could negatively impact our short-term and long-term liquidity. The continuing impact of the COVID-19 pandemic is highly uncertain and subject to change.

As COVID-19 continues to evolve, the extent to which the coronavirus impacts operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration and severity of the outbreak, and the actions that may be required to contain the coronavirus or treat its impact. The Company continues to monitor the pandemic and the extent to which the continued spread of the virus adversely affects our customer base and revenue. As the COVID-19 pandemic is complex and rapidly evolving, the Company's plans as described above may change. At this point, the Company cannot reasonably estimate the duration and severity of this pandemic, which could have a material adverse impact on the business, results of operations, financial position, and cash flows.

Content Asset, net

The Company produces programming content which it plans to broadcast on online video and streaming platforms. Costs of produced content consist of development and production costs. These costs are capitalized as "Content Asset, net" on the condensed consolidated balance sheet.

Each title is predominantly monetized on its own. At the specific title level, the Company tests the content asset for impairment when events and circumstances indicate that its fair value may be less than its unamortized cost. If the carrying value of a content asset exceeds its estimated fair value, an impairment charge will be recorded in the amount of the difference.

In April 2022, the Company performed an evaluation of the content asset and determined that the underlying programming of the content asset will not be released. In addition, the Company determined that the content asset has no further utility. Accordingly, the Company recorded an impairment loss of $1.1 million to write off the entire carrying value of content asset. As such, the Company has no content asset balance as of June 30, 2022. There were no content assets as of June 30, 2021.

The Company's policy is to amortize the content asset once the content airs. Given that the content was fully written off prior to airing, no amortization expense was recorded for the six months ended June 30, 2022. The Company does not own any purchased or licensed programming content.

Exploitation costs such as marketing, advertising, publicity, promotion, and other distribution expenses directly connected with the distribution of the content asset are expensed as incurred.

Revenue Recognition and Contract Balances

In May 2014, the FASB issued new accounting guidance related to revenue recognition. On January 1, 2019, we adopted the new accounting standard and related amendments using the modified retrospective approach. Based on the Company's assessment, the adoption of ASC 606, Revenue from Contracts with Customers ("ASC 606") did not have a material impact to the Company's condensed consolidated financial statements and there were no material differences between the Company's adoption of ASC 606 and its historic accounting under ASC 605, Revenue Recognition.

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Our payment terms and conditions vary by customer and contract type. In instances where the timing of revenue recognition differs from the timing of invoicing, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to our customer and payment for that product or service will be one year or less.

We generally record a receivable related to revenue when we have an unconditional right to invoice and receive payment. Contract assets arise from contracts when revenue is recognized over time and the amount of revenue recognized, including our estimate of variable consideration that has been included in the transaction price, exceeds the amount billed to the customer. These amounts are included in contract assets until the right to payment is no longer conditional on events other than the passage of time. These contract assets are reclassified to receivables when the right to consideration becomes unconditional. For the six months ended June 30, 2022 and 2021, no impairment was recorded from contract assets.

Our allowances for doubtful accounts are typically immaterial and, if required, are based on our best estimate of expected credit losses inherent in our accounts receivable balance.

Contract liabilities are recorded in the event that the Company bills for services in advance of the time the services are performed, or when cash payments are received or due in advance of satisfying our performance obligations, even if amounts are refundable. Contract liabilities recorded at June 30, 2022 and December 31, 2021 represent the Company's accounting for the timing difference between when funds are received and when the performance obligation is satisfied. Revenue recognized for the six months ended June 30, 2022 relating to the contract liability balances as of January 1, 2022 was $7.8 million.

The following table disaggregates the Company's revenue by major type for the six months ended June 30, 2022 and 2021:

	(in thousands) Six months ended June 30, 2022	2021
Brand sponsorships	$ 20,982	$ 10,695
Content	6,543	10,413
Consumer products	1,857	2,232
Esports	4,963	1,814
Other	264	109
Total revenue	**$ 34,609**	**$ 25,263**

The section below describes our revenue recognition policies and significant judgments in further detail for each major revenue source of the Company.

Brand Sponsorships

The Company offers advertisers a full range of promotional vehicles, including but not limited to online advertising, livestream announcements, content generation, social media posts, logo placement on the Company's official merchandise and special appearances of members of the Company's talent roster. Our brand sponsorship agreements may include multiple services that are capable of being individually distinct, however the intended benefit is an association with the Company's brand and the services are not distinct within the context of the contracts. Revenues from brand sponsorship agreements are recognized ratably over the contract term. Payment terms and conditions vary, but payments are generally due periodically throughout the term of the contract. In instances where the timing of revenue recognition differs from the timing of billing, we have determined the brand sponsorship agreements generally do not include a significant financing component.

Content

The Company generates and produces original content which we monetize through Google's AdSense service. Revenue is variable and is earned when the visitor views or "clicks through" on the advertisement. The amount of revenue earned is reported to us monthly and is recognized upon receipt of the report of viewership activity. Payment terms and conditions vary, but payments are generally due within 30 to 45 days after the end of each month.

The Company grants exclusive licenses to customers for certain content produced by the Company's talent. The Company grants the customer a license to the intellectual property, which is the content and its use in generating advertising revenues, for a pre-determined period, for an amount paid by the customer upon execution of the contract. The Company's only performance obligation is to license the content for use in generating advertising revenues, and recognizes the full contract amount at the point at which the Company provides the customer access to the content, which is at the execution of the contract. The Company has no further performance obligations under these types of contracts and does not anticipate generating any additional revenue from these arrangements apart from the contract amount.

Principal Versus Agent Considerations

A significant amount of our brand sponsorship and content revenues are generated from our talent, who are under exclusive, multi-year contracts. Our talent consists of highly trained independent contractors, whose compensation is tied to the revenue that they generate. We have evaluated the terms of our brand sponsorship and content agreements and have concluded the Company is the principal. Brand sponsorship and content revenues are reported on a gross basis, while revenue-sharing and other fees paid to our talent are recorded as cost of revenues. The Company owns the brand and intellectual property, takes primary responsibility for delivery of services, and exercises control over content generation and monetization. The Company contracts directly with Google on its Company operated channels, and the talent contracts directly with Google on their own channels. As part of the Company's contracts with its talent, the Company agrees to serve as the Talent's exclusive management company as it relates to any and all type of work the talent may perform, including content creation and advertising revenue generated from the content. While the talent owns the content they create while they are under contract with the Company, the talent grants the Company an exclusive perpetual license to the content, and the Company grants limited usage rights of that content back to the talent, conditional upon them complying with their contract. Furthermore, all income earned from services provided by the talent related to gaming, Esports, content creation, or the business of the Company, which includes revenue from advertising via talent content, is subject to the talent agreement and is payable to the Company. In addition, the Company's contracts with its talent specify rules and restrictions on the content the talent can create and post. As such, through its contracts with talent, the Company is the principal because the Company is the entity exercising primary control over the content generated in the YouTube channels being monetized.

Consumer Products

The Company earns consumer products revenue from sales of our consumer products on our website or at live or virtual events. Revenues are recognized at a point in time, as control is transferred to the customer upon shipment. The Company offers customer returns and discounts through a third-party distributor and accounts for this as a reduction to revenue. The Company does not offer loyalty programs or other sales incentive programs that are material to revenue recognition. Payment is due at the time of sale. We have outsourced the design, manufacturing, fulfillment, distribution, and sale of our consumer products to a third party, in exchange for royalties based on the amount of revenue generated. We evaluated the terms of the agreement to determine whether our consumer products revenues should be reported gross, or net of royalties paid. Key indicators that we evaluated in determining whether we are the principal in the sale (gross reporting), or an agent (net reporting) include, but are not limited to:

- the Company is the party that is primarily responsible for fulfilling the promise to provide the specified good or service,
- the Company has inventory risk before the good is transferred to the customer, and
- the Company is the party that has discretion in establishing pricing for the specified good or service.

Based on our evaluation of the above indicators, we report consumer products revenues on a gross basis.

Esports

League Participation: Generally, The Company has one performance obligation—to participate in the overall Esport event—because the underlying activities do not have standalone value absent our participation in the tournament or event. Revenue from prize winnings and profit-share agreements is variable and is highly uncertain, we recognize revenue at the point in time when the uncertainty is resolved.

Player Transfer Fees: Player transfer agreements include a fixed fee and may include a variable fee component. The Company recognizes the fixed portion of revenue from transfer fees upon satisfaction of our performance obligation, which coincides with the execution of the related agreement. The variable portion of revenue is considered highly uncertain and is recognized at the point in time when the uncertainty is resolved.

Licensing of Intellectual Property: Our licenses of intellectual property generate royalties that are recognized in accordance with the royalty recognition constraint. That is, royalty revenue is recognized at the time when the sale occurs.

Transaction Price Allocated to the Remaining Performance Obligations

For the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of June 30, 2022, the Company applies the allowable practical expedient and does not disclose information about remaining performance obligations that have original expected durations of one year or less. Revenue expected to be recognized in the future related to performance obligations that have original expected durations greater than one year that are unsatisfied (or partially unsatisfied) as of June 30, 2022 were not material.

Convertible Debt

The Company evaluates embedded conversion features within convertible debt under ASC 815, *Derivatives and Hedging* (“ASC 815”), to determine whether the embedded conversion feature(s) should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings.

Stock-Based Compensation

The Company accounts for its stock-based awards in accordance with ASC 718, *Compensation – Stock Compensation*, which requires fair value measurement on the grant date and recognition of compensation expense for all stock-based payment awards.

Given the absence of an active market for the Company’s common stock, the Board of Directors (the “Board”) was required to estimate the fair value of the Company’s common stock at the time of each award. The Board considered numerous objective and subjective factors in determining the value of the Company’s common stock at each grant date, including the following: (1) the per-share price of issuances of the Company’s preferred stock, which the Company sold to outside investors in arm’s-length transactions, and the rights, preferences, and privileges of the Company’s preferred stock and common stock; (2) valuations performed by an independent valuation specialist; (3) the Company’s stage of development and revenue growth; (4) the fact that the awards involved illiquid securities in a private company; and (5) the likelihood of achieving a liquidity event for the shares of common stock underlying the awards, such as an initial public offering or sale of the Company, given prevailing market conditions. The Company believes this to have been a reasonable methodology based on certain arm’s-length transactions involving the Company’s preferred stock, supported by the results produced by this valuation methodology. As the Company’s common stock is not actively traded, the determination of fair value involves assumptions, judgments and estimates. If different assumptions were made, stock-based compensation expense and net loss could have been significantly different.

For stock options, the Company estimates the fair value using the Black-Scholes-Merton option-pricing (“Black-Scholes”) model. The fair value is expensed over the requisite service periods of the awards (usually one to four years), or in the period of grant for awards that vest immediately and have no future service condition, or in the period the awards vest immediately after meeting a performance condition becomes probable (i.e., the occurrence of a change in control event). As there was no public market for its common stock, the Company determined the volatility for options granted based on an analysis of reported data for a peer group of companies. The expected volatility of options granted has been estimated based on an average of the historical volatility measures of this peer group of companies. The expected life of options has been estimated utilizing the “simplified method” due to the lack of available or sufficient historical exercise data for the Company for the applicable options terms. The simplified method is based on the average of the vesting tranches and the contractual life of each grant. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of the stock options. The Company has not paid, and does not anticipate paying, cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero.

The Black-Scholes model requires the input of certain assumptions that require the Company’s judgment, including the fair value of common shares, expected term and the expected price volatility of the underlying stock. The assumptions used in calculating the fair value of stock-based compensation represent the Company’s best estimates, but these estimates involve inherent uncertainties and the application of judgment. As a result, if factors change resulting in the use of different assumptions, stock-based compensation expense could be materially different in the future. The Company accounts for forfeitures of stock-based awards as they occur.

Fair Value Measurement

The fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument’s classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy consists of the following three levels:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices which are observable for the assets or liabilities

Level 3: Unobservable inputs which are supported by little or no market activity

The carrying amount of the Company's financial instruments, including cash, accounts receivable, notes receivable, and accounts payable approximate fair value due to their short-term nature.

The Company does not have financial assets or liabilities that are required under U.S. GAAP to be measured at fair value on a recurring basis. The Company has not elected to use the fair value measurement option for any assets or liabilities for which fair value measurement is not presently required.

Loss Per Common Share

In accordance with the provisions of ASC 260, *Earnings Per Share,* net loss per share is computed by dividing net loss by the weighted-average shares of common stock outstanding during the period. During a loss period, the effect of the potential exercise of stock options, warrants, convertible preferred stock, and convertible debt are not considered in the diluted loss per share calculation since the effect would be antidilutive. The Company has 754,833 fully vested warrants in which common shares are issuable for little to no consideration outstanding for the six months ended June 30, 2022 and 2021. The Company considered these warrants outstanding in the context of basic loss per share and included these warrants in the weighted-average shares of common stock outstanding for the period.

The results of operations were net losses for the six months ended June 30, 2022 and 2021. Therefore, the basic and diluted weighted-average shares of common stock outstanding were the same for all periods. Potentially dilutive securities that are not included in the calculation of diluted net loss per share because their effect is antidilutive are as follows (in common equivalent shares):

	Six months ended June 30,	
	2022	2021
Warrants	292,790	292,790
Stock options	8,359,882	5,340,000
Unvested restricted stock awards	1,085,310	—
Convertible preferred stock	3,237,800	3,237,800
Total potentially dilutive common stock equivalents	**12,975,782**	**8,870,590**

Segment Reporting

Operating segments are defined as components of an entity for which separate financial information is available and is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company has determined that its Chief Executive Officer is the CODM. The Company operates and reports financial information in one segment, as the CODM reviews financial information presented on a consolidated basis, at the Company level, for the purposes of making operating decisions, allocation of resources, and evaluating financial performance.

As of June 30, 2022 and December 31, 2021, the Company did not have material assets located outside of the United States. For the six months ended June 30, 2022, the Company had $2.2 million of revenue earned outside of the United States. The Company earned no material revenue outside of the United States for the six months ended June 30, 2021.

Recently Adopted Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, *Debt–Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU reduces the number of accounting models for convertible debt instruments and convertible preferred stock as well as amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions. In addition, this ASU improves and amends the related EPS guidance. The ASU is effective for interim and annual periods beginning after December 15, 2023, with early adoption permitted for fiscal years beginning after December 15, 2020. Adoption of the ASU can either be on a modified retrospective or full retrospective basis. The Company adopted the standard with an effective date of January 1, 2022 using the modified retrospective approach. The adoption of this ASU will impact the Company's accounting for the conversion of convertible debt under original contractual terms at the Merger on July 19, 2022 as discussed in Note 5, *Debt* and Note 12, *Subsequent Events*.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt — Modifications and Extinguishments (Subtopic 470-50), Compensation — Stock Compensation (Topic 718), and Derivatives and Hedging — Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options.* The amendments are designed to clarify an issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options that remain equity-classified after modification or exchange. The ASU provides guidance on how an issuer would measure and recognize the effects of these transactions. The standard provides a principles-based framework to determine whether an issuer should recognize the modification or exchange as an adjustment to equity or an expense. The ASU is effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the guidance provided in ASU 2021-04 prospectively to modifications or exchanges occurring on or after the effective date. The Company adopted the standard with an effective date of January 1, 2022. The adoption of this ASU did not have a material impact on the condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

As an emerging growth company, the JOBS Act allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are applicable to private companies. The Company elected to use this extended transition period under the JOBS Act until such time the Company is no longer considered to be an emerging growth company. The adoption dates discussed below reflect this election.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize a right-of-use ("ROU assets") asset and a lease liability for all leases with terms greater than 12 months and requires disclosures by lessees and lessors about the amount, timing and uncertainty of cash flows arising from leases. After the issuance of ASU 2016-02, the FASB clarified the guidance through several ASUs; hereinafter the collection of lease guidance is referred to as "ASC 842". The ASU is effective for annual periods beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In September 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This guidance requires the measurement of all expected credit losses for financial assets held at the reporting data based on historical experience, current conditions, and reasonable and supportable forecasts. This guidance also requires enhanced disclosures regarding significant estimates and judgements used in estimating credit losses. The new guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic-740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. The guidance is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022, with early adoption permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

3. PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property, equipment and leasehold improvements as of June 30, 2022 and December 31, 2021 consisted of the following:

	(in thousands)	
	June 30, 2022	December 31, 2021
Furniture / Fixtures	$ 743	$ 159
Computer equipment	3,490	708
Vehicles	106	106
Leasehold improvements	409	731
Subtotal	4,748	1,704
Less accumulated depreciation	(762)	(779)
Property, equipment and leasehold improvements, net	**$3,986**	**$ 925**

Depreciation expense totaled $0.5 million and $0.1 million for the six months ended June 30, 2022 and 2021, respectively. During the six months ended June 30, 2022, the Company disposed of certain leasehold improvements that were fully depreciated at the time of disposal, and there was no gain or loss on disposal.

4. INTANGIBLE ASSETS

Intangible assets as of June 30, 2022 and December 31, 2021 consisted of the following:

		(in thousands)		
As of June 30, 2022	**Useful Life**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Carrying Value**
Website development	3 years	$ 297	$ 118	$ 179
Talent acquisition	2 – 3 years	1,022	350	672
Intangible assets, net		**$ 1,319**	**$ 468**	**$ 851**

		(in thousands)		
As of December 31, 2021	**Useful Life**	**Gross Carrying Value**	**Accumulated Amortization**	**Net Carrying Value**
Website development	3 years	$ 211	$ 75	$ 136
Talent acquisition	2 – 3 years	1,653	1,051	602
Intangible assets, net		**$ 1,864**	**$ 1,126**	**$ 738**

Amortization expense totaled $0.2 million and $0.3 million for the six months ended June 30, 2022 and 2021, respectively.

The following table presents the estimated future amortization of intangible assets (in thousands):

Years ending December 31,	**(in thousands)**
2022 (remainder)	$ 262
2023	358
2024	213
2025	18
Total future amortization of amortizable intangible assets	**$ 851**

During the six months ended June 30, 2022, the Company removed $0.9 million of intangible assets that were fully amortized from intangible assets and accumulated amortization, and there was no gain or loss on the removal.

5. DEBT

Debt as of June 30, 2022 and December 31, 2021 consisted of the following:

As of June 30, 2022

	(in thousands)				
	Unpaid Principal	Short-term	Long-term	Unamortized Issuance Costs	Net Carrying Value
2022 B. Riley bridge loan	$20,342	$ 20,342	$ —	$ —	$ 20,342
2021 Cox convertible promissory note	15,000	—	15,000	—	15,000
2021 Convertible promissory notes	675	175	500	—	675
2020 Secured convertible promissory note	55,000	—	55,000	(267)	54,733
2020 Convertible promissory notes	2,525	2,525	—	—	2,525
2020 PPP loan	1,123	1,123	—	—	1,123
Other loans	—	—	—	—	—
Total principal amount outstanding	**$94,665**	**$ 24,165**	**$ 70,500**	**$ (267)**	**$ 94,398**

As of December 31, 2021

	(in thousands)				
	Unpaid Principal	Short-term	Long-term	Unamortized Issuance Costs	Net Carrying Value
2021 Cox convertible promissory note	$15,000	$ —	$ 15,000	$ —	$ 15,000
2021 Convertible promissory notes	675	—	675	—	675
2020 Secured convertible promissory note	55,000	—	55,000	(358)	54,642
2020 Convertible promissory notes	2,525	2,025	500	—	2,525
2020 PPP loan	1,123	1,123	—	—	1,123
Other loans	37	—	37	—	37
Total principal amount outstanding	**$74,360**	**$ 3,148**	**$ 71,212**	**$ (358)**	**$ 74,002**

As of June 30, 2022, long-term debt maturities for the next five years and thereafter are as follows (in thousands):

Future Maturities

	(in thousands)		
Years ending December 31,	**Non-Convertible Debt**	**Convertible Debt**	**Total**
2022 (remainder)	$ 21,465	$ 2,025	$23,490
2023	—	71,175	71,175
2024	—	—	—
2025	—	—	—
2026	—	—	—
Thereafter	—	—	—
	$ 21,465	**$ 73,200**	**$94,665**

2022 B. Riley Term Loan

In March 2022, the Company entered into a Bridge Loan Agreement with B. Riley Commercial Capital, LLC ("B. Riley Lender"), an affiliate of B. Riley 150, pursuant to which the Company received a term loan in the amount of $10.0 million in a single advance ("Initial Term Loan"). Upon receipt of a borrowing notice from the Company to B. Riley Lender, B. Riley Lender will issue the Company a second advance of $10.0 million ("Final Term Loan"). The maturity date is the closing date of the Merger Agreement. In the event that the Merger Agreement is terminated without completion of the business combination, the 2022 B. Riley Term Loan will become a secured convertible promissory note on substantially the same terms as the existing 2021 Cox Convertible Promissory Notes further discussed below, in an aggregate principal amount equal to the outstanding principal balance, including capitalized interest, and the unpaid accrued interest on the 2022 B. Riley Term Loan on such date. The Company drew the $10 million Initial Term Loan in March 2022, and drew the Final Term Loan in April 2022.

The 2022 B. Riley Term Loan accrues interest at a rate of 7.00% per annum, compounded quarterly, with such interest accrued on the last business day of each calendar quarter, and shall be paid in cash on the maturity date and is secured against substantially all assets of the Company. The 2022 B. Riley Term Loan was paid in full at the closing of the Merger with B. Riley 150 on July 19, 2022. Refer to Note 12, *Subsequent Events*.

The 2022 B. Riley Term Loan is recorded as short-term debt.

2021 Cox Convertible Promissory Notes

In August 2021, the Company entered into an agreement with Cox Investment Holdings, Inc. ("Cox") to which the Company sold convertible promissory notes totaling $10.0 million. The maturity date is the earliest of (a) December 15, 2023, (b) the consummation of an initial public offering, (c) the merger of the Company with another entity, (d) a transaction pursuant to which more than 50% of the Company's equity securities come to be owned by an unrelated third party, (e) a sale of all or substantially all of the assets of the Company, or (f) the consummation of a private round of equity financing resulting in aggregate gross proceeds to the Company of at least $15.0 million ("Cox Qualified Financing"). In addition, Cox exercised its right to purchase an additional $5.0 million in Cox Convertible Promissory Notes in October 2021.

The convertible promissory notes are convertible, at the investor's election, into shares of common stock or shares of the series or class of capital stock most recently sold in a Cox Qualified Financing consummated prior to such time. The conversion price is equal to the lesser of (a) the imputed pre-money enterprise value of the Company with respect to the Cox Qualified Financing most recently consummated prior to the time of determination, and (b) $250.0 million minus the then outstanding debt of the company in excess of $25.0 million, divided by the total number of shares of capital stock of the Company then currently issued and outstanding, calculated on an as-exercised, as-converted, fully diluted basis, but excluding (a) shares of capital stock of the Company issuable upon the conversion of the Note, and (b) shares of capital stock issuable upon conversion of other convertible notes or indebtedness then outstanding.

The 2021 Cox Convertible Promissory Notes, which cannot be prepaid without consent of the holder, bear interest at a rate of 10.00% per annum and are secured against substantially all assets of the Company.

The Company evaluated the embedded conversion feature in accordance with ASC 815 and determined that embedded conversion feature did not meet the definition of a derivative and therefore did not account for it as a separate derivative liability.

The 2021 Cox Convertible Promissory Notes converted into Company common stock upon the closing of the Merger with B. Riley 150 on July 19, 2022 under its original contractual terms with no gain/loss recognized in accordance with the Company's adoption of ASU 2020-06. Refer to Note 12, *Subsequent Events*.

The 2021 Cox Convertible Promissory Notes is recorded as long-term debt.

2021 Convertible Promissory Notes

In June and August 2021, the Company entered into Convertible Promissory Note agreements with accredited investors pursuant to which the Company sold Promissory Notes totaling $0.7 million. For each note issued, the maturity date is the second anniversary of the date of the Purchase Agreement. The conversion price is equal to 90% of the price per share sold in a Preferred Stock Financing, provided the price is subject to adjustment in the event the Company's enterprise value is greater than $250.0 million on that date.

The 2021 Convertible Promissory Notes, which cannot be prepaid without consent of the holder, bear interest at a rate of 4.00% per annum and are subordinate and junior in right of payment to any Senior Indebtedness of the Company.

The Company evaluated the embedded conversion feature in accordance with ASC 815 and determined that embedded conversion feature did not meet the definition of a derivative and therefore did not account for it as a separate derivative liability.

The 2021 Convertible Promissory Notes converted into Company common stock upon the closing of the Merger with B. Riley 150 on July 19, 2022, under its original contractual terms with no gain/loss recognized in accordance with the Company's adoption of ASU 2020-06. Refer to Note 12, *Subsequent Events*.

The 2021 Convertible Promissory Notes are recorded as short- term and long-term debts based on the maturity dates.

<u>2020 Secured Convertible Note Purchase Agreements and Secured Convertible Promissory Notes</u>

In December 2020, the Company entered into a Secured Convertible Note Purchase Agreement as amended on February 22, 2021, April 23, 2021, and August 16, 2021 (together, the "Purchase Agreement") with CPH Phase II SPV L.P. and CPH Phase III SVP L.P., accredited investors, (collectively referred to as "CPH Noteholders") pursuant to which the Company agreed to sell Secured Convertible Promissory Notes (the "CPH Notes"), for a total of up to \$91.7 million, to the investors. The Company issued Secured Convertible Promissory Notes to the investors for a total of \$55.0 million.

In October 2021, the Company entered into an agreement with the CPH Noteholders, for the settlement of the accrued interest on the CPH Notes and the settlement of the purchaser's right, but not obligation, to purchase additional Notes from the Company for up to \$36.7 million expiring in June 2022 ("CPH Right"). The CPH Right has an anti-dilution feature and survives beyond a change-in-control event, including a merger transaction with a special purpose acquisition company. The Company will settle the accrued interest through February 1, 2022 and the CPH Right for 523,763 and 4,800,000 shares of the combined company's common stock, respectively, issuable upon the close of the Merger. The accrued interest after February 1, 2022 will be payable in cash. The common stock and cash for accrued interest and the common stock for the CPH Right was settled upon close of the Merger on July 19, 2022. Refer to Note 12, *Subsequent Events*, for more information.

For each note issued under the Purchase Agreement, the maturity date is the earlier of December 15, 2023 of either (i) an initial public offering, (ii) a transaction or series of related transactions pursuant to which more than 50% of the Company's equity securities come to be owned by an unrelated third party or (iii) the sale of all or substantially all of the assets of the Company (a "Liquidity Event"). The Notes are convertible, at the investor's election, into shares of common stock or shares of the series or class of capital stock ("Conversion Shares") sold in a private round of equity financing consummated after January 1, 2021 that result in gross proceeds of at least \$15.0 million (a "CPH Qualified Financing"). The conversion price is equal to the imputed pre-money enterprise value of the Company with respect to the CPH Qualified Financing divided by the total number of shares of capital stock then currently issued and outstanding, calculated on an as-exercised, as-converted, fully diluted basis, but excluding shares of capital stock of the Company issuable to the investor upon conversion of the Notes. The conversion price is subject to adjustment in the event the Company's enterprise value is greater than \$250.0 million at the time of conversion.

The Company may prepay the Notes in whole or in part at any time without penalty, provided the investor has the right to utilize the proceeds to purchase the Conversion Shares at the conversion price prior to the maturity date. The Notes bear interest at 10.00% per annum and are secured against substantially all of assets of the Company.

The Company evaluated the embedded conversion feature in accordance with ASC 815 and determined that embedded conversion feature did not meet the definition of a derivative and therefore did not account for it as a separate derivative liability.

The Secured Convertible Note Purchase Agreement and Secured Convertible Promissory Note converted into Company common stock upon the closing of the Merger with B. Riley 150 on July 19, 2022, under the Merger Agreement terms and will be accounted for as extinguishment of debt, with an expected loss of approximately \$112.9 million to be recognized in the third quarter of 2022. Refer to Note 12, *Subsequent Events*.

The 2020 Secured Convertible Promissory Note is recorded as long-term debt, net of discount and issuance costs, which are amortized to interest expense over the respective terms of these borrowings.

2020 Convertible Promissory Notes

In March — June 2020, the Company entered into Convertible Promissory Note agreements with accredited investors pursuant to which the Company sold Promissory Notes totaling $2.5 million. Subsequent to the execution of the Merger Agreement, in November and December 2021, the Company entered into consent letters with each of the 2020 Convertible Promissory Note Holders wherein each note will be converted into a number of shares of the Company's common stock immediately prior to the Merger. The conversion price will be equal to $250.0 million or $200.0 million divided by the total number of shares of capital stock of the Company issued and outstanding, calculated on an as-exercised, as-converted, fully diluted basis, but excluding shares of capital stock of the Company issued or issuable upon conversion of the Note and other convertible notes of the Company. The consent letters will terminate if (a) the Merger Agreement is terminated, or (b) subject to the approval of B. Riley 150, if the consent letter is terminated upon mutual agreement of the holder and the Company, upon which time each note will become due.

The 2020 Convertible Promissory Notes, which cannot be prepaid without consent of the holder, bear interest at a rate of 4.00% per annum and are subordinate and junior in right of payment to any Senior Indebtedness of the Company.

The 2020 Convertible Promissory Notes, excluding HODL SPV I, LP, converted into Company common stock upon the closing of the Merger with B. Riley 150 on July 19, 2022, under the Merger Agreement terms and accounted for as extinguishment of debt, with an expected loss of approximately $2.4 million to be recognized in the third quarter of 2022. HODL SPV I, LP Note converted into Company common stock upon the closing of the Merger with B. Riley 150 on July 19, 2022, under its original contractual terms with no gain/loss recognized in accordance with the Company's adoption of ASU 2020-06. Refer to Note 12, *Subsequent Events*.

The Company evaluated the embedded conversion feature in accordance with ASC 815 and determined that embedded conversion feature did not meet the definition of a derivative and therefore did not account for it as a separate derivative liability. The 2020 Convertible Promissory Notes are recorded as short-term debt.

2020 Paycheck Protection Program Loan ("PPP Loan")

In May 2020, the Company entered into a Promissory Note dated May 4, 2020 (the "PPP Loan") with Harvest Small Business Finance, LLC ("Harvest"), pursuant to which Harvest agreed to make a loan to the Company under the Paycheck Protection Program offered by the U.S. Small Business Administration in a principal amount of $1.1 million pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"). The PPP Loan proceeds are available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves, rent, utilities, and interest on certain other outstanding debt. Under the terms of the PPP Loan, the Company may be eligible for full or partial loan forgiveness; however, no assurance is provided that the Company will apply for, or obtain forgiveness for, any portion of the SBA Loan.

The Company will be required to make principal and interest payments in monthly installments, beginning ten months after the last day of the covered period, on the balance that is not forgiven. The loan matures in May 2022 and bears interest at a rate of 1.00% per annum.

The Company paid back the loan with the proceeds of the Merger with B. Riley 150 on July 19, 2022. Refer to Note 12, *Subsequent Events*.

The PPP Loan is recorded as short-term debt.

Fair Value of Debt

The Company's debt is not measured at fair value on a recurring basis. The Company estimates the fair value of all debt instruments using commonly accepted valuation methodologies and inputs that are not directly observable. As such, all debt instruments are categorized as Level 3. The amount of the fair value is materially the same as carrying value, primarily due to near term maturity dates or recent issuance dates.

Interest Expense

Interest expense for the six months ended June 30, 2022 was $4.0 million, comprised of $3.9 million of contractual interest expense and $0.1 million of amortization of debt issuance costs.

6. EQUITY

Preferred Stock

The Company authorized 3,545,529 shares of series A preferred stock with $0.00001 par value. As of June 30, 2022 and December 31, 2021, 3,237,800 shares of series A preferred shares were issued and outstanding. The rights and preferences of the series A preferred shares are summarized below:

Dividend Rights: There are no cumulative dividend rights on the preferred shares.

Liquidation Preferences: In the event of a liquidation, dissolution or winding up of the Company, the holders of the preferred stock are entitled to be paid out before any payments are made to the holders of the common stock. Series A holders are paid out of the assets of the Company available for distribution at an amount per share equal to the greater of (i) two times the series A original issue price or (ii) an amount per share as would have been payable had all series A preferred shares been converted into common stock. The remaining assets available for distribution are distributed among the holders of common stock.

Each share of series A preferred stock will automatically be converted into common stock at the then applicable conversion rate in the event of (i) the closing of a firm commitment underwritten public offering with a price of two times the original issue price (subject to adjustments for stock dividends, splits, combinations, and similar events) and gross proceeds to the Company of not less than $25.0 million, or (ii) upon written consent of the requisite holders. The Company determined that the Preferred A common stock is redeemable upon a change-in-control that is not solely in the Company's control and records $33.7 million in temporary equity.

Common Stock

On July 6, 2021, the Company amended its Certificate of Incorporation such that the Company is authorized to issue 31,900,878 shares of common stock with a par value of $0.00001 per share.

As of June 30, 2022 and December 31, 2021, 8,612,791 shares and 8,461,706 shares were issued and outstanding, respectively.

7. STOCK COMPENSATION EXPENSE

Stock-based compensation expense for the periods presented was comprised of the following, which were included in general and administrative expenses within the condensed consolidated statement of operations:

	(in thousands) For the six months ended June 30, 2022 Stock-Based Compensation Expense	2021 Stock-Based Compensation Expense
Stock options	$ 118	$ —
Restricted stock awards	2,541	—
Total stock–based compensation expense	**$ 2,659**	**$ —**

In addition, approximately $41,105 has been included in cost of revenues for the six months ended June 30, 2022 and 2021, respectively, for stock-based compensation expense related to the services provided by Commerce Media Holdings, LLC. Compensation costs related to Commerce Media Holdings, LLC of $0.1 million and $0.2 million were capitalized and are included in prepaid expenses and other assets as of June 30, 2022 and 2021, respectively.

8. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases certain business and residential facilities under operating lease agreements that specify minimum rentals with lease terms ranging from two to two and a half years. The Company's rent expense for the six months ended June 30, 2022 and 2021 was $1.1 million and $0.6 million, respectively, and is included in general and administrative expense in the condensed consolidated statement of operations. Scheduled rent increases, if any, are amortized on a straight-line basis over the lease term.

Future minimum lease payments, which include non-cancelable operating leases at June 30, 2022, are as follows:

Years ending December 31,	(in thousands)
2022 (remainder)	$ 1,412
2023	2,895
2024	1,977
2025	5
Thereafter	3
Total minimum lease payment	**$ 6,292**

9. LITIGATION

From time to time, in the normal course of operations, the Company is subject to litigation matters and claims, including claims relating to employee relations and business practices. The Company expenses legal fees as incurred. The Company records a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. An unfavorable outcome to any legal matter, if material, could have an adverse effect on the Company's operations or its financial position, liquidity, or results of operations.

On August 12, 2020, Greg Selkoe, President of the Company until May 2020, filed suit against the Company for severance and sums related to his termination from the Company, which was initiated in January 2020. The Company and Mr. Selkoe reached a settlement, including a severance payment to Mr. Selkoe and forfeiture by Mr. Selkoe of the entirety of his stock options. The Company accrued $3.2 million for the year ended December 31, 2020. The Company paid $2.9 million of the severance payments to Mr. Selkoe in 2021. In May 2022, the Company made a payment of $0.3 million for the remainder of the balance.

On September 14, 2020, Adam Salman of Adult Use Holdings, Inc. and Igor Gimelshtein of Zola Ventures Ltd., claimed that the Company owes approximately $2.5 million to Salman and Gimelshtein in connection with alleged funding to the Company of $30.0 million by Bridging Finance Group. The Company has denied any liability in connection with this claim and has agreed to arbitrate the dispute, which is ongoing. The Company does not believe a material loss is probable at this time. As result, the Company has not recorded a reserve with respect to this litigation.

On December 7, 2020, the Company filed an arbitration demand against its former Chief Legal Officer, Phillip Gordon ("Gordon"), alleging claims for fraud, breach of fiduciary duty, breach of duty of loyalty, and breach of employment agreement. The Company terminated Gordon effective as of December 5, 2020 based on the results of an internal investigation. Gordon has denied that the Company had cause to terminate him and filed counterclaims seeking payment of severance under his employment agreement in the total amount of $3.0 million, plus payment of $0.5 million in bonus compensation. Subsequent to December 31, 2021, as a result of arbitration proceedings, the Company has entered into a settlement agreement whereby Gordon agreed to the cancellation of 90,000 of the 790,000 outstanding stock options previously issued to him and to release any actions, claims, damages, judgments or agreements arising out of his relationship with the Company in exchange for $1.9 million in cash. The Company recorded a legal accrual for $1.9 million as of December 31, 2021. The initial payment of $0.4 million was made in the first quarter of 2022.

On May 21, 2021, Alissa Violet Marie Butler filed suit in the Superior Court of the State of California for the County of Los Angeles against FaZe Clan Inc., Dentons US LLP, and Wilson Sonsini Goodrich & Rosati, P.C. Ms. Butler alleges that she is entitled to shares of the Company's stock. Subsequent to December 31, 2021, the Company has reached a preliminary settlement with Ms. Butler for a total of $0.8 million payable in a combination of cash and common stock to settle Ms. Butler's claim. The Company recorded a legal accrual for $0.8 million as of December 31, 2021. The Company paid $0.1 million in cash and $0.3 million in common stock in April 2022, with the remainder to be paid out in 2022.

In 2021, the Company was made aware of a claim from Treschow-Fritzoe AS that the Company repaid the wrong party for certain funds received by the Company in 2017 and recorded a legal accrual of $1.2 million as of December 31, 2020. In October 2021, the Company entered into a settlement agreement with Treschow-Fritzoe AS and adjusted its legal accrual to $0.8 million as of December 31, 2021. The Company paid $0.8 million in April 2022.

10. INCOME TAXES

The Company records income taxes using the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax effects attributable to temporary differences between the condensed consolidated financial statement carrying amounts of existing assets and liabilities and their respective income tax bases, operating losses and tax credit carryforwards. The Company establishes a valuation allowance if the Company believes it is more likely than not that the deferred tax assets will not be recovered based on an evaluation of objective verifiable evidence. The Company has considered its history of cumulative tax and book losses incurred since inception, and other positive and negative evidence, and has concluded that it is more likely than not that the Company will not realize the benefits of the net deferred tax assets as of June 30, 2022 and December 31, 2021.

For tax positions that are more likely than not of being sustained upon audit, the Company recognizes the largest amount of the benefit that is greater than 50% likely of being realized. For tax positions that are not more likely than not of being sustained upon audit, the Company does not recognize any portion of the benefit. As of June 30, 2022, the Company had no unrecognized tax benefits and does not anticipate any significant change to the unrecognized tax benefit balance. The Company would classify interest and penalties related to uncertain tax positions as income tax expense, if applicable. There was no interest expense or penalties related to unrecognized tax benefits recorded through June 30, 2022.

The effective tax rate was zero percent for both the six months ended June 30, 2022 and 2021, respectively. The difference between the U.S. statutory rate and the Company's effective tax rate is primarily due to the full valuation allowance on its deferred tax assets.

11. RELATED PARTY TRANSACTIONS

Related Party Loan Receivables and Payables

The Company has loan receivables from one of the Company's founders related to legal and settlement fees that the Company had paid on their behalf, and commissions payable related to a talent arrangement with the Company. The Company recorded $0.5 million and $0.5 million in receivables as of June 30, 2022 and December 31, 2021, respectively, related to the anticipated repayment of these fees.

In April 2021, the Company issued a loan to one of the Company's founders. The Company recorded $0.1 million and $0.1 million in receivables for this loan as of June 30, 2022 and December 31, 2021, respectively.

Retainer Consulting Arrangements

During the six months ended June 30, 2022 and 2021, the Company had retainer consulting arrangements with co-founders Nordan Shat, Thomas Oliveira, Richard Bengtson, and Sabastian Diamond. The Company recorded approximately $0.3 million and $0.3 million in expenses related to these arrangements for the six months ended June 30, 2022 and 2021, respectively. These expenses are presented within general and administrative expense within the condensed consolidated statement of operations.

12. SUBSEQUENT EVENTS

In preparing the unaudited condensed consolidated financial statements, the Company has evaluated subsequent events through August [•], 2022, which is the date the unaudited condensed consolidated financial statements were available for issuance.

Claims

See claims as described in Note 9, *Litigation* above.

The Merger

On the Closing Date, the stockholders of B. Riley 150 approved the Merger. As a result of the Merger, the securityholders of the Company became security holders of B. Riley 150, with B. Riley 150 renamed as “FaZe Holdings Inc.” (the “New Faze”). Additionally, B. Riley 150’s class B common stock was converted into B. Riley 150’s class A common stock and B. Riley 150’s class A common stock was reclassified as common stock, par value $0.0001 per share of New FaZe (the “New FaZe Common Stock”) on a one-to-one basis upon the filing of the Amended and Restated Certificate of Incorporation with the Delaware Secretary of State upon completion of the Merger (the “Closing”).

At the effective time of the Merger (the “Effective Time”), a redemption of 15,883,395 shares of B. Riley 150 public shares occurred subsequent to B. Riley 150 stockholders exercising their right to redeem public shares for their pro rata share of the trust account.

At the Effective Time, 10,000,000 shares of New FaZe Common Stock at a purchase price of $10.00 per share were sold and issued for an aggregate purchase price of $100.0 million pursuant to the subscription agreements entered in connection with the PIPE investment, including purchases made by the Company PIPE investor, sponsor related PIPE investors, and third-party investors, and inclusive of shares issued to the sponsor pursuant to the backstop commitment under the sponsor support agreement, representing the portion of the PIPE investment not purchased by third-party investors.

At the Effective Time, pursuant to the Merger Agreement as amended by the second Merger Agreement amendment, all vested and unvested the Company’s options and unvested the Company’s restricted stock awards were converted into vested and unvested options and restricted stock awards for New FaZe Common Stock at the Closing. 525,782 shares of the Company’s options to the Company’s executives, 1,450,914 shares of the Company options, representing 75% of the unvested the Company’s options outstanding under the Company’s existing incentive plans that remain unvested as of the Effective Time were vested. In addition, 966,326 shares of the New FaZe restricted stock awards at the Closing and at 90 days after the Closing were vested, pursuant to existing contractual terms and amendments to certain restricted stock awards entered into prior to the Closing.

At the Effective Time, 1,047,623 shares of the Company’s warrants (including 292,790 shares of preferred stock warrants and 754,833 shares of common stock warrants) were exercised into the Company’s common stock and the Company’s preferred stock, respectively. 3,237,800 shares of the Company’s preferred stock were converted into shares of the Company’s common stock on a one-to-one basis. $72.9 million of the Company’s convertible debt (including 2021 Cox Convertible Promissory Notes, 2021 Convertible Promissory Notes, 2020 Secured Convertible Note Purchase Agreements and Secured Convertible Promissory Notes, and 2020 Convertible Promissory Notes) were converted into the Company’s common stock, with $6.9 million accrued but unpaid interest converted into the Company’s common stock, and $2.6 million accrued but unpaid interest settled by cash, all prior to the Closing, with approximately $115.3 million of loss on debt extinguishment upon the conversion of certain debt under the Merger Agreement terms to be recognized and recorded in the third quarter of 2022. All 22,902,063 shares of issued and outstanding the Company's common stock (including shares of the Company's common stock issued pursuant to the exercise of common stock and preferred stock purchase warrants and the conversion of the Company's convertible debts and the preferred stocks) were surrendered and exchanged into 50,995,637 shares of New FaZe Common Stock calculated using the Equity Value Exchange Ratio.

At the Effective Time, the sponsors agreed that 50% of the founder shares vest immediately and 50% of the founder shares are subject to vesting and forfeiture conditions upon reaching certain VWAP per share during the five-year period beginning 90 days after the Closing Date and ending on the fifth anniversary of the Closing Date. A number of New FaZe Common Stock equal to 6% of the sum of i) the total number of New FaZe Common Stock issued and outstanding as of immediately after the Closing and ii) the total number of shares of New FaZe Common Stock equal to the product of the total number of Net Vested Company Option Shares and the Equity Value Exchange Ratio were issued and will be subject to vesting and forfeiture conditions upon reaching certain VWAP per share during the period commencing 90 days after the Closing Date and ending five years after the Closing Date.

At the Effective Time, the Company paid $1.1 million outstanding PPP Loan and the accrued but unpaid interest. The Company also paid the $20.0 million term loan with B. Riley Lender. Both are described in Note 5, *Debt* above.

The Merger was accounted for as a reverse recapitalization, in accordance with GAAP. Under this method of accounting, B. Riley 150 was treated as the acquired company for financial reporting purposes. Accordingly, the business combination was treated as the equivalent of the Company issuing stock for the net assets of B. Riley 150, accompanied by a recapitalization. The net assets of B. Riley 150 were stated at historical cost, with no goodwill or other intangible assets recorded. Operations prior to the business combination is those of the Company.

As a result of the Merger, the Company received net cash consideration of $57.8 million.

Registration Statement on Form S-1

On July 29, 2022, New Faze filed a registration statement on Form S-1 (the "Registration Statement") for the registration and offering under the Securities Act of 1933, as amended, of (A) the issuance of 5,923,333 shares of New FaZe Common Stock, consisting of (i) shares of common stock issuable upon the exercise of the private placement warrants and (ii) shares of common stock issuable upon the exercise of the public warrants and (B) the resale of (i) up to 55,264,873 shares of the New FaZe Common Stock and (ii) up to 173,333 private placement warrants. Subject to the terms of the applicable agreements, the selling holders may offer, sell, or distribute all or a portion of their shares of New FaZe Common Stock or private placement warrants publicly or through private transactions at prevailing market prices or at negotiated prices.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context requires otherwise, references to "FaZe," "we," "us," "our" and "the Company" in this section are to the business and operations of FaZe Holdings Inc. and our consolidated subsidiaries following the Business Combination. In connection with the Business Combination, FaZe was determined to be the accounting acquirer. The following discussion and analysis of the financial condition and results of operations of FaZe should be read together with the unaudited condensed consolidated financial statements as of June 30, 2022 and for the six months ended June 30, 2022 and 2021, together with related notes thereto filed as Exhibit 99.1 to the Current Report on Form 8-K/A (the "Form 8-K/A") to which this Exhibit is filed. In addition to historical information, this discussion contains forward-looking statements that involve risks, uncertainties and assumptions that could cause actual results to differ materially from management's expectations. Factors that could cause or contribute to these differences include those discussed below and in our Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the "SEC") on July 22, 2022 (the "Original Report"), particularly in the sections titled "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements."

Our Business

We are a digitally native lifestyle and media brand founded and rooted in gaming and youth culture.

We are at the forefront of the global creator economy, which is an industry centered around innovative digital content development fueled by social media influencers, creators and businesses who monetize their content online. With a leading digital content platform created for and by Gen Z and Millennials, we have established a highly engaged and growing global fanbase, with social media reach (see our key performance indicator, "*Total Reach*") of approximately 500 million as of June 30, 2022, including those of individual members of FaZe.

We reimagine traditional entertainment for the next generation, leading youth culture with transformative content, tier-one brand partnerships, a collective of notable talent, and fashion and consumer products.

We produce premium content, merchandise, and consumer products and create advertising and sponsorship programs for leading national brands. With approximately 80% of our audience between the ages of 13-34 as of June 30, 2022, we have unlocked key relationships with a coveted demographic that has long proven difficult to reach for traditional media companies and advertisers. We have multiple revenue streams including brand sponsorships, content, consumer products, and Esports.

As the recognition of our brand is an important component to our success, we have obtained and protected a strategic set of intellectual property registrations and applications, including for our brand, throughout the world.

Our principal business operations are located in the United States, and we also have a location in Canada. We intend to acquire additional space as we add employees and expand geographically, including globally, by organic growth as well as acquisitive growth.

On July 19, 2022, we completed the previously announced business combination with B. Riley 150 Merger Corp. (the "Business Combination"). We received approximately $113.7 million in gross proceeds in connection with the Business Combination.

The following table summarizes our financial results for the six months ended June 30, 2022 and 2021. Period over period revenues and gross profit increased due to the growth of our business across our various revenue streams, in particular brand sponsorships, content and Esports fueled by the increasing prominence of our brand. At the same time, total expenses increased by a greater magnitude than revenues the first half of 2022, and therefore net loss increased. See the "Results of Operations" subsection for further details.

(in thousands)	Six months ended June 30, 2022	2021
Total Revenues	$ 34,609	$ 25,263
Gross Profit	10,432	4,388
Net Loss	(18,864)	(13,336)
Adjusted EBITDA[(1)]	(10,437)	(10,783)

(1) Adjusted EBITDA is a non-GAAP financial measure. See "*Non-GAAP Information*" below for our definition of, and additional information about, adjusted EBITDA and for a reconciliation to net loss, the most directly comparable U.S. GAAP financial measure.

The following table summarizes our financial results for the years ended December 31, 2021 and 2020. Year over year revenues and gross profit increased due to the growth of our business across our various revenue streams, fueled by the increasing prominence of our brand. At the same time, total expenses increased by a greater magnitude than revenues in 2021, and therefore net loss increased. See the "Results of Operations" subsection for further details. We expect the trend of increased expenses to continue in 2022, as described above.

	Years ended December 31,	
(in thousands)	2021	2020 (As Revised) [2]
Total Revenues	$ 52,852	$ 37,166
Gross Profit	11,299	9,094
Net Loss	(36,866)	(28,777)
Adjusted EBITDA[1]	(28,741)	(23,412)

(1) Adjusted EBITDA is a non-GAAP financial measure. See "*Non-GAAP Information*" below for our definition of, and additional information about, adjusted EBITDA and for a reconciliation to net loss, the most directly comparable U.S. GAAP financial measure.

(2) During the preparation of the audited consolidated financial statements for the year ended December 31, 2021, we identified a misapplication of the accounting guidance related to accounting for customer returns and discounts. See "Significant Events and Transactions — Revision to Previously Issued Financial Statements."

Key Performance Indicators

In addition to GAAP and non-GAAP financial measures, we regularly review several metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate financial projections and make strategic decisions. The numbers for our key metrics are calculated using internal company data based on the activity of fan accounts and the metrics described below. While these numbers are based on what we believe to be reasonable estimates of our fanbase for the applicable period of measurement, there are inherent challenges in measuring usage of our platform across large online and mobile populations around the world. The methodologies used to measure these metrics require significant judgment. Increases or decreases in our key performance indicators may not correspond with increases or decreases in our revenue.

Total Reach

Our Total Reach represents the aggregate number of user accounts, or "fans," that subscribe to or follow FaZe content across YouTube, Twitter, Instagram, TikTok and Twitch, measured at the end of the reporting period and based on publicly available data. Our calculation of Total Reach may count the same individual multiple times if an individual follows or subscribes to FaZe content on multiple platforms; therefore, our Total Reach metric may inflate the number of individuals, as opposed to user accounts, reached by our content. Therefore, we supplement our understanding of the reach of our content, as well as our monetization opportunities, with the Aggregate YouTube Subscribers metric, which only includes subscribers on our primary platform and is explained further in the following section. Nonetheless, we believe that Total Reach is a useful metric because, regardless of whether our content reaches an individual through one or multiple platforms or channels, we view each such instance as a unique opportunity to strengthen and, ultimately, to monetize our relationship with the individual accountholder, whether by selling them consumer products online, by incrementally increasing our advertising revenue due to their viewership or by inspiring attendance at our live events, among other opportunities. Further, one individual following us across multiple platforms could generally signal higher audience engagement, and as such may lead to higher monetization potential, than one individual following us on only one platform.

We find Total Reach to be a useful metric for predicting future revenues because, as an audience-driven company, we generally interpret an increase in our Total Reach to signal an overall increase in the strength of our brand and to represent a corresponding increase in the number of opportunities for our content to reach our audience and expose them to our brand, content and products, which may drive additional monetization opportunities through increased engagement with FaZe. Further, we believe the fact that an individual follows FaZe across multiple platforms or follows several FaZe content creators may signal their amenability to purchase our products, grow the FaZe community by engaging with other fans and continue consuming our content in the future. In addition, we believe each fan added to our Total Reach represents a new avenue through which we can reach additional fans as they spread awareness of our brand by sharing and posting about FaZe content to their own followers. An individual who follows or subscribes to FaZe content on multiple platforms represents multiple such avenues, and the more their followers differ between platforms, the more avenues are opened to FaZe content by adding that fan. We believe an increase in Total Reach also signals our ability to attract additional sponsorships and sponsorship deals or sell consumer products. However, an increase in Total Reach may not directly result in an increase in content revenues. Our Total Reach includes fans of the channels of certain popular celebrity members of FaZe that we have contractually agreed not to directly monetize, including Calvin “Snoop Dogg” Cordozar Broadus Jr. An increase in Total Reach from fans on such channels will not directly result in an increase in content revenue. Nonetheless, we expect our partnerships with these celebrity members of FaZe to result in increased engagement as a result of cross-exposure to our brand through their channels, which strengthens the FaZe brand and which we believe will further increase our Total Reach and can indirectly increase our revenue over time. Additionally, when our Total Reach increases, our content and other revenues may not increase immediately given the lag time between when subscriptions are recorded and when we are able to monetize subscriptions, including generating Google AdSense revenues, selling consumer products and leveraging our Total Reach metric to attract additional sponsors and sponsorship deals. Conversely, a decrease in our Total Reach may be an indicator of an unfavorable trend in future revenues. Therefore, we use the Total Reach metric for revenue planning, although the numerical correlation between Total Reach and future revenues varies and cannot be precisely predicted in either the short term or long term.

The timing difference between a change in Total Reach and change in revenues may be particularly pronounced if the change in Total Reach metric reflects a large spike or large drop as the result of adding a channel to our network or removing a channel from our network. That is, if we sign a contract with a new talent member who has a large pre-existing pool of social media subscribers, our Total Reach will also increase as these pre-existing subscribers are added to our Total Reach metric. For example, our Total Reach increased significantly between December 31, 2021 and June 30, 2022, primarily due to Calvin “Snoop Dogg” Cordozar Broadus Jr. joining as a member of FaZe’s talent network. Conversely, if talent members leave the FaZe network due to contract expiration or termination, we record an immediate decrease in our Total Reach in an amount equal to the Total Reach of the talent that left the FaZe network. When we have a spike or drop in Total Reach due to the various circumstances described above, we do not expect to necessarily see immediate spikes or drops in content and other revenues but may see future changes in revenues given the lag time described in the preceding paragraph.

	As of June 30,	
(in thousands)	**2022**	**2021**
Total Reach[(1)]	516,170	372,629
YouTube	134,207	131,354
Twitter	82,948	60,681
Instagram	178,030	106,361
TikTok	79,616	40,825
Twitch	41,369	33,408

(1) The Total Reach amount includes subscribers of channels for Calvin “Snoop Dogg” Cordozar Broadus Jr. and certain other celebrity talent that FaZe is not contractually allowed to directly monetize. Such channels contributed to a Total Reach of 193.45 million and 79.70 million as of June 30, 2022 and June 30, 2021, respectively. Therefore, channels that FaZe is contractually allowed to directly monetize contributed to a Total Reach of 322.72 and 292.93 million as of June 30, 2022 and June 30, 2021, respectively.

(in thousands)	As of December 31, 2021	2020
Total Reach[1]	360,762	324,155
YouTube	116,470	115,325
Twitter	58,767	54,705
Instagram	105,027	99,944
TikTok	45,613	30,721
Twitch	34,885	23,460

(1) The Total Reach amount includes subscribers of channels for celebrity talent that FaZe is not contractually allowed to directly monetize. Such channels contributed to a Total Reach of 71.46 million and 69.37 million as of December 31, 2021 and December 31, 2020, respectively. Therefore, channels that FaZe is contractually allowed to directly monetize contributed to a Total Reach of 289.30 million and 254.79 million as of December 31, 2021 and December 31, 2020, respectively.

Aggregate YouTube Subscribers

Our Aggregate YouTube Subscribers metric is the number of subscribers our total talent pool has on their FaZe co-branded YouTube channels, the company programmed FaZe Clan YouTube channel, as well as the FaZe Affiliated channels measured at the end of the reporting period and based on publicly available data. Aggregate YouTube Subscribers includes subscribers for each YouTube channel programmed by talent members as well as company programmed YouTube channels. We consider each YouTube Subscriber to be a subscriber on YouTube, measured separately for each individual talent member. As such, one hypothetical subscriber may be included in several instances within the Aggregate YouTube Subscribers metric if that individual were to subscribe to the channels of multiple members of our talent pool.

We believe Aggregate YouTube Subscribers is a better approximation of our unique audience than other measures of reach available to us. That is, although Aggregate YouTube Subscribers may count the same individual subscriber multiple times if that individual subscribes to multiple FaZe talent members on YouTube, this metric does not include individuals who subscribe to FaZe across multiple platforms in the calculation. Also, the potential for inflation of Aggregate YouTube Subscribers due to the same individual subscribing to multiple FaZe talent members is to some degree offset by the omission of individuals who subscribe to FaZe only on platforms other than YouTube.

We believe an increase in Aggregate YouTube Subscribers signals an overall increase in the strength of our brand, which in turn signals our ability to attract additional sponsorships and sponsorship deals or sell consumer products. An increase in Aggregate YouTube Subscribers may not directly result in an increase in content revenues because our Aggregate YouTube Subscribers includes subscribers on channels that we are not contractually allowed to monetize. If the channels contributing to the increase in our Aggregate YouTube Subscribers are channels that FaZe is contractually allowed to monetize, then an increase in Aggregate YouTube Subscribers may directly result in an increase in content revenues, but if the channels contributing to the increase in Aggregate YouTube Subscribers are not channels that FaZe is contractually allowed to monetize, then an increase in Aggregate YouTube Subscribers would not directly result in an increase in content revenues but can indirectly result in an increase in overall revenue over time because we believe the increase in Aggregate YouTube Subscribers strengthens the FaZe brand. Additionally, an increase in our Aggregate YouTube Subscribers may not correlate with current or historic revenues but may represent additional monetization opportunities across our various revenue streams. When our Aggregate

YouTube Subscribers increase, our content and other revenues may not increase immediately, given the additional lag time before we are able to monetize the subscriptions, including generating Google AdSense revenues, selling consumer products, and leveraging our Aggregate YouTube Subscribers metric to attract additional sponsors and sponsorship deals. Conversely, a decrease in our Aggregate YouTube Subscribers may be an indicator of an unfavorable trend in future revenues. Therefore, we find the use of the Aggregate YouTube Subscribers metric useful for our revenue planning, although the numerical correlation between Aggregate YouTube Subscribers and future revenues varies and cannot be precisely predicted in either the short term or long term.

The timing difference between a change in Aggregate YouTube Subscribers and a change in revenues may be particularly pronounced if the change in Aggregate YouTube Subscribers metric reflects a large spike or large drop as the result of adding a channel to our network or removing a channel from our network. That is, if we sign a contract with a new talent member who has a large pre-existing pool of YouTube subscribers, our Aggregate YouTube Subscribers will also increase as these pre-existing subscribers are added to our Aggregate YouTube Subscribers metric. Conversely, if talent members leave the FaZe network due to contract expiration or termination, we record an immediate decrease in our Aggregate YouTube subscribers metric in an amount equal to the YouTube subscribers of the talent that left the FaZe network. For example, three individuals left our talent pool in the third quarter of 2021; therefore, while we would have otherwise expected to see an increase in Aggregate YouTube subscribers at December 31, 2021 compared with December 31, 2020, the effect of talent members leaving the FaZe network caused the figures to be relatively consistent from December 31, 2020 to December 31, 2021. When we have a spike or drop in Aggregate YouTube Subscribers due to the various circumstances described above — including, for instance, the addition of Calvin “Snoop Dogg” Cordozar Broadus, Jr. to FaZe’s talent network in the first quarter of 2022 — we do not expect to necessarily see immediate spikes or drops in content and other revenues but may see future changes in revenues given the lag time described in the preceding paragraph.

	As of June 30,	
(in thousands)	2022	2021
Aggregate YouTube Subscribers	134,207	131,354
Company Programmed FaZe Clan YouTube Channel Subscribers	8,850	8,700
FaZe Co-branded Channel Subscribers	116,040	122,511
FaZe Affiliated Channels(1)	9,317	143

(1) FaZe Affiliated Channels are channels that are not co-branded but are closely affiliated with our talent. This includes Calvin “Snoop Dogg” Cordozar Broadus Jr., All Grown Up, and Nuke Squad.

	As of December 31,	
(in thousands)	2021	2020
Aggregate YouTube Subscribers	116,470	115,325
Company Programmed FaZe Clan YouTube Channel Subscribers	8,789	8,530
FaZe Co-branded Channel Subscribers	106,999	106,795
FaZe Affiliated Channels(1)	682	N/A(2)

(1) FaZe Affiliated Channels are channels that are not co-branded but are closely affiliated with our talent. This includes All Grown Up and Nuke Squad.

(2) The FaZe Affiliated Channels were not created as of December 31, 2020.

*Average Revenue per YouTube Subscriber ("**ARPU**")*

ARPU is defined as our total consolidated GAAP revenues for the selected period divided by our total Aggregate YouTube Subscribers as of period end. We believe ARPU is an indicator of how effective we are at monetizing our Aggregate YouTube Subscribers. A high ARPU may reflect that we are monetizing our audience effectively and, conversely, a low ARPU may reflect the opportunity for additional monetization with respect to our Aggregate YouTube Subscribers. Please see above for the assumptions underlying the calculation of our Aggregate YouTube Subscribers.

While we believe changes in our total consolidated GAAP revenues are correlated with our Aggregate YouTube Subscribers over the long term, there may be short term dislocations in the metric due to timing difference in audience growth and monetization. For example, our Aggregate YouTube Subscribers may grow more quickly when compared to our revenues due to the lag time related to the monetization of our Aggregate YouTube Subscribers, as described in the "Aggregate YouTube Subscribers" subsection above, resulting in lower or unchanged period over period ARPU, especially if we gain additional Aggregate YouTube Subscribers toward the end of a reporting period. Conversely, if we lose Aggregate YouTube Subscribers toward the end of a reporting period — such as we did when three individuals left our talent pool in the third quarter of 2021 — we may see decreased or relatively flat Aggregate YouTube Subscribers, whereas the full period will not reflect the revenue impact of the decreased monetization potential.

Additionally, because ARPU is measured as revenue for a particular period over a point-in-time metric, Aggregate YouTube Subscribers, ARPU will generally be smaller for interim time periods than annual periods. Therefore, ARPU for interim periods should only be compared to interim periods of the same length, and annual periods should only be compared to other annual periods.

In future periods, we expect to increase the monetization of our Aggregate YouTube Subscribers through growth in our existing monetization channels and expansion into new ways of monetizing our audience, all of which we believe will be aided by additional access to capital and a more established brand and, therefore, we expect our ARPU to increase over time.

	Six months ended June 30,	
(in thousands)	2022	2021
ARPU	$ 0.26	$ 0.19

	Years ended December 31,	
(in thousands)	2021	2020 (As Revised)(1)
ARPU	$ 0.45	$ 0.32

(1) During the preparation of the audited consolidated financial statements for the year ended December 31, 2021, we identified a misapplication of the accounting guidance related to accounting for customer returns and discounts. See "Significant Events and Transactions — Revision to Previously Issued Financial Statements."

Total Number of Significant Sponsors

Total number of significant sponsors is defined as the number of sponsorship deals directly contracted with FaZe that have a contractual value of over $0.5 million and are active during the reported period. This metric helps us forecast future revenue, since we know the contract value of a sponsorship when the contract is signed but recognize the revenue ratably over the sponsorship term. At the same time, if we sign a significant sponsorship deal towards the end of a reportable period, we may not recognize a significant portion of the revenue until the following period.

This metric provides insight into the drivers of changes in our brand sponsorships revenue. Our brand sponsorships revenue is most closely aligned with this metric, as our brand sponsorships revenue is correlated with increases in our total number of significant sponsors.

	Six months ended June 30,	
	2022	2021
Total Significant Sponsors	10	8

	Years ended December 31,	
	2021	2020
Total Significant Sponsors	12	6

Significant Events and Transactions

Business Combination

On July 19, 2022, we completed the Business Combination. We received approximately $113.7 million in gross proceeds in connection with the Business Combination.

Revision to Previously Issued Financial Statements

As explained further in the notes to our consolidated financial statements, during the preparation of the audited consolidated financial statements for the year ended December 31, 2021, we identified a misapplication of the accounting guidance related to accounting for customer returns and discounts. For the year ended December 31, 2020, we recorded $0.8 million in customer discounts, and $0.2 million in customer returns. We had accounted for these as cost of revenues, as opposed to as a reduction to revenue.

We assessed the materiality of this error on prior period financial statements in accordance with the SEC Staff Accounting Bulletin Number 99, Materiality, and ASC 250-10, Accounting Changes and Error Corrections. As this is a reclassification between revenue and cost of revenues, gross margin and net income are not impacted. The error did not have any effect on our previously reported consolidated balance sheets, statements of cash flows, and statements of shareholder’s deficit. We determined that this error was not material to the financial statements for the year ended December 31, 2020. We corrected this immaterial error as a revision to previously issued financial statements.

As it relates to this Management’s Discussion and Analysis of Financial Condition and Results of Operations of FaZe, the revision impacts only the revenue and cost of revenue figures within the Results of Operations subsection, as well as the ARPU metric within the Key Performance Indicators section.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations presents the revised figures for the year ended December 31, 2020.

Key Factors Affecting Our Current and Future Results

Our financial position and results of operations depend to a significant extent on the following factors:

Evolving Digital Economy

Our success has depended and will continue to depend on our ability to remain at the forefront in digital-entertainment trends, including social media.

We believe we are well-positioned as a digitally native lifestyle and media platform in the global content industry, which continues to evolve towards digital and social platforms each of which are poised for further growth. According to comScore, in 2021 the FaZe brand had the most social media cross-platform actions of any Esports team. Additionally, a November 2021 survey-data report from international research data and analytics group YouGovAmerica indicated that over one in five American males between the ages of 13 and 17 support FaZe Clan, and that no traditional sports team or other Esports team has the same support in this demographic.

We attribute our success in part to the diverse content we have developed and produced in the form of digital media, social media, consumer products sales, and livestreaming events distributed across several platforms including YouTube, Twitch, Facebook, Instagram, Twitter, and TikTok. Further, our brand, which is a digital native lifestyle brand rooted in gaming and youth culture, is well-positioned for future opportunities in areas such as subscription offerings, real money gambling, live events, fan clubs, virtual dining concepts, game publisher collaborations and the general growth and adoption of the metaverse, and interconnected digital reality.

As a leading digital content platform created for and by Gen Z and millennials, we have established a highly engaged growing global fanbase, with a Total Reach of approximately 500 million as of June 30, 2022, including those of individual members of FaZe (see "*Key Performance Indicators — Total Reach*"). We are positioned to address our audience through new media formats, as digital and social media platforms are rapidly changing and evolving. In 2021, we expanded our content capabilities to include music and podcasts and plan to continue expanding across formats and genres. Our future success will continue to be dependent on our ability to adapt our reach in an evolving digital economy.

Ability to Recruit and Retain Talent

Our talent pool creates content for, and forms other partnerships with, our brand. Our diverse talent pool of creators and players are the face of our brand. Therefore, our current and future success may depend on our ability to retain our current talent and attract new talent. However, as we have grown our talent roster, we have made sure to not rely on any single individual to carry the brand, but rather have worked to develop a broad talent base, where each person is able to grow their own brand within the overall FaZe platform.

Competitive Landscape

Due to our digitally native lifestyle and media platform and diverse sources of monetization, our business may face competition from online content creators, lifestyle brands, traditional sports teams, or other Esports companies. If more direct competitors emerge in the marketplace, our success will depend on our ability to retain market share through activities including generating innovative content and forming and retaining strategic partnerships.

Regulatory Challenges

It is possible that a number of laws and regulations may be adopted or construed to apply to us that could restrict the online and digital industries. Furthermore, the growth and development of electronic commerce may prompt calls for more stringent consumer protection laws that may impose additional burdens on our business. Additional scrutiny and regulation of our industry would require us to increase spending on legal and other resources. We may also be required to seek licenses, authorizations or approvals from relevant regulators, the granting of which may require us to meet certain capital and other requirements or reduce its current operations, and we may be subject to additional regulation and oversight, all of which could significantly increase our operating costs. Changes in current laws or regulations or the imposition of new laws and regulations in the U.S. or elsewhere regarding these activities may impede the growth of social game services and impair our business, financial condition or results of operations.

COVID-19

We have continued to operate our business effectively throughout the COVID-19 pandemic. Our primary focus has been the safety and well-being of our employees and their families, as well as the continuation of our operations. Our technology infrastructure has proven to be robust and capable of supporting our business as our business functions have been conducted primarily on a remote basis. We have leveraged technology to help ensure that our teams stay connected and productive and there continues to be frequent communication across all levels of our business. When not in person, we have continued to actively communicate with our workforce and business associates through videoconference, teleconference and email. Our board has continued to convene as needed. The COVID-19 pandemic caused us to modify our business practices by reducing costs related to employee travel and physical participation in activities, meetings, events, and conferences; however, these costs may increase in the future as pandemic restrictions are lifted. Specifically, we ordered all employees to work from home in March 2020. Since the beginning of July 2021, we have allowed employees to come back to the office if they test negative for COVID-19, and we have commenced limited travel.

Due to the COVID-19 pandemic, our operating results for the six months ended June 30, 2022 and 2021 as well as the year-ended December 31, 2020 and the year-ended December 31, 2021 may not be comparable to past and future periods. As a result of changed consumer behavior under COVID-19 lock-down orders, the already-growing online gaming and digital content industries saw a major uptick in video game usage, streaming viewership, content viewership, console sales, and more users on many gaming platforms. This helped further accelerate the pre-pandemic growth in popularity of our content creators and the FaZe content channels, and made the content we offer a bigger part of mainstream digital entertainment. On average, our content creators have seen an increase in viewership since the start of the pandemic and while still strong, viewership on FaZe's YouTube channel and certain of FaZe's talent YouTube channels is down from the highest levels experienced during pandemic stay-at-home measures. In addition to the boost we saw from changed consumer behavior under stay-at-home orders, being digitally-native allowed us to continue producing new content, interacting with our fans, and building our audience, as well as continuing to expand our brand relationships, despite the pandemic. For example, we secured important sponsorship deals at our brand level with DraftKings, McDonalds, and General Mills, among others, during the pandemic. The pandemic has presented, and continues to present, a period of accelerated interest in and growth of FaZe, and we expect that this interest and growth will continue as interest in Esports and digital content grows and more people learn about FaZe and become fans. Additionally, we expect that as the popularity of the FaZe brand continues to grow, we will continue to attract additional sponsorship deals at our brand level and further expand our fanbase.

Moreover, the fact that most of our products and services do not involve physical customer interaction may have provided us a competitive advantage during the COVID-19 pandemic, as customers can access most of our services and product offerings while social distancing or without any physical presence. If and when forms of in-person entertainment re-gain popularity, we may face increased competition and see drops in engagement as it relates to our content and brand sponsorship revenue streams. We also expect our Esports revenues to increase as government restrictions surrounding in-person events decrease.

The COVID-19 pandemic impacted our supply chain operations and continues to do so to a limited extent, causing some delays in the production and transportation of our product and increased inbound transportation and inbound freight costs for our consumer products business. However, we have begun to see reduced delays and expect supply chain costs and delivery times to return at or near pre-pandemic levels in the near-term. Such COVID-19 related supply chain issues have not materially affected our results of operations, capital resources, outlook or business goals and have had marginal and immaterial impact on our sales, profits and liquidity.

Additionally, on May 11, 2022, FaZe paused production on FaZe 1 due to an outbreak of COVID-19, in accordance with FaZe's and the CDC's health and safety guidelines. Although production resumed on May 22, 2022 and the winner was announced on May 26, 2022, there may be similar impacts on our business in the future.

We will continue to actively monitor the impact of the pandemic on our business and may take further actions to modify our practices accordingly.

Overall Market and Economic Conditions

Changing market and economic conditions, including as a result of the ongoing COVID-19 pandemic, may positively or negatively impact our revenues, which depend on discretionary spending from consumers and corporate sponsors. Much of our business is resistant to changes in disposable consumer income, as consumers do not currently need to pay to access most of our content. However, in periods of slowing economic recovery or recession, decreases in disposable corporate income could negatively impact our revenues if companies decrease sponsorship and advertising spend. Our consumer products business is dependent on consumer discretionary spending, which is highly sensitive to changing market conditions, and a decline in discretionary spending could have an adverse impact on our results.

Mergers and Acquisitions

We will invest in mergers and acquisitions through a targeted strategy that focuses on targets that fit well with our target audience and support the strength of our brand while also being value enhancing. Our team maintains consistent dialogue with potential targets in order to establish a strong pipeline of future opportunities. We anticipate future growth in our business related to the acquisition of new companies. If our acquisitions do not meet our performance expectations, our operating results may be adversely impacted. We currently have not identified a potential target or negotiated any definitive agreements related to a potential acquisition. However, because we experienced high redemptions in connection with the Business Combination, we received less proceeds from the Business Combination to pursue our anticipated growth strategies and new initiatives, including our acquisition strategy. This may cause significant delays in, or limit the scope of, our planned acquisition strategy.

International Expansion

We have expanded into international markets and intend to continue to do so.

We believe the international market represents a large, untapped growth opportunity for our business. Although we currently have a large international audience, we have not yet fully monetized this audience because, given the early stage of our development and limitations on travel due to the COVID-19 pandemic, our historical sponsorship and talent deals have been largely with US-domestic partners.

We intend to establish talent networks abroad to monetize our brand awareness outside of the U.S. and have begun our international expansion plan in select pilot markets. We plan on expanding our global brand presence in international markets by following the same strategy we have successfully executed in the U.S.: developing and signing talent, expanding our content platforms to produce targeted content internationally, and leveraging the growth of digital and social platforms. However, because we experienced high redemptions in connection with the Business Combination, we received less proceeds from the Business Combination to pursue our anticipated growth strategies and new initiatives. This may cause significant delays in, or limit the scope of, our planned international expansion.

Potential competition may exist as we attempt to enter international markets. Our successful expansion into international markets will depend on our ability to effectively leverage relationships with our existing partners, build new partnerships, and tailor our content and branding to new markets. Should our assumptions prove overly optimistic, we may incur delays in our ability to expand our business to new markets. Such delays may also lead us to make changes in our go-to-market plans, which could result in cost overruns which could adversely impact margins and cash flows.

Key Components of Sales and Expenses

Revenue

We have the following major revenue types:

- Brand Sponsorships: We offer advertisers an association with the FaZe brand which we deliver through various promotional vehicles that are highly tailored to reach our target audience. These vehicles include but are not limited to online advertising, livestream announcements, content generation, social media posts, logo placement on FaZe's official merchandise, and special appearances by members of our talent network. Brand deals are made through the FaZe sales team and provide the sponsor an association with our brand across the FaZe platform, including the full roster of FaZe talent. Revenues from our larger brand sponsorship agreements are typically based on a term and are recognized ratably over the contract term. Payment terms and conditions vary by contract type, but payments are generally due periodically throughout the term of the contract. Some smaller sponsorship deals are based on a specific deliverable and not a term and are recognized and invoiced when delivered.

  We also offer talent deals, which are typically smaller in size than brand deals and are made directly with individual FaZe talent members to promote a brand or product within content created by the selected talent. These deals are often sourced and negotiated by FaZe employees and include FaZe as a counterparty. Payment terms are similar to our brand deals with talent receiving a contractually negotiated percent of the revenue as a fee.

- Content: We generate original content which we monetize through Google's AdSense service, which permits Google to place paid advertisements on FaZe branded YouTube sites. Revenue is generated when the advertisement is viewed on a "cost per view" or "cost per click" basis. Each time a fan views a FaZe-programmed YouTube page, Google will display an advertisement to the fan. Depending on the type of advertisement the advertiser agrees to with Google, the advertiser agrees to pay Google based on the number of views or the number of times a fan clicks on the advertisement. This cost per view or cost per click can vary substantially depending on the channel, content, and seasonality. Google pays us a percentage of what Google charges the advertiser, and we receive reporting from Google, which we use to recognize revenue on a revenue-per-thousand playbacks ("***RPM***") basis which represents a blend of cost per view and cost per click advertisements.

- Consumer Products: We sell consumer products directly to end users online (predominantly on our website but also on other websites, including those of our partners) and at events.
- Esports: Our Esports revenue consists of league participation revenue, prize money, player transfer fee revenue, and licensing of intellectual property revenue. League participation revenue is generated from our participation in closed Esports leagues which historically share net revenue between all partnered teams on a pro rata basis, with FaZe receiving between 4% and 8%, subject to a minimum guarantee. Prize money is earned by competing in organized competitions and successfully placing at a level where the organizer has offered a prize. Prize money is typically paid to FaZe by the competition organizer and we will then distribute a percentage of the money to players based on contractually agreed terms. Player transfer fee revenue is earned through player transfer agreements which compensate FaZe for the release of a team member from their agreement with FaZe. Licensing of intellectual property revenue is royalty revenue in connection with the usage of our brand logo during each game or tournament.

We expect continued growth in revenues primarily due to increased organic growth as our brand builds momentum, which results from building strategic partnerships and generating new, innovative content. In the future, we expect to invest in new, innovative content and content creation.

Cost of Revenue

Cost of revenue primarily consists of amounts paid to talent and other contractors, as we perform the underlying services related to satisfying the performance obligations under our agreements. It also includes other costs, such as those related to textiles, labor, and license fees associated with consumer products.

We expect our cost of revenue to increase primarily due to the increased volume of new strategic partnerships and costs associated with increased investments in original content.

General and Administrative

General and administrative costs consist primarily of personnel-related expenses, rent and premises costs, professional service fees, and other general corporate expenses.

We expect to incur higher general and administrative expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and stock exchange listing standards, additional insurance expenses, investor relations activities, and other administrative and professional services. We also expect to increase the size of our general and administrative function to support the growth of our business and other costs associated with being a public company. As a result, we expect that our general and administrative expenses will increase in absolute dollars.

Sales and Marketing

Sales and marketing costs consist primarily of promotional, public relations, and advertising expenses. Sales and marketing costs also include other general marketing expenses.

In connection with our growth strategy, we expect to incur additional sales and marketing expenses, including marketing expenses to drive international expansion, increase consumer products sales, and market new content. However, because we experienced high redemptions in connection with the Business Combination, we received less proceeds from the Business Combination to pursue our anticipated growth strategies. This may cause significant delays in, or limit the scope of, our planned international expansion.

Additionally, we expect 2022 sales and marketing expenses to increase as a result of the strategic decision to increase our content production budgets, including a corresponding increase to our marketing budget to increase the probability that our content is seen by a larger audience.

Interest Expense, Net

We incur interest expense from our outstanding debt obligations, including our senior convertible promissory note issued in 2020, our other convertible promissory notes issued in 2020 and 2021, and our term loan issued in 2019.

Other (Income)/Expense

Other income/expense consists primarily of foreign currency gain or loss.

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods or years indicated, and the respective changes between comparative periods or years.

(in thousands, except for percentages)	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Total revenues	$ 34,609	$ 25,263	$ 9,346	37.0%
Cost of revenues	24,177	20,875	3,302	15.8%
Gross Profit	10,432	4,388	6,044	137.7%
Operating Expenses:				
General and administrative	22,097	14,312	7,785	54.4%
Sales and marketing	2,078	1,361	717	52.7%
Impairment of content assets	1,073	—	1,073	100.0%
Loss from operations	(14,816)	(11,285)	(3,531)	31.3%
Other (income)/expense:				
Interest expense, net	4,032	2,118	1,914	90.4%
Other (income)/expense	16	(67)	83	(123.9)%
Total other (income)/expense:	4,048	2,051	1,997	97.4%
Net Income (Loss)	$(18,864)	$(13,336)	$(5,528)	41.5%

Our historical results, as shown above and explained in further detail below, reflect strong growth in revenues, primarily due to increased organic growth as our brand builds momentum, and as we engage in more and larger brand partnerships. At the same time, net losses increased due to an increase in cost of revenue, increases in marketing and promotional expenses, increases in headcount, increase in stock compensation expense due to stock option grants in the third quarter of 2021, increase in interest expense associated with new debt issuances, and additional reasons explained below. Gross profit increased in the period ended June 30, 2022 as compared with the period ended June 30, 2021 primarily because of an increase in revenues, as explained further below. Additionally, refer to “Key Components of Sales and Expenses” above for additional detail on expectations regarding expenses relative to our projections.

Revenue

Total revenues increased by $9.3 million, or 37.0%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. This change was primarily driven by effective scaling and growth of our business through our various revenue streams. Brand sponsorships revenue increased approximately $10.3 million, content revenue decreased approximately $3.9 million, Esports revenue increased approximately $3.1 million, partially offset by a decrease in consumer products revenue of approximately $0.4 million. Increases in brand sponsorships revenue were primarily due to our sales and talent teams generating new and/or larger brand sponsorships through the second quarter of 2022. Content revenues decreased due to a decrease in payments to FaZe in the six months ended 2022, when compared to 2021, of $2.1 million for sales to a third party exclusive license for certain historical content by certain content creators. Content revenue also decreased due to a decrease in content revenue earned on YouTube of $1.8 million because two FaZe talent members left FaZe in the third quarter of 2021, which resulted in a decrease in viewership for the FaZe programmed FaZe YouTube Channel. Our overall increase in total revenues was also driven by an increase in our Total Number of Significant Sponsors and by an increase in our Aggregate YouTube Subscribers. These metrics and their relationship with revenue are described in the "Key Performance Indicators" section. The increase in Esports revenue was primarily due to an increase in player transfer revenue of $0.6 million, an increase in prize winnings earned by talent members of $1.3 million, and an increase in league participation revenue of $1.2 million. Further, Esports revenue in the first half of 2022 was higher than in the first half of 2021 due to the easing of restrictions related to the COVID-19 pandemic, given that Esports revenue is highly dependent on live events.

The following table presents the Company's revenue by type for the six months ended June 30, 2022 and 2021:

	Six months ended June 30,			
(in thousands, except for percentages)	**2022**	**2021**	**$ Change**	**% Change**
Brand Sponsorships	$20,982	$10,695	$10,287	96.2%
Content	6,543	10,413	(3,870)	(37.2)%
Consumer Products	1,857	2,232	(375)	(16.8)%
Esports	4,963	1,814	3,149	173.6%
Other	264	109	155	n/m(1)
Total Revenue	$34,609	$25,263	$ 9,346	37.0%

(1) Not meaningful.

Cost of Revenue

Cost of revenue increased by $3.3 million, or 15.8%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Brand Sponsorships costs increased by $1.4 million due to increases in both the volume and size of sponsorship deals. We also increased the mix of sponsorship-related content, including content for new deals with certain large-name brands that required higher production costs. Content costs decreased by $4.1 million, related to a decrease in revenue share payments in the six months ended 2022, when compared to 2021, of $1.9 million made to certain content creators for the payment received by FaZe for sales to a third party exclusive license for certain historical content by certain content creators. Content costs related to content revenue earned on YouTube decreased by $2.2 million because two FaZe talent members left FaZe in the third quarter of 2021. The increase in Esports costs of $6.3 million was due primarily to increases in player salaries of $1.2 million, production costs of $4.5 million, prize money costs provided to talent members of $0.9 million, partially offset by player transfer costs of $0.3 million. The increase in Esports costs was also due to the easing of travel restrictions associated with COVID-19 pandemic, as there were fewer live events in the first half of 2021 compared to the first half of 2022.

General and Administrative

General and administrative expenses increased by $7.8 million, or 54.4%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. Our compensation and benefits costs increased by $2.8 million as we added headcount to grow our business. We also experienced a $2.7 million increase in stock compensation expense due to the granting of stock options in the third quarter of 2021 and restricted stock awards in the subsequent quarters. Additionally, travel and entertainment increased by $0.8 million as COVID-19-related travel restrictions lifted. IT and telecommunications fees increased $0.4 million, and non-legal professional service fees increased $1.6 million. These increases were offset by a decrease in legal settlements and other legal fees of $1.0 million, which are related to the various matters discussed in Note 9 to our consolidated financial statements as of, and for the six months ended, June 30, 2022 and 2021 (the "***FaZe Interim Financial Statements***") included elsewhere in the Form 8-K/A. Additionally, severance decreased by $0.3 million and rent and premises costs increased by $0.8 million.

Sales and Marketing

Sales and marketing expenses increased by $0.7 million, or 52.7%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. As part of our commitment to growth, we increased marketing expenses by $0.2 million and production fees for promotional content by $0.5 million.

Impairment of Content Assets

Impairment of content assets expenses increased by $1.1 million, or 100.0%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. In the second quarter of 2022, management had determined that the content asset has no further utility and wrote off the entire balance. There was no content asset impairment for the six months ended June 30, 2021.

Interest Expense, Net

Net interest expense increased by $1.9 million, or 90.4%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase in interest expense is due to the increase in the outstanding principal amount of loans as additional notes were issued in the second half of 2021 and the first half of 2022. On July 19, 2022, we completed the Business Combination, upon which certain convertible notes were converted into common stock and such notes were paid in full. After the consummation of the Business Combination on July 19, 2022, the Company does not have any outstanding debt. Debt agreements are explained further in the "Liquidity and Capital Resources" section below.

Other (Income)/Expense

Other (income)/expense increased by $0.1 million, or 123.9%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The change was primarily driven by an increase of other expense of $0.1 million from 2021 to 2022.

Net Income (Loss)

For the reasons discussed above, net loss increased approximately $5.6 million, or 41.5%, from a net loss of $13.3 million for the six months ended June 30, 2021 to a net loss of $18.9 million for the six months ended June 30, 2022.

The following table sets forth a summary of our consolidated results of operations for the periods or years indicated, and the respective changes between comparative periods or years.

	Years ended December 31,			
(in thousands, except for percentages)	**2021**	**2020 (As revised)**	**$ Change**	**% Change**
Total revenues	$ 52,852	$ 37,166	$ 15,686	42.2%
Cost of revenue	41,553	28,072	13,481	48.0%
Gross Profit	11,299	9,094	2,205	24.2%
Operating Expenses:				
General and administrative	39,401	31,975	7,426	23.2%
Sales and marketing	3,352	1,357	1,995	147.0%
Loss from operations	(31,454)	(24,238)	(7,216)	(29.8)%
Other (income)/expense:				
Interest expense, net	5,467	3,780	1,687	44.6%
Other (income)/expense	(55)	759	(814)	(107.2)%
Total other (income)/expense:	5,412	4,539	873	19.2%
Net Income (Loss)	**$ (36,866)**	**$ (28,777)**	**$ (8,089)**	(28.1)%

Our historical results, as shown above and explained in further detail below, reflect strong growth in revenues, primarily due to increased organic growth as our brand builds momentum, and as we engage in more and larger brand partnerships. At the same time, net losses increased due to an increase in cost of revenue, increases in marketing and promotional expenses, increases in headcount, stock option grants in 2021, interest expense associated with new debt issuances, and additional reasons explained below. Gross profit increased in the year ended December 31, 2021 as compared with the year ended 2020 primarily because of an increase in revenues, as explained further below. Additionally, refer to "Key Components of Sales and Expenses" above for additional detail on expectations regarding expenses relative to our projections.

Revenue

Total revenues increased by $15.7 million, or 42.2%, from 2020 to 2021. This change was primarily driven by effective scaling and growth of our business through our various revenue streams. Brand sponsorships revenue increased approximately $8.3 million, content revenue increased approximately $4.0 million, Esports revenue increased approximately $3.0 million, and consumer products revenue increased approximately $0.2 million. Increases in brand sponsorships revenue were primarily due to our sales and talent teams generating new and/or larger brand sponsorships in 2021. Content revenues increased due to a one-time payment to FaZe in 2021 of $4.5 million for the sale to a third party of a five-year exclusive license for certain historical content posted to YouTube by one content creator prior to June 2021, partially offset by a decrease in content revenue earned on YouTube and Twitch of $0.5 million because two FaZe talent members left FaZe in the third quarter of 2021, which resulted in a decrease in viewership for the FaZe programmed FaZe YouTube Channel. Our overall increase in total revenues was also driven by an increase in our Total Number of Significant Sponsors and by an increase in our Aggregate YouTube Subscribers. These metrics and their relationship with revenue are described in the "Key Performance Indicators" section. The increase in Esports revenue was primarily due to an increase in digital goods sold of $2.7 million attributable to overall brand growth, an increase in prize winnings earned by talent members of $0.3 million, and an increase in league participation revenue of $0.1 million, partially offset by a decrease in player transfer revenue of $0.2 million. Further, Esports revenue in 2020 was lower due to the COVID-19 pandemic, given that Esports revenue is highly dependent on live events, which were halted due to stay-at-home orders during 2020.

The following table presents the Company's revenue by type for the years ended December 31, 2021 and 2020:

	Years ended December 31,			
(in thousands, except for percentages)	2021	2020 (As Revised)	$ Change	% Change
Brand Sponsorships	$24,867	$ 16,520	$ 8,347	50.5%
Content	16,068	12,077	3,991	33.0%
Consumer Products	5,751	5,560	191	3.4%
Esports	5,847	2,860	2,987	104.4%
Other	319	149	170	114.1%
Total Revenue	$52,852	$ 37,166	$15,686	42.2%

Cost of Revenue

Cost of revenue increased by $13.5 million, or 48.0%, from 2020 to 2021. Brand Sponsorships costs increased by $5.1 million due to increases in both the volume and size of sponsorship deals. We also increased the mix of sponsorship-related content, including content for new deals with certain large-name brands that required higher production costs. Costs related to our content revenue increased by $4.2 million related to revenue share payments made to one content creator related to the one-time payment received by FaZe in 2021 of $4.5 million for the sale to a third party of a five-year exclusive license for certain historical content posted to YouTube by the content creator prior to June 2021. The increased brand sponsorships costs and increased content costs are also tied to increases in our Total Number of Significant Sponsors and Aggregate YouTube Subscribers. For instance, as sponsorships increase, the costs to service those sponsorships increase, and as our Aggregate YouTube Subscribers increase, we expect to generate more revenues from our content, and the related amounts we pay to our talent increase. The increase in Esports costs of $4.0 million was due primarily to increases in the sale of digital goods of $1.7 million, player salaries of $1.6 million, league participation fees of $0.2 million, production costs of $0.4 million, and prize money costs provided to talent members of $0.1 million. The increase in Esports costs was also due to the easing of travel restrictions associated with COVID-19 pandemic, as live events were halted due to stay-at-home orders during 2020, but Esports live events resumed in 2021, which increased the associated costs.

General and Administrative

General and administrative expenses increased by $7.4 million, or 23.2%, from 2020 to 2021. Our compensation and benefits costs increased by $6.7 million as we added headcount to grow our business. We also experienced a $1.6 million increase in stock compensation expense due to the granting of stock options in 2021. Additionally, travel and entertainment increased by $0.5 million as COVID-19-related travel restrictions lifted. IT and telecommunications fees increased $0.5 million, depreciation and amortization increased by $0.3 million, and non-legal professional service fees increased $1.4 million. These increases were offset by a decrease in legal settlements and other legal fees of $2.5 million, which are related to the various matters discussed in Note 11 to our consolidated financial statements as of, and for the years ended, December 31, 2021 and 2020 (the "***FaZe Audited Financial Statements***"). Additionally, severance decreased by $1.0 million and rent and premises costs decreased by $0.3 million.

Sales and Marketing

Sales and marketing expenses increased by $2.0 million, or 147.0%, from 2020 to 2021. As part of our commitment to growth, we increased marketing expenses by $0.4 million and production fees for promotional content by $1.8 million. These increases were partially offset by a decrease in public relations expenses of $0.2 million.

Interest Expense, Net

Net interest expense increased by $1.7 million, or 44.6%, from 2020 to 2021. The increase in interest expense is due to the increase in the outstanding principal amount of loans as additional notes were issued in the fourth quarter of 2020 and throughout 2021. The $5.1 million increase in interest related to debt agreements initiated in late 2020 and throughout 2021 more than offset the $3.4 million decrease in interest related to FaZe paying off its loan with Bridging Financing, Inc. in the fourth quarter of 2020. Debt agreements are explained further in the "Liquidity and Capital Resources" section below.

Other (Income)/Expense

Other (income)/expense decreased by $0.8 million, or 107.2%, from $0.8 million in other expense in 2020 to $0.1 million in other income in 2021. The change was primarily driven by a decrease in foreign currency translation losses of $0.8 million from 2020 to 2021. That is, we paid off our Bridging Financing, Inc. loan in the fourth quarter of 2020.

Net Income (Loss)

For the reasons discussed above, net loss increased $8.1 million, or 28.1%, from a net loss of $28.8 million for the year ended December 31, 2020 to a net loss of $36.9 million for the year ended December 31, 2021.

Non-GAAP Information

The Form 8-K/A includes adjusted EBITDA, which is a non-GAAP measure that we use to supplement our results presented in accordance with U.S. GAAP. Adjusted EBITDA is defined as net loss before share-based compensation expense, exited activities expense, foreign currency gains and losses, interest expense, provision for income taxes, depreciation and amortization, and impairment of content assets. Adjusted EBITDA is used by the FaZe board and management as a key factor in determining the quality of our earnings (loss).

Adjusted EBITDA is a performance measure that we believe is useful to investors and analysts because it illustrates the underlying financial and business trends relating to our core, recurring results of operations and enhances comparability between periods.

Adjusted EBITDA is not a recognized measure under U.S. GAAP and is not intended to be a substitute for any U.S. GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of performance of other companies in other industries or within the same industry. Investors should exercise caution in comparing our non-GAAP measure to any similarly titled measure used by other companies. This non-GAAP measure excludes certain items required by U.S. GAAP and should not be considered as alternatives to information reported in accordance with U.S. GAAP.

The table below presents our adjusted EBITDA, reconciled to our net loss for the periods indicated.

	Six months ended June 30,	
(in thousands)	**2022**	**2021**
Net Loss	$(18,864)	$(13,336)
Adjusted for:		
Share-based compensation expense	2,659	—
Foreign exchange loss	—	—
Interest expense	4,032	2,118
Provision for income tax	—	—
Impairment of content assets	1,073	—
Depreciation and amortization	663	434
Adjusted EBITDA	$(10,437)	$(10,783)

While not included in the adjustments above, management also removes certain expenses for internal reporting purposes, as they are unpredictable and not considered core to our operations. These expense adjustments that are utilized for internal reporting purposes include expenses related to legal settlements, legal fees outside of the ordinary course of business, and severance. For the six months ended June 30, 2022 and June 30, 2021, legal settlements totaled $0.1 million and $0.0 million, legal fees outside of the ordinary course of business totaled $0.1 million and $0.7 million, and severance expenses totaled $0.0 million and $0.3 million, respectively. See Note 9 to the FaZe Interim Financial Statements for further information relating to these legal and severance related expenses that are not included in our EBITDA calculations, other than for internal reporting purposes.

The table below presents our adjusted EBITDA, reconciled to our net loss for the periods indicated.

	Years ended December 31,	
(in thousands)	**2021**	**2020**
Net loss	$(36,866)	$(28,777)
Adjusted for:		
Share-based compensation expense	1,637	20
Exited activities[1]	—	28
Foreign exchange loss	—	796
Interest expense	5,467	3,780
Provision for income tax	—	—
Depreciation and amortization	1,021	741
Adjusted EBITDA	$(28,741)	$(23,412)

(1) Consists of warehousing and fulfilment expenses associated with our consumer products activity prior to FaZe's use of a third-party provider.

While not included in the adjustments above, management also removes certain expenses for internal reporting purposes, as they are unpredictable and not considered core to our operations. These expense adjustments that are utilized for internal reporting purposes include expenses related to legal settlements, legal fees outside of the ordinary course of business, and severance. For the years ended December 31, 2021 and December 31, 2020, legal settlements totaled $3.2 million and $6.2 million, legal fees outside of the ordinary course of business totaled $3.4 million and $3.6 million, and severance expenses totaled $0.6 million and $1.5 million, respectively. See Note 11 to the FaZe Audited Financial Statements for further information relating to these legal and severance related expenses that are not included in our EBITDA calculations, other than for internal reporting purposes.

Liquidity and Capital Resources

Our ability to expand and grow our business in the short and long term will depend on many factors, including our working capital needs and the evolution of our operating cash flows.

We measure liquidity in terms of our ability to fund the cash requirements of our business operations, including working capital and capital expenditure needs, contractual obligations and other commitments, with cash flows from operations and other sources of funding. We have financed our operations primarily through the sale of convertible preferred stock and through debt agreements with third party lenders. See below for a summary of our material debt and equity financing arrangements.

We have incurred net losses since inception. We expect to continue to incur significant operating losses for the foreseeable future. However, based on cash received from the completion of the merger as more fully described in Note 12 to the FaZe Interim Financial Statements and cash needs to fund operations, the Company currently expects that it will have sufficient cash to fund its operating expenses and capital expenditure requirements for at least the next 12 months from issuance. As such, substantial doubt about the Company's ability to continue as a going concern has been alleviated.

Because we experienced high redemptions in connection with the Business Combination, we received less proceeds from the Business Combination to pursue our anticipated growth strategies and new initiatives, including our acquisition strategy. This may cause significant delays in, or limit the scope of, our planned acquisition strategy. As a result, our results of operations and financial condition may be worse than we projected. Additionally, while the potential economic impact brought by, and the duration of the COVID-19 pandemic, are difficult to assess or predict, the impact of the COVID-19 pandemic on the global financial markets may reduce our ability to access capital, which could negatively impact our short-term and long-term liquidity. The continuing impact of the COVID-19 pandemic is highly uncertain and subject to change. Nonetheless, we believe our cash on hand will be sufficient to meet our working capital and capital expenditure requirements for a period of at least twelve months through August 2023.

We may need additional cash due to changing business conditions or other developments. Our future short and long term capital requirements will depend on several factors, including but not limited to, the rate of our growth, our ability to attract and retain fans and brand sponsorships and their willingness to pay for our services. Further, we may enter into future arrangements to acquire or invest in businesses, products, services and strategic partnerships. To the extent that our current resources are insufficient to satisfy our cash requirements, we may need to seek additional equity or debt financing. If the needed financing is not available, or if the terms of financing are less desirable than we expect, we may be forced to scale back our existing operations and growth plans, which could have an adverse impact on our business and financial prospects.

Equity

We did not issue any convertible preferred stock during the six months ended June 30, 2022 or June 30, 2021 or during the years ended December 31, 2021 or 2020.

Debt

Upon the close of the Business Combination, all outstanding debt was converted to equity or paid with transaction proceeds. See the details on outstanding debt agreements below, for more information.

2022 B. Riley Term Loan

In March 2022, we entered into the Bridge Loan Agreement with B. Riley Commercial Capital, LLC, an affiliate of the Sponsor, allowing us to borrow an aggregate principal amount of up to $20 million which matured on the Closing Date of the Business Combination. The interest rate was 7% per annum, compounded quarterly, and the Term Loan is secured by all of our assets, other than certain excluded collateral, and subject to Intercreditor Agreements entered into between the B. Riley Lender, Cox, and CPH. In connection with the Term Loan, we waived the Minimum Proceeds Condition under the Merger Agreement. We drew the initial $10 million upon closing of the B. Riley Term Loan in March 2022, and drew the final $10 million in April 2022.

The Term Loan was fully paid in July 2022 in connection with the closing of the Business Combination.

2021 Cox Convertible Promissory Notes

As explained in further detail in the Notes to the FaZe Interim Financial Statements, in August 2021, we entered into an agreement with Cox, to which we sold convertible promissory notes of $10.0 million. Cox also purchased an additional $5.0 million in convertible promissory notes in October 2021. The maturity date of the notes was the earliest of December 15, 2023 or various other conditions outlined in the Notes to the FaZe Interim Financial Statements, one of which is the consummation of the Business Combination. These convertible promissory notes, which could not be prepaid without consent of the holder, bore interest at a rate of 10.00% per annum and were secured against substantially all of our assets.

The convertible promissory notes were fully converted into shares of Common Stock in July 2022 in connection with the closing of the Business Combination.

Senior Convertible Note Purchase Agreement and Senior Convertible Promissory Note

Pursuant to a Secured Convertible Note Purchase Agreement, dated as of December 15, 2020, as amended, by and among FaZe Clan Inc. (the “Legacy FaZe”), CPH Phase II SPV LP (“***CPH II***”) and CPH Phase III SPV LP (“***CPH III***” and, together with CPH II, “***CPH***”), Legacy FaZe issued $55,000,000 in aggregate principal amount of convertible promissory notes to CPH between December 15, 2020 and August 30, 2021 (the “***CPH notes***”). The CPH notes accrued interest at a rate of 10% per year and had a maturity date of December 15, 2023. In addition, CPH had the right to purchase certain additional convertible promissory notes from FaZe (the “***CPH Right***”). Upon the Closing, CPH elected to convert the CPH notes into 17,018,805 shares of Common Stock.

Pursuant to a letter agreement, dated as of December 15, 2020, as amended by and between Legacy FaZe and CPH II (the “***CPH Letter***”), as long as CPH or its affiliates owned at least 2% of the outstanding capital stock of Legacy FaZe on an as-converted-to-common stock basis, Legacy FaZe was required to invite a CPH representative to attend all meetings of Legacy FaZe’s board of directors in a non-voting observer capacity, subject to certain exceptions. In addition, in consideration of CPH’s purchase of the CPH notes, so long as any amount remained outstanding under the CPH notes, Legacy FaZe agreed to pay to CPH a nonrefundable quarterly monitoring fee of $62,500, and, upon CPH’s request, reimburse CPH for any reasonable, necessary and documented expenses incurred by CPH in connection with the monitoring of its investment in FaZe and/or activities performed on behalf of FaZe, subject to a limit of $250,000 in total.

On October 23, 2021, CPH entered into a letter agreement with Legacy FaZe, pursuant to which, among other things, (i) CPH agreed to convert the CPH notes into shares of Legacy FaZe common stock immediately prior to Closing Date, (ii) CPH agreed to waive the CPH Right in exchange for the issuance of a Legacy FaZe convertible note, such note to be converted into shares of Legacy FaZe common stock immediately prior to Closing, and such shares of Legacy FaZe common stock to be converted into 4,800,000 shares of Legacy FaZe common stock, (iii) CPH agreed to waive any interest on the CPH notes in exchange for (x) the issuance of a Legacy FaZe convertible note, such note to be converted into shares of Legacy FaZe common stock immediately prior to Closing, and such shares of Legacy FaZe common stock to be converted into 523,763 shares Common Stock and (y) payment in cash of interest on the CPH notes that accrues starting on February 1, 2022 and ending on the Closing Date, and (iv) FaZe nominated Nick Lewin for election as a director of New FaZe, and upon election of Mr. Lewin as a director of FaZe.

The CPH convertible notes were converted in July 2022, in connection with the closing of the Business Combination, and the CPH Letter terminated upon the election of Mr. Lewin as a director of FaZe.

Other Convertible Promissory Notes

In March 2020 through August 2021, we entered into Convertible Promissory Note Agreements with accredited investors pursuant to which we sold promissory notes totaling approximately $3.2 million. For each of the $2.5 million of notes issued in 2020, the maturity date was the earlier of December 31, 2021 or the closing of a private round of preferred stock financing with immediately available proceeds of at least $1.0 million, with one note of $0.5 million with a maturity date as the earlier of April 21, 2023 or the or the closing of a private round of preferred stock financing with immediately available proceeds of at least $1.0 million. For each of the $0.7 million in notes issued in 2021, the maturity date was the second anniversary of the date of the debt purchase agreement.

The conversion price of the notes was equal to 90% of the price per share sold in a preferred stock financing, provided the price is subject to adjustment in the event our enterprise value is greater than $250.0 million on that date.

The convertible promissory notes, which could not be prepaid without consent of the holder, bore interest at a rate of 4.00% per annum. The convertible promissory notes were subordinate and junior in right of payment to any senior indebtedness of FaZe.

The other convertible promissory notes were fully converted into shares of Common Stock in July 2022, connection with the closing of the Business Combination.

Paycheck Protection Program Loan

On May 4, 2020, we entered into a promissory note dated May 4, 2020 with Harvest Small Business Finance, LLC., pursuant to which Harvest agreed to make a loan to us under the Paycheck Protection Program offered by the U.S. Small Business Administration in a principal amount of approximately $1.1 million pursuant to Title 1 of the Coronavirus Aid, Relief and Economic Security Act (the "***CARES Act***"). The loan proceeds were available to be used to pay for payroll costs, including salaries, commissions, and similar compensation, group health care benefits, and paid leaves; as well as rent; utilities; and interest on certain other outstanding debt.

The Paycheck Protection Program loan was fully repaid in July 2022, using the proceeds from the closing of the Business Combination.

Term Loan Facility

On October 28, 2019, Legacy FaZe entered into a term loan agreement with Bridging Financing Inc., pursuant to which Bridging agreed to make a loan to us in the amount of 30.0 million Canadian dollars. The loan would have matured on the earlier of (i) 24 months following October 28, 2019 or (ii) a date one day prior to the maturity of any of convertible notes outstanding. Interest on the loan accrues at a rate equal to the Bank of Nova Scotia Prime plus 4.05%, per annum. The Term Loan was convertible into shares of Common Stock at the discretion of Bridging Financing Inc., at a price equal to $220.0 million divided by the total number of shares outstanding on a fully diluted basis. The loan was subject to a financial covenant, whereby, as of the last day of the fiscal quarter, we were required to maintain a minimum balance of cash in a deposit account, for the immediately prior 12 calendar months. We were not in compliance with this covenant for certain periods of 2020 and 2019; however, noncompliance did not result in any event of default or financial penalty with the lender.

The loan was fully paid in 2020 upon issuance and sale of the 2020 senior convertible promissory note.

Other Contractual Obligations, Commitments and Contingencies

We may be party to various claims in the normal course of business. Legal fees and other costs associated with such actions are expensed as incurred. We assess the need to record a liability for litigation and other loss contingencies, with reserve estimates recorded if we determine that a loss related to the matter is both probable and reasonably estimable. We did not record losses related to legal settlements in the six months ended June 30, 2021 and recorded less than $0.1 million for the six months ended June 30, 2022. We recorded losses related to legal settlements of $6.2 million for the year ended December 31, 2020 and $3.2 million for the year ended December 31, 2021.

Our future contractual commitments related to future minimum payments for non-cancelable operating lease obligations at June 30, 2022 are $1.4 million for the remainder of 2022, $2.9 million for 2023, and $2.0 million for 2024 and thereafter.

Cash Flows — Six Months Ended June 30, 2022 and June 30, 2021

The following table summarizes our cash flows for the periods indicated (in thousands):

(in thousands, except for percentages)	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Net cash used in operating activities	$(25,678)	$(15,114)	$(10,564)	69.9%
Net cash used in investing activities	(3,828)	(225)	(3,603)	n/m[1]
Net cash provided by financing activities	18,382	19,819	(1,437)	(7.3)%
Net increase (decrease) in cash and restricted cash	(11,124)	4,480	(15,604)	n/m[1]
Cash and restricted cash, beginning of period	17,618	4,431	13,187	n/m[1]
Cash and restricted cash, end of period	6,494	8,911	(2,417)	(27.1)%

(1) Not meaningful.

Cash Flows Used in Operating Activities

We used $10.6 million more in cash for operating activities in the six months ended June 30, 2022 compared with the six months ended June 30, 2021. This change was largely related to the changes in net loss explained in the “Results of Operations” section, offset by the impact of various non-cash charges explained in further detail below.

Net cash used in operating activities was $25.7 million for the six months ended June 30, 2022. Our net loss of $18.9 million was partially comprised of non-cash charges: interest expenses of $4.0 million, stock-based compensation expense of $2.7 million, depreciation and amortization of $0.7 million, additions to content assets of $0.6 million, and impairments to content assets of $1.1 million. Additionally, during the six months ended June 30, 2022, changes in operating assets and liabilities used cash flows from operations of $14.6 million, primarily due to a combination of an increase in accounts receivable and contract assets of $2.5 million, a decrease in prepaid expenses of $0.2 million, a decrease in accounts payable and accrued expenses of $7.2 million, and a decrease in contract liabilities of $5.1 million.

Net cash used in operating activities was $15.1 million for the six months ended June 30, 2021. Our net loss of $13.3 million was partially comprised of non-cash charges: interest expenses of $2.1 million as well as depreciation and amortization expense of $0.4 million. Additionally, during the six months ended June 30, 2021, changes in operating assets and liabilities used cash flows from operations of $4.3 million, primarily due to a combination of an increase in accounts receivable and contract assets of $0.8 million, an increase in prepaid expenses of $0.6 million, a decrease in accounts payable and accrued expenses of $3.1 million and an increase in contract liabilities of $0.3 million.

Cash Flows Used in Investing Activities

We used $3.6 million more in cash for investing activities in the six months ended June 30, 2022 compared with the six months ended June 30, 2021 due to increased purchases of property, plant and equipment and purchases of intangible assets.

Net cash used in investing activities of $3.8 million for the six months ended June 30, 2022 was due to purchases of property, plant and equipment of $3.5 million and purchases of intangible assets of $0.3 million.

Net cash used in investing activities of $0.2 million for the six months ended June 30, 2021 was due to purchases of tangible and intangible assets totaling $0.1 million as well as the issuance of note receivable of $0.1 million.

Cash Flows Provided by Financing Activities

We generated $1.4 million less cash from financing activities in the six months ended June 30, 2022 compared with the six months ended June 30, 2021, primarily due to increases in payment of deferred transaction costs. These changes which decreased cash generated from financing activities were partially offset by an increase in the issuance of common stock in connection with the exercise of stock options and a decrease in the payment of debt issuance costs.

Net cash provided by financing activities of $18.4 million for the six months ended June 30, 2022 was primarily due to proceeds from the issuance of a term loan of $20.0 million and the issuance of common stock in connection with the exercise of stock options of $0.1 million, partially offset by payments of deferred transaction costs of $1.7 million.

Net cash provided by financing activities of $19.8 million for the six months ended June 30, 2021 was primarily due to proceeds from the issuance of convertible debt of $20.0 million, partially offset by debt issuance costs of $0.2 million.

Cash Flows — Years Ended December 31, 2021 and December 31, 2020

The following table summarizes our cash flows for the periods indicated (in thousands):

	Years ended December 31,			
(in thousands, except for percentages)	**2021**	**2020**	**$ Change**	**% Change**
Net cash used in operating activities	$(25,180)	$(16,856)	$(8,324)	49.4%
Net cash used in investing activities	(1,705)	(791)	(914)	115.5%
Net cash provided by financing activities	40,072	10,079	29,993	n/m[(1)]
Net increase (decrease) in cash and restricted cash	13,187	(7,568)	20,755	n/m[(1)]
Cash and restricted cash, beginning of period	4,431	11,999	(7,568)	(63.1)%
Cash and restricted cash, end of period	17,618	4,431	13,187	n/m[(1)]

(1) Not meaningful.

Cash Flows Used in Operating Activities

We used $8.3 million more in cash for operating activities in the year ended December 31, 2021 compared with the year ended December 31, 2020. This change was largely related to the changes in net loss explained in the "Results of Operations" section.

Net cash used in operating activities was $25.2 million for the year-ended December 31, 2021. Our net loss of $36.9 million was partially offset by non-cash interest expenses of $5.5 million, stock-based compensation expense of $1.6 million, depreciation and amortization of $1.0 million, and additions to content assets of $0.5 million. Additionally, during the year-ended December 31, 2021, changes in operating assets and liabilities used cash flows from operations of $4.0 million, primarily due to an increase in accounts receivable, contract assets, and prepaid expenses of $4.2 million, $2.8 million, and $0.5 million, respectively, as well as an increase in accounts payable and accrued expenses of $4.7 million and contract liabilities of $6.8 million.

Net cash used in operating activities was $16.9 million for the year-ended December 31, 2020. Our net loss of $28.8 million was partially offset by non-cash charges, including: interest expenses of $3.1 million, depreciation and amortization expense of $0.7 million, and foreign exchange impact of $0.8 million. Additionally, during the year-ended December 31, 2020, changes in operating assets and liabilities provided cash flows from operations of $7.3 million, primarily due to a decrease in accounts receivable and contract assets of $0.7 million and $0.8 million, respectively, as well as an increase in accounts payable and accrued expenses of $4.9 million and contract liabilities of $0.9 million.

Cash Flows Used in Investing Activities

We used $0.9 million more in cash for investing activities in the year ended December 31, 2021 compared with the year ended December 31, 2020 due to increased purchases of tangible and intangible assets, and issuances of notes receivable.

Net cash used in investing activities of $1.7 million for the year-ended December 31, 2021 was primarily due to purchases of property, plant, and equipment of $0.7 million, purchases of intangible assets of $0.8 million, and issuances of notes receivable of $0.1 million.

Net cash used in investing activities of $0.8 million for the year-ended December 31, 2020 was primarily due to purchases of property, plant, and equipment of $0.7 million and purchase of intangible assets of $0.1 million.

Cash Flows Provided by Financing Activities

We generated $30.0 million more cash from financing activities in the year ended December 31, 2021 compared with the year ended December 31, 2020, primarily due to increases in the proceeds from the issuance of convertible debt and decreases in payments of loan principal. These changes which increased cash generated from financing activities were partially offset by a decrease in the issuance of loans payable.

Net cash provided by financing activities of $40.1 million for the year-ended December 31, 2021 was primarily due to proceeds from the issuance of convertible debt of $40.7 million, partially offset by payments on loan principal of $0.4 million and debt issuance costs of $0.3 million.

Net cash provided by financing activities of $10.1 million for the year-ended December 31, 2020 was primarily due to proceeds from the issuance of loans payable of $1.1 million and proceeds from issuance of convertible debt of $35.4 million, partially offset by payments on loan principal of $26.1 million and debt issuance costs of $0.3 million.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles, or U.S. GAAP. Preparation of the financial statements requires our management to make judgments, estimates and assumptions that impact the reported amount of net sales and expenses, assets and liabilities and the disclosure of contingent assets and liabilities. We consider an accounting judgment, estimate or assumption to be critical when (1) the estimate or assumption is complex in nature or requires a high degree of judgment and (2) the use of different judgments, estimates and assumptions could have a material impact on our consolidated financial statements. Our significant accounting policies are described in Note 2 to the FaZe Interim Financial Statements included elsewhere in the Form 8-K/A. Our critical accounting policies are described below.

Revenue Recognition

Effective January 1, 2019, we adopted the new accounting standard and related amendments, using the modified retrospective transition method for all contracts. Based on our assessment, the adoption of ASC 606, *Revenue from Contracts with Customers* (“***ASC 606***”) did not have a material impact to the Company’s consolidated financial statements and there were no material differences between the Company’s adoption of ASC 606 and its historic accounting under ASC 605, *Revenue Recognition*. For further information regarding the impact of the adoption of this standard refer to Note 2 to the FaZe Interim Financial Statements included elsewhere in the Form 8-K/A.

The below describes our revenue recognition policies and significant judgments in further detail:

Principal Versus Agent Considerations

A significant amount of our brand sponsorships and content revenues are generated from independent contractors who we pay based on revenue that they generate for FaZe. We have evaluated the terms of our brand sponsorships and content agreements and have concluded that FaZe is the primary obligor. That is, we own our brand and intellectual property, take primary responsibility for delivery of services, and exercise control over content generation and monetization. FaZe contracts directly with Google on its operated channels, and the talent contracts directly with Google on their own channels. As part of FaZe's contracts with its talent, FaZe agrees to serve as the talent's exclusive management company as it relates to any and all type of work the talent may perform, including content creation and advertising revenue generated from the content. While the talent owns the content they create while they are under contract with FaZe, the talent grants FaZe an exclusive perpetual license to the content, and FaZe grants limited usage rights of that content back to the talent, conditional upon them complying with the contract. Furthermore, all income earned from services provided by the talent related to gaming, Esports, content creation or the business of FaZe, which includes revenue from advertising via talent content, is subject to the talent agreement and is payable to FaZe. In addition, FaZe's contracts with its talent specify rules and restrictions on the content the talent can create and post. As such, through its contracts with talent, FaZe is the principal because FaZe is the entity exercising primary control over the content generated in the YouTube channels being monetized.

Therefore, we recognize brand sponsorships and content revenues on a gross basis and record revenue-sharing and other fees paid to our talent as cost of revenues.

In relation to our consumer products revenue, we have outsourced the design, manufacturing, fulfillment, distribution, and sale of our consumer products to a third party, in exchange for royalties based on the amount of revenue generated. We evaluated the terms of the agreement to determine whether our consumer products revenues should be reported gross, or net of royalties paid. Key indicators that we evaluate in determining whether we are the principal in the sale (gross reporting), or an agent (net reporting) include, but are not limited to:

(1) FaZe is the party that is primarily responsible for fulfilling the promise to provide the specified good or service,

(2) FaZe has inventory risk before the good is transferred to the customer, and

(3) FaZe is the party has discretion in establishing pricing for the specified good or service.

Based on our evaluation of the above indicators, FaZe is the primary obligor with respect to consumer products sales and thus, we report consumer products revenues on a gross basis.

Timing of Recognition

The timing of revenue recognition depends on the type of revenue recognized, as explained further below.

(1) Brand Sponsorships

Although our brand sponsorships may include multiple services that are capable of being distinct, these services are highly interdependent such that the services are not separately identifiable within the context of the contract. Therefore, management identified one performance obligation which is transferred over time. Therefore, brand sponsorship revenue is recognized ratably over the contract term as services as provided.

(2) Content

Content revenue is variable and is earned when the visitor views or "clicks through" on the advertisement. We recognize revenue based on viewership reports, which we receive on a monthly basis. As described above, we recognize revenues on a gross basis. See "Principal vs. Agent Considerations."

FaZe grants exclusive licenses to customers for certain content produced by FaZe talent. FaZe grants the customer a license to the intellectual property, which is the content and its use in generating advertising revenues, for a pre-determined period, for an amount paid by the customer upon execution of the contract. FaZe's only performance obligation is to license the content for use in generating advertising revenues, and recognizes the full contract amount at the point at which FaZe provides the customer the right to use the content, which is at the execution of the contract. FaZe has no further performance obligations under these types of contract and does not anticipate generating any additional revenue from these arrangements apart from the contract amount.

(3) Consumer Products

Consumer products revenues are recognized at a point in time, as control is transferred to the customer upon shipment.

(4) Esports

(a) League Participation: Generally, FaZe has one performance obligation — to participate in the overall Esport event — because the underlying activities do not have standalone value absent our participation in the tournament or event. Revenue from prize winnings and profit-share agreements is variable and is highly uncertain, we recognize revenue at the point in time when the uncertainty is resolved.

(b) Player Transfer Fees: Player transfer agreements include a fixed fee and may include a variable fee component. FaZe recognizes the fixed portion of revenue from transfer fees upon satisfaction of our performance obligation, which coincides with the execution of the related agreement. The variable portion of revenue is considered highly uncertain and is recognized at the point in time when the uncertainty is resolved.

(c) Licensing of Intellectual Property: Our licenses of intellectual property generate royalties that are recognized in accordance with the royalty recognition constraint. That is, royalty revenue is recognized when the sale occurs.

Stock-Based Compensation

We recognize the cost of stock-based awards granted to FaZe employees, directors, and nonemployee consultants based on the estimated grant-date fair value of the awards. Cost is recognized on a straight-line basis over the service period, which is generally the vesting period of the award. We have elected to recognize the effect of forfeitures in the period they occur.

Based on the early stage of our company's development and other relevant factors, we determined that an Option Pricing Model ("***OPM***") was the most appropriate method for allocating FaZe's enterprise value to determine the estimated fair value of Common Stock. Application of the OPM involves the use of estimates, judgment, and assumptions that are highly complex and subjective, such as those regarding its expected future revenue, expenses, and cash flows, discount rates, market multiples, the selection of comparable companies, and the probability of future events. Specifically, we have historically used the back solve analysis to estimate the fair value of our Common Stock, which derives the implied equity value for one type of equity security from a contemporaneous transaction involving another type of security (shares of our preferred stock in this instance).

The estimates utilized in determining the grant date fair value for new awards will not be necessary once our shares are publicly traded. The grant date fair value of our Common Stock was determined with the assistance of an independent third-party valuation specialist.

We specifically determine the fair value of FaZe stock options using the Black-Scholes-Merton option pricing model, which is impacted by the following assumptions:

- Expected Term — We use the simplified method when calculating the expected term due to insufficient historical exercise data.
- Expected Volatility — As our stock has recently become publicly traded, the volatility is based on a benchmark of comparable companies within our peer group.
- Expected Dividend Yield — The dividend rate used is zero as we have never paid cash dividends on our Common Stock and do not anticipate doing so in the foreseeable future.
- Risk-Free Interest Rate — The interest rates used are based on the implied yield available on U.S. Treasury zero-coupon instrument with an equivalent remaining term equal to the expected life of the award.

Income Taxes

We record a tax provision for the anticipated tax consequences of the reported results of operations. In accordance with ASC 740, Income Taxes, the provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases, operating losses and tax credit carryforwards.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities due to a change in tax rates is recognized in income in the period that includes the enactment date. We evaluate deferred tax assets each period for recoverability. For those assets that do not meet the threshold of "more likely than not" that they will be realized in the future, a valuation allowance is recorded. We have considered our history of cumulative tax and book losses incurred since inception, and other positive and negative evidence, and have concluded that it is more likely than not that the Company will not realize the benefits of the net deferred tax assets as of June 30, 2021 or 2022 or as of December 31, 2020 or 2021.

We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense, if applicable income tax returns remain open for examination by applicable authorities, generally three years from filing for federal and four years for state. We would classify interest and penalties related to uncertain tax positions as income tax expense, if applicable. There was no interest expense or penalties related to unrecognized tax benefits recorded through June 30, 2022 and December 31, 2021.

Recently Adopted and Issued Accounting Pronouncements

See Note 2 to the FaZe Audited Financial Statements and Note 2 to the FaZe Interim Financial Statements for recently adopted accounting pronouncements and recently issued accounting pronouncements that may have an impact on future results but that have not yet adopted as of the date of the Form 8-K/A.

Emerging Growth Company Accounting Election

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect not to take advantage of the extended transition period and comply with the requirements that apply to non-emerging growth companies, and any such election to not take advantage of the extended transition period is irrevocable. We are an "emerging growth company" as defined in Section 2(a) of the Securities Act of 1933, as amended, and have elected to take advantage of the benefits of this extended transition period. This may make it difficult to compare our financial results with the financial results of other public companies that are either not emerging growth companies or emerging growth companies that have chosen not to take advantage of the extended transition period.